Dealing with Large, Complex Financial Firms

Discussion Questions

1) What drives the size and complexity of financial firms?
   a) How much is driven by tax incentives (e.g. transfer pricing)?
   b) How much is driven by deregulation or regulatory arbitrage?
   c) How much is driven by economic forces in the form of economies of scale, scope or the demands of large, complex customers?
   d) Are sized-based compensation schemes a driver? Are government guarantees? Do financial firms offer complex or opaque products to extract rents from clients?
   e) Can we count on market discipline to limit bank complexity (e.g., the diversification discount)?


3) Are there other benefits to bank size, besides potential scale and scope economies?
   a) Are big banks more innovative?
   b) Do they provide the capacity to acquire other banks during crises, thus obviating bailouts or complicated resolution procedures?

4) Absent credible resolution powers, the market will view SIFIs as too big to fail (TBTF). What problems does TBTF create? Moral hazard? Excessive growth, i.e. are financial firms growing or complicating their operations to become too-big (or complex or interconnected) - to-fail? Has the TBTF problem gotten worse or better since the crisis and the financial reform?

5) Do we have tools and policies in place to address the issues arising from large, complex financial institutions? If not, what additional policies are necessary?