

Regulatory Reform Scorecard

- Cecchetti & Schoenholtz

Topic	Status	Recommendation
Capital	Up 2x since crisis (requirements up 10x)	Raise (much?) further
Liquidity	2 new rules: LCR & NSFR	Simplify to one
Resolution	Substantial Progress	Needs improvement Skeptical, expect severe damage
Central Clearing	Substantial Progress	Need resolution plan
Systemic Regulation	Like Stress tests Macro-Pru still early days	Stress tests are useful Much more work needed
Overall	Clearly safer, More resilient, But. . .	All of the above, plus: <ul style="list-style-type: none"> • Tradeoff – safety v efficiency • Watch regulatory perimeter • Herding considerations • International fragmentation worry

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Capital	Up 2x since crisis Two requirements	Raise (much?) further

- ❓ Crisis drawdown review (FSB data)
- ❓ Major impact from resolution regime
 - ❓ Best Tier 1/RWA range goes from 16-19% to 10-14% (BoE, 2015)
- ❓ Incentive issues:
 - ❓ Role of requirements vs actual level – “distance to constraint”
 - ❓ High capital supports lending, but high requirements do not
 - ❓ Distorted incentives – harder to control regulatory perimeter
 - ❓ Leverage ratio creates bad incentives
 - ❓ CCAR - mostly a capital requirement (often the binding constraint)

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- ❓ Innovative discussion of LCR and NSFR – integration of systems
- ❓ Stepping back to consider the LCR
 - ❓ Is it a usable recovery tool (stigma → “last taxi” problem?)
 - ❓ RRP requirements can dominate LCR
- ❓ Need broader review of LCR, LOLR and liquidity framework
 - ❓ Appeal of CLF (see Stein 2013)

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- ❓ Concerns over: willingness, effectiveness and impact
- ❓ System not perfect, but funded and usable today:
 - ❓ Can anyone name a US politician who will back TARP 2?
 - ❓ Consider: Tucker, Gruenberg, & Powell comments
 - ❓ Market expectations and debt pricing is working (in US)
- ❓ US benefits from FDIC infrastructure & history, clear structural separation, and massive resourcing (>\$1trillion of holdco debt)
- ❓ Fully agree with proposal for “simple phoenix RRP plan”

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- ❑ Agree with much of paper – and these other concerns above
- ❑ From here: should we further reinforce core FSB reforms?
 - ❑ Diminishing returns
- ❑ Or should focus shift to other issues?
 - CCP resilience? Cyber?
 - Tech Disruption? Franchise value erosion? Legal uncertainty?
 - Assets “priced for perfection” given political shocks & end of QE?
 - Nationalism/ Competitive Ring Fencing? Title 1 zealotry?
 - LOLR / Liquidity design?