Reforming Financial Regulation After Dodd-Frank – Charles W. Calomiris, Columbia Business School (13.06.2017)

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On June 13, 2017 students of the Class of Excellence Program were invited to attend a public lecture of an esteemed professor –Charles W. Calomiris from Columbia Business School.

The main topic was banking regulations after the financial crash in 2008, how and to what extent markets have changed since then. The crash of 2008 made researchers, scientists, politicians, and professionals question the achievements of the policies, whichuntil then advocated for deregulated markets.

Professor Calomiris wrote a book on this subject, and the results he found weren't very optimistic. He pointed out three dimensions of the regulation: (1) Are intended goals of specific regulations achieved, and likely to be achieved in future? (2) Are regulatory costs creating major distortions in the financial system? and (3) Are the changes consistent with due process, rule of law, fair treatment?[1]Regarding all three questions, he came to the conclusion that the costs of the new regulation are too high and on the other hand the achievements are too small or even absent.

Another interesting point was the development of *cash+treasuries*, respectively real estate loans to total assets ratio. The roots of the crisis can be explained by growth of the share of the real estate loans in the total assets, and decrease of the *cash+treasuries* share, which eventually led to massive problems with mortgage secured loans and financial markets itself.

Furthermore, one other problem can be observed: the risk measures prescribed to the banks cannot exclude all of the risky situations. A point in the case would be the ratio of the market cap to the quasi-market value of assets, and unnecessarily giving too much attention to the book value of assets. This was an interesting point, which led to a small discussion whether the new standards of assessment (for example IFRS 9, regarding financial products and closely related to bank business) could help us get more accurate reports of the state of the banks, in order to recognize and avoid potential problems and new crisis.

At the end of the lecture, Prof. Calomiris presented 10 principles to guide financial regulatory reform and gave some proposals on how to achieve those reforms. For example, the costs of introducing new regulations should be justified by benefits those regulations should achieve; the financial system itself should be more transparent to the public so the law-makers could be held

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[1]Reforming Financial Regulation After Dodd-Frank, Charles W. Calomiris, Columbia Business School, June 13, 2017 https://www.oenb.at/en/Media/Speeches-and-Presentations/Other-Speakers.html, (31.07.2017)

responsible for the consequences; the actors on the market – especially consumers should be well-informed in order to make rational and good choices; financial institutions should pay for the possible losses which come as outcome of the risks they take.

Real estate risk is a very important factor in the financial markets, especially when real estate loans are promoted and subsidized by the government. Therefore, the policy makers should find another way of achieving affordable living. Anyway, every regulation should be realistic in terms of political and economic feasibility. Some of the proposals include changes of capital ratio requirements, improved measurements methods of loans and securities risks. Furthermore, it is suggested to replace Basel liquidity requirements (regulatory framework for bank capital) with a simple cash-reserve ratio.

The lecture ended with interesting discussion on the topic following informal conversation with buffet in foyer of the bank.