

Replumbing Our Financial System: Uneven Progress*

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The financial crisis of 2007–09 has spurred significant ongoing changes in the “pipes and valves” through which cash and risk flow through the center of our financial system. These include adjustments to the forms of lender-of-last-resort financing from the central bank and changes the infrastructure for the wholesale overnight financing of major dealer banks, particularly through the tri-party repo markets. Significant changes in the regulation of money-market funds are under consideration. The Dodd-Frank Act mandates the central clearing of standardized over-the-counter derivatives, although a pending exemption of foreign exchange derivatives remains to be decided. The vulnerability of major dealers to runs by prime-brokerage clients is also an issue to be addressed. I focus on U.S. financial plumbing and on areas where financial stability remains a concern.

JEL Codes: G01, G21, G28.

1. Introduction

Weaknesses in the “plumbing” of the financial system that came to light during the financial crisis of 2007–09 have prompted reforms that are ongoing. On the path toward greater financial stability,

*This paper was written for and presented at a conference of the Board of Governors of the Federal Reserve System, “Central Banking: Before, During, and After the Crisis,” in honor of former Vice Chairman Don Kohn, March 23–24, 2012, Washington DC. For potential conflicts of interest, please see www.stanford.edu/~duffie/. I joined the board of Moodys Corporation in October 2008 and have been retained as a consultant by the estate of Lehman Brothers Holdings Inc. on matters potentially related to some of the subject matter of this paper. I am pleased to acknowledge comments from Arvind Krishnamurthy and Stephen G. Cecchetti. The opinions expressed here are entirely my own.