Regulatory Reform

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Scope of paper

- Regulation of systemic risk defined as anything directly related to prevention and management of financial crises

Post-GFC regulatory changes

1. Preventive powers
2. Emergency powers
3. Resolution and restructuring powers
Preventive powers
- New liquidity guidelines in Basel III
- Optimal design and oversight of CCPs for swaps
- Migration of traditional banking activity to the shadow banking sector

Newly imposed restriction on emergency powers
- LOLR activities
- Broad-based guarantees

Resolution and restructuring as an alternative to bailout
Six open questions

1. What are the implications of Basel III’s liquidity rules for systemic risk?
2. How do CCPs affect the probability and costs of a financial crisis? How should CCPs be designed and regulated to maximize their net benefits?
3. How do post-GFC regulations affect migration to the shadow banking sector? What tools should we use to monitor and regulate that sector?
4. How should LOLR policies be designed for modern panics? How can we minimize the stigma of LOLR facilities and the moral hazard of their use?
5. How exactly did the extended guarantees of the GFC work to fight the panic? How restrictive are the new rules in the United States that limit such guarantees?
6. Can the new regimes for resolution and restructuring of SIFIs work? If not, how should they be altered?