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Systemic Risks and the Bear Stearns Crisis

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THIS CHAPTER EXAMINES the need for an improved regulatory regime to reduce the likelihood of crises and thereby the need for intervention by the Federal Reserve and other government agencies. In particular, I argue that the existing regulatory agencies are poorly set up to address systemically important risks emanating from the firms or sectors they regulate. I define systemic risk here as the type of risk that has the potential to adversely affect not only a single firm or sector but the economy as a whole. Using the Bear Stearns crisis as an example, I show that the Securities and Exchange Commission (SEC), which focuses on customer and investor protection, was not adequately equipped to address mounting, systemically important risks in Bear and other investment banks—especially the risk of excessive leverage.

I also consider whether there is a need for a systemic stability regulator (SSR) of the kind examined by Andrew Crockett in this volume. I conclude that there is such need and argue that the SSR should be an overarching agency or council focused specifically on risks of systemic importance. I then discuss how a SSR could help manage risks that the existing agencies are unable to address. I contend that if entrusted with adequate powers, the SSR would contribute to financial stability by directing the SEC and other financial agencies to take appropriate action when it observes risks that could have a material adverse effect on the economy unless addressed.

THE BEAR STEARNS CRISIS

The period leading up to the Bear Stearns crisis provides an excellent example of the inadequacy of the existing framework for regulating systemically important risks in the financial sector. This issue should be addressed in light of actual experience at the regulatory level, before and during the period of market and institutional stress. I offer here the experience of a securities regulator prior to and during the collapse of Bear Stearns, and weave that story around my position.

The SEC was the sole regulator of the five big investment bank holding companies (IBHCs)—Morgan Stanley, Merrill Lynch, Lehman Brothers, Goldman Sachs and Bear Stearns. Since 1934, it had been the regulator of the broker-dealer subsidiaries of those companies. It became the regulator for their holding companies after the IBHCs asked the SEC to assume that role in 2004. The reason for that request was that the European regulators said they would regulate the IBHCs in Europe unless they became regulated by a competent U.S. regulator on a consolidated supervised entity (CSE) basis, from the holding company on down. The SEC accepted responsibility, the IBHCs consented to SEC regulation in 2004 (as to Lehman and Bear Stearns in 2005, after the Chairman I served was appointed), and the European regulators recognized that arrangement—an important exercise in "cross-border mutual regulatory recognition" on their part.

Early Warning Signs

By 2006, there were clear signs that risk was accumulating in the mortgage markets and that such risks could affect the large IHBCs. In November 2006, a mortgage delinquency rate chart from the New York Federal Reserve came across my desk. It was a mortgage delinquency rate chart. It showed subprime adjustable rate mortgage defaults at over 10%; fixed rate subprime mortgage defaults at over 5%; and the prime mortgages default rate around where one would expect it—at least based on what I experienced at Bank of America during the 1990s—0.5%. In my experience at Bank of America during the 1990s, if any portfolio had this big a problem—if it had gone above 5%, let alone 10%—this would have resulted in both management and regulatory action. There would have been a meeting, there would have been a question as to whether new portfolio management should be brought in, and there would have been hedges placed against the portfolio or portfolio dispositions to reduce or eliminate further hemorrhaging.

The problems in mortgage markets continued to worsen. When I was at the Bank of America in the 1990s, our mortgages were generally 80% of the property value, and the down payment was 20%. The monthly payment couldn't go over 30% of the borrower's monthly income, and the value of the property could not be more than 14 times the annual rental value of the property. Aside from all the 95% mortgages to subprime borrowers, the 14 times annual rental value ratio became more than twice that at the top of the mortgage bubble in 2006.

I gathered up the SEC Chief Accountant, who was a former bank regulator, requested permission to open discussions with the Division of Trading and Markets (the Division that regulates brokers and the IBHCs), and showed them the 10% subprime mortgage ARM default rates. We said, "We think we have a problem here, because the IBHCs have a lot of CDOs, SIVs, MBSs and so forth, full of mortgages. We don't know if they have been properly marked to market. Isn't there a risk here?" We were particularly concerned about Bear Stearns.[1] We also asked, "What happens if they (the firms) go down? Will that not affect the market?" We noted that under the Securities Exchange Act of 1934, the SEC is supposed to ensure fair and honest markets.

Permitting Excessive Leverage

While problems grew in the mortgage markets, increasing leverage ratios also came to present added risk to Bear and other IHBCs. Warren Buffett summarized the problem in a lengthy TV interview on March 9, 2009 on CNBC's *Squawk Box*. He argued that: "The biggest reason we're in the mess, you know, is we did leverage up the country and we essentially made a huge bet on housing, but that led to all kinds of other instruments. . . ." (see Buffett 2009). His position is that re-

1. The Chief Accountant and I emphasized mounting risks several times over several months with the Division until about September 2007, as we felt that Bear could have raised more capital, disposed of risky assets, and entered into hedge positions. After that point, Bear could not probably have done much about its position other than wait and hope.

laxed monetary policy, while a problem, was not the biggest problem—the biggest problem was lack of control of leverage. I fully agree. Both companies and regulators are responsible for that.

Reporters have said that the SEC allowed the IBHCs to have greater leverage. That was not true at the outset. The IBHCs walked into the SEC with high leverage (i.e., assets divided by tangible common equity), in some cases of over 30:1, which the SEC generally accepted. It is true that the SEC allowed the consolidated holding companies to have greater leverage than it had previously required of their broker-dealer subsidiaries under the SEC's broker minimum net capital rule. It is also true that the SEC allowed the leverage to increase somewhat after it took over regulation of the IBHCs. For example, according to the monthly required balance sheet of Bear as of January 31, 2008, a month and a half before it went down, its total assets were $476 billion and its total stockholders' equity was $12 billion: a leverage ratio of 39.7:1. Goldman Sachs had about $1.2 trillion of assets and $40 billion in equity, a ratio of about 30:1.

A regulatory call to reduce leverage would have been met with outcries from the U.S. investment banking industry, claiming that it would be rendered noncompetitive with its international competitors. For example, a report commissioned by Mayor Michael Bloomberg and Senator Chuck Schumer argued that overregulation hampered the competitiveness of U.S. investment banks (see McKinsey and Company 2007). A commission established by the U.S. Chamber of Commerce came to a similar conclusion (see U.S. Chamber of Commerce 2007). IBHCs were adamant they did not want to be regulated by a banking regulator as bank holding companies, because they were fearful their leverage would be required to be reduced. Compare Bank of America's balance sheet on December 31, 2007: total assets of $1.7 trillion and total stockholders' equity of $146 billion. That is a leverage ratio of 11.6:1.[2]

To convince the SEC to allow them to have such high leverage, investment banks used the "matched book" argument. That argument refers to the matching of incoming repurchase agreements (repos) and other secured financing transactions against outgoing repos and other secured transactions. The balance sheets of Bear Stearns and other IBHCs showed massive repo and swap books, where basically Hedge Fund A repos (sells) securities to Bear with an agreement to buy them back in a certain time (repo A). This is really a form of secured funding. Then Bear would repo the securities at a higher spread to Fidelity (repo B), in effect making a secured loan from Fidelity. Those secured loans were not included in the calculation of leverage and capital adequacy by the SEC,

2. SEC officials have often said the IBHCs could have revoked the consents to regulation, which made the SEC an ineffective regulator. I do not believe that to be true for three reasons. First, the IBHCs rendered themselves subject to the SEC rules, and the SEC could have amended those rules at any time to prevent withdrawal from regulation, or to prevent withdrawal if the SEC perceived material risks in the IBHC enterprise. Second, while SEC rules allowed the regulated entity to give notice of withdrawal, they also allowed the SEC to delay the effectiveness of the notice for an unspecified "longer period of time" (which could be years) if it determined that to be "necessary or appropriate in the public interest or for the protection of investors" (see Appendix E to SEC Rule 15c3-1, promulgated under the Securities Exchange Act of 1934, especially Rule 15c3-1e(a)(10)). Third, if the IBHCs had tried to revoke, particularly during a time of great stress, the SEC could have brought considerable persuasive force to encourage continued regulation under Appendix E.

basically on the theory that repo A was somehow offset by repo B. By eliminating the matched book, leverage ratios were greatly reduced. The SEC accepted the matched book argument. The fly in the ointment was that the repo and other swap funding was short-term funding—the repos were due and had to be rolled over in a matter of days—and in Bear's case, the roll-over period kept getting shorter.

Applying an Inadequate Basel II Framework

Going further with the story, when the SEC accepted jurisdiction over the IBHCs, it adopted Appendix E—an appendix to the broker net capital rule, which was a different net capital rule for the IBHC holding companies, and toward the end it reads just like a bank regulation. Under it, the SEC had the right, once the IBHCs consented to SEC regulation, to require them to modify their internal risk management control procedures, and to be subject "to other conditions necessary or appropriate in the public interest or for the protection of investors."[3] The conditions could be product-specific or category specific—as by requiring the sale or hedging of risky assets, or could simply require an increase in net capital. Did the SEC do or require those things? What it did is actually go in and live with the IBHCs like a bank regulator does, ever more intensely as the stress became greater. But the SEC did not have a systemic macroeconomic risk notion in deciding whether and how much to apply Appendix E conditions. It was not enough.

So what standard did the SEC Division apply for capital adequacy? It applied Basel II, thinking that was the most ad-

3. This authority derives from SEC rule 15c3-1(e) under the Securities Exchange Act of 1934.

vanced new bank-like capital adequacy standard. It did the Basel II calculations and mathematically reduced the January 31, 2008 Bear balance sheet, a month and half before it failed, showing assets of $476 billion, to total risk-weighted assets of $120 billion. Much of that was done, as Basel II permits, on the basis of credit agency ratings, which by that time had become suspect on their own. The SEC Division then divided stockholders' equity of roughly $12 billion into the risk-weighted assets figure and arrived at a figure of 10%, suggesting a "well capitalized" bank by Basel II (and Federal Reserve) standards.

The problem with Basel II, aside from the fact it relies on credit ratings, is that it does not really deal with short-term secured funding—it is not in the calculation. Former SEC Chairman David Ruder said: "If there was any fault that could be given to the Commission it was the failure to understand that the risk management in the collateralized debt area was inadequate" (see Scannell 2008). It is something the new systemic regulator should address, because it is that flaw that led to the demise of Bear Stearns. On Friday afternoon March 4, certain institutions decided to stop doing repos with Bear, and then there was a ricochet effect. Bear's $18 billion of liquidity—which was being handed back to customers who requested it, in order to support a solvency appearance—was sent to zero by the next Friday. Repos were "novated" to other institutions (this is an aspect of repos—they and their collateral can be moved to another institution, away from Bear Stearns, by the counterparty). Basel does not pick up on that. What does? The leverage ratio plus proper direct supervision applying bank like standards does. It is likely the IBHCs, now that they are bank holding companies, will have their leverage reduced by the Federal Reserve.

Why was the SEC Poorly Equipped to Head off the Systemic Effects of a Failure of Bear Stearns?

My experience suggests that corporations and agencies work better, work smarter, if they have a single or limited objective to carry out. The SEC is set up to protect consumers and investors, and it performs that limited function well. As the Bear case shows, however, it was not set up to be and was not a very good regulator of systemically important risks in the firms under its purview.

First, the SEC's staff is not trained to perform systemic risk analysis. Staff expertise is concentrated in securities law and disclosure rules, not macroeconomics or systemic financial risk modeling. Second, the staff is busy with individual institutions. It has neither the time nor the macroeconomic information to worry about the big picture.[4] Third, the SEC does not have a clear statutory mandate to regulate systemically important risks. As noted above, the 1934 Exchange Act mandates only that the SEC ensure "fair and honest markets." The SEC staff felt fair and honest markets had to do with protection of investors as opposed to risk reduction across the economy.

In the case of Bear and other IHBCs, the SEC Division acknowledged that it had the power to take regulatory action to "more aggressively prompt CSE firms [including Bear] to take appropriate actions to mitigate those risks."[5] However, the

4. Moreover, the SEC only regulated the IBHCs; subprime problems were serious throughout the banking system, the thrifts, hedge funds, the government sponsored enterprises (Fannie Mae, Freddie Mac, and the Federal Housing Administration) and the mortgage bankers, which the SEC did not regulate.

5. See SEC Division of Trading and Markets, Management Response to the Inspector-General's Report on the SEC's Oversight of Bear Stearns dated Sept. 25, 2008, pp. 88-93.

SEC Division did not view it as its mission to use that power to force Bear management to take actions (compare that with the position of the Canadian systemic regulator discussed below). The Division reasoned that: "The Commission's responsibility was not to dictate business strategies to Bear Stearns. Rather it was to...insure that [Bear's exposures] were reported to senior [Bear] management in a manner that accurately reflected the risks."[6] On the question of leverage, it argued that "analysts can easily assess leverage from public financial information."[7] In other words, the Division was focused on disclosure and transparency—the SEC's core objectives—rather than taking direct action to limit systemically important risks.

The SEC Division felt that its primary mission was not to tell IHBCs how to run their businesses. It was to make sure customers of Bear Stearns and other IHBCs—the brokerage account holders—got their money back. And the SEC has stated repeatedly that it is very proud of the fact that no brokerage account customer lost money in any of the brokerage failures.

THE NEED FOR A NEW SYSTEMIC STABILITY REGULATOR

The Bear Stearns crisis showed me the need to distinguish between generic firm-level risks and those of systemic importance. Free-market principles dictate that regulators should not unduly intervene in the running of businesses. This is a view I share. However, when mismanagement of a business could threaten the broader economy, regulatory measures are required. The

5. *Ibid.*
6. *Ibid.*

Bear Stearns case led me to believe that an agency outside the SEC (and the other financial agencies) needs to be established to focus on systemically important risks and address them—a systemic stability regulator (SSR).

The SSR needs the authority to require the financial agencies to make adjustments in their regulation for the good of the whole economy. The SEC's primary job is protection of investors. The SSR's primary function would be protection of the economy as a whole. The Federal Reserve is focused on monetary policy. The SEC and banking agencies risk weight the asset of and regulate individual institutions—microeconomic if you will. SSR would risk weight and regulate on a macroeconomic basis—for the benefit of the whole economy.

The SSR could not guarantee that systemically important risks are addressed. After all, the UK's Financial Services Authority—which is a kind of SSR—was not able to prevent market turmoil in that country. However, the Canadian experience suggests that an SSR with the right powers and focus can make a positive difference. I attended a speech given on April 18, 2009 at the 2009 spring meeting of the American Bar Association Section of Business Law, by Julie Dickson, the head of the Canada Office of the Superintendent of Financial Institutions (OSFI). She is the primary Canadian regulator and supervisor of federally registered banks, insurance companies and investment banks (provincial institutions comprise a very small part of the overall). She said that their authorizing statute has a clear mandate—it is solvency and economic stability—applied as a cross policy across all institutions they regulate. Not consumer protection, which is left to other agencies. Not monetary policy, which is left to the Bank of Canada. It is safety and soundness. It is risk management processes, and

Canada has not experienced the problems the United States has experienced. She summed it up this way: "we force institutions to take action quite early."

What Form Should the SSR Take?

The SSR should be a new body that can help address problems that the SEC, Fed, and other regulators cannot or do not address, either due to their organizational focus or expertise. Identical systemic regulator legislation has been introduced in the Senate (S.664, Collins) and the House (HR 1754, Castle), calling for the creation of a new Financial Stability Council consisting of all the financial agency heads and one independent chairman. The proposed Financial Stability Council would be able to review, approve, prohibit the issuance of or modify rules and regulations of Federal financial regulators, and insurance regulators, require the issuance of new rules by them, and require them to impose different capital requirements or debt ratios either generally or on particular financial institutions, all for the purpose of monitoring and preventing systemic risk to the financial system of the United States. The Council would have no authority over monetary policy—the Fed would keep that. The Treasury Department has also issued a preliminary proposal. It would go beyond financial institutions and allow the systemic regulator to identify and regulate companies (perhaps including auto companies, mortgage brokers, and the like) based on size of assets, degree of leverage, short-term liquidity (or lack thereof), and the effect on the overall economy if they failed. Additional bills are likely to be introduced soon.

I realize that the Fed and Treasury have the gold—the checkbook to bail out systemically important enterprises—leading some to argue that they should take on the SSR function. However, on balance, I come down in favor of a body like the Financial Stability Council proposed in the Collins legislation, except that I would make a minority of its board members financial agency institution heads and a majority would be independent members nominated by the President and confirmed by the Senate. First, I think monetary policy should be separate, with the Fed. If it is not, I think there would be a risk of politicization of monetary policy if the Fed were also the SSR. For that reason, I believe members of the Council should be given relatively long terms. Second, as stated above, I favor agencies (and companies too) with single missions to accomplish instead of multiple missions. The Financial Stability Council should be entirely focused on monitoring and addressing risks that could affect systemic stability. Third, I believe the purpose of the systemic regulator is to restore and promote confidence—in the market, in the banks, by investors, by lenders, by consumers. Maybe the reason the market has come back from its depths recently is that it is gaining confidence that Congress is going to do something to prevent another crisis. I think that given the less than distinguished record of the existing financial agencies, including the Fed—that could have imposed limits on leverage on financial institutions and the mortgages they originated once it saw the default rates—prior to the present financial crisis, everyone is looking for a new and better solution. The new overarching SSR with rule-making authority would do that. Promoting confidence is the primary goal here.

Necessary Powers for an Effective SSR

An SSR will need real power to be effective. First, I would imbue the systemic regulator with the power to obtain information it needs from companies and regulators, under subpoena if necessary, like the Collins bill does. It is not enough that there are footnotes in the back of financial statements that list the subprime and Alt-A mortgages and so forth. The key is the *quality of the assets* underlying the CDOs, MBSs, and SIVs. These need to be reported in a comprehensive and detailed way to the systemic regulator for big institutions, and that information should be analyzed by a regulatory body whose sole job is to protect the country from unacceptable systemic risk.

Second, I would grant the systemic regulator power to either regulate the credit rating agencies or to order the SEC to adopt rules to obtain good ratings. The SEC was given regulatory authority over the credit rating agencies effective June 2007, but by that time, all the too-high ratings of subprime instruments were already in. There are at least four problems with the credit rating agencies. The first, and biggest, problem is that they tend not to see far enough ahead based on the trendline information they have available (e.g., the November 2006 default rates on subprime mortgages referred to above). The second problem is a lack of transparency; why don't they post their ratings and then post the aftermarket performance of the obligations they rate? The third problem is that they are paid by the issuers—the very people who want the ratings to be as high as possible. The fourth problem is that they do not do well in adjusting their ratings to reflect reality *after* they make the ratings, because they are not paid to do that: they get all their fees when the rating is made.

All of these problems arise as a result of lack of competition in the industry, something Congress recognized in its legislative report when it gave the SEC authority over it. It is hard for the SEC to create new big competitors. Stanford Professor Joe Grundfest came up with a brilliant idea, which he proposed to the SEC at a public roundtable on April 15, 2009, of buyer owned credit rating agencies (BOCRAs), with a legislative or SEC requirement that all ratings have to include one by a BOCRA. The BOCRA would be owned solely by institutions that are buyers of bonds. Grundfest believes the SEC has authority under the new law to require this. The systemic regulator ought to be able to order it. Basel I and II capital adequacy standards for financial institutions rely on those ratings for risk weighting a lot of assets. Financial institutions have depended on such ratings for their investments, now so severely impacted by mark-to-market accounting.

Another thing the systemic regulator should order is amendment of (deletion of) regulatory rules that rely on credit ratings—something the SEC itself proposed during my watch but has not yet adopted. It could also require the SEC to order posting of after-market performance, comparing after-ratings mark-to-market values for securities to the ratings that were given them. I proposed this while at the SEC, but it was not adopted.[8] Paraphrasing Chief Justice Louis Brandeis, as was often done when the Securities Act of 1933 was proposed, "Sunlight is the best disinfectant" (see Brandeis 1914). That principle was the whole basis for the securities laws in 1933 and 1934.

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8. On February 9, 2009, the SEC adopted a rule requiring the posting on the credit rating agency website of all ratings action information for 10% of its issuer-paid ratings (or paid for by an underwriter or sponsor). SEC Release 34-59342, amendment to Rule 17g-2. On the same day, the SEC proposed to increase the 10% to 100% for ratings made after June 26, 2007, but to require public disclosure a year after the ratings action. SEC Release 34-59343. But neither of these actions require the disclosure of the after-market performance of the obligations rated (e.g., material price drops, defaults, etc.), which could then be compared by securities buyers to the ratings levels and the delayed timing of rating downgrades, if any.

Third, the SSR needs to be able and willing to impose limits on leverage. The SEC, Fed, and other regulators allowed excessive leverage in the lead-up to the crisis, even though they had the legal power to stop it in the institutions they regulated.[9] I did not see any regulators in the 2000s require the banks to go back to 1990s principles. What I saw were a number of guidance memos come out from the regulators.[10] I have a stack of such

9. The SEC had the power under Appendix E (see note 5 and accompanying text). The banking agencies had the power explicitly in section 39 of the Federal Deposit Insurance Act, 12 USC §1831p, which authorizes promulgation of regulations or guidelines (the agencies chose the latter) governing credit underwriting, asset quality and other operational standards; and in section 18 of the FDI Act, 12 USC §1828(o), which directs them to adopt uniform regulations prescribing standards for credit secured by liens on interests in real estate. The adopted uniform interagency standard, in Appendix A to subpart D of CFR part 34, essentially punted on 1–4 family home loans by saying only that if the loan-to-value was over 90% "appropriate credit enhancement should be required." In a complete punt to systemic risk, it also said: "Loans sold without recourse to a financially responsible third party" (i.e., the GSEs) did not need to comply with the regulation at all. As to the argument the unregulated mortgage industry is largely responsible for the crisis, regulators had the power under these statutes to cause the banks to cease lending to unregulated lenders who issued unwise mortgages too.

10. See, for example, Federal Reserve Board Supervisory Letter SR 01-4(GEN) on Subprime Lending, January 31, 2001 and Supervisory Letter SR 07-12; Statement on Subprime Mortgage Lending, July 24,2007; Statement on Subprime Mortgage Lending of Federal Reserve and other financial institution regulatory agencies, June 29,2007 (this Subprime Statement "encourages" institutions to evaluate the borrower's repayment capacity); and 2006 Interagency Guidance on Nontraditional Mortgage Product Risks (products that allow borrowers to defer payment of principal and sometimes interest, such as payment option ARMs "require extra scrutiny").

guidance memos that say, "Now you guys, you've got to be more careful. You really need to judge your risks better, and you have to watch out for those payment option and other hybrid mortgages." Guidance and "encouragement" weren't enough. There were no rules or policies adopted that placed limits on leverage, which the regulators had the authority to do. An effective SSR needs to require regulators to take steps that are necessary for systemic risk reduction.

Finally, the SSR should have the power to deal with products that can cause systemic instability in the marketplace. For example, it could tell all the regulators and large financial companies to use 80% mortgages and to adopt all of the other sane 1990s mortgage lending policies I described above. An effective SSR could also require regulators like the SEC and Fed to impose margin requirements on derivatives or take other measures to manage risk in large firms and the system as a whole (on the importance of this issue, see Buffett 2009). The Collins/Castle bill does that by authorizing the SSR to require agencies that directly regulate those products to adopt rules (it may only "recommend "rules on "new financial products"). Let us take money market funds (these are not "new" products). Those funds caused a substantial systemic problem when the Reserve Primary Fund—a large institutional money-market mutual fund—"broke the buck" following the Lehman bankruptcy as a result of its investments in Lehman obligations, resulting in a "temporary" government guarantee of money market funds, which has just been extended to September 2009 (see U.S. Treasury Department 2009). The Treasury Secretary has called on the SEC to adopt rules that reduce the credit and liquidity risk profile of money market funds so that a government guarantee would not be required in the future. The systemic stability regulator could require that such rules be adopted, or it could require funds with riskier investments to be guaranteed by a well capitalized sponsor (see Buffett 2009).

Addressing "Too Big to Fail"

I would not imbue the systemic regulator or any other agency with the power to break up companies on the grounds that they are too big. It is too easy to say: "If you are too big to fail, you are too big." Antitrust authorities will indeed address getting too big by acquisition or by unlawful market practices. But if you are big because you played by the antitrust rules, the fact is that in the global economy we may well need you—to finance the building of the infrastructure we need, to build the big projects throughout the world—and while you do that you will need to spread your risk across a diverse portfolio of businesses and assets, and combine synergies between them. I remember we financed some of those projects at Bank of America. Again, the answer to me to the too bigness issue is: an appropriate systemic regulator to regulate the "too big" so their failure does not damage the economy, and a properly revised bankruptcy law as discussed elsewhere in this volume.

Conclusion

The SSR needs to be able to take a holistic macroeconomic view of the economy and its component big companies and parts, and have that as its full time job. It can look at overconcentration of leveraged assets in certain categories. It can look at over-utilization of short-term funding to invest in long-term assets. It can look at rules or the absence of rules that actually impede financial industry competition. I believe that such a reform can go a long way to restoring market confidence.

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