



St. Louis Fed's Bullard Addresses Future of Financial Regulation at Arkansas Bankers Association Annual Meeting

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HOT SPRINGS, Ark. — St. Louis Fed President James Bullard said Friday that while history shows important financial crises have resulted in new reform-oriented legislation—and that the current crisis is likely to follow this pattern—the design of an effective reform is far from clear at this point.

In his presentation "[The U.S. Financial System and Macroeconomic Performance](#)," given at the 119th Annual Arkansas Bankers Association convention, Bullard said that parts of the regulatory system have proven to work well, such as the monitoring practices and fairly clear rating system currently in place for smaller banks.

"Deposit insurance and prudential regulation have proven to be successful in avoiding small bank panics," he said. "Supervision allows the regulator to anticipate potential bank failures and prepare accordingly."

He also pointed out that with smaller banks, "a clear resolution regime is in place," and that the U.S. has a system for closing banks in a way that does not damage others in the industry.

"The system is not designed to keep banks in business at all costs, or to tell owners how to run their businesses, but rather to turn potentially disorderly failures into orderly failures," he said. Bullard suggested that the industry should learn from the success of this system.

The problem areas in the crisis have centered on large banks and especially large non-bank financial firms, which makes monitoring far more difficult and the resolution regime unclear. Thus, two of the elements that make smaller bank regulation successful are missing for larger financial firms, he said.

These firms are often thought to be too big to fail, but Bullard said that they are only too big to fail *quickly*. He argued that one goal of a successful reform should be to find a method to allow failure, but in a way that does not cause significant market disruption. He stressed that a good resolution regime for these firms must be credible, so that all market participants understand what will happen in the event of failure.

Bullard also discussed the Federal Reserve's role in a new regulatory landscape. He said that the Fed is the nation's lender of last resort; so, it needs to be involved in the regulation of firms that have access to the discount window. He also said that the Fed needs to know the condition of the financial system to run an effective monetary policy,

and that this also argues for a substantial Fed role in the regulatory structure. Both of these needs have been underscored in the current crisis.

Bullard said that the Fed has been the nation's *de facto* systemic risk regulator. He named three important systemic risk calls made by Fed officials in recent years. He argued that systemic risk regulation has come to mean many things to many people, and that the debate needs to be sharpened substantially before progress can be made.

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