



www.cdhowe.org

*C.D. Howe Institute
Institut C.D. Howe*

COMMUNIQUÉ

For Release at 10:00 a.m. EDT Thursday, September 10, 2009

Message to G-20 Ministers – Look before Leaping into New Financial Sector Regulation: C.D. Howe Institute

Toronto, Sept. 10 – G-20 ministers should avoid creating a new layer of regulation to counter future systemic financial risks, according to a newly released C.D Howe Institute study. The *Commentary* by Nick Le Pan, former Superintendent of Financial Institutions, cautions against current G-20 proposals to expand regulation to include system-wide macroeconomic risks. “Priority should be on improving the existing system from lessons learned, before we put all our energy into a new macro-prudential system,” Le Pan said in the study, *Look Before You Leap: A Skeptical View of Proposals to Meld Macro- and Microprudential Regulation*. Such improvements would increase our ability to anticipate the next potential crisis and deal with problems beforehand, he said.

Without more clarity on goals and responsibilities, adding responsibility for system-wide risk to the mandates of the Bank of Canada, the Superintendent of Financial Institutions (OSFI) and other regulators risks unproductive overlap and loss of focus, said Le Pan. Clarity also means governments must sort through policy tradeoffs, so as not to interfere with OSFI’s mandate to intervene early to solve problems at banks and insurers, or with the Bank’s mandate for price stability. “Nor should we think, as some seem to, that we can put regulatory policy on autopilot as macro economic variables change,” noted Le Pan, in reference to specific G-20 proposals.

“Furthermore, we should not assign sole responsibility for financial stability (and all the related tools) to one authority,” writes Le Pan. Lots of regulators and central banks missed the warning signs that were there before the recent crisis. Looking out for the next crisis requires the Bank of Canada and regulators to share expertise, challenge each other, be open to considering low-probability, but high-impact scenarios, and use judgment as conditions change.

To do this effectively, said Le Pan, the Finance Minister should create a legislated financial stability committee, with the Bank of Canada, OSFI, and key securities regulators

among the members. It should be separate from the existing, successful federal committee that deals with individual problems at banks and insurers. The finance ministry should coordinate the financial stability assessment process and chair the committee. That approach will build on our strengths, he concluded.

For the study, go to www.cdhowe.org

For more information contact:

Nick Le Pan,
Senior Fellow, or
Finn Poschmann,
Vice President, Research,
C.D. Howe Institute,
416 865-1904.

Look Before You Leap: A Skeptical View of Proposals to Meld Macro- and Microprudential Regulation, C.D. Howe Institute Commentary No. 296, by Nick Le Pan (September 2009). 21 pp; \$12.00 (prepaid, plus postage & handling and GST – please contact the Institute for details). ISBN-13: 978-0-88806-785-2; ISBN-10: 0-88806-785-2.

Copies are available from: Renouf Publishing Company Limited, 5369 Canotek Road, Ottawa, Ontario K1J 9J3; or directly from the C.D. Howe Institute, 67 Yonge St., Suite 300, Toronto, Ontario M5E 1J8. The full text of this publication is also available from the Institute's website at www.cdhowe.org.