

Reed Proposes Financial Risk Data Clearinghouse

Bank Systems & Technology/Wall Street & Technology

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The [National Institute of Finance](#) is an idea whose time appears to have come.

When [we first wrote about the concept](#) — an independent organization that would gather market and financial data from all U.S. institutions to analyze counterparty relationships and identify potential systemic risk — we were surprised that it had the support of major players such as Morgan Stanley. This morning we learned that Senator Jack Reed (D-RI) has backed the idea.

Reed has introduced legislation establishing a National Institute of Finance that "would bring greater coordination to financial regulators and provide them with additional tools to prevent and mitigate financial crises and keep pace with new products being engineered on Wall Street," according to a statement on the Senator's website.

NIF's mission will be to collect and standardize the reporting of financial market data; perform applied and essential long-term research; and develop tools for measuring and monitoring systemic risk.

"We need to bring accountability and transparency back to Wall Street," Reed said. "Creating a National Institute of Finance will help strengthen the economy and prevent future systemic failures by ensuring the market and regulators have the same information. The goals of NIF will be to gather and analyze financial data to help prevent, detect, and manage systemic risk in our financial system. An NIF would help monitor trends and the economic big picture, and most importantly help shield consumers from things like toxic mortgage products.

"Our current financial regulations are outdated," Reed continued. "They were written when Wall Street traders could make thousands of transactions in a week. Today, with the advent of new technologies, new financial instruments, and new trading platforms, they can make millions of transactions in a second. Over the last several decades, a completely unregulated 'shadow-banking' system has metastasized to the point where many of these new products and market-participants, such as derivatives and hedge funds, remain completely out of reach of financial regulators. We need to address systemic risk and follow through with a strong, independent, and well-funded data, research, and analytic capacity to fulfill its mission."

The National Institute of Finance will address these weaknesses by:

Establishing a data center to collect, validate, and maintain a central database to map the interconnections between financial institutions, along with details on their transactions and positions, and their valuations of their assets and liabilities. By working with banks and other firms to standardize the format of such data, the NIF will reduce the costs to regulators and financial institutions from the currently fragmented and disorganized systems used to collect and store such information.

Housing a research and analysis center to develop the needed metrics and then measure and monitor systemic risk posed by individual firms and markets. This center will also conduct applied research on financial markets and systemic risk, a field that is not well represented right now at the Federal Reserve or within our other regulatory agencies, and help develop the tools regulators need to measure and monitor systemic risk.

Providing independent periodic reports to Congress on the state of the financial system to ensure policymakers are apprised of the overall picture of financial markets.