

Commissioners -

In preparation for our discussions on Wednesday - Friday, please find attached an outline of significant issues which is drawn from the submission of members and arranged consistent with the outline distributed by Wendy over the weekend.

The helpful framework proposed by the Vice Chair and distributed to commissioners yesterday contains many, if not most, of these items and the attached outline is arranged in essentially the same order as the Vice Chair's memo (although the Vice Chair's memo combines some of the items from Wendy's memo).

Please note that the items in bold were contained in Wendy's memo and the unbolded items are specific issues not referenced in her memo which come under the larger headings in Wendy's memo.

With respect to each of the items which the Commissioners choose to discuss, the key questions with respect of these items would appear to be: did it contribute to or cause the crisis; to what extent; and in what manner?

Along with the Vice Chair, I look forward to a productive set of meetings.

Phil

Defining the crisis

Macroeconomic factors

- monetary policy
- excess liquidity
- credit bubbles
- increase in debt

The housing bubble and its collapse

The housing bubble and its collapse: mortgage origination, securitization (including rating agencies), housing policy, and the GSEs

- **mortgage originations**
 - Underwriting standards
 - Predatory lending
 - Fraud
- **securitization**
 - The originate to distribute model
 - transmission of mortgages through the system
 - **rating agencies**
- **housing policy**
 - CRA
 - Affordable Housing Goals
- **The GSEs**
 - Absolute versus relative role in the bubble
 - Motivation (market share/affordable housing goals)
 - Systemic importance

Supervision and regulation

Supervision and regulation: broadly, including reliance on self-regulation, in mortgage markets, in financial markets, and of financial institutions

- **Broad issues**
 - **Reliance on self regulation**
 - Policy direction
- **Regulation in mortgage markets**
 - subprime mortgages
- **Regulation of financial markets**
 - Regulatory gaps

- Regulation shopping and regulatory arbitrage
- Capital standards including procyclicality
- Relative performance and experience of more regulated versus less regulated institutions
- Transparency
- Investor protection
- **Supervision of financial institutions**
 - Adequacy of supervision
 - Adequacy of supervisors' resources
 - Actions in the face of warning signs

Influence of the financial industry on policy and regulation

Derivatives

Derivatives: mortgage-related derivatives (including synthetic CDOs) and other OTC derivatives

- **mortgage-related credit default swaps and synthetics**
- **other OTC derivatives**
- transparency
- interconnections
- leverage

The financial system

The financial system: risk, leverage, concentration and correlation of risk, and increased risk of the financial sector (e.g., growth of speculative trading, market making, interconnections, less regulated markets, and institutional scale)

- **Risk**
- **Leverage**
- **Concentration of risk, correlation of risk**
- **Increased risk of the financial sector**
 - **Growth of speculative trading**
 - **Growth of market making**
 - **Increased interconnections**
 - **Growth of less regulated markets**
 - **Growth of institutional scale**
 - Change from partnerships to public corps
 - Technology

Management of financial institutions

Management of financial institutions: risk management and risk taking; corporate governance; compensation; incentive structures; conflicts of interest; and corporate responsibility and practices

- **risk management and risk taking**
 - use of models and financial engineering
 - failure to act in the face of warnings
- **corporate governance**
 - transparency (e.g., off-balance sheet)
 - accountability/standard of care
- **compensation**
 - focus on short term
 - size and structure
- **incentive structures**
- **conflicts of interest**
- **corporate responsibility and practices**
 - ethics
 - inappropriate business practices

Too big to fail

Too big to fail: moral hazard, expectation of government response to financial crises, and too-big/important-to-fail financial institutions (including the GSEs)

- **Moral hazard**
- **Expectations of government intervention**
- **Scale of institutions**

The failure of large financial institutions: idiosyncratic versus systemic and common factors

Liquidity crisis: panic, short-term debt markets, transparency, interconnections

Policy actions in response to crisis

- Bear Stearns
- Lehman
- Financial system support
- TARP and other institutional support