

Witness: Mark Zandi, Chief Economist, Moody's Economy.com

Hearing: Expert's Perspectives on Systemic Risk and Resolution Issues

Date: September 24, 2009

Link: http://www.house.gov/apps/list/hearing/financialsvcs_dem/zandi_testimony.pdf

Resolution of Systemically Important Firms

Zandi believes that a resolution process separate from bankruptcy is necessary for resolving large, complex financial firms.

- He believes the FDIC could be in charge of such a resolution process.
- He also believes that financial firms should be required to maintain a plan for their resolution.

Too-Big-to-Fail (TBTF)

Zandi believes that the TBTF policy is misguided and should be avoided.

- He believes that institutions considered TBTF should have greater disclosure requirements, higher capital requirements, tighter liquidity requirements, and pay premiums equivalent to the risk they pose.
- These requirements should be countercyclical.
- He does not believe that hedge fund trading within depository institutions should be banned.

Transparency

Zandi believes financial markets should be made more transparent.

- OTC derivatives should be traded on central clearing platforms.
- Issuers of structured finance securities should disclosure information necessary to determine how creditworthy their underlying loans are.

Systemic Risk Regulator

Zandi believes that the Federal Reserve should be established as the systemic risk regulator.

- The Fed has a central position in the global financial system and is politically independent.
- The Fed would have be able to address asset bubbles, make financial regulation countercyclical, and influence the availability of credit.
- Zandi does not believe that the new Financial Services Oversight Council should be the systemic risk regulator.
- Zandi believes that the Fed's monetary responsibilities may need to be separated from its oversight responsibilities.

Consumer Financial Protection Agency (CFPA)

Zandi believes that the CFPA should be established and given rule-making, supervision, and enforcement powers.

- The CFPA should not require financial institutions to offer "plain vanilla" products.
- Zandi does not believe that the CFPA's activities will conflict with those of other regulators.

- The CFPA would establish a floor for consumer protections.