



Discussion of William White & Xavier Freixas "The re-design of the financial sector"

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Two Big-Picture Papers

"[A] relevant suggestion from Japan's experience [of the 1990s] is the need to implement short-term measures and medium-term re-design of the regulatory framework in a simultaneous and balanced manner. [...] On the one hand, if the policies lean too much toward crisis management, it could cause moral hazard or distort the system in the longer run. On the other hand, hasty implementation of medium-term measures could rather exacerbate the situation and make crisis management even more difficult."

Japanese Financial Services Agency Commissioner Takafumi Sato, 'Putting the current financial crisis in perspective', speech to the Asia Financial Forum in Okinawa, 30 January 2009



My Remarks

- **Risk Assessment Framework**
- **Too Big To Fail**
- **Financial De-Globalization**
- **Institutional Architecture**



Risk Assessment Framework

- **Supervisory practice / market discipline**
- **Basel: credit ratings & internal models**
 - Now: emphasis on reducing reliance on credit ratings
 - Corporates / Financials / Structured Products / Sovereigns
- **Fair value accounting**
 - No use of financial statements whatsoever?
 - Or unwillingness to use strong prudential filters?
 - Capital requirements: “countercyclical” / “tailored to the contribution made by individual institutions to systemic risk”?
- **Alternatives?**
 - Lessons from Basel - Pillar 3
 - Experience of EU stress tests July 2010
 - “The 21st century still awaits its John Moody”



Too Big To Fail

- **Different perspectives**
 - EU: no bank allowed to fail (until last Friday!)
- **“Scale and scope” debate**
- **Proposed actions**
 - Resolution process
 - Living wills
 - Bail-ins, CoCos etc.
 - Fallacies of composition?

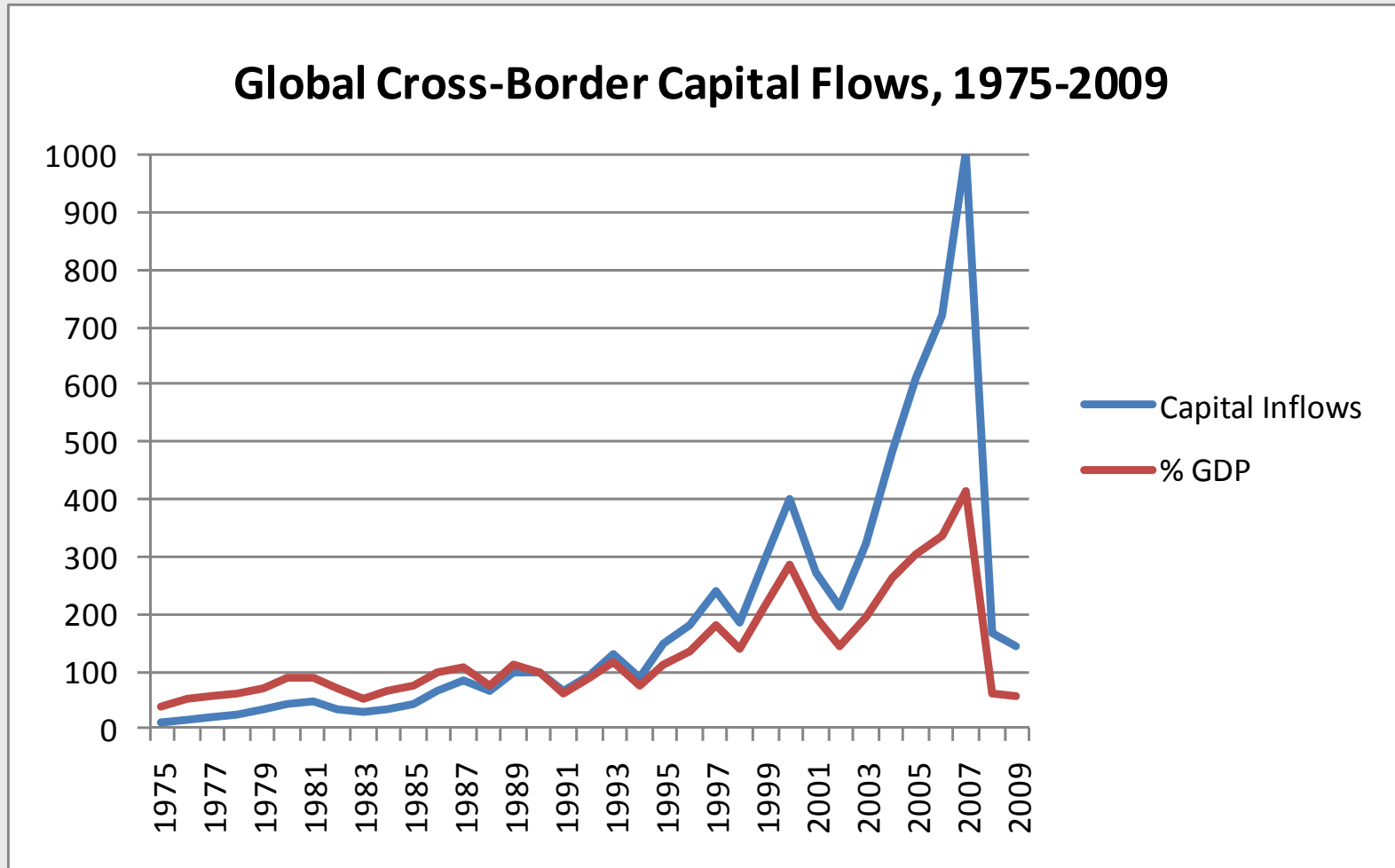


Financial De-Globalization

- **Current trends**
 - Difficulty of international cooperation
 - Gold-plating / “Swiss Finish”
 - Repatriation of liquidity
 - Economic nationalism
 - Lack of private-sector leadership
 - Inward-looking emerging markets
- **Benefits of financial integration / globalization?**
- **Implications for global financial regulatory discussion**
 - Limited expectations
 - Subsidiarity



Financial De-Globalization

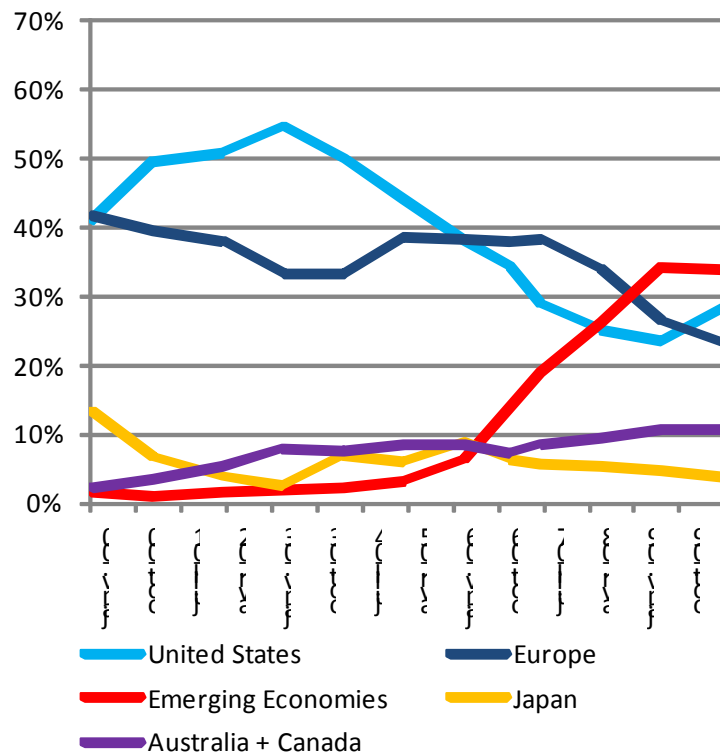


Source: Gian Maria Milesi-Ferretti / IMF, External wealth of Nations Mark II database
(update of Lane and Milesi-Ferretti 2007 JIE)

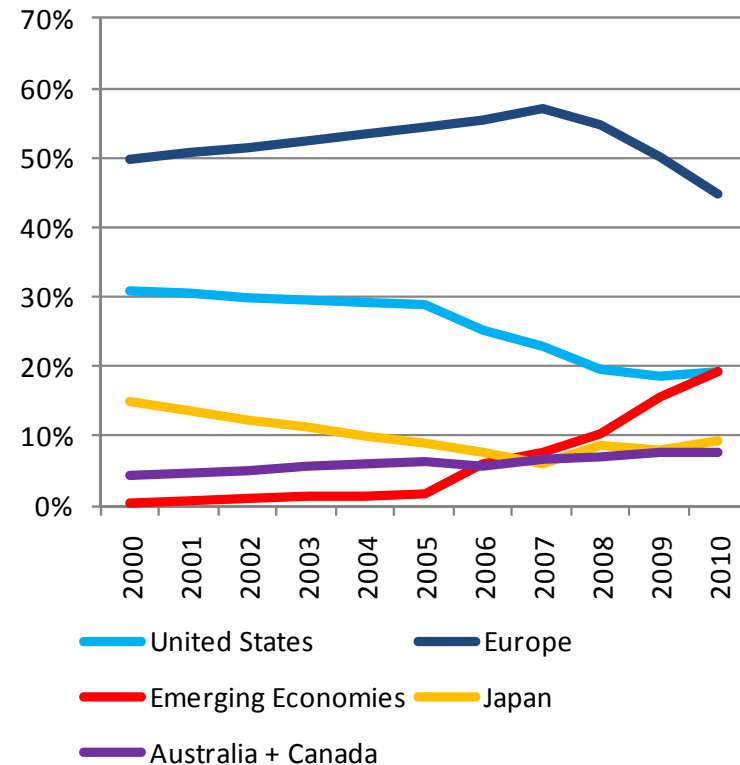


Global Banks: Shifting Center of Gravity

Aggregate Market Value of Top 100 Listed Banks by Location of HQ



Assets of Top 100 Listed Banks, by Location of HQ

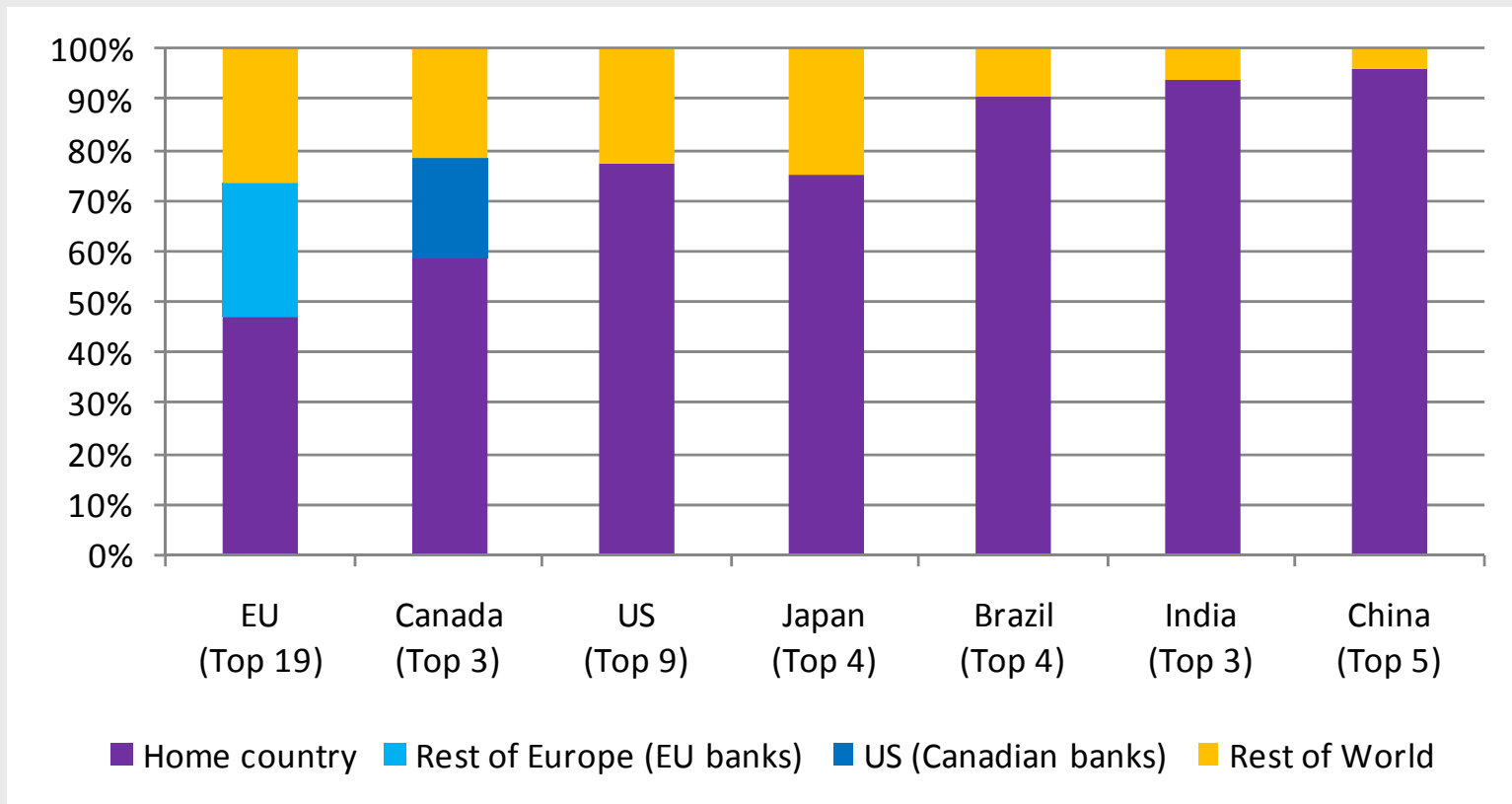


Shares of aggregate market value (left) and of aggregate assets (right) of top 100 global listed banks at each date, by region of headquarters. Source: FT Global 500 rankings, Datastream, author's calculations



Global Banks: Internationalization Profiles

Geographical distribution of top banks' global revenue



Average geographical distribution of 2009 revenue of largest listed banks in each region by 2009 assets. Source: corporate reports, authors' calculations



Institutional Architecture

- **Independence concept “oversold”?**
- **Central banks in crisis times**
 - Interference with prudential supervision
 - Interference with fiscal policy
- **Resolution authorities**



Institutional Architecture: EU / Global

- **EU**

- Commitment to single market
- Creation of European Supervisory Authorities
- Likely evolution towards two-tier system
- Crisis management and resolution?
 - Lessons of Dexia, Fortis
 - Political implications

- **Global**

- Limited prospects for global-level banking supervision
- Retail banks: HSBC / Citi / Santander model
- G-SIFIs (aka bulge-bracket investment banks)



Thank You For Your Attention

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