



International Centre for
Financial Regulation

Annual International Regulatory Summit

What does good regulation look like?

Grand Hyatt Hotel, Berlin, 18 – 19 October 2011

Essential Reading List

This document presents a selection of easily accessible references for those interested in further exploring the themes covered by the panels at the ICFR International Regulatory Summit. The references briefly outlined in these pages represent a mix of academic, policymakers and industry perspectives. The original document can be accessed by clicking on the title.

The State of Play

The four years that have passed since the outbreak of the financial crisis in the summer of 2007 have been characterized by an unprecedented number of regulatory initiatives. Where we are in the regulatory cycle? Looking back at the experience of the last few, what have been the main successes and failures of the response to the crisis?

- [Financial Stability Board, 2011. *Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability*. Report of the Financial Stability Board to G20 Finance Ministers and Central Bank Governors.](#)

The financial crisis has triggered an extensive set of international regulatory measures. This report by the FSB provides an overview of work underway to implement these measures, with a focus on international policy development and implementation that has taken place since the G20 meeting in February 2011.

- [Bank for International Settlements, 2011. *Financial regulatory reform: accomplishments, pitfalls, prospect*. BIS 81st Annual Report 2011, ch. V.](#)

In the latest Annual Report, the BIS has reviewed the impressive progress on financial regulatory reform and suggested a number of critical steps that still remain, in particular regarding the implementation of Basel III, the regulation of global systemically important financial institutions (SIFIs), and the design of regimes to ensure the orderly resolution of such institutions in the event of their failure.

- [Viral Acharya, Thomas Cooley, Matthew Richardson, Ingo Walter, 2010. *Regulating Wall Street: The Dodd-Frank Act and the New Architecture of Global Finance*. John Wiley and Sons 2010.](#)

This volume explores in an accessible way the key components of the most significant overhaul of the US regulatory infrastructure since the Great Depression.

- [Vítor Constâncio, 2011. *The governance of financial stability in the euro area*. Speech by Mr Vítor Constâncio, Vice President of the European Central Bank, at the “ECB and its Watchers XIII” conference, Frankfurt am Main, 10 June 2011.](#)

In this speech, the Vice President of the European Central Bank examines the lessons from the crisis regarding the channels through which financial instability can propagate in the Euro Area and the measures introduced to reinforce financial stability.

- [Andrew Sheng, 2010. *The Regulatory Reform of Global Financial Markets: An Asian Regulator’s Perspective*. *Global Policy*, 1\(2\), May 2010.](#)

A senior regulator from East Asia offers his take on how the current regulatory reforms of global financial markets affect the region. Sheng delineates an “Asian approach” to financial reform, based on greater pragmatism, simpler rules that can be more effectively enforced, financial innovation with an emphasis on functionality for the real sector, and greater regional cooperation.

What are the key elements of good regulation?

The regulatory failures at the origin of the crisis have left policymakers, industry practitioners, and academics struggling to identify a new intellectual compass that could guide the reforms effort. What lessons can be learnt regarding what constitute the key elements of good financial regulation? How do these differ from different international, regional and domestic perspectives? What are the essential differences between geographies and market segments?

- [Adair Turner, 2011 *Reforming finance: are we being radical enough?* Speech by Adair Turner, Chairman of the FSA, at the 2011 Clare Distinguished Lecture in Economics and Public Policy, 18 February 2011.](#)
‘Are we being radical enough?’ With this provocative question, Lord Turner discusses whether the reforms introduced in response to the crisis have significantly reduced the probability of future crises. Beyond technical fixes, the paper discusses how the crisis forces us to reconsider the social value of financial activity and the dominant theories informing the approach to regulation.
- [Warwick Commission on International Financial Reform, 2010. *In Praise of Unlevel Playing Fields*. June 2010.](#)
Should regulation be even handed for all institutions and countries? The Warwick Commission, chaired by Avinash Persaud, argues that there is a need for an ‘unlevel playing field’ in order to offset the tendency towards unstable behaviour in the global financial system. Among the measures discussed are how to deal with boom-bust cycles, macroprudential regulation, and the need for a better allocation of risks among financial institutions.
- [Markus Brunnermeier, Andrew Crocket, Charles Goodhart, Avinash Persaud, and Hyun Shin, 2009. *The Fundamental Principles of Financial Regulation*, Geneva Reports on the World Economy 11. International Center for Monetary and Banking Studies \(ICMB\) and Centre for Economic Policy Research \(CEPR\).](#)
This group of leading macroeconomists and policymakers make a powerful case for macroprudential regulation, challenging the assumption that regulations which make individual banks safe also make the financial system safe. The report discusses the introduction of countercyclical capital charges, changes to mark-to-market accounting, and the division of tasks between home and host country.
- [Ross Levine, 2011. *Regulating Finance and Regulators to Promote Growth*. Paper prepared for the Federal Reserve Bank of Kansas City’s Jackson Hole at the Jackson Hole Symposium, August 2011.](#)
Which financial regulatory reforms promote growth? In this paper Ross Levine explores the finance-growth nexus, arguing “financial regulation is not just about preventing crises; it is also about cultivating financial systems that provide growth-promoting services”. In particular, Levine discusses the importance of political, legal, and other institutions directing regulators towards promoting economic prosperity, and under which conditions financial innovation may reinforce or impede economic growth.
- [Eswar Prasad, 2010. *Financial Sector Regulation and Reforms in Emerging Markets*. In: Masahiro Kawai and Eswar Prasad, eds. *Financial Market Regulation and Reforms in Emerging Markets*. Brookings Institution Press.](#)
What have been the lessons from the crisis for the design of regulatory frameworks and models outside of the US and Europe? This essay assesses the implications of the financial

crisis for the design of regulatory frameworks and models, taking into account the specific constraints in emerging markets, with a particular focus on Asian emerging markets.

Working group 1: Who regulates the regulator?

The quasi-collapse of the global financial system experienced in recent years reflects a systemic failure of regulatory authorities to adapt to a dynamic financial sector as much as it does the dynamics inherent to the working of financial markets. These regulatory failures raise some crucial questions. What reforms can be introduced to improve the governance of financial regulation – the system associated with designing, enacting, implementing and reforming financial policies? Who manages and evaluates the performance and effectiveness of various regulatory authorities? How can they be held to account?

- [Ross Levine, 2010. *The governance of financial regulation: reform lessons from the recent crisis*. BIS Working Papers No 329.](#)

In this working paper, Levine discusses the failure of regulatory authorities before the crisis to adapt to a dynamic, innovating financial system and to put forward a proposal for a new auxiliary institution – labelled “The Sentinel”. This would be politically independent and shielded from market influences in order to improve the design and implementation of financial regulation.
- [Charles Goodhart, 2010. *The Changing Role of Central Banks*. Contribution to BIS Conference.](#)

What is the role of central banks in the post-crisis regulatory architecture? While the balance between competing objectives of central banks has shifted over time, Goodhart argues that the financial crisis has brought central banks to the verge of a further epochal change, characterised by more intrusive regulation, greater government involvement and less reliance on market mechanisms, and less independency.
- [Group of 30, 2008. *The Structure of Financial Supervision: Approaches and Challenges in a Global Marketplace*. Special Report 2008.](#)

In a moment in which the benefits and challenges of different regulatory structures are scrutinised, the G30 has compared the design of national supervisory architecture in 17 different countries, assessing their advantages and disadvantages, their evolution, and the challenges facing regulatory approaches in different jurisdictions.
- [Marco Espinosa-Vega, Charles Kahn, Rafael Matta and Juan Solé, 2011. *Systemic Risk and Optimal Regulatory Architecture*. IMF Working Paper WP/11/193.](#)

What institutions are better suited to tackle systemic risk? As the crisis has strengthened the goal of taming systemic risk in the mandates of different institutions, this paper discusses the problem of regulatory forbearance and information sharing for the regulatory agencies granted this role. It also discusses under which conditions regulatory institutions are more effective in reducing systemic risk.
- [Elizabeth Warren, 2011. *Written Testimony of Special Advisor to the Treasury Secretary for the Consumer Financial Protection Bureau*. Before the House Subcommittee on Financial Institutions and Consumer Credit Committee on Financial Services, 16 March 2011.](#)

The second major institutional innovation which has emerged from the crisis has been the establishment of consumer protection agencies in different countries. In this Congressional testimony, Elizabeth Warren, the main architect of the Consumer Financial Protection Bureau, illustrates what the goals of this agency will be and how they will be implemented.

Working group 2: Regulatory capture

Consultation and close working relationships with market participants are an integral part of the process of regulation and supervision of financial firms, but they have also been described as conducive to distorting regulation in favour of the latter, a process described as “regulatory capture”. How can the interaction between the two parts be structured without the regulators’ being compromised? How far should the market be involved in defining the regulations that will be used to supervise it?

- [Warwick Commission on International Financial Reform, 2010. *Regulatory Capture*. In: In Praise of Unlevel Playing Fields, ch. 5.](#)

In this chapter, the Warwick Commission discusses several avenues that favoured capture in the years before the crisis, such as intellectual capture promoted by notion of efficient markets and group-think with market participants. This chapter emphasise the pro-cyclicality of regulatory capture and discusses the political pressures placed upon regulators and supervisors during booms to constrain excessive risk-taking.
- [David Miller and William Dinan, 2009. *Revolving doors, accountability and transparency – emerging regulatory concerns and policy solutions in the financial crisis*. In: Dutch National Integrity Office organised Global Forum on Public Governance, 2009, Paris.](#)

This presentation focuses on the “revolving doors” phenomenon between financial sector representatives and policymakers. The author details the extent of this practice and discusses a wide set of proposals to mitigate the impact of this phenomenon on regulation, from an outright ban on lobbyists entering government to pre- and post-employment restrictions.
- [Lawrence Baxter, 2011. *Capture in Financial Regulation. Can We Channel it Toward the Common Good? From the Selected Works of Lawrence G Baxter*.](#)

In this paper, Baxter considers it unrealistic both to prevent regulated firms from attempting to influence the substance of regulation and to avoid extensive industry input altogether. In order to promote sound regulatory policies, Baxter suggests different measures to shape the environment in which the competition for regulatory policy takes place, such as facilitating the participation of broader interest groups, better resourcing regulatory agencies, and tightening the rules governing the “revolving door”.
- [Howard Davies, 2010. *Is Regulation Really for Sale? Project-Syndicate, 2010*.](#)

A prominent former regulator addresses the issue of regulatory capture. While rejecting the claim that regulation is “for sale”, Davies draws on his experience at the helm of the UK Financial Services Authority to discuss two key grounds for concern, related to the “revolving doors” phenomenon between the industry and regulatory bodies and the importance of “intellectual capture”.

Working group 3: Effective enforcement

Regulation, supervision and enforcement are the three pillars of good regulation. While recent years have been characterized by a sustained process of regulatory innovation, the emphasis is currently shifting on the other two pillars. As financial service complexity grows and as the market again begins to innovate how can regulators, given their budget constraints, effectively enforce regulation in their markets? What are the challenges in the enforcement of internationally-coordinated policies? How will cross border enforcement work in practice and who will take the lead?

- [José Viñals and Jonathan Fletcher, 2010. *The Making of Good Supervision: Learning to Say “No”*. IMF Staff Position Note, SPN/10/08.](#)

What makes good supervision? This paper discusses the supervisory failures in the lead-up to the 2008-9 crisis, what lessons regarding supervision can be learned to prevent future crises of the same magnitude, and how future supervision will have to adapt to the new regulatory framework put in place after the crisis. The paper concludes that society must stand with supervisors as they play their role as naysayers in times of exuberance.

- [Ana Carvajal and Jennifer Elliott, 2009. *The Challenge of Enforcement in Securities Markets: Mission Impossible?* IMF Working Paper, WP/09/168.](#)

Recent scandals in the US have brought the spotlight back onto the challenges facing the effective enforcement of securities regulation. This IMF policy paper seeks to explore what good enforcement in securities regulation is by examining how this is being carried out around the world and how countries are meeting the challenges.

- [Kyla Malcolm, Mark Tilden, Scott Coope, and Charlie Xie, 2009. *Assessing the Effectiveness of Enforcement and Regulation*. City of London Paper.](#)

By comparing the case of five developed economies (Australia, France, Germany, the UK and the US), this report analyse the impact that different tools and institutional framework have in ensuring effective enforcement and regulation in securities markets. In particular, the report discusses the balance between coercive measures and strategies based on persuasion and co-operation and affirms the need for regulators to have sufficient skills to oversee firms in the context of rapid financial innovation.

- [Financial Stability Board, 2010. *FSB Framework for Strengthening Adherence to International Standards*.](#)

How can we ensure that the standards coordinated at the international level will be implemented at the national level? In this report, the FSB discusses different mechanisms to strengthen adherence to international standards by G20 countries, such as peer reviews, information exchange standards and the creation of a toolbox of measures to encourage adherence to international commitments.

- [Financial Stability Board and the International Monetary Fund, 2010. *The Financial Crisis and Information Gaps: Implementation Progress Report*.](#)

One of the biggest challenges facing the effective enforcement of financial regulatory policies and supervision remains the lack of available data. This report details the extensive set of reforms coordinated by the FSB and IMF to close information gaps and it analyses what remains to be done.

What does good macroprudential regulation look like?

The financial crisis has triggered a renewal of interest in macroprudential regulatory policies, to the extent that Claudio Borio of the BIS, paraphrasing Friedman, wrote “we are all macroprudentialists now.” But, much still remains to be defined. What tools will be employed? How will macroprudential data be gathered, managed and used to make economy-wide decisions? How will these be implemented?

- [Gabriele Galati and Richhild Moessner, 2011. *Macroprudential policy – a literature review*. BIS Working Papers, No 337.](#)

The financial crisis has triggered a renewal of interest in macroprudential regulatory policies. This working paper provides an accessible and comprehensive guide to the burgeoning literature on the topic, including future research questions that emerge from both the literature and the current policy debate.
- [FSB/BIS/IMF, 2011. *Macroprudential policy tools and frameworks – Update to G20 Finance Ministers and Central Bank Governors*.](#)

In order to make sense of the expanding agenda on macroprudential regulatory policies, this report provides a concise update on work at the international level to develop effective macroprudential frameworks for identifying and monitoring systemic risk, together with a summary of the evolving macroprudential policy toolkit.
- [Committee on the Global Financial System \(CGFS\), 2010. *Macroprudential instruments and frameworks: a stocktaking of issues and experiences*. CGFS Papers, No 38.](#)

How have macroprudential policies worked so far? This report presents a “stocktaking” of issues related to the design and implementation of macroprudential policies in that it reviews experiences with different types of macroprudential instruments across a number of different economies, such as measures relating to property lending markets, countercyclical reserve requirements, and loan-to-deposits limits.
- [Claudio Borio, 2010. *Implementing a macroprudential framework: Blending boldness and realism*. BIS Speech.](#)

Despite a broad consensus in the policy community around the need to strengthen the macroprudential orientation of regulatory and supervisory frameworks, the window of opportunity to put in place macroprudential frameworks should not be missed. In his speech, Borio considers how to strike the balance between boldness and realism in several aspects, such as tracking systemic risk, the mix between an aggregate and a sectoral approach, between rules and discretion, and in governance arrangements.
- [Hyun Song Shin, 2010. *Macroprudential Policies Beyond Basel III*. Policy Memo, Princeton University.](#)

This academic paper takes a look at Basel III from a macroprudential perspective, arguing that its concern with the solvency of individual banks is inadequate in reinforcing the resilience of the financial system as a whole. Shin has therefore called for complementing the microprudential focus of Basel III with a macroprudential policy framework addressing excessive asset growth and fragility of bank liabilities. This paper was the winner of the ICFR-Financial Times Research Prize 2011.
- [David Green, 2011. *The relationship between the objectives and tools of macroprudential and monetary policy*. Financial Markets Group Special Paper Series, Special Paper 200, May 2011.](#)

Does macroprudential policy clash with monetary policy? In this paper, David Green reviews different tools currently considered by policymakers to perform their new macroprudential mandate, and highlights how some of these will also change the behaviour of the real economy and affect the transmission mechanism of monetary policy. The paper discusses what policy measures could be implemented in this case to mitigate this conflict.

Working group 1: What does good insurance regulation look like?

Insurance companies remain major players in the international financial system, in particular as major providers of long-term funding. How should the long-term nature of insurance and its social utility be reflected in the supervision of insurance companies? Are insurance companies caught up in too much and inappropriate regulation? Or, on the contrary, are the risks posed the insurance sector not adequately addressed by the current regulatory framework?

- [Committee on the Global Financial System, 2011. *Fixed income strategies of insurance companies and pension funds*. CGFS Papers, No 44.](#)

This report of the Working Group chaired by Peter Praet, ECB Board member and ICFR International Advisory Council member, examines how the investment strategies of insurance firms will be affected by the forthcoming accounting and regulatory changes in the current low-interest rate environment, and the systemic implications that the change in their investment strategies could have for the financial system.
- [KPMG, 2011. *Evolving Insurance Regulation*.](#)

Although the insurance sector is described as having had a ‘good crisis’ (AIG notwithstanding), the regulatory reforms introduced in recent years have significant implications for the insurance industry. This report reviews the evolving landscape for insurance regulation internationally from an industry perspective.
- [The Geneva Association, 2010. *Systemic Risk in Insurance: An analysis of insurance and financial stability*. Special Report of the Geneva Association Systemic Risk Working Group.](#)

Are insurance firms “systemically important”? The crisis has reinforced the consensus around the need to apply more stringent supervision and regulations to “systemically important institutions”. This report analyses the performance of the global insurance industry over the course of the crisis and discusses to what extent the systemic risk criteria developed by the FSB also apply to the global insurance industry.
- [Hector Sants, 2011. *The future of insurance regulation*. Speech given at the UK Financial Services Authority.](#)

In this speech, the CEO designate of the UK Prudential Regulation Authority discusses the challenges emerging for the insurance industry from the the imminent change to a new pan-European set of regulatory rules (Solvency II); from changes in the European regulatory structure; and from the imminent change to a new supervisory structure in the UK.
- [Alan Morrison, 2004. *Life Insurance: Regulation as Contract Enforcement*. Oxford Financial Research Center, Working Paper No. 2004-FE-09.](#)

What is the rationale for regulating insurance firms? This research paper analyses from an academic perspective the justification for the regulation of the insurance industry. While banking regulation is predicated on externalities with systemic consequences, insurance remains a case of ‘regulation as contract enforcement’.

Working group 2: What does good banking regulation look like?

Basel III, Dodd-Frank, CRD IV; the list goes on. Given the centrality of banks in the last financial crisis it is not surprising the fact that banking regulation has received the lion's share of the extensive regulatory changes introduced in recent years. What will be the impact of the regulatory initiatives introduced in recent years? How can a bank ensure that it treats all of these new requirements efficiently and cost effectively? Is the current raft of regulation fighting the problems of the last crisis, or is it laying the foundations for a well regulated industry?

- [Basel Committee on Banking Supervision, 2011. *Basel III: A global regulatory framework for more resilient bank and banking systems – revised version June 2011.*](#)

The Basel III Agreement represents the linchpin of the initiatives undertaken at the international level to promote a more resilient banking sector. This document presents the Basel committee's reforms to strengthen global capital and liquidity rules.

- [Institute of International Finance, 2011. *The Cumulative Impact on the Global Economy of Changes in the Financial Regulatory Framework, September 2011.*](#)

Since the Basel Committee has released its text of the Basel III Agreement, the spotlight has moved towards the implementation of these rules at national level. This report by the IIF provides an industry perspective on the costs that the proposed measures may pose upon the banks and the economy and also what factors will determine these costs.

- [Dan Tarullo, 2009. *Banking on Basel: The Future of International Financial Regulation*, Peterson Institute on International Economics.](#)

Basel III represents only the last step of a long quest from the international regulatory community to strengthen the international banking system. Dan Tarullo, member of the Board of Governors of the US Federal Reserve presents a clear analysis of the historical evolution of the international banking regulatory regime, its origins, and its areas of concern.

- [Independent Commission on Banking, 2011. *Final Report – Recommendations, September 2011.*](#)

Besides the measures negotiated within the Basel Committee, different countries have announced their intention to go "beyond" Basel III. This report contains the recommendations presented in the UK by the Independent Commission on Banking, chaired by Sir John Vickers. These include measures to ring-fence retail banking and to increase capital absorbency of banks beyond what has been proposed by the Basel Committee.

- [Basel Committee on Banking Supervision, 2011. *Global systemically important banks: Assessment methodology and the additional loss absorbency requirement. Consultative Document, July 2011.*](#)

One of the most important issues still to be addressed in the framework introduced by the Basel Committee is the treatment of those banking institutions that are systemically important. This consultative document presents the proposals by the Basel Committee regarding the methodology for assessing systemic importance, the additional required loss absorbency and the arrangements by which they will be phased in.

Working group 3: What does good asset management and security regulation look like?

From AIFMD through to MiFID II, the asset management industry will also be affected by post-crisis regulatory change. What are the objectives of investment regulation, how should the industry be regulated? Do investment vehicles of different kinds create systemic risks? Should we rethink the conventional wisdom regarding how to best ensure adequate consumer protection?

- [KPMG, 2011. *Evolving Investment Management Regulation.*](#)

This report provides a comprehensive analysis of the large range of regulatory reforms that have recently affected the investment management industry, discussing their implications on the retail distribution, the regulation of products, governance, risk and fiduciary responsibility, the regulation of alternative investments and pension funds.
- [FSA, 2010. *Assessing possible sources of systemic risk from hedge funds: A report on the findings of the hedge fund as counterparty survey and hedge fund survey.*](#)

Do hedge funds create systemic risk? Despite not being a “hedge fund crisis”, the financial crisis has reopened the debate regarding whether hedge funds pose systemic risk and what regulatory approach is most appropriate. This report presents the findings of the survey conducted by the FSA of the largest hedge funds and their counterparties to shed light on the structure of the industry and the risks it creates for the stability of markets.
- [FSA, 2011. *Product Intervention. Discussion Paper DP11/1.*](#)

What is the best approach to protect investors? Is the pre-crisis emphasis on ensuring fairness and transparency in the sale process enough to ensure effective consumer protection? In this discussion paper, the FSA discusses the desirability of a different approach, including more prescriptive requirements for the governance of product development and the introduction of specific product interventions.
- [Financial Stability Board, 2011. *Potential financial stability issues arising from recent trends in Exchange-Traded Funds \(ETFs\).*](#)

The rapid growth, greater complexity and variety in the market for Exchange-traded funds (ETF) in recent years has brought the regulatory spotlight over the market actors. This report by the Financial Stability Board calls therefore for closer surveillance of the recent wave of financial innovation in ETF by financial stability authorities.

How do multinational financial institutions manage across divergent regulatory regimes?

Despite the calls for “international coordination”, the regulatory response to the crisis in recent years has been characterized by a flurry of overlapping and often divergent regulations. What are the challenges faced by the industry participants who work across border in ensuring compliance with these domestic regulatory responses? Does this regulatory divergence encourages ‘jurisdiction shopping’ and regulatory arbitrage? How to manage the issues of extraterritoriality that have been raised by Dodd-Frank and other domestic and regional regulations?

- [Stéphane Rottier and Nicolas Véron, 2010. *Not All Financial Regulation Is Global*. Peterson Institute for International Economics, Policy Brief PB10-22.](#)

What is the balance between domestic and international rules? Despite financial regulation having emerged at the top of the global policy agenda, financial multipolarity and domestic reregulation have made global convergence increasingly difficult. In this policy brief, Rottier and Véron discuss the difficult political and economic tradeoffs in seeking consistent regulatory policies.
- [Atlantic Council, Thomson Reuters, 2010. *The Danger of Divergence: Transatlantic Cooperation on Financial Regulatory Reform*.](#)

While the crisis has led to the development of major pieces of financial legislation both in Europe and in the US, important differences remain between the two sides of the Atlantic. What transatlantic regulatory conflicts need to be resolved and what differences are acceptable? This report discusses the state of transatlantic cooperation and calls for enhancement in the coordination process at the international, transatlantic, and bi-lateral levels.
- [Institute of International Finance, 2010. *Global Financial Services Industry Urges Regulatory Action to Mitigate Fragmentation*. Letter to the G20 Finance Ministers, 26 July 2010.](#)

Despite the G20’s commitment to achieving global regulatory consistency, financial industry participants have frequently expressed their concern regarding how recent national and regional actions have been undermining this goal. In this letter, the IIF discusses some of the unintended consequences that would derive from inconsistent regulation, such as an uneven playing field, unfair competition among financial centers, and incentives to regulatory arbitrage.
- [Joseph Stiglitz, 2010. *Watchdogs need not back together*. Financial Times, 9 February 2010.](#)

In this op-ed, the Nobel-laureate Joseph Stiglitz offers a different take on the issue of international consistency. As differing national priorities heightened the difficulties in achieving effective global co-ordination, insisting on such co-ordination may be a recipe for paralysis and benefit those actors opposing further regulation. Since each country is responsible for ensuring the safety of its financial system and economy, Stiglitz calls for strong unilateral action, described as a “second best” policy, but preferable to “the third-best alternative of delayed and ineffective regulation”.

Unfinished business and regulatory ‘futuresology’

Given the current speed of regulatory change facing the financial industry, it is sometimes difficult to look beyond the present and consider what is coming next. It is undeniable that there is a good deal ‘unfinished business.’ The regulatory outcomes of the debates around cross-border crisis resolution, bank funding, macroprudential supervision, and more are still to be settled. What will be the main issues on the regulatory agenda in the short-term? And looking beyond the short-term, what challenges will industry practitioners and policymakers face over the medium term?

Unfinished Business

- [Group of 30 \(G30\), 2011. *Remaining Regulatory Challenges and Next Steps for Regulatory Reform*. In: *Regulatory Reforms and Remaining Challenges*. Occasional Paper 81, chs. V and VII.](#)

Presented by an independent international body made up of senior representatives from both the private and the public sector, this gives a good overview of what is on the regulatory agenda - SIFIs, cross-border crisis resolution, the shadow banking industry, OTC derivatives and the challenges of implementation, to name a few. Quick and easy read for the busy.
- [Basel Committee on Banking Supervision, 2011. *Resolution policies and frameworks – progress so far*.](#)

In this document, the Basel Committee reviews what official policymakers are aiming towards with regard to cross-border crisis regulation, which includes improving domestic resolution mechanisms, and enhancing cross-border cooperation and coordination. It reports on what has been achieved so far, and the challenges faced in formulating these policies, with funding of resolution and cross-border complexities as some of the key problems.
- [Financial Stability Board, 2011. *Effective Resolution of Systemically Important Financial Institutions: Recommendations and Timelines*. Consultative Document.](#)

This consultation document by the FSB illustrates the emerging framework for tackling the systemic risks posed by systemically important financial institutions. This is a comprehensive package, including measures to establish effective resolution regimes, elements of a bail-in regime to enable creditor-financed recapitalisation of financial institutions, and the framework for mandatory Recovery and Resolution Plans.
- [Financial Stability Board, 2011. *Shadow Banking: Scoping the Issues*.](#)

The crisis has highlighted how new trends of credit intermediation occurring outside of banking institution – so-called “shadow banking” - have the potential to pose systemic risks. In this policy paper, the FSB delineates a regulatory agenda to tame risk in this area, focusing on the regulatory reform of money market funds, securitisation, activities related to securities lending/repos, as well as on the regulation of banks’ interactions with shadow banking entities.

Regulatory ‘Futuresology’

- [Carmen Reinhart and Kenneth Rogoff, 2008. *This Time is Different: A Panoramic View of Eight Centuries of Financial Crises*.](#)

The financial crisis that has emerged in the US subprime mortgage markets is hardly unique. Through a seven century long panoramic analysis of the history of financial crises, Reinhart and Rogoff discuss how past episodes of financial instability can provide insights regarding

what factors will be at the core of the next financial crisis, and warn against the return of the “this time is different” syndrome.

- [Andrew Haldane, “Risk Off”, Bank of England, August 2011.](#)

Looking at the years following the Great Depression and the UK recession of the early 1990s, Andrew Haldane explains that crisis-induced recessions tend to be longer and deeper, and to have a significant impact on financial markets. Andrew Haldane argues that behavioral factors are exacerbating risk-aversion in the markets and that “the very disaster myopia that caused the crisis may be retarding the recovery”.

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