

# **Comments on Paper by Hyun Song Shin: “Financial Intermediation and the Post-Crisis Financial System”**

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# 1. Key Points on Securitization

## Three views:

- **1) Old, “benign” view: dispersion of credit risk  
→ resilience of financial system**
- **2) New, “hot-potato” view: Originate to  
distribute → wrong incentives**
- **3) Shin’s view:**
- **Shin dismisses 1) and 2) and (naturally) goes to  
3), BUT:**
  - 1) Was controversial (even before the crisis)**
  - 2) Also played a role in the crisis**
  - 3) Relevant and useful.**

## 2. Key Points on Shin's Paper

- **Securitization lengthens intermediation chains, exacerbates procyclicality**
- **First post-securitization crisis (banking and capital markets more interconnected)**

### 3. Boom-Bust Dynamics with Long Intermediation Chains

	<b>Asset Valuations</b>	<b>Leverage</b>	<b>Interbank Funding</b>	<b>Non-Bank Debt</b>
<b>Boom</b>	UP	UP	UP (short maturity)	UP
<b>Bust</b>	DOWN	DOWN	DOWN (Bank run)	DOWN

- **Higher lending to non-banks and borrowing (non-banks through securitization)**
- **Role of policy interest rate in build-up of systemic risks**

# 4. Policy Recommendations

## ➤ **Regulations**

- **Capital**
- **Liquidity**
- **Provisions (Forward-Looking)**

## ➤ **Reforms**

- **Covered bonds**

# 5. On the Proposed Measures

- **Leverage cap should also include off-balance sheet items**
- **Forward-looking provisions (help both leaning and cleaning)**
- **Valuation reserves (trading-book, particularly if mark-to-model)**
- **Covered bonds (acknowledgement of hot-potato)**
- **Other measures for risk retention**

## 6. But More is Needed

- **Internal risk management systems (through the cycle, stress testing), better liquidity management**
- **Compensation policies (longer-term results)**
- **Investor's information (credit ratings)**
- **Simplify/standardize structured products**
- **Expand regulatory perimeter (sensibly)**
- **Crisis management arrangements (lender of last resort, deposit insurance, resolution frameworks)**

# 7. And Monetary Policy?

- **Short-term policy rate important for financial stability → Regulation should take this into account.**
- **Indebtedness and leverage → Should monetary policymakers better take this into account, and how, in pursuit of final goals?**