Witness: Paul Schott Stevens, President and CEO, Investment Company Institute
Hearing: Establishing a Framework for Systemic Risk Regulation
Date: July 23, 2009
Link: http://banking.senate.gov/public/index.cfm?FuseAction=Hearings.Testimony&Hearing_ID=dabb299b-02c3-4e4b-a116-0767b04768ff&Witness_ID=c68867c4-6200-4814-92db-e028239d9e30

The Administration's Approach to Systemic Risk Regulation
Stevens does not agree with the proposal to make the Fed the systemic risk regulator.

- Designating the Fed as the systemic risk regulator would expand the Fed's mandate and potentially jeopardize the Fed's ability to independently conduct monetary policy.
- The current proposals for regulating systemic risk do not meaningfully employ the experiences of other regulators.

Systemic Risk Council[1]
Stevens believes that a Systemic Risk Council, different in structure from the Administration's proposal, is necessary.

- The Council should be composed of various financial regulators and possibly other federal and state regulators.
- The staff should be independent from functional regulators.
- The Council would be in charge of national responses to systemic risk, but would not directly execute those responses.
- The Council should focus on preventing and mitigating systemic risk.
- The Council would deal only with major instances of systemic risk.

Advantages of a Council Model

- Avoids risks of making an agency like the Fed the systemic risk regulator.
- Provides a comprehensive outlook on the financial system.
- Allows flexibility in regulation, without creating unnecessary bureaucracy.
- Independence would allow the Council to assess policy judgments and priorities.
- Functional regulators who have the most experience, not the Council, would execute regulations.
- The Council could follow systemic risk issues from beginning to end.

How to Address Potential Criticisms of the Council Model

- Criticism: the Fed is the lender of last resort, so it makes sense to make it the systemic risk regulator.
    - Response: the main purpose of a systemic risk regulator should be to prevent systemic risk, not deal with the aftermath.
- Criticism: the Council may not be able to follow-through via functional regulators.
    - Response: the responses of functional regulators must be in line with the policies outlined by the Council.
- Criticism: the Council would just be more bureaucracy.

[1] Stevens compares the structure of his proposes Systemic Risk Council to the National Security Council.

   - Response: these same critics propose creating a systemic risk adviser that would do precisely what they warn against.