



International Centre for
Financial Regulation

Annual International Regulatory Summit

Regulation without Borders - G20 Ideals and National Interests

The Hilton, Amsterdam, Netherlands 8 – 9 November 2010

Session Bibliographies

The Philosophy of Regulation

8 November 2010**14:00 – 15:00****The Philosophy of Regulation**

For the G20 members to work together, they need to have a common view on what they are trying to achieve. To date, this has been done by using concrete agreed outcomes, without any substantive agreement on the objectives of regulation. This discussion between leading international regulators and academics will address the goals and objectives of regulation in different jurisdictions. Which approaches work best? In what circumstances? How do the differences in goals and tactics affect the likelihood of a successful international cooperation?

Session Background and Points for Consideration

In the immediate wake of the financial crisis which unfolded through 2008-2009, the initial policy response focused on specific objectives. Although these “outcome-based” aims differed in emphasis according to the economic regime or jurisdiction, there were on the whole a common set of goals: bringing stability to financial markets and economies, avoidance of a repeat of 1930s-like depression, rekindling growth, protection of depositors and limiting of taxpayer exposure. As economies began to stabilise, the attention switched towards a consideration of how to contain systemic risk, punish those perceived as responsible for the crisis, and link remuneration in the sector much more closely to the risks incurred in the business being conducted.

In the course of 2009 there was a strong push behind the development of a coordinated, international response. This stemmed partly from the feeling that the severity of the situation merited such an approach. But there was also an early realisation that without such coordination, the opportunities for regulatory arbitrage were too great. This then, was an acknowledgement that not all jurisdictions shared the same set of distressed circumstances or regulatory objectives.

As economies and financial markets stabilised however, and despite broad agreement at the G20 level that international action needed to be coordinated, it became apparent that some countries would press ahead with their own remedies, or at least their own way of reaching the shared broad international objectives.

This session is intended to explore what regulation and regulatory reform is seeking to achieve, now that the world has moved beyond the “*emergency, outcome-based*” phase of the regulatory response. The underlying hypothesis is that the success of achieving a coordinated response, especially at the broader G20 level, is conditioned on some common view of the purpose and goals of regulation. To the extent that the history of regulation and intervention in markets differs dramatically by geography and political philosophy, a better understanding of the varying perspectives on the subject may be a critical first step.

Questions which this session may consider include:

- Objectives of financial regulation
 - Objectives of financial regulation: are differences a function of different historical or legal traditions; a difference in economic philosophy?
 - Do emerging economies have fundamentally different objectives from the more developed countries or is it more a question of prioritisation? How can these differing priorities be accommodated under a coordinated international approach?
 - How much of regulation is about removing information asymmetries? If this is the case, is focusing on regulatory structures missing the point?

- Regulatory and supervisory structure
 - How much does 'optimal' regulatory structure depend on the answers to the questions above?
 - Does 'optimal' regulatory structure depend on who is asking the question? (the regulator, the central bank, the government, the taxpayer, the consumer, the financial intermediary, the borrower or the lender)
 - There are examples of regimes which have weathered this crisis relatively well (Canada and Australia for example) – were they just lucky or are there some lessons for other nations?
 - How dependent is an 'optimal' regulatory structure on the political and economic structure, and the level of economic and financial market development in a country? Do priorities change with economic and social development so that what is needed is a flexible and adaptive regulatory approach? If so, how can national and international approaches be harmonised?
 - Should and how can policy makers 'regulate' for behaviour?

- Regulation and politics
 - Given the economic consequences and taxpayer burden resulting from the crisis, can or should the regulatory response be divorced from political 'interference'? What can be done to ensure that regulatory actions are not a substitute for political blame-shifting and retribution?
 - Are all financial crises necessarily followed by bouts of 'this must never happen again' so that regulation is doomed to address the last problem and not the next one?

Bibliography:

The ICFR has prepared a core bibliography on works relating to reform of financial regulation. Many of the works in that bibliography have sections relevant to this topic.

Basel Committee on Banking Supervision (BCBS) (2010): *Consultation on Good Practice Principles on Supervisory Colleges*

- **Link to the publication:** <http://www.bis.org/publ/bcbs170.pdf>

The Basel Committee on Banking Supervision (BCBS) has issued this paper, which builds on previous publications outlining “established good practices in colleges and provides some enhanced principles that can be used as a basis for continuing to improve the operation of supervisory colleges.”¹ This paper is designed to “assist supervisors in running colleges as effectively as possible. It is not meant to suggest that colleges should replace wider bilateral or multilateral cooperation between supervisors, nor impede existing national, bilateral or multilateral arrangements in this respect.” While the scope of this paper goes beyond supervisory cooperation issues relating to Basel II implementation, it does not seek to replace broader guidance issued by the BCBS in the past on cooperation and information-sharing between home and host supervisors. The consultation period ended on 30 June 2010.

G30 Report (2008): *The Structure of Financial Supervision: Approaches and Challenges in a Global Marketplace*

- **Link to the publication:** http://www.group30.org/pubs/GRP30_FRS_ExecSumm.pdf

“The G30 report reviews the financial regulatory approaches of 17 jurisdictions in order to illustrate the implications of adopting one or another of the four principle models of supervisory oversight. The review comprises documentary research, supplemented with interviews of central bank governors and supervisors in each jurisdiction, and includes a cross-section of developed economies and emerging markets. The study demonstrates the commonality of the challenges faced by supervisors around the globe, and highlights the many different structural solutions adopted by supervisors addressing these common challenges within their own particular economic, political, and cultural contexts.” In addition, it also highlights the importance of domestic coordination and the structure of international cooperation through building of colleges and committees that facilitate information exchange during a crisis. In conclusion, it states that issues such as design and performance of financial markets are important when considering structure and reform of regulation.

International Monetary Fund (IMF) (2010): *The Making of Good Supervision: Learning to say “No”*

- **Link to the publication:** <http://www.imf.org/external/pubs/ft/spn/2010/spn1008.pdf>

It is well understood that “flawed regulations were only part of the problem that produced the crisis, and that strengthened regulations represent only part of the solution.” In fact it is the conclusion of this paper that, “weakness in supervision was as responsible as flawed regulation for ushering in the crisis”. “This paper focuses on lessons that can be drawn from failures in supervision in this crisis that may help prevent future crises, and how the function of supervision needs to adapt to the new regulatory framework. It reiterates that much of what is the international consensus on the elements of supervision works well, and then discusses how this consensus failed to deliver in the lead-up to the crisis in some circumstances.” “Based on an

¹ Quotations in all the summaries are from the works summarised

examination of lessons from the crisis and the findings of these assessments of countries' compliance with financial standards, the paper identifies the following key elements of good supervision—that it is intrusive, sceptical, proactive, comprehensive, adaptive, and conclusive. To achieve these elements, the “ability” to supervise, which requires appropriate resources, authority, organisation and constructive working relationships with other agencies must be complemented by the “will” to act.”

IMF (2009): *Lessons of the Financial Crisis for Future Regulation of Financial Institutions and Markets and for Liquidity Management*

- **Link to the publication:** <http://www.imf.org/external/np/pp/eng/2009/020409.pdf>

“This paper seeks to draw lessons for financial sector regulation and supervision and central bank liquidity management from the ongoing crisis, focusing principally on implications for the future rather than on immediate crisis management policies”. The paper focuses on four key areas that warrant attention: (i) interconnectedness of the financial system; (ii) inadequacy of market oversight or prudential supervision; (iii) differences in national and international approaches of dealing with cross-border bank resolution and bankruptcy; (iv) changes required in central bank liquidity management. Thus, the paper suggests the following areas for policy action: (i) expansion of the perimeter of the financial sector surveillance; (ii) encouraging incentives that support systemic stability and discourage regulatory arbitrage; (iii) better information for regulators on off-balance sheet risks and financial sector linkages; (iv) strict capital provisioning and liquidity standards; (v) tackling political and legal impediments to the regulation and resolution of cross-border institutions.

International Organisation of Securities Commissioners (IOSCO) (2010): *Objectives and Principles of Securities Regulation*

- **Link to the publication:** <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD323.pdf>

This document sets out 38 Principles of securities regulation, which are based upon three Objectives of securities regulation. These are: “(i) protecting investors, (ii) ensuring that markets are fair, efficient and transparent, (iii) reducing systemic risk. These 38 Principles need to be practically implemented under the relevant legal framework to achieve the Objectives of regulation described above.” The Principles are grouped into nine categories.

IOSCO (2010): *Principles Regarding Cross-Border Supervisory Cooperation*

- **Link to the publication:** <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD322.pdf>

This report analyses the different types of regulated entities that operate in the markets and how their operations have globalised. Based on this analysis, it offers suggestions as to “how regulators can enhance cross-border cooperation to better supervise the entities they regulate that have expanded their operations across borders.” This report likewise describes “different types of collaborative mechanisms that securities regulators may use to foster greater supervisory cooperation, including ad hoc discussions, memoranda of understanding (MOUs), supervisory colleges and networks of regulators.” Finally, this report “distills this discussion of the critical elements of supervisory cooperation into a set of principles designed to guide IOSCO members in developing cooperative supervisory arrangements amongst themselves, tailored to their own markets and circumstances and their own legal powers and requirements.”

Senior Supervisors Group (SSG) (2009): *Risk Management Lessons from the Global Banking Crisis of 2008*

- **Link to the publication:** http://www.newyorkfed.org/newsevents/news/banking/2009/SSG_report.pdf

In this report, the SSG review key developments since the first report, share their risk management observations (primarily on funding and liquidity risk issues) for 2008, and “discuss the industry’s own sense of its compliance with recommendations put forward in various supervisory and industry studies in 2008.” It reviews in depth the “funding and liquidity issues central to the recent crisis and explores critical areas of risk management practice warranting improvement across the financial services industry.” The report also identifies deficiencies in the “governance, firm management, risk management, and internal control programs that contributed to, or were revealed by, the financial and banking crisis of 2008”. The report also suggests a number of areas of weaknesses including liquidity risk management where further work is required.

Other Publications:**Baldwin R and Black J (2007): *Really Responsive Regulation***

- **Link to the publication:** <http://www.lse.ac.uk/collections/law/wps/WPS15-2007BlackandBaldwin.pdf>

In the context of a debate on what we want from our regulatory system, this paper takes a look at what practical problems regulators face and how responsive can regulation be in the face of meeting these challenges. The authors draw on work from Ayres and Braithwaite which tried to steer the debate about effective regulation away from a crude polarisation between “deterrence” and “compliance”. Instead, some kind of balance should be sought with the critical question being “When to punish, when to persuade”. In a section of their note, Baldwin and Black note a potential pitfall in regulatory responses which perhaps has some resonance in the current crisis in the financial system: “A perennial temptation within government systems is to channel resources towards fashionable solutions and panaceas of the month or year or to engage in “Pavlovian innovation”... The danger in adopting such an approach is that attention and resources become focussed on one out of forty or so potential enforcement tools of the state and insufficient emphasis is placed on non-state controls and the need to engage with such matters as: developing the broad toolkit; meeting the challenges of detection; developing enforcement strategies and techniques of assessment and facilitating approaches to modification.” The authors conclude that in a world increasingly dominated by complex networks of control and fast rates of change, the case for “really responsive” regulation “can only be expected to grow”.

Green D and Howard D (2009): *Global Financial Regulation: the Essential Guide*

- **Link to the publication:** <http://www.polity.co.uk/book.asp?ref=9780745643496>

This book has become widely read since being published two years ago. It describes the existing system of international financial regulation and proposes some needed improvements – of course, all this is done by providing a bird’s eye view of the main issues. It surveys the myriad of financial regulation issues discussed across international jurisdictions and brings to light the different supervisory systems and objectives through which this is done – acknowledging that these are “occasionally resolved”. The different chapters in the book discuss why financial markets should be regulated i.e. the objectives of financial regulation, the current international regulatory system which discusses the role and the committees that govern rule-making and enforcements in different areas of the system namely banking, securities and insurance. The latter chapters in the book proceed to discuss the role of institutions such as the FSB, IMF, World Bank and G20, regulatory supervisory structures in different countries and finally why urgent reform of the global regulatory system is needed.

Heremans D (1999): *Regulation of Banking and Financial Markets*

- **Link to the publication:** <http://users.ugent.be/~gdegeest/5850book.pdf>

Financial regulation can assume two motives, one to intervene when there is a market imperfection and systemic crisis in order to protect savers and creditors and two to advance other policy objectives like encourage particular activities in the economy and provide financing. The author notes that the existing financial regulating system has been questioned for two main reasons: (i) that regulators often fail to serve the public interest and are “captured” by the “regulated firms through lobbying... often at the expense of the consumer” and hence the emphasis of policy has been more on stability than on effective competition; (ii) insights from information economics have highlighted the fact that financial markets are characterised by imperfections such as moral hazard, asymmetry and agency problems. And hence government intervention has to first create a sound market framework and then limit the consequences of the market mechanism. Moreover, markets are evolving which presents challenges to optimal regulation and hence a regulatory dialectic has emerged which focuses on a market solution. The author emphasises the importance of discussing the fundamental role and nature of the financial system before moving into specific regulatory issues. The paper begins by explaining the nature of the financial system which is characterised by herd behaviour, asymmetric information and interdependence of financial markets and its institutions and the need for financial regulation when there are information failures. It then proceeds to discuss the regulatory instruments which can be ordered by protective systems (ex post measures) and preventive systems (ex ante measures) which involve more regulatory intervention than protective ones. The latter part of the paper goes onto throw some light to regulatory structure and the changing nature of regulation which is the debate on self-regulation, rules v/s discretion based regulation, institutional regulation when financial conglomerates are on the rise. The paper concludes with a discussion on the international dimension of regulation conferred upon it through globalisation, the need to curtail arbitrage and to achieve effectiveness through jurisdictional coordination.

Herring R and Santomero A (2000): *What is Optimal Financial Regulation?*

- **Link to the publication:** <http://fic.wharton.upenn.edu/fic/papers/00/0034.pdf>

This paper lays out clearly the need for and the objectives of financial regulation – “the challenge for optimal regulation is to increase market discipline.” The paper starts with a unique rationale of financial regulation from all other forms of regulation – that the financial sector poses a systemic threat to the real economy in the event of a breakdown. The authors contend that financial safety nets have been designed to protect banks but at the cost of distorting incentives for risk taking and that regulators possess a variety of options to tackle this, but none achieves optimality. Technological advances are able to provide access to information in an efficient way and the structure of the industry is also changing – i.e. banks are becoming less special and once risks have been spread around the economy financial safety nets may be dismantled: “ultimately, regulation for prudential purposes may be completely unnecessary. The optimal regulation for safety and soundness purposes may be no regulation at all.” The second part of the paper discusses the four main rationales for financial regulation: guarding against systemic risk, protecting consumers, enhancing efficiency and for achieving other social purposes. The third part of the paper then goes onto describe the different layers of the financial safety net and what happens when one of the components fail. The latter parts of the paper discuss the importance of subordinated debt as part of the capital structure, changing nature of the financial sector and recommendations for proposals.

Huang H (2010): *Institutional Structure of Financial Regulation in China: Lessons from the Global Financial Crisis*

- **Link to the publication:** http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1512105

This article critically examines the China's financial regulatory structure and sets out some reform proposals in the end, in the process also learning lessons from other jurisdictions like the US, UK and Australia. The author believes that the currently followed sector-based regulation has shown some inadequacies in keeping up with the country's fast evolving financial markets. The paper starts out with a historical survey of financial market development and regulation in China, after which it goes on to state the effects of the credit crisis on the Chinese economy. The focus of the article being the structural issues in supervisory structure the author goes on to rightly identify that, "the current financial crisis has brought to the fore the importance of the financial supervisory structure" – the appropriateness and enhancement of which could improve the efficiency of the regulatory regime. The issues facing China in this regard are the unbalanced structure of the components of the market and market players, lack of regulatory independence and challenges arising through financial innovation and modernisation. Then a review of major structural models of financial regulation is carried out analysing the "multiple regulators model" in the US, the "single and integrated model" in the UK and the "twin-peaks model" in Australia. In this context see also the *G30 report on Structure of Supervision* which builds a framework to analyse the structural design of supervision. In the final part of the paper the author compares the different models stating their pros and cons and in the end makes short and long term recommendations for the Chinese model, concluding that the US model deserves merit in the short-run but a shift towards the Australian model must be carried out in the long-run taking into account the market development in China.

Llewellyn D (2006): *Institutional Structure of Financial Regulation and Supervision: the Basic Issues*

- **Link to the publication:** <http://siteresources.worldbank.org/INTTOPCONF6/Resources/2057292-1162909660809/F2FlemmingLlewellyn.pdf>

The objective of this paper is to examine some of the issues encountered in designing the institutional structure (for example integrated v/s unified regulator) of financial supervision. The focus of this paper is on some key issues, namely the importance of supervisory structure, alternative options within a "Regulatory Matrix", pros and cons of various approaches, role of the central bank, and corporate governance arrangements of supervisory agencies. The paper starts out with tracing the origins of this debate about the institutional structure of regulation and supervision which lie in the fact that the financial evolution has challenged the assumptions behind the traditional models, the emergence of financial conglomerates has blurred existing demarcations, changing nature of objectives of regulation, and increasing internalisation of operations. The key questions that arise are the appropriate number of regulatory agencies and whether to have an integrated or a unified system, specific objectives of agencies, mechanisms to ensure effective coordination, concentration of power within a single regulator, and international dimension to information sharing – all this is examined in light of the importance of the institutional structure in achieving efficacy of regulation obviously noting that the "importance should not be exaggerated." The latter parts of the paper consider the pros and cons of the multiple v/s integrated agencies and corporate governance issues involved.

Llewellyn D (1999): *Economic Rationale for Financial Regulation*

- **Link to the publication:** <http://www.fsa.gov.uk/pubs/policy/p14.pdf>

The purpose of this paper is to consider the "economic rationale for financial regulation: why regulation has welfare benefits and why it is rational for consumers to demand regulation of financial services firms". Differences that lie in those who argue that there is a positive welfare-enhancing role for regulation and those that argue against it, center on the following areas: (i) theory of financial markets; (ii) incentive structure in the

financial industry; (iii) extent of market imperfections; (iv) extent to which financial products are unique in comparison to others that are not regulated. The paper starts off with making a distinction between the economic rationale for regulation and the practical reasons for why regulation is practised and it therefore distinguishes between the objectives i.e. “what outcome it is trying to secure”, the rationale i.e. “why regulation is necessary if the objectives are to be achieved” and the reasons for regulation. The detailed analysis of the economic rationale focuses on seven components systemic problems due to externalities, correction of market imperfections, monitoring of financial firms, building of consumer confidence, “grid lock” problem associated with moral hazard and adverse selection, moral hazard problem due to provision of financial safety nets and consumer demand to lower transaction costs. In conclusion, the paper asserts that it would not automatically justify everything that a regulator might impose and some regulations can be welfare-reducing and hence all rule-making must be justified through a cost-benefit analysis.

Mohan R (2009): *Emerging Contours of Financial Regulation – Challenges and Dynamics*

- **Link to the publication:** <http://www.bis.org/review/r090615c.pdf?noframes=1>

This is a short paper which attempts to analyse the emerging contours of regulation of financial institutions with an emphasis on the emerging challenges and dynamics. The first section of the paper provides a broad overview of the global developments which contributed to the current global financial crisis. The second section presents the ongoing discussion and debate at the international level in the light of the shortcomings of the extant regulatory framework. In the following section it analyses proposals for reforming the regulatory framework, while finally it discusses the difficulties in implementing the regulatory proposals.

Palmer J and Cerruti C (2009): *Is There a Need to Rethink Supervisory Process?*

- **Link to the publication:** http://www.bde.com.es/doctrab/confere/John_Palmer.pdf

The paper takes a view that regulation and supervision failed due to certain policy choice, wrongly held beliefs that markets could be trusted, and a concept of regulation that is outdated. The focus of this paper is financial supervision and it gives some recommendations to strengthen supervisory process and in doing so it takes excerpts from policy speeches and publications. It places a heavy emphasis on supervisory culture and behaviour, factors that have contributed to flawed rules and practices. According to the authors financial regulation and supervision failed, among other reasons, due to the following: (i) different approaches to balancing innovation and soundness which resulted due to differences in objectives of the financial system; (ii) “madness of crowds”- nearly all financial sector actors were influenced by a set of beliefs about abundance of liquidity, soundness of risk management methods etc; (iii) “race to the bottom” among supervisors to create institutional friendly regimes by manipulating front-line rules on capital provisioning, securitisation arrangements and relaxing loan-to-value requirements for certain products; (iv) inadequate understanding within supervisory agencies of financial institutions and what drives their behaviours. The authors believe that the current reforms, “while are well intended, some are absolutely essential”, few of these initiatives address the root causes of the supervisory failure during the crisis and therefore it is important to learn from the successes of other jurisdictions. The paper then details how the differing objectives and regulatory approach and actions of countries such as Singapore, Canada, Australia and Spain have induced them to build better models that have worked and follows up with detailed recommendations on the different aspects of strengthening the supervisory process.

Pan E (2009): *Structural Reform of Financial Regulation: the Case of Canada*

- **Link to the publication:** http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1333385

This article discusses the Canadian reform of financial regulation but in doing so it also discusses the topic of designing an optimal regulatory system, the current structure of regulation in Canada with a detailed

comparative analysis of the UK, Australia, US, France, Germany, Netherlands and Hong Kong. In conclusion, it provides recommendations for the Canadian supervisory system. The author notes that the “most challenging task for regulators is to strike proper balance between the twin objectives of ensuring the safety and soundness of the financial system and improving the attractiveness ... for the growth and development of financial system” – and based on this he lays out four characteristics of an optimal regulatory system which are; efficiency in organisation and operation of regulatory activity, accountability with respect to regulatory matters and sectors, competency to ensure that only those regulators with applicable skills and expertise are assigned their tasks and legitimacy which will ensure that regulations are recognised and accepted by market participants. Amongst the above another element is also regulatory experience i.e. regulators must work on problems with which they have had previous experience and hence a regulator could be organised along the lines of “objective” as opposed to “sector-based”. In achieving the following objectives regulators can use three strategies: regulatory competition, regulatory cooperation and self-regulation. The major part of the paper is the comparative analysis of different jurisdictions, followed by recommendations for Canada’s regulatory reform.

Shin HS and Morris S (2008): *Financial Regulation in a System Context*

- **Link to the publication:**

http://www.brookings.edu/economics/bpea/~media/Files/Programs/ES/BPEA/2008_fall_bpea_papers/2008_fall_bpea_morris_shin.pdf

The paper’s purview is the objective of financial regulation and how such objectives may be met? It questions the traditional approach of financial regulation which is built around risk-based capital provisioning and argues that it is inadequate. The authors contend that “risk-based capital requirements fail to make the distinction between the inherent riskiness of the asset and its systemic importance.” The paper starts out with a pressing concern which is who should fall under banking regulation and how they should be regulated? In what follows it lays out the rationale for imposing capital requirements on banks and explains the Basel approach. However as witnessed in the credit crisis solvency regulation using capital requirements have not been adequate and as the authors suggest, “the problem was on the liabilities side, rather than on the asset side.” The paper suggests two additional measures that are required to ensure system safety. Firstly a case of liquidity regulation, which places limits on the composition of the balance sheet and secondly a leverage constraint which does not necessarily take into account the riskiness of the asset, thus arguing that a macro-prudential approach to ensuring safety is required rather than a micro-prudential one. The following parts of the paper put the case in point illustrating the method in which the financial sector operates and its implications for financial sector reform. In *The Fundamental Principles of Financial Regulation* (See ICFR Core Bibliography) the authors raise the question of the “boundary problem” in regulation which refers to the fact that activity will shift from the regulated to the unregulated part of the system when times are good and vice versa when times are bad, in search of higher yield on capital.

Speeches and Lectures:

Baldwin R and Black J (2010): *Thinking like a Social Scientist*

- **Link to the publication:** <http://www2.lse.ac.uk/publicEvents/events/2010/20100225t1305vHKT.aspx>

This is a speech by Professor Robert Baldwin and Julia Black from the Law department of the London School of Economics (LSE). Risk-based regulation is popular with governments but has come under new scrutiny after the credit crisis. For lawyers a special concern is how risk-based regulation can be applied on the ground in a manner that attunes the logic of risk-based regulation with the practical challenges and the messiness of real-life regulatory scenarios. This lecture puts forward a framework for applying risk-based regulation in a way that is 'really responsive' to the practical challenges that regulators face. In doing so it demonstrates the ways that

lawyers think about the application of laws and rules on the ground. It shows the extent to which lawyers' concerns go beyond analyses of the law as found in statutes and the courts.

Gopinath S (2009): *Addressing the Regulatory Perimeter Issues – Indian Experience*

- **Link to the publication:** <http://www.bis.org/review/r090618c.pdf>

This is a speech by Shyamala Gopinath, Deputy Governor of the Reserve Bank of India (RBI). The regulatory perimeter or boundary issue has been engaging global policy makers but has not been the central issue in the current crisis. In the speaker's view it was the fact that "inter-connectedness across regulated, unregulated and lightly regulated entities" went unnoticed and this has been the real issue. According to the speaker as far as stability is concerned inter-connectedness within the system has to be focused upon. Extending the perimeter is important, but once having it in place it is crucial to hardwire the perimeter – as regulation could create incentives for activities to move beyond the boundary.

Gopinath S (2009): *Philosophy and Practice of Financial Sector Regulation ... Space for Unorthodoxy*

- **Link to the publication:** <http://www.bis.org/review/r091110d.pdf>

This is a speech by Shyamala Gopinath, Deputy Governor of the Reserve Bank of India (RBI). This speech recognises the importance of the renewed effort to redefine the regulatory philosophy. Systemic risk oversight and macro-prudential regulation have become the new touchstones for a repaired regulatory framework. The speech is divided into two parts: starting off with a discussion on the evolution of the financial sector regulation in India and it then shares perspectives on some of the key issues in the current debate on future of financial sector regulation mainly dealt with in detail in the Turner Review.

Website Articles:

Rajan R (2009): *Rajan Roundtable*

- **Link to the publication:** http://www.economist.com/blogs/freeexchange/2009/04/rajan_roundtable

Rajan discusses the lack of consistency among governments and regulators in capital requirement policies during boom and bust periods, allowing banks to take advantage of this instability. He concludes that reforms should apply comprehensively to all levered financial firms are less likely to encourage the drift of activities from heavily regulated to lightly regulated institutions during the boom, a source of instability.

Shin HS (2009): *Rajan Roundtable: Change the Philosophy*

- **Link to the publication:**
http://www.economist.com/blogs/freeexchange/2009/04/rajan_roundtable_change_the_ph

This article attributes the lack of regulatory input as boom turned to bust in 2007 down to their inability to "take away the punch bowl at the height of the party". Regulators also are faulted for allowing a blind spot generated by the doctrine that adopting private sector "best practice" was a sufficient basis for regulation, and that maintaining the apparent soundness of individual institutions is enough to ensure the soundness of the system as a whole. He concludes that capital targets should bind and restrain excesses when market-determined capital does not do so.

The International Centre for Financial Regulation

5th Floor

41 Moorgate

London

EC2R 6PP

United Kingdom

Telephone: +44 (0) 20 7374 5560

Facsimile: +44 (0) 20 7374 5570

E-mail: enquiries@icfr.org

Website: www.icfr.org