Financial Advisory Roundtable (FAR)
June 19, 2015

Agenda

Impact of Post-Crisis Regulations on Market Dynamics, Lending and Balance Sheets

Since the financial crisis, major reform efforts have been undertaken in the US and globally, particularly around the Dodd-Frank Act and the Basel 3 banking regulations. Observers conjecture that these reforms are impacting market dynamics, lending behavior and balance sheet strategies, with potential consequences for aggregate economic activity.

1. What impact have regulatory reforms had on trading dynamics?
    a. What risk-return tradeoff do regulators face in setting policies? Are tighter regulations associated with less tail risk, but more expensive credit intermediation in normal times? How should policymakers evaluate this tradeoff?
    b. Has market liquidity been impacted by the reforms? Are spikes in illiquidity attributable to regulations?
    c. Are reforms only impacting the regulated firms, or do they have an impact on the broader financial system including sectors that are not subject to prudential supervision? If so, through which channel(s)?
    d. How much of the recent decline in the balance sheet size of dealers can be attributed to regulations? How much to other factors?

2. What impact have regulatory reforms, especially capital and liquidity requirements, had on the business focus and balance sheets of regulated firms?
    a. Are firms better capitalized and more liquid due to the reforms?
    b. How would one judge the desirability of the change in business focus?
    c. What types of developments are particular to the US?

3. Incentive problems in securitization markets were pointed out as key contributors to the crisis
    a. Are the risk retention rules having the desired impact on risk taking behaviors?
    b. Do credit rating agencies have better alignment of incentives?
    c. Is the growth in CLOs markedly different from securitization activity prior to the crisis? In what respect is it different and what are the implications in terms of financial fragility?
    d. Is the absence of private label mortgage securitizations a desirable outcome?

4. Are constraints on bank lending generating headwinds to the recovery?
    a. To what extent should the stance of monetary policy have to offset the slow pace of lending due to tighter regulations and a reassessment of risk?
    b. Has the composition of bank lending changed materially since the financial crisis? In what way?
    c. Has the reduction in the volume of global interbank funding markets put a constraint on lending by US domiciled banking institutions?

5. Have regulations impacted the neutral growth rate of the economy?
    a. What factors determine whether regulatory reforms have a temporary or permanent impact on the growth rate of the economy?
    b. Is it plausible that global financial sector reform efforts have contributed to the compression in longer term yields?
    c. Through which channels could tighter capital requirements lead to a temporary or permanent increase or decline in lending and growth? Are these effects consistent with the intent of the regulation?

6. Reaching for yield is sometimes linked to systemic risk
    a. To what extent have regulatory reforms contributed to reducing the systemic risk associated with reaching for yield?
    b. How pervasive is reaching for yield?
    c. To what extend to tighter regulation provide more incentives to reach for yield?
    d. What evidence do we see that a new shadow banking system emerging?