Eastern Medicine for Western Finance: Rethinking Financial Regulation
Dan Awrey & Kathryn Judge

Comment
Gérard Hertig (ETH Zurich)
3 Basic Claims

- **FUNDAMENTAL MISMATCH**
  
  - Finance
  
  - Financial Regulation

  - Dynamic + Complex
  
  - Predictability + Stability Aims

- **REGULATORY INTERVENTION AGGRAVATES MISMATCH**

  - Unintended Consequences + No anticipation + Unknowns

- **Proposal: New Type of Thinking**

  - Commissions

  - Constituted once a decade

  - More holistic approach
1. Predictability + Stability in Financial Regulation

• As a goal
  • Monopolistic regimes vs Regulatory competition
  • The advantages of legal uncertainty

• In practice
  • Empirical foundation (current state + impact)
  • Changes in circumstances (markets, technology)
  • Preferences vary among bureaucrats and judges
2. Regulation Aggravates ‘Undesirables’

• Dynamism
  - Is change/arbitrage **bad**? Makes finance more cyclical?
  - **Direction** of the causation?

• Complexity
  - Empirical foundation
  - Market *Reg* adjustments and *non-Reg* evolution

• Unknowns
  - Known unknown: Is more worse?
  - Unknown unknown: Reg ‘controllable’ when it matters
3. Commission

- **10 years Timeline**
  - Stop and go vs On going work
  - Role/scope/relevance of data gathering
  - Decision-making powers? Effective/efficient pre-crisis?

- **‘New type of thinking’ Commissioner(s)**
  - Established players: Same old, same old
  - Outsiders: ‘Social’ minded, wiz kid, ignorant
  - Just one great guy?

- **Humans vs Technology**
  - Regulatory capture + one size fits all as critical issues
  - Blockchain may not make that much of a ≠
  - AI could prove critical, but may lack ‘social’ relevance