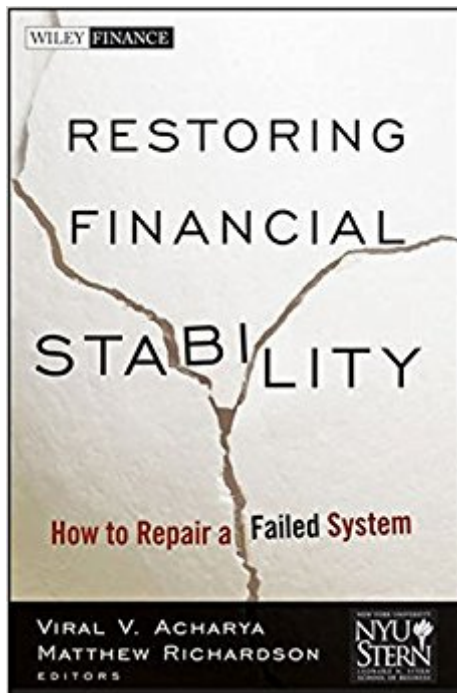




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# Restoring Financial Stability: How To Repair A Failed System



## Synopsis

An insightful look at how to reform our broken financial system The financial crisis that unfolded in September 2008 transformed the United States and world economies. As each day's headlines brought stories of bank failures and rescues, government policies drawn and redrawn against the backdrop of an historic Presidential election, and solutions that seemed to be discarded almost as soon as they were proposed, a group of thirty-three academics at New York University Stern School of Business began tackling the hard questions behind the headlines. Representing fields of finance, economics, and accounting, these professors-led by Dean Thomas Cooley and Vice Dean Ingo Walter-shaped eighteen independent policy papers that proposed market-focused solutions to the problems within a common framework. In December, with great urgency, they sent hand-bound copies to Washington. Restoring Financial Stability is the culmination of their work. Proposes bold, yet principled approaches-including financial policy alternatives and specific courses of action-to deal with this unprecedented, systemic financial crisis Created by the contributions of various academics from New York University's Stern School of Business Provides important perspectives on both the causes of the global financial crisis as well as proposed solutions to ensure it doesn't happen again Contains detailed evaluations and analyses covering many spectrums of the marketplace Edited by Matthew Richardson and Viral Acharya, this reliable resource brings together the best thinking of finance and economics from the faculty of one of the top universities in world.

## Book Information

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## Customer Reviews

"In conclusion, this book should be read by every serious observer of the crisis. It is an outstanding contribution." (Lombard Street) "Ably tackles complex issues and covers a wide spectrum of the current debate, including the multiplicity of regulators, the need for international regulatory coordination, transparency, fair value accounting, compensation reform, and the extent to which monetary policy should address systemic asset bubbles." (The Investment Professional)

"the book that best combines history, analysis and prescription is "Restoring Financial Stability", a series of essays by academics at New York University's Stern School of Business. The 60-page prologue is packed with telling facts and sophisticated analysis, and alone is worth the steep cover price. The individual chapters deal methodically with the myriad issues raised by the crunch, and the policy changes that will be needed, covering everything from the American mortgage market to the need for international cooperation in regulating finance." (The Economist) "We are always better analysts with a 20/20 hindsight. Indeed, an ex post reading about events leading up to a crisis appears logical, and often leaves one with the question about why the evolution of the crisis could not be seen and corrected in time. Still, policy-makers know that such a review and understanding are important to learning from mistakes. Restoring Financial Stability (Wiley) acts as a catalyst to that understanding by offering a comprehensive sequencing of the causes and progression of the build-up of the financial strains that . . . evolved into a full-blown global financial crisis. . . . highly recommended even though bankers will remain bankers and will probably figure out ways to beat the new system." (Business Standard)

"This an excellent book. It is the first academic book to consider the crisis in depth and to propose policy responses and solutions. . . broad and deep overview of the crisis [that makes] suggestions for how to minimize the chances of a recurrence going forward. . . essential institutional detail and makes sensible and often original suggestions for reform. One of the remarkable aspects of the book is the speed with which it was produced. . . This book should be read by every serious observer of the crisis. It is an outstanding contribution." •Franklin Allen., Nippon Life Professor of Finance, Wharton School of the University of Pennsylvania in FinReg21.com "The best available on this extraordinary and fascinating subject. . . brilliant idea, superbly executed, and has first-class content. Buy it." •VoxEu.org

I read this book immediately after I finished Cooper's The Origin of Financial Crises which was

highly recommended by the usually trustworthy Economist. For several reasons, Restoring Financial Stability (RFS) is the best book on the current crisis by a long ways. I am shocked that there is only one review so far. RFS is neither dumbed-down nor overly complex. Anyone who reads the Wall Street Journal or Financial Times will easily grasp the material covered and the language being used. The sources cited for the individual essays are predominately articles from academic journals but the authors of RFS do a nice job of summarizing the important points from these articles rather than assuming the reader is familiar with the sources. I am a history major and had no trouble following the authors. You do not need to be interested in the solutions proposed in order to buy the book. The policy recommendations are brief and follow the much more important background information covering the causes and progression of the financial meltdown. The book is especially worth reading because of its refreshing objectivity. It is not a political book or an anti-capitalism book. It tells the story of self-interested actors altering their behavior according to the incentives before them. The book focuses on these incentives and how they might be adjusted in order to achieve the same ends without the risk of harmful macroeconomic effects.

NYU Stern has put together a tremendous, comprehensive and timely guide to the ongoing financial crisis. The book superbly summarizes the roots of the crisis, the scale of the problems across the financial sector and possible public policy solutions in a clear and non-partisan manner. This is a volume that I hope finds its way to the desks of every policy maker and politician - both in the US and abroad. I would also strongly recommend this to everyone involved in banking or finance (including, and perhaps particularly, financial journalists). For those interested in the text's contents, Stern has a fantastic site featuring on-line resources including video of the book-launch conference and executive summaries of each of the book's chapters ( [...] )

Restoring Financial Stability is, in this reviewer's opinion, the single most comprehensive book published to date on the great credit meltdown that began in 2007 and is now nearing two years in length. The book is organized as a series of parts covering different aspects of the crisis, each of which is in turn divided into 2-3 chapters that are essentially "white papers" written by different contributing authors. The book begins with a well-written overview chapter describing the key events of the crisis up to the time of publication. The book then moves into the causes and sub-causes of the crisis, with the general thrust moving over time from describing what happened to prescriptions for preventing future occurrences. While the individual chapters are written by different contributors, the book reads smoothly and does not feel disjointed as is sometimes the case with books that have

multiple authors. The book's organization and editing makes it seem as if it was written by a single author. While it offers much more sophisticated insight than what has generally been written in the business and financial press (let alone the general news media), I think that most readers with a decent working knowledge of financial markets will find it to be quite accessible. The book contains many insights that go far beyond the fairly simplistic explanations that have abounded in the news media. I found the following to be particularly valuable: (1) The book makes an excellent argument that the credit risk transfer process was not flawed in itself but that the large financial institutions chose to not make full use of the risk transfer tools available to them. Through the sponsorship of SIV's, retention of CDO super senior risk, and other moves, many of the large banks effectively kept much of the risk that was supposedly being passed on to other market participants. (2) The book offers some very useful insights on the evolution of large complex financial institutions ("LCFI's"), how they grew out of the regulatory relaxation that began in the 1990's, and how the systemic risks created by LCFI's have effectively subsidized the companies and led to inefficient (for the system as a whole) compensation arrangements. (3) Another recurring theme throughout the book is how rules and financial market innovations intended to reduce institution-specific risks were effectively "gamed" by different market participants to create a tremendous level of systemic risk. *Restoring Financial Stability* is a must-read for anyone who is trying to make sense of the continuing financial crisis, and I recommend it highly.

The financial crisis was an event of great complexity given the multitude of players and the complexity of various financial instruments amongst other things. However, there are many simple underlying reasons for why individual elements of the system did not work the way they were supposed to. Simple that is, if the crisis is explained the way it is in this book. The onion has been peeled without jargon making the book accessible to anyone who has basic familiarity with financial institutions and markets. The different chapters of the book do a great job of finding the reason for different elements of the crisis. For example, questions such as why did the rating agencies not do their job are answered in terms of what their business models incentivizes them to do. Similar questions of incentives have been asked and answered about the management of large financial institutions. The book, in my view rightly, focuses not on level of incentives but on how the incentives encourage executives of financial institutions to take large risks. I also liked the humility displayed by the authors in their recommendations. So for example, if the "issuer pays" model of rating agencies has a built in conflict of interest, the author does not shy away from pointing out the disadvantages and risks of alternate business models. It would be very useful if the authors of the

book came up with a status report on their recommendations. I for one would like to know how much progress has been made in tackling the root causes of the crisis.

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