How Level Is the Playing Field?

Knowledge@Wharton: Bill, it doesn’t sound like we are looking a very level playing field here. Does this mean that regulatory arbitrage is going to be a major problem?

Bill Schlich: I think the question is how unlevel will the playing field be? I think it’s too early to tell. I mean, you have the Volker rule in the U.S., which obviously some say gives the Europeans an advantage. You have the comp differential that Don talked about, which the Europeans would say puts them at a disadvantage. There are some out there that believe the centers of banking are going to move to Asia for a whole host of reasons.

Knowledge@Wharton: Including some threats by a British banker to do exactly that.

Bill Schlich: Exactly. So I think the real question is how long will they be unlevel for, and then how will they become more level? From my perspective when you look at Volker rule it is pretty prescriptive of what you can and cannot do. And it is going to become clearer over time what that means. But at the same time, I wouldn’t be surprised if the Europeans start to get to the same place through requiring additional capital against trading books. So the question is, yes, they will be unlevel, but for how long will they be unlevel and will people be able to take advantage of it?

Donald Vangel: I think it’s difficult absent something like a global resolution regime, or some monolithic authority that is able to set a singular set of rules and apply them consistently across jurisdictions. I think we are moving towards an environment where there is going to be much more ring-fencing of operations within individual jurisdictions with respect to the rules that need to be applied – the capital and liquidity that need to be managed – and that is going to make managing a global financial conglomerate increasingly difficult.

Bill Schlich: Right. And the question will be how global can you be? And actually some of us believe that the global institution is very important. But more importantly, it is going to call into question what happens with innovation? Who does it? Where is it done? How do we move credit? If we don’t come up with a way to get credit to move again? Securitizations are for the most part dead. How are we doing to move credit? How are we going to incentivize people to originate credit and then move it? It becomes much more difficult if you are talking about organizations that can be very separate in different jurisdictions.