



Building the Financial System of the 21st Century:

An Agenda for
Europe and the United States



Session III

Global Financial Stability Revisited—
the Impact and Control of the
Liquidity and Credit Crises

Restoring Confidence

- How will de-leveraging/de-risking occur?
- How can we restore confidence?
- What is the relationship between liquidity & confidence?
- What is the role of central bank(s)?

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Session I

Global Financial Stability – New Regulatory Approaches & Principles

What Went Wrong?

- Products
 - Not just mortgages
- Management of information
 - Transparency/Disclosure
 - Due diligence/over-reliance on raters and models
- Actors
 - Regulators
 - Originators
 - Raters (capability, conflict of interest)
 - Investors
- Risk management & asymmetric information
 - False reliability

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Solutions to Crisis: Restoring Confidence

- Coordination among regulators & supervisors
- Role of central banks
 - Liquidity
 - New oversight roles
- Market solutions
 - Disclosure of losses
 - Mark-to-market debate
- What not to do
 - Over-regulation
 - Protectionism
 - Haste makes waste

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Long-Term Solutions: Structure of Regulation

- Where are the gaps?
 - U.S. investment banks
 - Hedge funds?
- How should roles be allocated?
 - Lender of last resort
 - Prudential regulation
 - Business conduct regulation
- Can Europe deal with a cross-border financial institution failing?
 - Who has capacity?
 - Who will pay?

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Other Issues

- Transparency
 - Regulators: what does the lender of last resort need to know?
 - Investors
- Emerging markets
 - How to involve them in debate
- Moral hazard
 - Only shareholders?
 - Debt/counterparty discipline

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Session II

New Principles for Regulation of International Financial Transactions (Selective Recognition, EU Model)

Recognition

- Unilateral v. Mutual
- Information sharing as pre-requisite
 - Legal and technical obstacles
- Comparability assessments
 - Enforcement, not rules
 - Can U.S. and EU create standard?
 - Can we cherry pick in Europe?
- At what level should this be handled?
 - Will U.S. – Australia affect U.S. – EU
 - Multilateral v. bilateral
 - Forum shopping



Exemption

- Timing issues
 - Level playing field – trading screens v. broker-dealer exemption
 - Speed v. optimality: is it a 2nd best for mutual recognition?
- Shared enforcement
 - Will conduct of business rules be home or host?
 - What remedies for investors?
- Investor recourse
 - Private v. public enforcement

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Standardization

- Resolve technical differences where principles are the same
- Common definitions
 - Wholesale v. retail
- Common disclosures
- Can proceed faster than mutual recognition
 - Industry role in creating
- EU & U.S. can create global standards
 - Model for emerging markets

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Politics of Reform

- Impact of crisis
 - Window of opportunity
 - Fears of over-regulation
 - Protectionism
- Convincing legislatures

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