Financial Sector Reform: How Far Are We?

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The views expressed are my own, and not necessarily those of the Federal Reserve Board of Governors, the Federal Open Market Committee, or the Council on Foreign Relations.
Proposed financial sector reforms, 2008-2009

1. Strengthen the stability and robustness of financial firms, with emphasis on governance, risk management, capital, and liquidity
2. Strengthen the quality and effectiveness of prudential regulation and supervision
3. Build the capacity for undertaking effective macroprudential regulation and supervision
4. Develop suitable resolution regimes for financial institutions
5. Strengthen the infrastructure of financial markets, including markets for derivative transactions
6. Improve compensation practices in financial institutions
7. Strengthen international coordination of regulation and supervision, especially for regulation and resolution of G-SIFIs
8. Find appropriate ways of dealing with the shadow banking system
9. Improve the performance of credit rating agencies
Ratio of Liquid Assets to Total Assets
Largest 25 bank holding companies

Note: Liquid assets include U.S. Treasury securities, agency obligations and agency MBS, reserve balances deposited at the Federal Reserve, and cash. These are expressed as percent of total assets. As of 2008:Q4, the Federal Reserve started to pay interest on reserve balances.
Source: FR Y-9C and Call Reports.
Macroprudential measures, Israel, 2010-2014

Jul. 2010  Increased provisioning against loans with high loan-to-value (LTV) ratios

Oct. 2010  Increased capital requirements against floating rate loans with high LTV ratios

May 2011  Limited the share of any housing financing package indexed to the short-term interest rate to one-third of the total loan

Nov. 2012  Limited the LTV ratio in housing loans to 75 percent for first-time buyers, with tighter limits for other buyers

Mar. 2013  Increased the risk weighting and provisioning on housing loans

Aug. 2013  Limited the maximum payment to income (PTI) ratio of borrowers to 50 percent, with a 100 percent risk weight on loans with a PTI of more than 40 percent

Additional precautionary measures were taken in bank supervision.