

The Future of Financial Regulation – A G30 View

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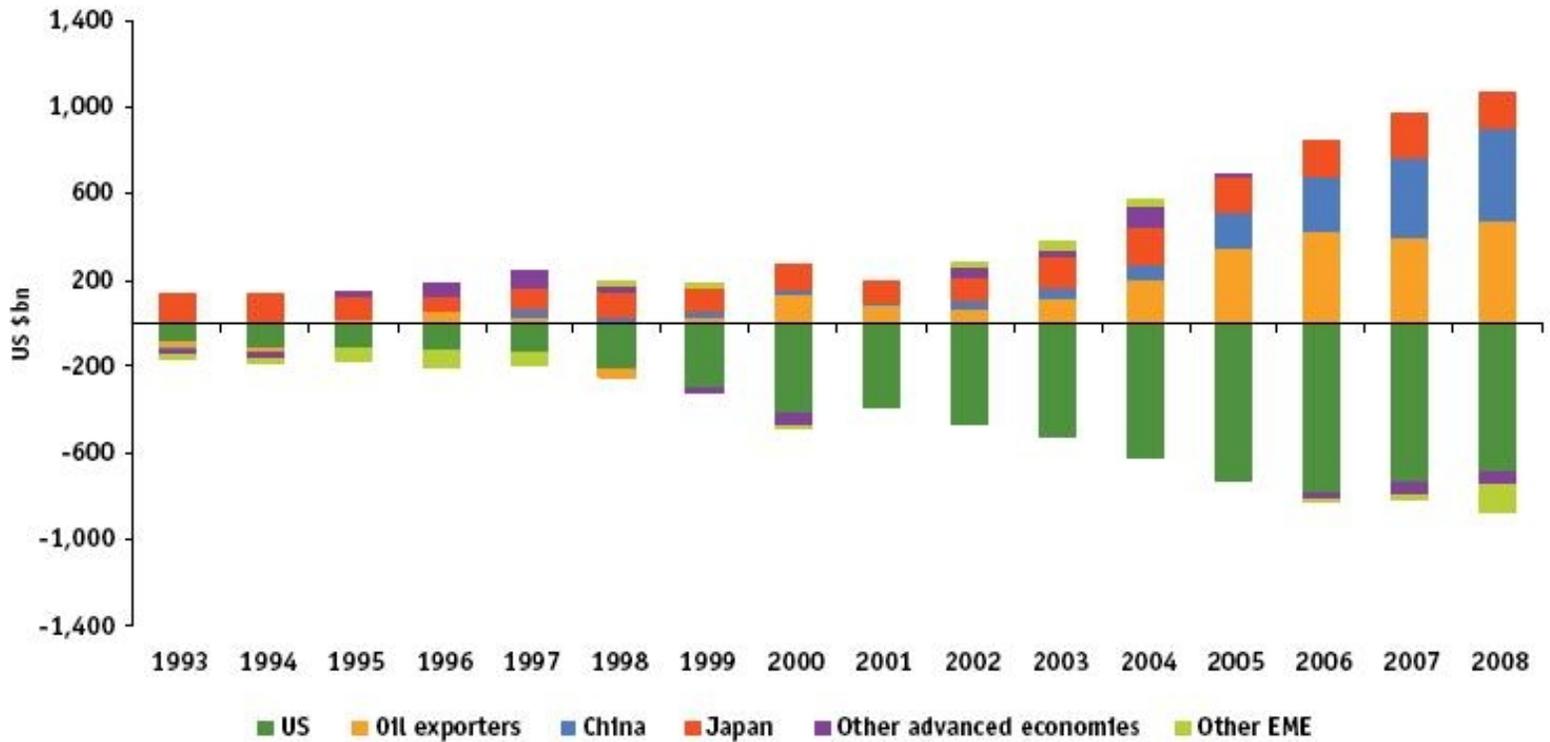
The Future of Financial Regulation

- Consensus over the causes of the crisis
- Growing agreement over the solutions; among the G30, at the G20 and other forums
- The challenges facing international regulators and supervisors
- The Obama Administration Plan
- Outlook: more risk adverse, more conservative, more coordinated regulation of a smaller global financial sector

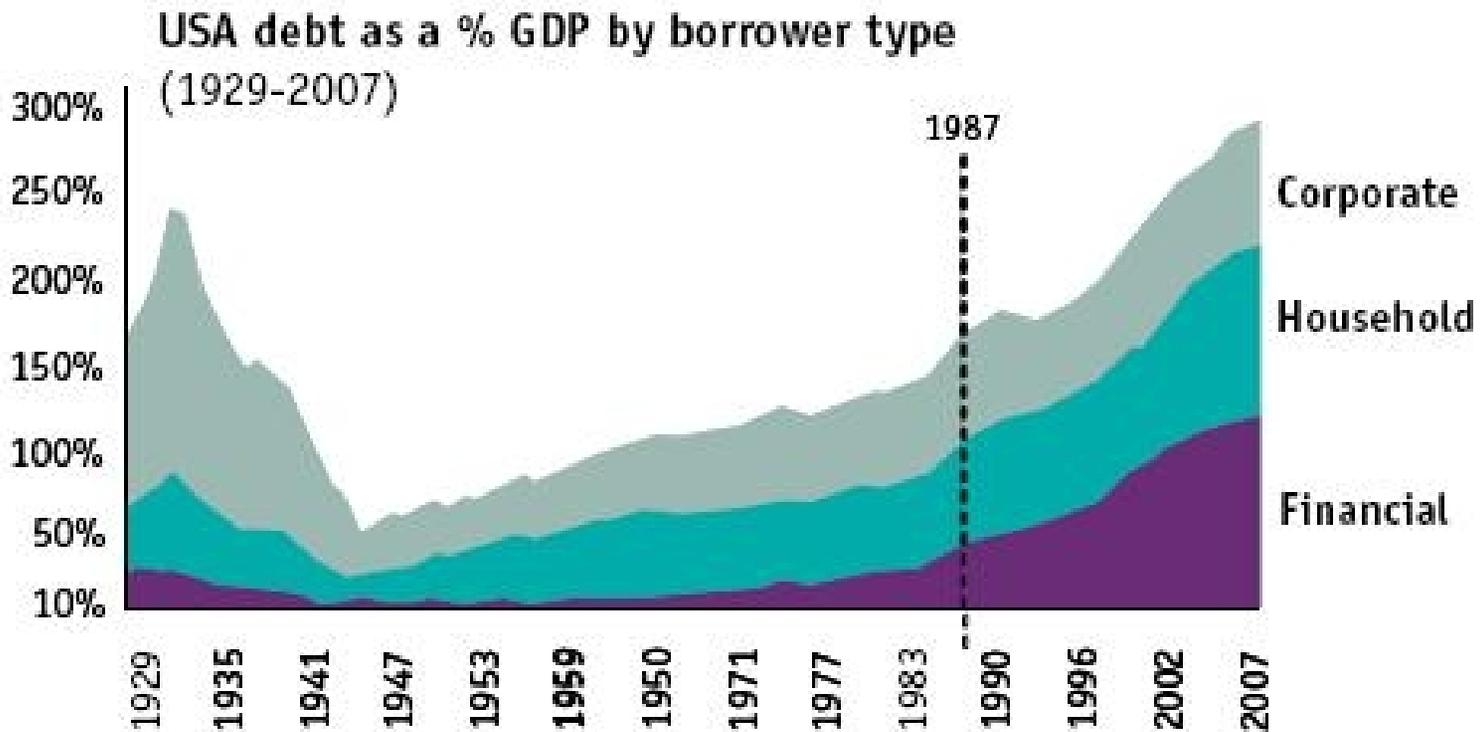
Causes: Global Imbalances



Global current account balances

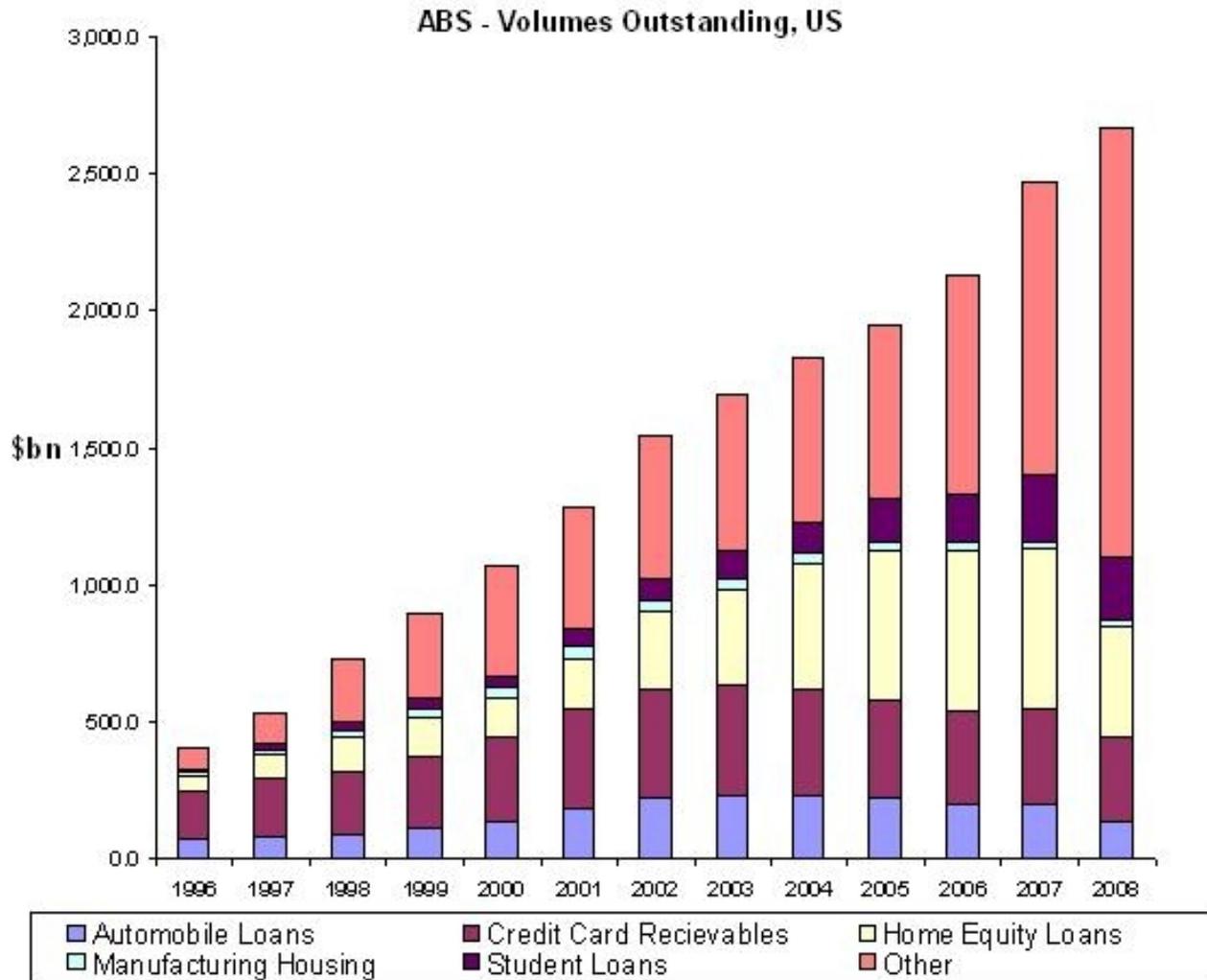


Excess Consumption USA Debt Levels Mount

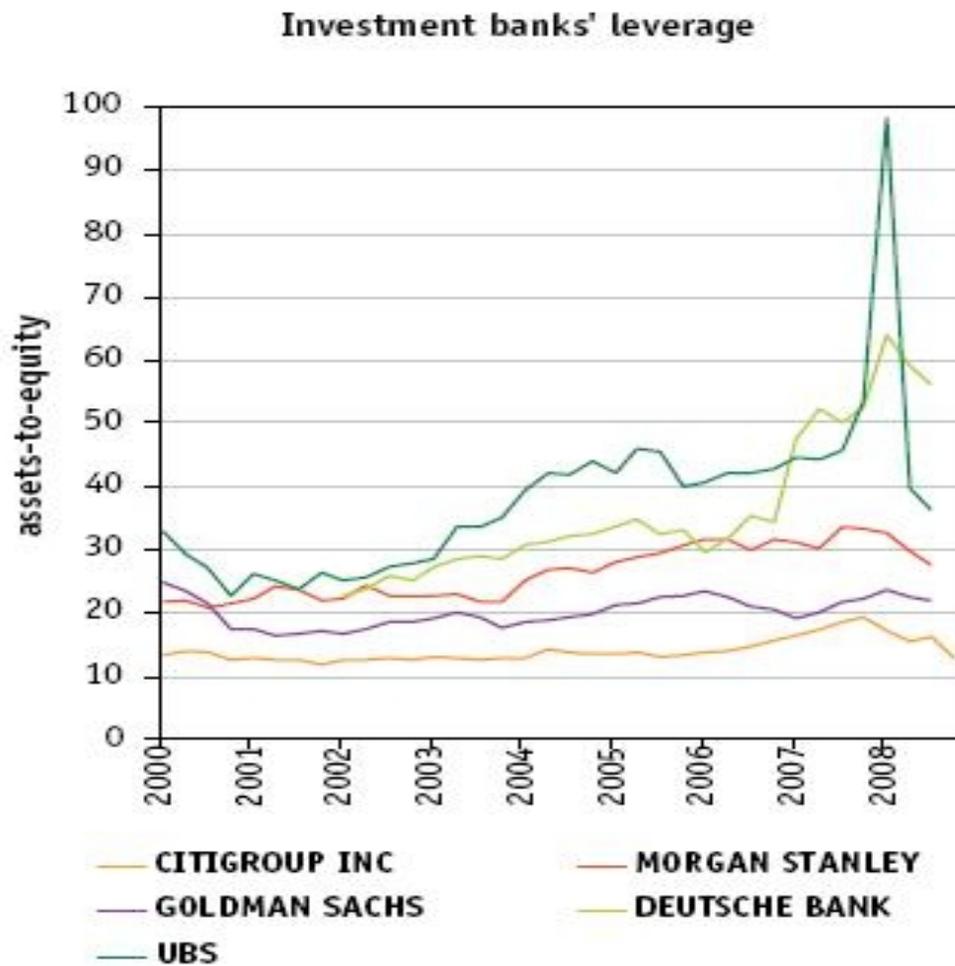


Source: Oliver Wyman

Securitized Credit Growth

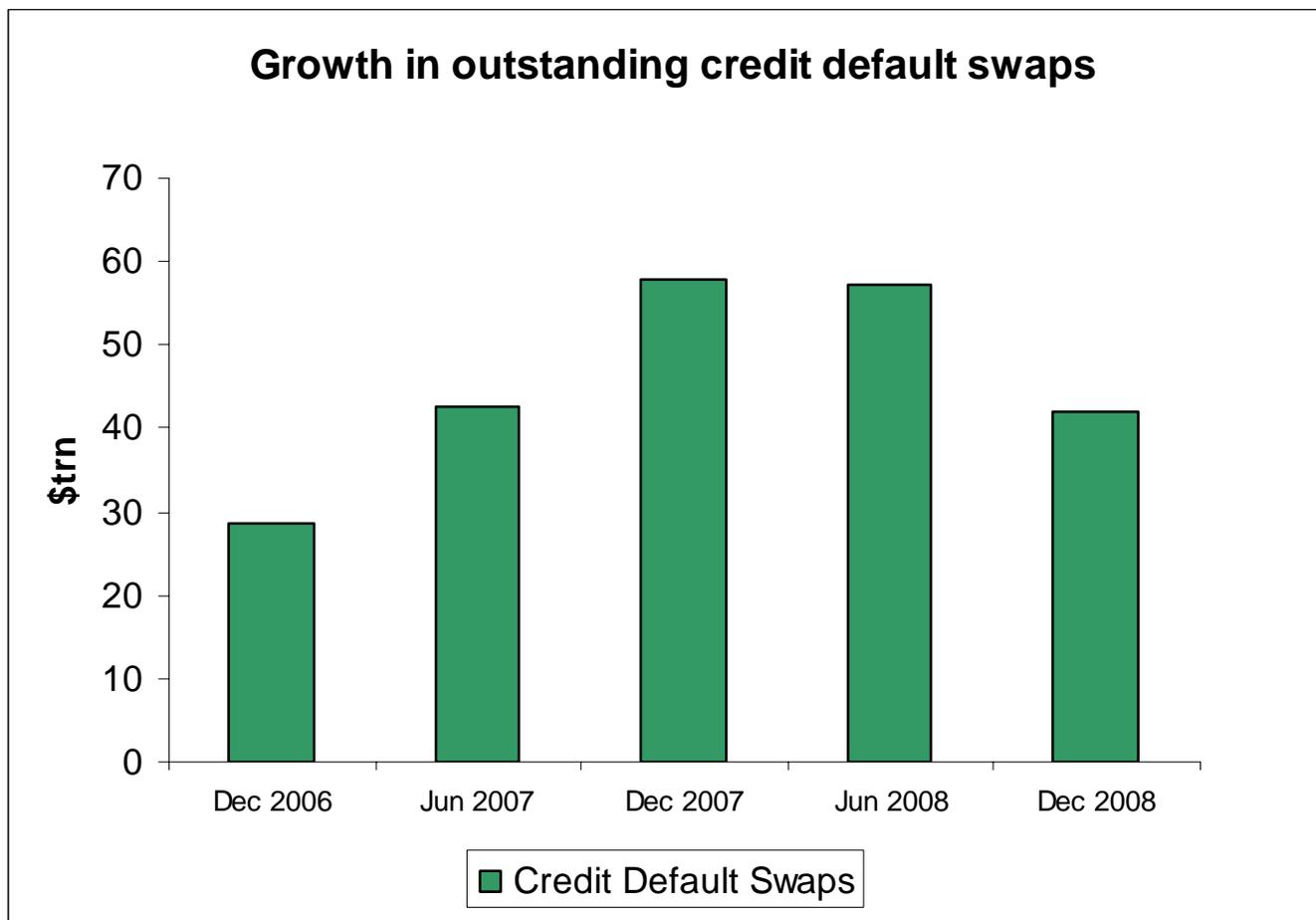


A Search for Yield: Risk and Leverage

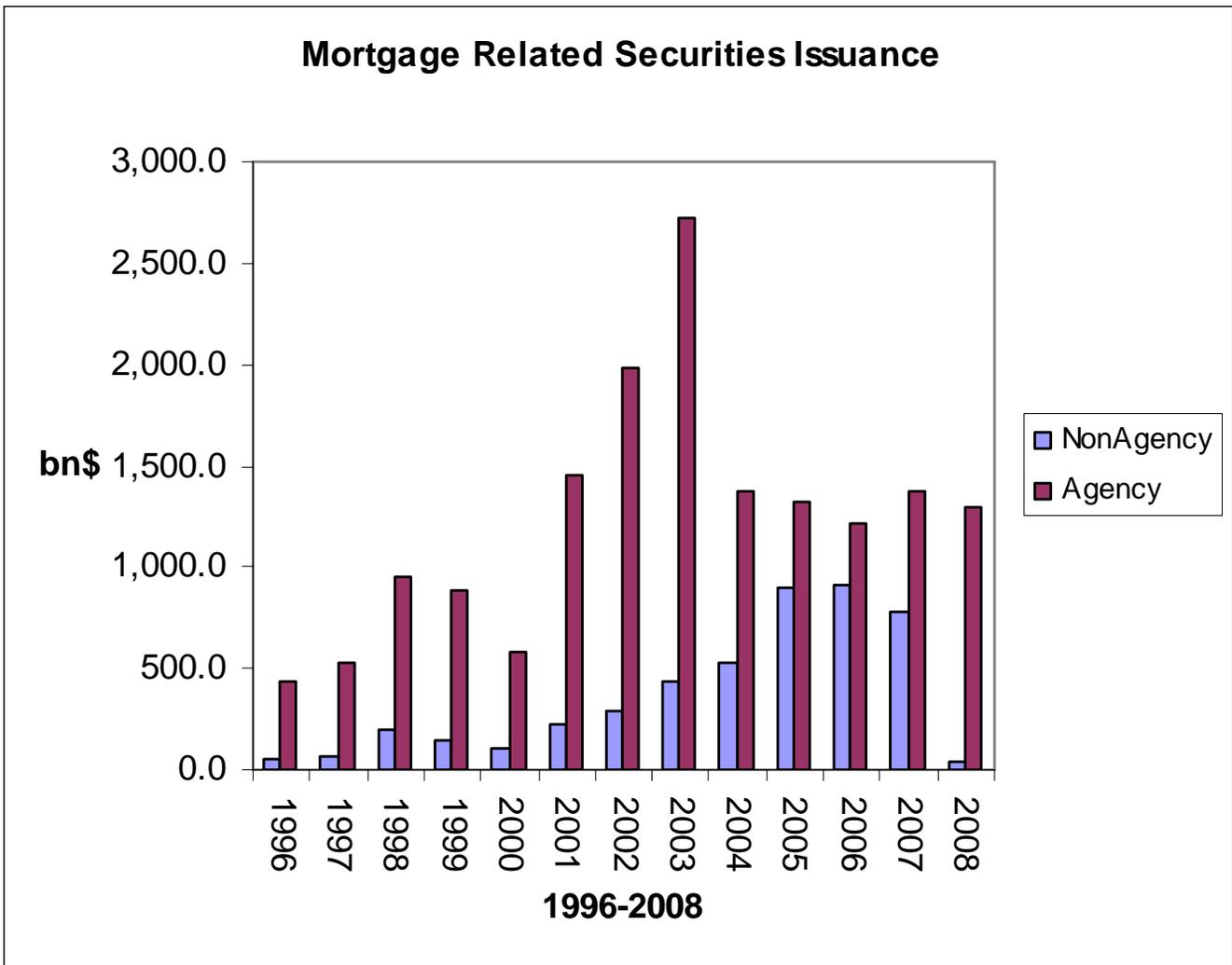


Source: Bloomberg

Complexity, Opacity and Financial Engineering



MBS Issuance



Includes GNMA, FNMA, and FHLMC mortgage-backed securities and CMOs and private-label MBS/CMOs.

Source: Government-Sponsored Enterprises, Thomson Financial, Bloomberg

The Reforms Post-Crisis

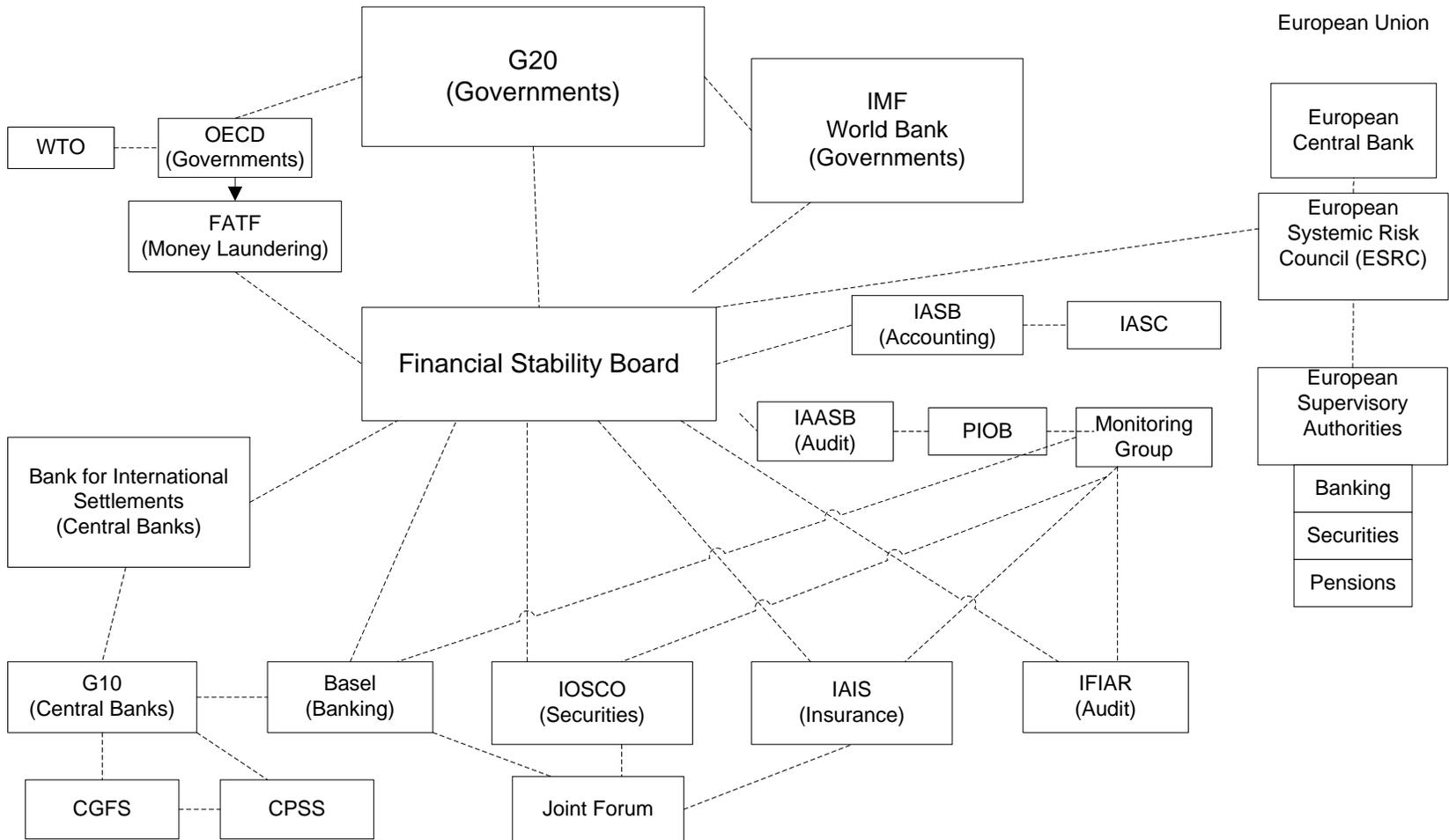
A Consensus Emerges

- I. Gaps and weaknesses in the coverage of prudential regulation and supervision will be eliminated.** All systemically significant financial institutions will be subject to a higher degree of prudential oversight. Hedge funds, other actors to also be included, where appropriate.
- II. The quality and effectiveness of prudential regulation and supervision must be improved.** Central banks including the Fed will take on a larger role, including a financial stability role. Non-bank resolution mechanisms will be created.
- III. Institutional policies on governance, risk management, capital, and liquidity will be enhanced.** National response and international responses are underway on capital, liquidity, leverage and accounting fronts.
- IV. Financial markets and products will be made more transparent and the infrastructure made more robust and resistant to failures of even large financial institutions.** OTC and complex securities markets will move to CCPs, transparent, regulated, and supervised.

The International Aspect

- The Goal – new, simpler, more robust standards to address pro-cyclicality, reinforce financial system, restore credibility
 - Must not only establish new rules but also ensure the new standards are applied in a consistent manner country to country and region to region. Is this achievable?
- FSB, Basel Committee, IASB, BIS and IMF and other standard setters have key roles to play – can they deliver on so many fronts?
 - No enforcement mechanisms
 - Burden sharing a problem
 - Does not address crisis management
- Reform already underway on capital, liquidity, leverage and accounting standards
 - Progress rapid thus far
 - It will be a multi-year process
 - It will require continued political will and commitment by all governments, supervisors, central banks and private sector actors

The Structure of International Standard Setting and Coordination



The Obama Plan

- Nature of the Plan – far reaching and incremental – many compromises. Plan eschews structural adjustment favoring regulatory change now, enhancing existing agencies' powers, and structural adjustments later
- Plan includes action –
 - On SI firms and regulation;
 - On hedge funds;
 - On the central bank role;
 - On non-bank resolution;
 - On enhancing capital and liquidity standards;
 - On OTC derivatives markets regulation; and
 - On international standards and coordination
- Will it work? Is it enough?
- Do we have the same problems as before?
- Are we missing an opportunity to improve our financial architecture?

The Outlook for Financial Reform

- Cautious optimism
- Remarkable degree of agreement on the necessary financial reforms
- US, EU and G20 all engaged and reform process
 - But – the devil is in the details
- Problems in the real economy could precipitate further troubles
- Structures not yet in place to deal with a further financial crisis
- The end result – a smaller financial sector, a more conservative prudential climate, perhaps lower profits, and lower tax revenues will accompany less risk taking

About the G30

- A non-for-profit established in 1978 (www.group30.org)
- Composed of finance ministers, central bank governors, regulators, financial sector leaders and academics
- A forum for frank discussion of international economic and monetary challenges facing the policymaking community
- Undertakes significant research designed to provide concrete policy recommendations to the financial community on areas of particular concern.
- Currently focused on matters of financial supervision, financial reform and the redesign of the global financial architecture

Thank You.