WALL STREET AND WASHINGTON:

Regulatory Issues

Prof. Jeffrey Garten
HISTORICAL REVIEW

• Regulation a reaction to crises or other sharply defined events.
  - 1791: First Bank of US, chaos of Revolutionary War
  - 1816: Second Bank of US, chaos of War of 1812
  - 1863, 1864: National Banking Act, in wake of Civil War
  - 1913: Federal Reserve Act, in wake of 1907 banking crisis
  - 1930’s: Securities Act, Glass Steagall, FDIC, in wake of 1929 crash
  - 1991, FDIC Improvement Act, in response to Savings & Loan crisis
  - 2002, Sarbanes Oxley, in response to Enron, WorldCom debacle
HISTORICAL REVIEW

• Regulations made in heat of crisis, often before analysis complete
• Often “backwards looking”
• Historically, silo mentality
  ➢ Type of regulation
  ➢ Link to economy
  ➢ International considerations rarely weighed
• Inter-relationships often overlooked
TEN KEY CHALLENGES

• National vs. international vs. global
• Historic regulatory pendulum
• Link between financial and macroeconomic
• Link between banking and government
• Speed and complexity, market and regulations
TEN KEY CHALLENGES

- Contagion and firewalls
- Stability vs. innovation
- Enforcement/penalties
- Regulatory talent, agency resources
- Money, politics, influence
TEN KEY CONCEPTS

- Systemic risk and macroprudential oversight
- Moral hazard
- Too big to fail
- Resolution authority, living wills
- Regulatory capital/profitability
TEN KEY CONCEPTS

• Volcker rule, ring fencing
• Consumer protection
• Pro cyclical vs. counter cyclical
• Regulatory capture
• Cost-benefit analysis
KEY REGULATORY OMissions

• Housing finance
• Regulates form (bank) not function (banking)
• Doesn’t deal well with shadow financial system
• Minimal impact on regulatory overlap and sprawl
SOME KEY QUESTIONS

• Can regulation prevent crises?
• Is there an answer to the complexity question in the real world?
• Where should the regulatory pendulum settle?
• Can we prevent contagion, and if not, what are the implications?
NEW YORK TRIPS
Field Trip to New York City on Friday, February 3, 2012

Summary Agenda

8:00 – 8:40: Roger Altman, Chairman Evercore, former Deputy Secretary of the Treasury
9:00 – 10:00: Jamie Dimon, Chairman and CEO, JP Morgan
11:45 – 12:30: Kenneth Jacobs, Chairman and CEO, Lazard
12:30 – 2:00: Paul Volcker, former Chairman, Federal Reserve (LUNCH)
2:30 – 3:30: Roger Ferguson, Chairman and CEO of TIAA-CREF, former Vice-Chairman, Federal Reserve
4:00 – 5:00: Robert Rubin, former Secretary of the Treasury, former Chairman and CEO, Goldman Sachs
5:00 – 6:00: Wrap-Up
Field Trip to New York City on Friday, February 10, 2012

Summary Agenda

10:30 – 12:00: Henry Paulson, former Secretary of the Treasury, former Chairman and CEO, Goldman Sachs
12:00 – 1:00: Duncan Niederauer, Chairman and CEO, NYSE & Euronext
1:00 – 2:00: LUNCH
2:30 – 3:30: Rodgin Cohen, Senior Partner, Sullivan and Cromwell
4:00 – 5:00: Christine Cumming, First Vice President (#2 position), New York Federal Reserve
5:00 – 5:45: Wrap-Up
TRIPS

• Required reading
  • Background papers
  • Paulson
  • Rubin
• Lead questions
• ID
• If late...
• Keep in touch with Caitlin...