

# Regulatory Reform Scorecard

## - Summary of Cecchetti & Schoenholtz Perspective

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

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

## Comments:

- cf. FSB data -worst crisis drawdown for big bank: ~9% (Basel 3 terms)
  - Consider - major impact from new resolution regime
    - Optimum Tier 1/RWA range shifts from 16-19% → 10-14% (BoE, 2015)
  - Consider – Importance of Incentive issues:
    - Role of requirements vs actual level – “distance to constraint”
      - High capital supports lending -- high requirements do not
    - Distorted incentives – harder to control regulatory perimeter
    - Leverage ratio creates bad incentives
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- CCAR - mostly a capital requirement (often the binding

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Liquidity	2 new rules: LCR & NSFR	Simplify to one

## Comments

- Innovative discussion of LCR and NSFR – integration of systems
- Should we step back further – and reconsider the LCR framework?
  - Is it a usable recovery tool (stigma → “last taxi” problem?)
  - Is it an efficient tool?
  - RRP requirements can dominate LCR
- Need broader review of LCR, LOLR and liquidity framework
  - Appeal of CLF alternative (see Stein 2013)

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Resolution	Substantial Progress	Needs improvement Skeptical, expect severe damage

- C&S express concern over: willingness, effectiveness and impact

## Comments:

- System not perfect, but funded and usable today:
  - On will: can anyone name a US politician who would back TARP 2?
  - On usability: see Tucker, Gruenberg, & Powell comments
  - N.B. Market expectations and debt pricing is working (in U.S.)
- C&S propose a “simple phoenix RRP plan” – fully agree!
- Agree with C&S proposals to fix Title 1 (BK) – but concern about T1 zealotry
- US benefits from:
  - FDIC infrastructure & history
  - Clear structural separation
- Massive resourcing (>\$1trillion of holdco debt)

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Overall	Clearly safer, More resilient, But. . .	Tradeoff – safety v efficiency Watch regulatory perimeter Herding considerations International fragmentation worry

## Comments:

- Agree with much of paper – and these other C&S 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