WINTER 2011
Volume 2 Number 1

Forefront

New Ideas on Economic Policy from the FEDERAL RESERVE BANK *of* CLEVELAND

The Future of Financial Market Regulation

INSIDE:

Slowing Speculation in Housing

Introducing the Cleveland Financial Stress Index

A Bad Bank, for the Greater Good

PLUS:

Interview with Charles Calomiris

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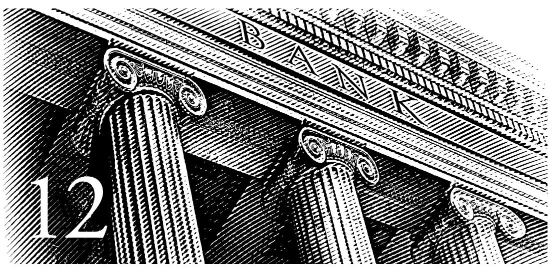

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PRESIDENT'S MESSAGE

Sandra Pianalto
President and Chief Executive Officer
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Now that some of the worst effects of the financial crisis are fading, our attention has properly turned to the future. The Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010 contains Congress's blueprint for addressing gaps in the financial market regulatory and supervisory framework, the types of gaps that contributed to the tumultuous events of 2007 and 2008. Among other key provisions, the new law calls for greater oversight of the shadow banking system, stricter supervision of systemically important financial institutions, and a resolution authority to deal with too-big-to-fail financial firms.

Those provisions cover a lot of territory. In this issue of *Forefront*, we explain some of the ways that the details will get worked out. Congress has asked the Federal Reserve and other regulatory agencies to write hundreds of new rules as part of Dodd–Frank's implementation. The law requires many of these rules to be final as soon as this summer.

Of course, Dodd–Frank did not cover everything. As the Federal Reserve Bank of Cleveland's James Thomson argues in this issue, the creation of a federally chartered "bad bank" to acquire and dispose of distressed assets is another idea whose merits should be considered. The Bank's Emre Ergungor and Thomas Fitzpatrick make the case for states to evaluate some options that would make it harder for irresponsible investors to neglect their properties.

This issue also includes an update on the Bank's model for detecting systemic risk in the financial system — a model we hope can be a useful tool for newly created entities such as the Financial Stability Oversight Council. Finally, we interview banking scholar Charles Calomiris, who comments on elements specific to Dodd–Frank as well as additional ideas he considers important to regulatory reform.

As always, we'd like your comments on these efforts, just as we encourage all points of view about the implementation of the new legislation.

In the past, I've likened the rule-making phase to the finishing of a house. With skillful craftsmanship, we can carry out this complicated and challenging responsibility in a way that makes our financial house solid and secure. An open, continuous dialogue that considers many perspectives is most likely to achieve the goal of financial stability.

I invite you to get involved. An enormous amount of information on the proposals is already available through dedicated websites from the Federal Reserve and other financial system regulators. It's easy to comment. Go to the Federal Reserve Board's Freedom of Information Office at *www.federalreserve.gov* or visit *www.regulations.gov* to read the proposed rules and then have your say.

Working together, we can build a stronger and more stable financial system. So speak up — we are listening. ■