

Warding Off Financial Market Failure Domestically and Internationally

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Outline

1. Macroprudential Policy Framework
 - Approach to Regulation
 - Approach to Surveillance
2. Macroprudential Instruments
 - Margin Requirements and Haircuts
3. Macroprudential Governance
4. Monetary Policy and Macroprudential Policy
5. Cross-cutting Issues
6. Conclusion

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Objective: Avoiding significant financial instability

Goals: Dampening procyclicality and reducing potential effects of contagion

Policy Instruments: Macroprudential instruments, Advice on policies, Warnings

Activities: Data Collection, Surveillance, Analysis, Stress Testing, Risk Assessment

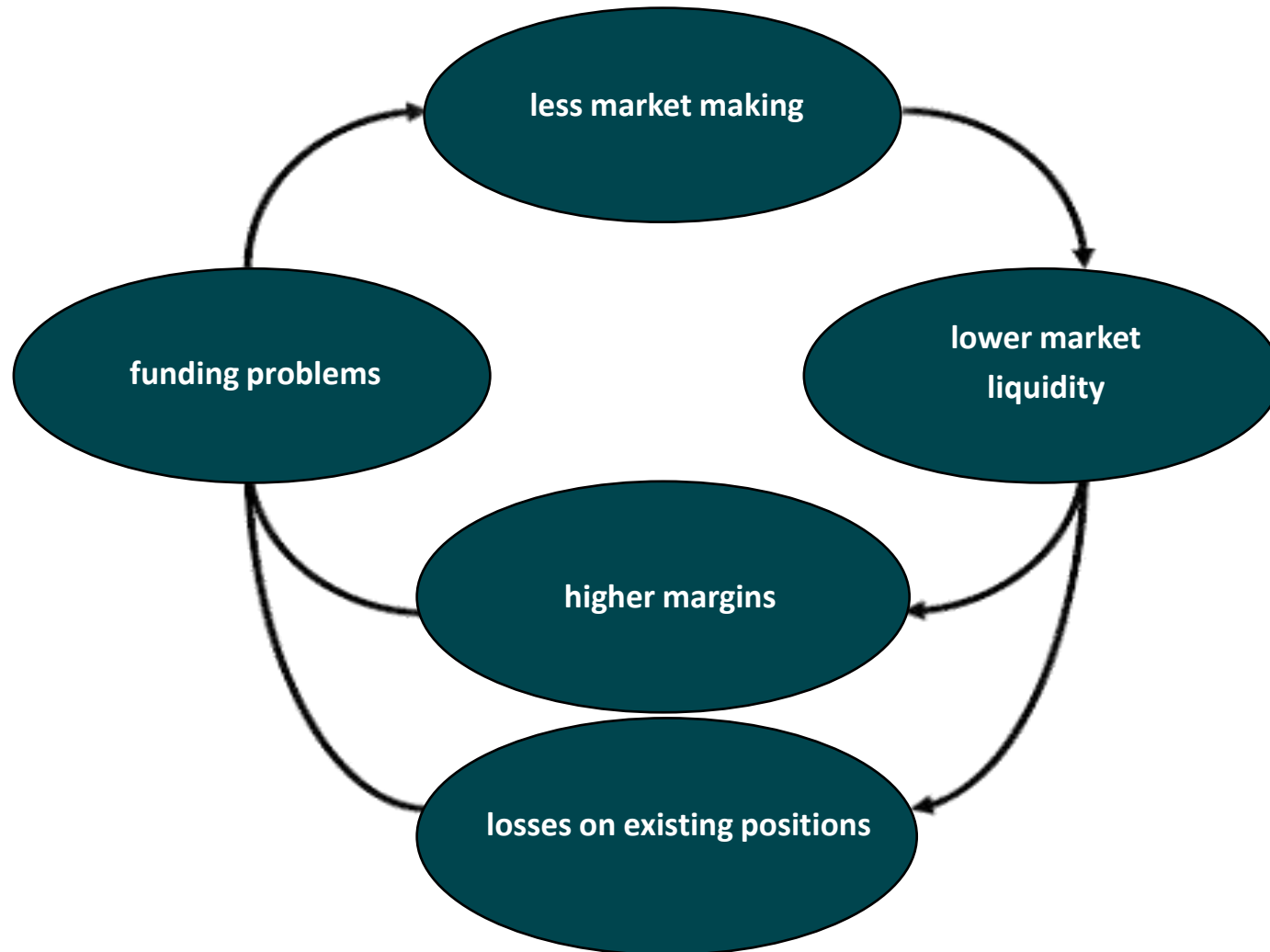
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2. Macroprudential Instruments

Cycle	Risk	Macroprudential Instruments
Credit Cycle	Credit Risk	Capital Requirements Leverage Requirements
Liquidity Cycle	Liquidity Risk	Liquidity Requirements
Financial Asset Price Cycle	Market Risk Collateral Risk	Margin & Haircut Requirements
Property Price Cycle	Collateral Risk	Loan-to-Value Ratios (& mortgage restrictions)

Policies should be justified by pointing to externalities, financial frictions.

Liquidity/Margin Spiral



Adapted from Brunnermeier & Pederson (2009) and presentations by Mark Carney and David Longworth

Instruments: Margin Requirements

Recommendation	Repo	Securities Lending	OTC Derivatives
Set capital requirements on securities financing transactions that are relatively stable through the cycle, with countercyclical add-on	√	√	
Promote central counterparties; minimum constant through-the-cycle margins and haircuts for CCPS; countercyclical add-on	√	√	√

Instruments: Margin Requirements

Recommendation	Repo	Securities Lending	OTC Derivatives
Link credit terms that can be applied to dealer's capacity to mark to market	√	√	√
Discourage and dampen effects of credit triggers			√
Develop best practice guidelines		√	

Committee or
organization
responsible

Relationships

Legitimacy

3. Governance

4. Monetary and Macroprudential Policies

- Objective of monetary policy
 - Should it incorporate financial stability?
- Supporting role of monetary policy?
- Implications of macroprudential policies for carrying out monetary policy

5. Cross-cutting Issues

- Example of housing and housing finance
- Housing finance was at centre of this and many previous crises
- Yet most countries have not yet dealt with one or more of the following:
 - Formally developing macroprudential tools for housing credit (including countercyclical ones)
 - Deciding how housing prices should be incorporated in the overall price index targeted/monitored by the central bank
 - Dealing with the governance of GSEs and government mortgage insurers

6. Conclusions

- There is a sameness in most financial crises
 - Credit problems and too much leverage
 - Liquidity problems
 - (More recently) Margin spirals
 - Housing price bubbles
- Macroprudential approach focuses on sameness, but not to exclusion of what differs

References

Committee on the Global Financial System (2010), “Macroprudential instruments and frameworks: a stocktaking of issues and experiences” CGFS Paper No 38, May.

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