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Banking and Regulation: The Next Frontier

Diana Hancock , Mathias Dewatripont

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COVER NOTE

Banking and Regulation: The Next Frontier

This special issue contains five papers that were presented at the Basel Committee's Research Task Force workshop entitled "Banking and Regulation: The Next Frontier," jointly hosted with the Center for Economic and Policy Research and the *Journal of Financial Intermediation*. The workshop was designed to facilitate discussions between economists working on supervisory and financial stability issues at Research Task Force member institutions and academic economists. Indeed, many of the papers in this issue benefited from comments received from participants attending the workshop. In addition, the Research Task Force provides information on the results of research on banking and regulation to the Basel Committee so that such results can have implications for the Basel Committee's ongoing work and also provide ideas on potential gaps for future work.¹

It is well-known that the regulatory response to the financial crisis has been multifaceted. This response includes higher capital requirements and a greater focus on common equity as well as many innovations such as capital conservation buffers that when breached restrict payouts to shareholders, countercyclical capital buffers that adjust up and down during system-wide credit booms and credit busts, a leverage ratio back-stop to the risk-based capital requirement that incorporates not only on-balance sheet exposures, but also off-balance sheet exposures, and liquidity requirements to ensure there is enough cash on hand to cover funding needs over a 30-day period of stress (the liquidity coverage ratio), and to address maturity mismatches throughout the entire balance sheet (the net stable funding ratio). In addition, systemically-important banks are required to hold supplemental capital that is augmented with loss-absorbing capacity, such as contingent capital and long-term debt.

These reforms, which are still being phased-in, have generated a large empirical literature aimed toward evaluating their effects.² An equally large theoretical literature has also begun investigating the coherence and efficacy of different approaches to post-crisis regulation and how the implementation of the regulatory agenda may have affected post-crisis systemic risks. The five papers contained in this special issue contribute to these literatures.

Regulatory capital requirements rose sharply after the financial crisis across all jurisdictions. Uluc and Wieladek (2017, this issue) uses domestic regulatory data on bank-specific changes to capital requirements in the United Kingdom (between 2005:Q2 and 2007:Q2) to understand the impacts of changes in capital regulations on mortgage credit supply. In this case, he focuses on

¹ See, for example, Basel Committee on Banking Supervision, 2016, "Literature Review on Integration of Regulatory Capital and Liquidity Instruments," Working Paper #30, March.

² The timetable for Basel III phase-in arrangements is available at: http://www.bis.org/bcbs/basel3/basel3_phase_in_arrangements.pdf

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