Tapping the Brakes: Are Less Active Markets Safer and Better for the Economy?

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April 15, 2014
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Three Key Questions

1. Is the US financial sector “too big”?

2. Is financial innovation harmful?

3. Should we put the brakes on growth of financial activity or slow the pace of financial innovation?
US and Canadian Financial Services Sectors as Share of GDP

Finance and Insurance as a percentage of GDP
(Percentage)

Source: Bureau of Economic Analysis, Statistics Canada
US Securitizations Outstanding by Asset Class

(in $BN)

Source: Securities Industry and Financial Markets Association
Do We Need Additional Brakes?

- Major policy responses since the Financial Crisis:
  - Stress Testing (i.e., SCAP, CCAR)
  - Basel 2.5
  - Basel 3
  - G-SIB Buffer
  - Supplementary Leverage Ratio
  - Liquidity Regulation (i.e., LCR, NSFR, CLAR)
  - Large Exposure Limits (i.e., SCCL)
  - DFA 165 Enhanced Prudential Standards for Risk Management
  - OTC Derivatives Clearing
  - Money Market Reform
  - Recovery and Resolution Planning: Living Wills