General Discussion: Luncheon Address

Mr. Draghi: Three points. First, to me, the division of tasks between the International Monetary Fund (IMF) and the Financial Stability Board (FSB) is made clear by the letter that Dominique and I sent to the prime ministers almost a year and a half ago. There is no question that the IMF will do surveillance. This is not a task for the FSB. The national authorities—there are three actors here—are the most important one. They have to implement the standards. The design of the standards is the task of the FSB.

Then you have the assessment of vulnerabilities, an identification of risk, and that is a joint task by the FSB and the IMF. We have a group chaired by Jaime, where the IMF is a member. By the way, the IMF is a member of the FSB. All in all, the cooperation between the two institutions (actually the FSB is not an institution) has actually improved a lot in the last year and a half, but I take your point. We have got to work very closely.

But, the main point is that the FSB doesn't have the people to send around the world to do surveillance. Actually, you are right, there was a fierce discussion about who does the surveillance in the financial stability arena about 10 years ago.

The great novelty of the principles, as they have been set by the FSB, is that they placed the issue of compensation under supervisory scrutiny, which wasn't obvious until then, because we thought, well, in the end, it's up to the companies, or it's up to the shareholders. The Bank of Italy was probably the first to introduce instructions for banks on how to craft their compensation packages, and we went as far as saying that compensation packages should be brought to the Annual General Meetings and be discussed in detail, but that was not enough.

After this principle has been issued, now it's the supervisors who have the last say on whether these compensation systems are being aligned with the risk that the company has taken. The principles should be judged on their own merit as you did, but also thinking that it is, for the first time, the supervisors who will have a say in this.

Finally, there is one thing I just want to say, because many of the things you said should happen actually have happened. The capital trading rules have been raised substantially already, the loopholes in Basel II that allow the creation of off-balance-sheet entities have been closed, the accounting groups concerning these loopholes have been changed. The liquidity guidance has been issued and has been implemented by your national authorities. There are the CCPs, the central counterparty platforms, for credit default swaps in place and in operation, as Bill Dudley can describe. Supervisory colleges have been put in place for 25 to 28 measures per national institution, and by the way, institutions today report in a way that would have been unthinkable two years ago. I can go on and on, but the sense is that there hasn't been any progress in the last year and a half, and I would say that it has to be tempered.

Mr. Fischer: Let me add another complaint about the FSB while I'm at it. You should reach out to smaller nonmember countries.

Mr. Bollard: Stan, I wonder if there's another part of the puzzle you might mention: payment and settlement systems. It didn't seem to me at all clear that we would not run into problems with payments and settlement systems given the scale of what has happened, the fact that this one's been truly global. I guess this is the first big crisis we've had since Continuous Linked Settlements (CLS) have been everywhere and there has been so much fixed transfers going on. It looks to me like it's been a real success. Is that your view?

Mr. Fischer: It's not only that. I was also discussing a little earlier that equity markets, as far as I know, except in Russia, were open all the time through this crisis, so a lot of the markets where infrastructure really matters did extremely well, and a lot of the systems. Yes, we had just joined CLS, and we were very happy with the way it kept on working.

Mr. Goldstein: Stan, in your remarks, you came out for size limits on financial institutions, a position which I also take, but the question is, How would that be done? And there are at least three options. One is you could just have a size limit, size of financial institutions relative to GDP, presumably that would mean that some existing institutions would have to get smaller or would have to sell out parts. I haven't heard too much about that in the context of ongoing regulatory points.

A second option would be to have higher capital requirements for systemically important institutions as is in, for example, the Obama administration plan. That would be an incentive not to get much bigger, but it wouldn't deal with the existing large institutions.

And, the third option would be to have something you might think of as opportunistic deconsolidation, that is when you're resolving an institution there would be a presumption that you don't allow a purchase by some other very large institution. You try and sell it off to smaller institutions or do something like that. Anyway, would you comment on how you think this could be done, if it could be done?

Mr. Fischer: I would consult with Jean-Pierre Roth and Philipp Hildebrand and get back to you, in due course.