

# Rethinking Financial Stability A Discussion

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An excellent and comprehensive paper.  
Should be expanded into a short book.

Nevertheless, a discussant should probe for weaknesses:-

- Analysis of CARs static, rather than dynamic.  
Implications for CCyB.
- Objectives of Macro-Pru, and political economy of who does that to whom.
- Corporate Governance and SMR.

## Analysis of CARs Static, not Dynamic

Compare two equilibrium conditions. One with CAR (RW) of, say, 18% (A) versus 8% (B). (A) will probably have more lending, perhaps lower rates and spread (Modigliani/Miller).

But what happens when banks are asked to go from 8% to 18% after a crisis with no constraints on how they did this? US (TARP) much better than Europe.

Inconsistency of analysis. Implication for CCyB.

## Macropru and Who does what?

‘Protect banks from economy’ or ‘Protect economy from banks’.

First is within mandate of CBs; second strays into political arena. Housing market is political.

FPC of BoE and DTI.

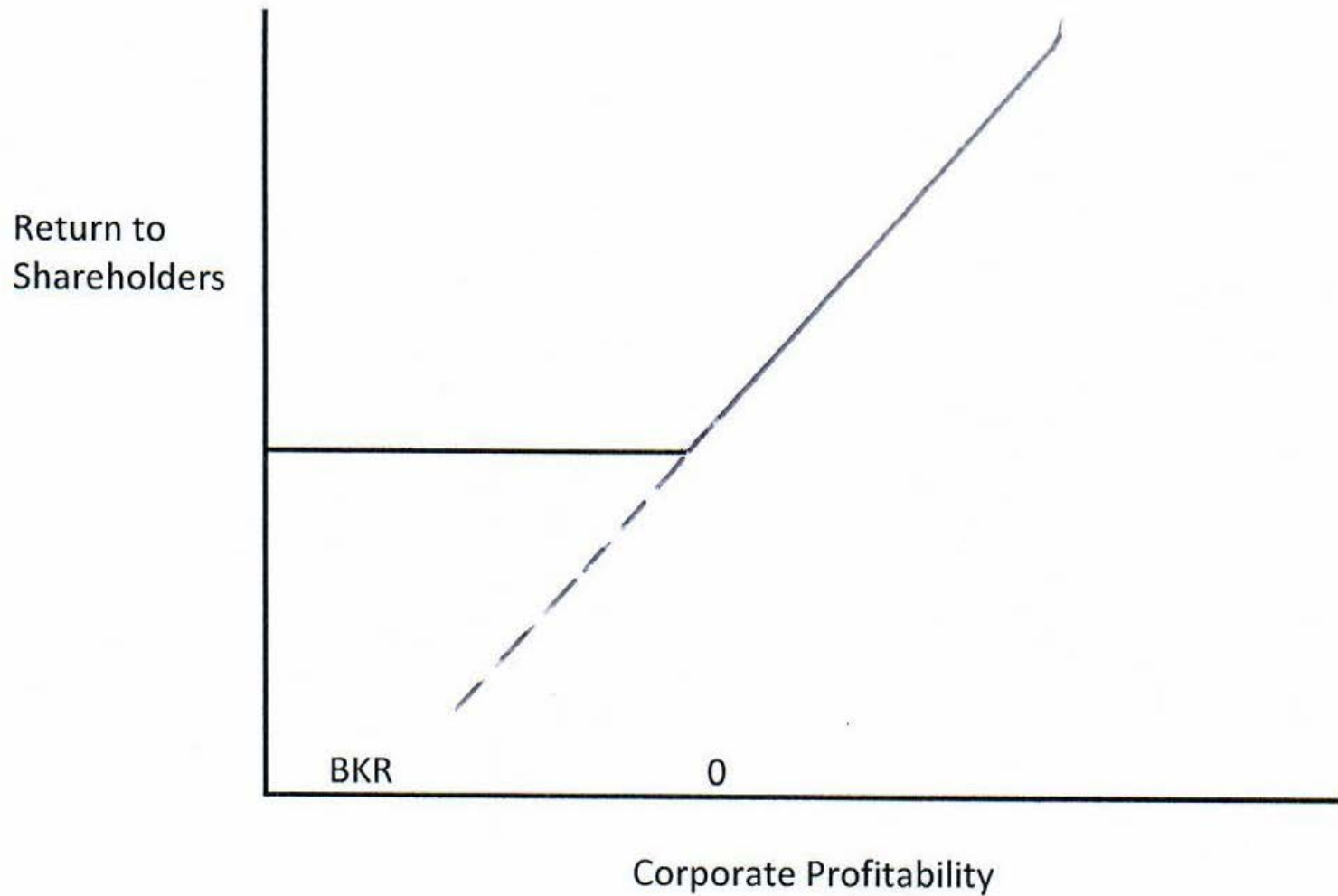
Also heterogeneity of housing market within countries.

Should we mind if higher risk mortgages financial outside domestic banking sector.

Need to divide NBFIs into ‘banks in disguise’ and proper non-banks.

## Governance

- Next to nothing on corporate governance.
- Note that best metrics, pp 21-25, were those that in Europe were not in force, LR and NSFR.
- Problem is that incentives for management to work around (manipulate) regulatory constraints.
- General disquiet about present form of corporate governance.



BRK: Point of Corporate Bankruptcy

## The Way Forward

- Bank of England done more than most, SMR.
- Why CARs, but not executive remuneration?
- Four suggestions:
  - Conti-Brown                      Special for SIFs
  - Schwarcz                              Public duty for Boards
  - Kokkinis                              Civil suit
  - Goodhart/Lastra                      Special for insiders