

Are Regulators Ready for the Next Financial Crisis?

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BANK FOR
INTERNATIONAL
SETTLEMENTS

- Canada is at risk of financial market “vulnerabilities”.
- Canada (alongside China and Hong Kong) exhibit early warning indicators which have “both the credit-to-GDP gap and the debt service ratio flashing red”.
- This suggests elevated financial sector risks should the outlook deteriorate
- Early warning indicators are useful starting points “for a more granular assessment of vulnerabilities.”

Topics for Discussion

- Are we prepared for the next crisis?
- Are we prepared to again embrace a coordinated global policy response to market corrections?
- What can we learn from a review of existing regulations in a post-2008 world?
- What are the lessons for regulators and other policy-makers when shaping future responses to financial crises?
- What is an appropriate regulatory role in the context of global financial markets?

Post-2008 Macroprudential Regulations

- Regulatory response to the 2008 crisis was unprecedented.
- US implemented the *Dodd-Frank Act* and the Volcker Rule.
- Financial institutions were subjected to more stringent stress testing, greater liquidity requirements, and more significant reporting requirements to regulators.
- Central banks responded by lowering lending rates to encourage spending and investment while fiscal policy offered bailouts for systemically important financial institutions.

One Hundred Eleventh Congress
of the
United States of America

AT THE SECOND SESSION

*Began and held at the City of Washington on Tuesday,
the fifth day of January, two thousand and ten*

An Act

To promote the financial stability of the United States by improving accountability and transparency in the financial system, to end “too big to fail”, to protect the American taxpayer by ending bailouts, to protect consumers from abusive financial services practices, and for other purposes.

*Be it enacted by the Senate and House of Representatives of
the United States of America in Congress assembled,*

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) **SHORT TITLE.**—This Act may be cited as the “Dodd-Frank Wall Street Reform and Consumer Protection Act”.



Procyclical Regulation

- The academic literature has identified a phenomenon called “procyclical regulation”
- There is increase of regulatory activity after a recession or crisis (and a corresponding decrease in activity leading up to a crisis).
- In Canada, regulatory activity follows a cyclical pattern and, following a crisis, regulatory activity increases.

The Tenth Anniversary of the Crisis

THE WALL STREET JOURNAL.

March 9, 2018

MARKETS

Stocks Still Have Momentum as Aging Bull Market Turns Nine

- Other pressures remain in our financial market:
 - There is higher consumer debt
 - There is the rise of cryptocurrencies
- These pressures may increase riskiness in the current financial market