Volcker Alliance Urges Action to Address Risks to Financial Stability
Report Sets Forth Options to Reduce Reliance on Unstable Short-Term Debt; Strengthen Financial Market Infrastructure; and Reshape the Regulatory Architecture

December 5, 2016, Washington, DC – The Volcker Alliance today released a report, Unfinished Business: Banking in the Shadows, at an event co-hosted with the Institute for New Economic Thinking and held at the National Press Club. The report, which is the result of a year-long review by the Volcker Alliance, identifies areas of vulnerability that pose a high level of risk to the public, and lays out a range of options to better assure the stability and effectiveness of the financial system.

“The financial crisis devastated the middle class and shook the public’s trust in government,” said Paul A. Volcker, former Chairman of the Board of Governors of the Federal Reserve System and Chairman of the Volcker Alliance. “Eight years later, review of what has been achieved in strengthening the system, of the workings of the regulatory apparatus, and particular areas of remaining vulnerabilities is what requires attention,” he added.

The report identifies areas of concern that warrant greater attention by policymakers, including: (1) the risk of runs associated with excessive reliance on short-term debt; (2) the growing concentration of credit risk in a small number of highly interconnected clearinghouses for over-the-counter derivatives; and (3) the fragmented and disjointed framework for regulating financial institutions in the United States.

The report notes that panicky “runs” to liquefy short-term debt magnified the 2008 financial crisis repeating the pattern of other major banking crises in U.S. history. While some forms of short-term debt have declined in recent years, the report notes that overall levels remain high and are expected to rise as monetary policy normalizes. The report concludes that absent action, excessive uninsured short-term debt will remain an important risk amplifying financial crises, leading to the need for taxpayer funded bailouts.

The report also emphasizes the importance of the Dodd-Frank Act’s mandate for central clearing of OTC derivatives in helping make the financial system safer. But the report notes that the concentration of credit risk in a few highly interconnected clearinghouses could prove catastrophic for the broader financial system in the event of failure.
The report encourages policymakers to develop strategies to enhance the resilience of clearinghouses, including determining their optimal governance and ownership structures and whether they should function and be regulated as public utilities. It also encourages policymakers to establish an effective framework for their regulation and supervision, and craft a clear statutory scheme for their recovery and resolution.

Finally, the report urges policymakers to reorganize the financial regulatory system. It notes that while the financial system is complex and constantly evolving, the regulatory apparatus intended to oversee it is rigid, disjointed, and outmoded. These limitations have severely hampered regulators’ ability to effectively implement consistent financial stability policy, led to inadequate oversight of nonbanks, and resulted in poor regulatory outcomes. The report presents a vision for a simpler, more comprehensive framework consistent with the Volcker Alliance’s April 2015 report *Reshaping the Financial Regulatory System: Long Delayed, Now Crucial*.

“The point of the policy options presented in this report is not to inhibit risk taking or prevent the failure of individual financial institutions. Instead, it is to protect against excesses that too easily cascade into a systemic crisis, impairing the basic functioning of the financial system, with huge costs to jobs, businesses, and economic growth,” said Chairman Volcker. “They deserve serious consideration by policymakers,” he added.

For more information, visit www.volckeralliance.org.

*The Volcker Alliance is a 501(c)3 organization.*

**About The Volcker Alliance**

The Volcker Alliance was launched in 2013 by former Federal Reserve Board Chairman Paul A. Volcker to address the challenge of effective execution of public policies and to help rebuild public trust in government. The nonpartisan Alliance works toward that broad objective by partnering with other organizations—academic, business, governmental, and public interest—to strengthen professional education for public service, conduct needed research on government performance, and improve the efficiency and accountability of governmental organization at the federal, state, and local levels.