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Contemporary Issues in the Post-Crisis Regulatory Landscape by Imad A. Moosa, 398 pp. World Scientific (2017), US$148.

The global regulatory landscape for banking sector, which changed dramatically after the Global Financial Crisis (GFC), created hope that banking systems complying with such regulations should become more resilient and sound in future. In Contemporary Issues in the Post-Crisis Regulatory Landscape, Imad A. Moosa, Professor of Finance at Royal Melbourne Institute of Technology, Melbourne, Australia, dwells on the debate on 'more *versus* less' regulation, what exactly constitutes an optimal mix of regulation and controls, the ultimate objectives that should drive the approach to regulation of financial systems, and the effectiveness of any best regulatory standards to prevent a financial crisis (which nevertheless remains largely unsettled). The author explores the possible causes of the GFC from a regulatory perspective and discusses contemporary issues in financial regulation in the post-GFC period. The main theme running through the book is the role of rampant corruption, fraud and deregulation in causing the GFC. It offers justification for tighter financial regulation in order to avoid a repeat of a crisis like the GFC.

The book explains three broad viewpoints on the foremost factor causing the GFC. At one extreme, the excessive regulation is highlighted as a factor responsible for the crisis, while at the other extreme deregulation, which is contested by some on the ground that no major deregulation has occurred in the last thirty years. According to the author, deregulation and self-regulation, as propounded by the ex-Chairman of the US Federal Reserve, Alan Greenspan, was the major cause of the crisis. He argues that corruption and fraud provide the best justification for regulation. The reasons for the GFC included regulatory failure and regulatory capture of the US Fed and other regulators in the financial sector by the regulated institutions. It got further amplified as other countries blindly emulated the regulatory practices introduced in the US. The book discusses how negligence, incompetence, complacency and fraud, on the part of various players, resulted in the crisis. According to Moosa not enough has been done after the GFC to avert another similar crisis.

He gives various examples of the nexus among the finance industry, the regulatory systems and the government that have thwarted any attempt for tightening regulation of financial institutions before the GFC. According to the author, a contributory role in the genesis of the GFC was also played by credit rating agencies (CRAs), academia (who provided justification for deregulation), investment analysts, boards of directors of financial companies, fund managers, mortgage brokers, home buyers and the governments of the US and other western countries.

In his book, Moosa also analyses at length the pros and cons of deregulation with some examples.

The author finds that proposals on ring-fencing between commercial banking and investment banking and Total Loss Absorbing Capacity (TLAC) are half-hearted measures without substantive processes to rein in financial oligarchy. He argues that the TLAC is meant to ensure the adequacy of loss-absorbing and recapitalisation capacity of the Global Systemically Important Banks (GSIBs) in case of resolution, so that critical functions could continue without requiring tax payers' support or threatening financial stability. However, in this case, bailouts will be replaced by bail-ins. Thus, bankers will still get their bonuses from the confiscated depositors' money. Also, Moosa feels that the place of depositors in the liquidation waterfall is a very contentious issue. Regarding the 'too big to fail' (TBTF) problem of GSIBs, he suggests that the TBTF problem can be put to an end by reducing the bank size, separating investment banking from commercial banking, and allowing TBTF banks to fail.

Moosa gives the example of Iceland where some bold measures have been taken to put bankers under check. He elaborately discusses the proposal by the Government of Iceland, contained in a report released in 2015, regarding the abolition of fractional reserve banking which caused 'out of control' money supply. The report suggests replacing it with a sovereign money system in which the amount of money in the economy is directly controlled by the central bank. In this system, the risk of sudden bank runs is greatly reduced and deposit guarantee schemes become unnecessary. Further, Icelanders showed exceptional courage by putting bankers behind bars in place of giving them bonuses and golden parachutes as was done in New York and London. They did not follow the slippery slopes of TBTF bailouts, bail-ins and quantitative easing which hurt the small savers hard. According

to Moosa, Iceland's example shows that the myth of TBTF propaganda has been spread by banks themselves and is supported by regulators, some politicians, and academicians. He suggests that regulators should learn from the Icelandic experience.

Moosa highlights that, despite immense damage done by securitisation (through exotic products such as Mortgage-Backed Securities and Collateralised Debt Obligations or CDOs) during the GFC, securitisation is being brought back and supported by the Basel Committee on Banking Supervision (BCBS) and the European Central Bank. He argues that the return of securitisation with a vengeance reflects a missed opportunity for regulators to reform the financial system. Regarding sub-prime loans and inferior mortgage underwriting standards in various mortgage products, the author argues that if we had learnt anything from the savings and loan crisis of the 1980s and 1990s and had taken proper regulatory actions, the GFC could have been avoided. He also discusses the role of the 'great moderation' and consequent build-up of leverage in the GFC and the failure to learn from the Long-Term Capital Management (LTCM) crisis in 1998. He discusses whether the GFC was a liquidity crisis, and if it could have been avoided, had liquidity-risk mitigation been part of Basel II standards, which was only adopted in Basel III by the BCBS.

Moosa questions the contribution of financial innovations and financial engineering to human welfare and argues that financial innovations such as synthetic CDOs and CDO-squared served no purpose other than generation of revenue for their inventors and bosses. The book highlights that current mathematical models used by financial institutions often under-price risk as they underestimate the tail risk. The author questions the models used in stress tests by the regulators for the purpose of determining regulatory capital and suggests use of simple and conservative capital standards based on reliable capital ratios instead of unreliable models.

The author also discusses other issues such as vulnerabilities of the shadow banking system, increasing financialisation of the economy and its implications for the real economy, failure of corporate governance and consequent excessive risk-taking by the managers/executives at the cost of shareholders. Moosa also discusses the issue of regulation of remuneration in the financial sector and issues related to the regulation of CRAs and why CRAs are still in business. The failure of the neo-classical financial

economics in foreseeing the GFC and the shortcoming of the rational expectation hypothesis, Efficient Market Hypothesis (EMH), Washington Consensus policy prescriptions and theories of trickle-down effect have also been discussed in detail in the book. Moosa asserts that EMH provided the intellectual underpinning for embracing financial deregulation, which in turn led to the GFC. However, EMH was also a casualty of the GFC as the crisis exposed its implausibility and put it under scrutiny. The book has also devoted a full chapter to regulatory implications of quantitative easing and the ultra-low interest rates.

The author enumerates various frauds that big banks indulge in, such as money laundering, frauds against local governments, shaving money off pension transactions, frauds while initiating mortgage loans and while foreclosing them. According to the author, big banks also indulge in pledging the same mortgage multiple times to different buyers, cheating homeowners by gaming laws, indulging in insider trading, pushing investments that they know are terrible, participating in various Ponzi schemes, cooking the books, and bribing and bullying rating agencies to inflate ratings of risky investments.

To restrain the fraudulent behaviour of financial oligarchs, Moosa suggests some radical measures: GSIBs should not be told that they are systemically important, rather they should be reduced in size and allowed to fail; fraudulent accounting rules must be prohibited so that financial institutions recognise their losses rather than announcing profits on whose basis the management can claim bonuses; the culture of bonuses and golden parachutes needs to be abolished; perpetrators of frauds must be prosecuted; financial innovations must be curbed and financial engineers should be sent to factories and labs. He even suggests that regulators who dislike regulation and defend deregulation should be fired.

The book has explained the issues in the operating environment of the banking industry, largely from the perspective of financial stability. Though the book has been written in the context of advanced economies, many issues such as deregulation of the financial sector, implementation of the Basel III regime, regulation of CRAs, regulation of remuneration in the financial sector, questions related to deregulation driven by faith in EMH, issues related to domestic systemically important banks (DSIBs), corporate governance in financial institutions and trickle-down effects, are very much

pertinent for emerging market economies such as India. Though many books have been written about the GFC, this book gives a fresh perspective of the GFC and sees it from the angle of regulatory failure, corruption and fraud committed in the financial sector. The book is a good reading for anyone who is interested in understanding the genesis of the GFC and regulatory developments of which certain aspects still remain debatable, despite the efforts to develop global regulatory standards based on a consensus.

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