

COMMITTEE ON CAPITAL MARKETS REGULATION RELEASES

The Global Financial Crisis: A Plan for Regulatory Reform

Recommendations to Reduce Systemic Risk and Make Markets More Transparent

WASHINGTON, D.C., May 26, 2009—The Committee on Capital Markets Regulation, an independent and nonpartisan research organization dedicated to improving the regulation and transparency of U.S. capital markets, released today a comprehensive report entitled, “The Global Financial Crisis: A Plan for Regulatory Reform” that provides a clear path forward for making the U.S. financial regulatory structure more integrated, more effective and more protective of investors. This detailed plan for regulatory reform is the result of a year-long examination into the global financial crisis and the key deficiencies in the regulatory system.

The Committee believes that an effective system must achieve four critical objectives:

1. Reduced systemic risk through more sensible and effective regulation.
2. Increased disclosure to protect investors and stabilize the market.
3. A unified regulatory system where lines of accountability are clear and transparency is improved.
4. International regulatory harmonization and cooperation.

The Committee found that the financial system failed on all four fronts with regulation applied inconsistently across products and services, insufficient transparency to protect investors and support market discipline, fragmented supervision, and a lack of coordination on basic global rules.

The 57 recommendations contained in the Plan address these shortcomings with proposals to reform capital requirements, create resolution procedures and other regulation for non-bank financial institutions, increase transparency and supervision around sophisticated financial instruments, and improve accounting standards.

“The financial crisis came about because there were too many gaps in our regulatory system where products and markets operated in the shadows. There was too much fragmentation and not enough daylight,” said John L. Thornton, Chairman of the Brookings Institution and co-chairman of the Committee. “Taken together, our recommendations derive from the goals of a unified regulatory system and a more transparent market.”

Glenn Hubbard, Dean of Columbia Business School and co-chairman of the Committee, said, “We are optimistic that in the wake of the worst financial crisis in our lifetime, policymakers will embrace bold reform. In today’s politically charged atmosphere, the expertise and diversity represented on this Committee make these recommendations uniquely independent and consensus-driven.”

Added Hal S. Scott, Nomura Professor and Director of International Financial Systems at Harvard Law School and Director of the Committee, “The last year has taught us that when more than one agency is in charge, no single agency is responsible or accountable. We’ve gone to great lengths to recommend the right structure that can keep pace with our dynamic markets, so we can move beyond this crisis and prevent the next one.”

The Plan offers policymakers a nonpartisan, empirical foundation for public policy reforms that will improve long-term economic growth by strengthening the financial markets that are the backbone of the U.S. economy.

About CCMR

The Committee on Capital Markets Regulation is an independent and nonpartisan 501(c)(3) research organization with 25 members representing a broad and diverse group that includes leaders in finance, business, academia, law, accounting, and the investor community from all across the political spectrum. The Committee provides policymakers with a nonpartisan, empirical foundation for public policy on capital markets regulation. The Committee co-Chairs are Glenn Hubbard, Dean of Columbia Business School, and John L. Thornton, Chairman of the Brookings Institution. The Committee's President and Director is Professor Hal S. Scott, Nomura Professor and Director of the Program on International Financial Systems at Harvard Law School.

For more information about the Committee, please visit: www.capmksreg.org/.

The attached Fact Sheet outlines key recommendations of the Plan.

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The Global Financial Crisis: A Plan for Regulatory Reform

Fact Sheet

This Plan offers a comprehensive and detailed approach for reforming the U.S. regulatory structure in light of the global financial crisis. Below are select recommendations consistent with the Plan's four critical objectives.

1. Reducing systemic risk with more sensible and effective regulation applied consistently by a unified regulatory architecture.

- * Require a class of exchange-listed credit default swaps
 - The Committee strongly believes that CDSs are an important tool for measuring and diversifying credit risks. A well-functioning CDS market can prevent—rather than produce—future global financial shocks.
 - Instead of eliminating the OTC market, we believe counterparty risk and the lack of transparency can be largely reduced by requiring centralized clearing for most CDSs along with a TRACE-like system for transaction reporting.
 - The Committee additionally believes the listing and trading of certain standardized, high-volume CDSs on exchanges would provide greater transparency and liquidity to the CDS markets—and would strengthen the role of clearinghouses in the complementary OTC market (by allowing them to more easily close out the positions of a defaulting member and otherwise enable more accurate margining).
- * Adopt confidential reporting for hedge funds
- * As for dealing with the flawed Basel framework, we recommend adopting counter-cyclical capital ratios through dynamic provisioning or contingent capital.
- * Market discipline is vital to ensuring that banks act prudently; disclosures on the status of banks through stress tests and other metrics are important.
- * Maintaining and strengthening the leverage ratio is important—despite being the simplest capital measure it has arguably been the best.
- * Establish a single insolvency regime applicable to all financial companies
 - Such a regime would provide the regulator with enhanced resolution powers to address systemic risk on an ad hoc basis, avoiding the moral hazard created by designating ex ante certain entities as systemically important or “too big to fail.”

2. Increasing disclosure to protect investors and stabilize the market.

- * Supplement FVA with dual presentation of market and credit values
 - The Committee believes that FASB should supplement the fair value standard outlined in FAS 157-4 by requiring preparers to disclose two additional balance sheet presentations that would enable investors to distinguish the influence of market and credit value inputs more explicitly. This dual presentation reframes the fair value debate in order to resolve the accounting controversy implicated by the combined use of market and credit value inputs. We firmly believe that disclosure should be more transparent and consistent, not less, in periods of financial crisis.
- * Enhance disclosure of retained economic interests in securitizations
- * Increase disclosure as to how ratings are determined

3. Building a unified regulatory system where lines of accountability are clear and transparency is improved across all products to ensure that the three pillars of stability—regulation, supervision and transparency—are restored.

- * The United States should have only two or, at most, three independent federal regulatory bodies overseeing the U.S. financial system.
- * There should be only one systemic risk regulator—not a council that would inevitably be inefficient, indecisive, and compromising.

4. Because all of the issues addressed in the Report necessarily have global dimensions there must also be an effective system of international financial oversight with the capacity to harmonize basic global rules so that minimum levels of oversight and transparency are available in all the major markets, and regulatory arbitrage is minimized.

- * The establishment of a newly strengthened Financial Stability Board is a good idea, and existing bilateral and multilateral dialogues need to be strengthened.
- * The IMF's ongoing role should include serving as an early warning system that could coordinate quick responses to brewing crises with systemic implications.