

Foreword

In November of 2008, as the global financial system was facing collapse, it became clear that the crisis which began in 2007 had entered a new and dangerous phase. That time we called together a group of colleagues to review our best understanding of the roots of the crisis, where things stood at the time, what measures needed to be put in place to prevent future crises, how the key policies – the massive creation of liquidity, the TARP, the auto bailouts, the financial bailouts - were being used to address the crisis. The result was a collection of 18 “white papers” that were bound, reproduced and circulated before the end of December and subsequently published in March 2009 by John Wiley and Son, entitled *Restoring Financial Stability: How to Repair a Failed System*.

Now, one year later, we have reached a new inflection point in the most serious financial turmoil most of us have ever seen. The U.S. House of Representatives is about to begin debate on HR 4173, the *Wall Street Reform and Consumer Protection Act of 2009*. The U.S. Senate is about to begin marking-up the *Restoring American Financial Stability Act*. These bills could well change the financial architecture, achieving greater robustness at relatively little cost to financial efficiency. But if we get it wrong, renewed financial paralysis and its debilitating effects on the real economy may not lie too far down the road. .

Once again we have assembled a group of our colleagues, each a specialist in a relevant discipline, to assess the strengths and weaknesses of the legislation that is now on the table. At the outset of our debates on the specifics of the legislation we found no consensus but a surprising degree of agreement on its strengths and weaknesses. In the individual policy assessments that follow we attempt to summarize the key issues, offer our views on the suggested approaches to regulatory reform, and provide an assessment of the specific proposals that have been put forward.

Not all of the issues addressed in the current legislation are equally important. Some, such as financial sector compensation and consumer protection - are perhaps not central to future financial stability. Others, such as the future role of the Federal Reserve, the approach to systemic risk, the restructuring of too-big-to-fail institutions, and the shadow banking system that houses OTC derivative and money markets, are undoubtedly critical to the future safety and soundness of the financial system. The debates will be both heated and ongoing. Our commentary will be as well, so each commentary will be subject to revision in the weeks and month ahead. Our goal is to provide an unbiased, real-time external view of the debate as it evolves.

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