Responding to the New Wave of Re-regulation

**Knowledge@Wharton:** We would like to talk about how capital markets are being reshaped following the global financial crisis and also the new wave of re-regulation, which includes big legislation in the U.S. under Dodd-Frank, Basel III changes, and also more recently action by the G-20 in Korea -- which is a lot to swallow in a very short period. What should global banks be doing now to prepare to digest all of this regulation, which is still ill-formed to some degree? Dick, could you talk for a minute or so about that?

**Richard Herring:** Well, I think the important thing to remember is that although the broad outlines have been set out all of these initiatives have very long phase-in periods and in the case of Dodd-Frank there are literally hundreds of implementing regulations to be done, hundreds of studies. We don’t really know what it’s going to turn out to look like and so I think the most important thing institutions can do right now is to monitor very carefully what is happening in each of the firms. Not only that but, with regard to Dodd-Frank, some of the implementation is clearly going to be slowed down because Congress has yet to fund the necessary additional personnel for the SEC and the CFTC to actually start doing the work on the regulations and the studies.

Moreover, we have to keep in mind that we have lots of different countries doing this at the same time – that the Basel initiative is going on – and they aren’t necessarily coming out with the same conclusions. One of the more worrisome initial results is that the Europeans have taken a very different view of what to do with the ratings agencies than we have. I’m not sure either one of them is exactly correct but it will tend to in the short-run to balkanize capital markets in a way that I think none of us would wish.

**Knowledge@Wharton:** Bill, what’s your take on the overall effect of all of this legislation?

**Bill Schlich:** Well, from a business perspective I think right now what organizations are doing, and need to continue to do, is to really understand what are their core businesses? Where are they making money? Who are their customers? And to figure out where is most optimal to make that money? In other words, where can they be most profitable? Yes, the regulations are not finalized yet, but what we are seeing is organizations spending a lot of time really trying to figure out what is their core business and make sure that they are doing that really well in the markets that make sense for them.

**Knowledge@Wharton:** Is that the core business that they had yesterday? Or the core business of tomorrow? And how are those different?

**Bill Schlich:** Well, that’s a great question and I think in some respects it is looking at the businesses you did before. How did you do it? Where did you do it? And why did you do it? And then trying to figure out what that business will be in the future. We do see a tremendous amount of focus on the customer. Who is the customer? And what does the customer want, which I think is a little bit of the future but also a little bit of the past.