I. Introduction

A. Thank you. Pleasure to be here

B. Very timely topic.

C. Excellent group of participants, including the members of our panel.

D. Particular pleasure to renew acquaintance with Larry Lindsey, my former colleague from the Federal Reserve.

II. Here to discuss policy options for preventing future problems.

A. Take a couple of minutes to set the stage for the discussion.

B. As we all know, the international financial system is undergoing significant change. But the problems are actually not all that different.

C. We evaluated these problems as well as possible solutions during the past year at a couple of Chicago Fed conferences: the Conference on Bank Structure and Competition, which took place just a couple of weeks ago; and a Conference on Preventing Bank Crises, which was held last summer.

D. Like to briefly give you a flavor of the discussion at these conferences.
E. First, the origins of bank crises can be traced to two fundamental causes—unsustainable economic policies; and weak financial structure.

F. There have been many attempts in the past to address these problems. But they've generally all had a fundamental flaw—they encourage, or don't do enough to discourage, moral hazard.

G. (Option—The previous panel addressed this issue and provided some very interesting insights.)

H. What are the potential solutions? I'd suggest three possibilities as a starting point for discussion:

- one—more formal international regulatory guidelines;
- two—increased transparency—that is, more relevant information provided in a timely manner and incentives to encourage market participants to use the information;
- three—more effective regulation, specifically regulation that is incentive-compatible whenever possible.

I. The challenge, of course, is implementing such solutions effectively in a way that will reduce moral hazard—the devil is in the details.

J. In the case of international regulatory guidelines, if they are necessary, it would be important to develop guidelines that are effective yet flexible.

K. We need to avoid a one-size-fits-all approach that ignores the differences of each nation.

L. But, at the same time, the guidelines can't be so broad that they are mere platitudes.

M. Developing solutions that strike the right balance and contain moral hazard problems is a major challenge—it's an extremely complex issue.

N. Fortunately, we have an expert panel on hand to address this issue. I'm very interested in hearing their thoughts.

O. Our first panelist is Jeffrey Shafer.

P. Jeff Shafer is a managing director of Salomon Smith Barney and vice chairman of Salomon Smith Barney International.

Q. He joined the firm in 1997 after serving as Under Secretary for International Affairs at the Treasury Department.

R. As Under Secretary, Mr. Shafer was responsible for international economic and financial issues, where he focused on three major areas:

- Strengthening economic growth and financial stability in both developed and developing countries;
• Fostering the development and liberalization of financial markets; and

• Strengthening the IMF and multilateral development banks.

S. From 1984 until 1993, he held a series of high-level positions at the Organization for Economic Cooperation and Development.

T. Before that, he served with the Federal Reserve Bank of New York, the Federal Reserve Board, and the Council of Economic Advisors.

U. Please welcome Jeff Shafer.

Akira Nambara.

A. Our second panelist is Akira Nambara, (Nomber-a) deputy governor of the Export-Import Bank of Japan.

B. Mr. Nombara has worked at the Export-Import Bank since 1958.

C. He's gained experience in a number of areas at the Bank including serving as deputy director of the Bank Relations and Supervision Department, director of the Research and Statistics Department, and as chief representative to the Americas.

D. He was named executive director of the Import-Export Bank in 1992 and two years later he was named to his current position.

E. He is a graduate of the Faculty of Law at the University of Japan and was a Fulbright scholar at Yale.

F. Please welcome Akira Nombara.

David Vitale


B. He is also a director of the corporation and both banks.

C. Dave Vitale has extensive international banking experience.

D. He organized and managed foreign exchange and money market activities for First National's London Branch and headed the Corporate and Institutional Bank.

E. In that position, he was responsible for all capital markets activities, including i-securities derivative products, and foreign exchange.

F. Please welcome David Vitale
Larry Lindsey

A. Our fourth panelist is Larry Lindsey. Larry is a former colleague.

B. He was a member of the Federal Reserve Board from 1991 to 1997.

C. Prior to his appointment to the Board, Larry served in the Bush Administration as associate director for domestic economic policy and as special assistant to the president for policy development.

D. Larry’s experience also includes teaching at Harvard, where he earned his master’s degree and Ph.D in economics, and serving on the Council of Economic Advisers.

E. He is currently resident scholar at the American Enterprise Institute.

F. Please join me in welcoming Larry Lindsey.