Regulation and Banking after the Crisis

TABLE OF CONTENTS

List	of Auth	nors	5		
Pref		k Browne, David T. Llewellyn and Philip Molyneux	7		
1.	Regulation and Banking after the Crisis				
2.	Banks and the Budget: Lessons from Europe Patrick Honohan				
	2.1.	Two-way Channels of Influence Between Banks and the			
	2.2.	Budget - the Irish Example	19		
		on the Budget	24		
	2.3.	From Budget to Banks	26		
3.	Post Crisis Regulatory Strategy: A Matrix Approach David T. Llewellyn				
	3.1.	Some Key Issues	29		
	3.2.	Instruments in a Regulatory Regime	3 2		
	3.3.	Lowering the Probability of Bank Failures	36		
	3.4.	Minimising the Costs of Bank Failures	46		
	3.5.	Summary of the Argument: A Regulatory Strategy	54		
	Refer	rences	56		
4.	Stren	gthening the International Framework for Financial			
••	Regulation: Some Key Issues and Challenges				
	_	l Jenkinson	61		
	4.1.	Introduction	61		
	4.2.	Strengthening the system-wide perspective	62		
	4.3.	Initiatives to Contain the Build Up of Risks	66		
	4.4.	Initiatives to Improve the Resilience to Stress	68		
	4.5.	Containing Moral Hazard and Managing Failure	7.		
	4.6.	Challenges to the Design of the New Regulatory Framework	74		
	4.7.	Conclusions	77		
	Refe	rences	7		

5.	Risk Identification and Mitigation: Lessons from the Crisis Aerdt Houben and Jan Kakes				
	5.1. Introduction	79			
	5.2. Risk Identification and the Credit Crisis	79			
	5.3. Scope for Improvement	83			
	5.4. Concluding Remarks	88			
	References	89			
	Annex 1. Ambiguity in Risk Assessments: Pre-crisis Views on CRT Annex 2. Ambiguity in Risk Assessments: Initial Assessments of				
	Lehman Collapse	93			
6.	Banking as a Social Contract – The New Regulatory Paradigm Pat Farrell	95			
7.	A False Sense of Security: Lessons from the Crisis for Bank				
	Management and Regulators Patricia Jackson				
	7.1. Introduction	101			
	7.2. Lessons from the Crisis	102			
	7.3. Misleading Signals	103			
	7.4. Risk Governance and Incentives	111			
	Information	113			
	7.6. Conclusions	114			
	References	115			
8.	Redefining and Containing Systemic Risk				
	8.1. When Do Risks Become Systemic?	119			
	8.2. Adverse Consequences of Misdiagnosing the Policy Problem	120			
	8.3. Alternative Definitions of Systemic Risk Lead to Different				
	Strategies of Regulatory Reform	121			
	8.4. Why Incentive Defects Persist	123			
	8.5. Steps that Government and Industry Could Take Toward				
	Genuine Reform	I 2.4			
	8.6. Summary Implications	130			
	References	131			
9.	The Case for Limited Liability Eurozone Government Debt Alistair Milne				
	9.1. Introduction	133			

TABLE	OF	CONTENTS

9.2.	The Proposals	136
9.3.	Does Monetary Union Require Fiscal Rules?	139
9.4.	The Costs of Debt Restructuring: Need They Be so Large? .	142
9.5.	Summary and Conclusion: The Euro Area Authorities Are	
	Playing with Fire	144
Refer	rences	146
SUERF – So	ociété Universitaire Européenne de Recherches Financières	147
SUERF Stud	lies	147