# Lessons Learned Oral History Project Interview

| | |
|---|---|
| **Interviewee Name and Crisis Position** | Gaurav Vasisht[1]<br>Assistant Counsel to the Governor of NY, banking and financial services |
| **Interviewer Name** | Sandra Ward (Contractor)<br>Yale Program on Financial Stability |
| **Date of Interview** | Sept. 27, 2019 |
| **Lessons Learned No.** | 2019–27 |

**Introduction:**

The Yale Program on Financial Stability (YPFS) contacted Gaurav Vasisht by email to request an interview regarding Vasisht's time as assistant counsel for banking and financial services to New York Governor David Patterson during the Global Financial Crisis of 2007–09.[2]

In charge of developing the banking and financial policy agenda for the governor as well as overseeing the regulatory and legislative priorities of the state banking and insurance departments, Vasisht played a pivotal role in developing and drafting consumer protection legislation, particularly as it related to housing foreclosures, at the time of the crisis.

Vasisht developed a fervid interest in financial regulation as a result of his experience during the crisis and went on to serve as an insurance regulator before becoming the first head of the banking division of a revamped state department of financial services in New York, in charge of bank regulatory and supervisory work.

At the time of this interview, Vasisht was serving as director, financial regulation, at the Volcker Alliance, a group formed in 2013 by former Federal Reserve Chairman Paul Volcker to promote effective and accountable government.

***This transcript of a telephone interview has been edited for accuracy and clarity.***

**Transcript:**

**YPFS:** **Tell me what your role in New York State government was during the Global Financial Crisis of 2007–09.**

Vasisht: Starting in January 2007, I was assistant counsel to the governor of New York for banking and financial services.

---

[1] The opinions expressed during this interview are those of Mr. Vasisht, and not those any of the institutions for which the interview subject is affiliated.
[2] A stylized summary of the key observations and insights gleamed from this interview with Mr. Vasisht is available in the Yale Program on Financial Stability's *Journal of Financial Crises*

In that capacity, I helped develop and negotiate the governor's policy agenda. I was also in charge of overseeing the regulatory and legislative priorities of the state banking department and the insurance department. Prior to that, I was an assistant attorney general in the New York Attorney General's office in the area of investor protection. I worked on some of the prominent cases that the AG's office handled at that time, which led to my getting the position as assistant counsel to the governor. I helped negotiate and develop the foreclosure prevention legislation in 2008 and 2009.

There were two pieces of legislation, both were enacted before the Dodd-Frank Act and both aimed to address the concerns of people in foreclosure and to set policy to prevent the type of foreclosure crisis we saw from happening again, or, at least, reduce the likelihood of that happening again.

On that front, we tightened underwriting standards that pertained to high-cost loans and subprime loans. We required lenders to determine if borrowers have an ability to repay their mortgages, established a duty of care for mortgage brokers to their customers, required mortgage servicers to be registered and regulated, and established the specific crime of mortgage fraud. We also enacted some protections for tenants and on abandoned properties. New York was one of the first states to enact comprehensive legislation to address these issues.

**YPFS:** **Your approach to preventing foreclosures was to tighten underwriting standards?**

Vasisht: Yes, prospectively, to address a lot of the abuses in subprime and high-cost loans. That gets into issues of preemption. This was before *Cuomo v. Clearinghouse*[3] and Dodd-Frank,[4] so we had some challenges on that front. But federal preemption being what it was, we were in a position where we could address some of the challenges, but not all of the challenges.

**YPFS:** **How else were you helping people with foreclosure issues besides taking preventive measures?**

Vasisht: Allowing people more time to address the challenges they were facing. For instance, there was a 90-day notice that was imposed: a lender had to provide the homeowner a 90-day notice, and then there had to be a conference before a judge. There was also a component of providing more money to not-for-profits and to help people on the ground that were trying to get loan modifications, those sorts of things.

---

[3] Cuomo v. Clearing House Assn., L. L. C., 557 U.S. 519 (2009) holding that a regulation of the federal Office of the Comptroller of the Currency did not preempt efforts by New York state to determine if various national banks had violated New York's fair-lending laws.

[4] Dodd-Frank Wall Street Reform and Consumer Protection Act.

All of that was happening in real time as the crisis was unfolding. Foreclosure filings in New York had spiked in 2007 by 70%, and by June of 2008 it looked like the 2007 numbers would be easily surpassed. Nationwide estimates were approximately 2.5 million foreclosure filings at the time. By the way, on the regulatory side, my involvement was secondary. We had a superintendent for banking and a superintendent for insurance that were running those agencies, and so for a full view of what was going on the regulatory side you would want to speak to them.

In terms of being aware of a looming crisis, and I've given this anecdote before, as a lawyer for the governor at the time in March 2007, I was working on an executive order to create a blue-ribbon commission to modernize financial regulation. The blue-ribbon commission was composed of a lot of Wall Street CEOs. Had the crisis not unfolded and given the makeup of the commission, I suspect the commission would have likely recommended easing regulatory requirements. Looking back at that time, it strikes me that there was a lack of awareness.

I can also say that because the Treasury Department had a similar initiative on capital market competitiveness in March 2007. When Treasury launched the project, it talked a lot about modernizing and relieving regulatory burdens. By the time its report got issued about a year later, phrases like financial stability and systemic risk were interspersed throughout the report, although the main focus still remained on modernizing and relieving burdens on financial institutions.

To look back now and to think that in August 2007, just a few months after these initiatives began, the crisis started in the asset backed commercial paper market, there was clearly a lack of awareness among most about what was about to happen.

**YPFS:** **When you were on the commission did anyone suggest that there was something looming and that this may not be the time to push forward with this? Was there really no awareness or were people dismissive of the concerns?**

Vasisht: I was on the governor's staff and not a member of the commission. I don't know if there was no awareness or what level of awareness there was, but just the fact that Treasury had launched its initiative and there was this executive order being put together with such fanfare, with so many prominent Wall Street figures speaks for itself in terms of the mindset that prevailed at the time.

The executive order was issued. The commission was created. Names were publicized and the commission met, maybe once or twice, after it was formed but then events took over.

**YPFS:** **When you began to address some of the foreclosure issues, which were the more prominent banks involved? Do you recall what banks were showing up more regularly in that effort? Are we talking big banks or community banks? Did you get pushback?**

Vasisht: It was a combination of banks. Fannie Mae and Freddie Mac were also involved. There was a combination of big banks and smaller banks, lobbyists representing Citi, for instance, and some of the other big banks were also active. As the crisis unfolded, their lobbying power diminished considerably in real time. During the negotiations for the foreclosure prevention legislation, there was a real push for a moratorium on all foreclosures. I remember that candidate [Hillary] Clinton had called for a moratorium at that time.

This would be during the 2008 election as we were negotiating the first bill. She had called for a nationwide 90-day moratorium on all foreclosures and the banks were pushing very hard against that. Ultimately, they were successful. The moratorium didn't happen, but the 90-day-notice and a lot of the procedures that were then established in the process of foreclosure, helped. The concern some had expressed was about the impact a moratorium would have had on the secondary markets. It wasn't clear what exactly that impact would be. But I think people were concerned that it could create further trouble in an already uncertain time.

**YPFS:** **When you look back at that period and the entirety of the crisis what do you see as the overall impact on New York state?**

Vasisht: Obviously, job losses were significant, particularly because New York is a financial center. Foreclosures were spiking. There was incredible loss of household wealth, neighborhood blight, zombie properties, shuttered businesses, vandalism. All of those were concerns and beginning to happen in 2008 and 2009. There was a lot of uncertainty. One of the places where all of this manifested was in tax receipts. New York State government had a dramatic fall in the amount of tax revenue it was collecting. Sales tax, personal income tax and corporate tax revenues were falling sharply. For example, state personal income tax revenue projections fell by around 50% or more during the most acute phase of the crisis. That created a multi-year, multi-billion dollar deficit in the state budget and a fiscal crisis as the state's general fund was eventually depleted of money. That sparked a whole host of issues and considerations of difficult policies, including raising taxes and fees, increasing tuition at public universities, imposing crippling budget cuts at state agencies, cutting school tax rebates, delaying payments to local government, and so on. We even considered furloughing employees and issuing IOUs instead of tax refunds.

In terms of my own career, I saw firsthand how a crisis can devastate families and households and neighborhoods. It also gave me an appreciation for how important it is to pay attention to the deregulatory agenda. It is very technical, it is very complicated, but it can impact people in profound ways. It is difficult to keep track of because it is so "around the edges" and, in isolation, each piece may not be a big deal but, as [former Fed] Governor [Dan] Tarullo said recently, as a package it really does have a negative impact on the resilience and stability of the financial system.

**YPFS:** **You started as an assistant to the governor for banking and insurance, and where did your career take you next?**

Vasisht: I became an insurance regulator right afterwards.

**YPFS:** **How did you make that move?**

Vasisht: I became very interested after the financial crisis in financial stability and the regulatory world, and, given that I had a background in insurance, banking, and securities, it was something that seemed like an organic fit for me, and I wound up going to the insurance department for a while. After the state banking and insurance departments were combined into a new department of financial services, I was appointed the first head of the banking division.

Then, after some time, I came to work for Chairman Volcker and have since been focused on financial regulation and financial stability work. My primary focus in recent years is on how regulators are deregulating and rolling back some of the progress we had made under Dodd-Frank and the rules that followed. I am paying close attention to that and weighing in where possible.

**YPFS:** **How would you describe your views on regulation? Are you anti-deregulation? Do you see the need for some deregulation but selectively? What's your approach at this point and how it was that shaped by the crisis?**

Vasisht: One thing that's clear is we have to have resilient banks. That means higher levels of capital and liquidity. These are very important things. Also, the stress-testing regime and resolution planning exercises are extremely important. Following the financial crisis, we've done some work to make sure the large institutions are more resilient, but there's a lot of work that still needs to be done. But, instead of focusing on the unfinished business, we seem to be looking at how to ease regulation and that's just not something that I would prioritize.

We're in boom times with vulnerabilities and risks building.

Countercyclical policies would suggest that we should be building up capital first, finalizing the liquidity rules and making sure that our stress-testing framework is robust. We can continue to do the work to make stress testing more realistic, including taking into account the boomerang effects and the second-order effects. But we seem to be doing the opposite: loosening the supplementary leverage ratio, pulling back on the liquidity rules and reducing the strength and frequency of stress testing.

Would we be able to resolve a G-SIB [Global Systemically Important Bank] or a major central counterparty [CCP] without widespread chaos in the financial markets and without the assistance of taxpayers? I don't think the answer to that question is yes. If that were to happen, there would be a lot of chaos and problems.

**YPFS:** **Let's back up. What would you say is the unfinished business? What would you have liked to have seen develop that has been left hanging?**

Vasisht: If the objective is ensuring resilient institutions in order to reduce the likelihood of failure and severity of crises then I think there's work to be done.

**YPSF:** **But what would that work be?**

Vasisht: Stronger capital and liquidity, and more work on stress testing, and recovery and resolution planning, including making sure that we can effectively resolve G-SIBs, major regionals [large domestic banks, smaller than G-SIBs], and CCPs.

**YPFS:** **The increase in capital levels that the banks are asked to hold and the stress testing they are asked to do is not enough?**

Vasisht: I don't think it's enough.

**YPFS:** **Why is that, though?**

Vasisht: Numerous studies suggest they are not. But beyond that, the supplementary leverage ratio is a good guide. When we start talking about risk-based capital, there's a lot of complexity, and a lot of room for regulatory arbitrage, and for gaming the system. The argument that gets raised often is the supplementary leverage ratio is a binding constraint or that the stress-testing exercises are really what's driving capital requirements. So, if that's the case, instead of loosening the supplementary leverage ratio, why not dramatically increase the risk-based capital requirement so that the leverage ratio is no longer the binding constraint.

To say the leverage ratio is a binding constraint and therefore we have to gut it is fundamentally wrong because it makes institutions less resilient. Yes, capital requirements are higher than they were at the beginning of the crisis, but the banks were really undercapitalized at the time. If they are a little better capitalized now does that mean they are resilient enough? Given the stakes, I don't want to take a chance. I don't see the downside of increasing capital, particularly given the studies on what optimal capital requirements ought to be.

**YPFS:** **Is this determined by our federal agencies or is this a Basel III standard, an international standard?**

Vasisht: There are international standards but then the agencies build on and implement those standards.

One example is in the G-SIB surcharge that gets imposed on the largest banks. Under the Basel standard, there are five different criteria that get looked at. One of those is replaced in the US standard. The US standard looks at the reliance on short-term funding, which the Basel rules do not. I think the reliance of a big bank on short-term debt is a very important datapoint to calibrate capital requirements from a stability perspective, and it's wise to consider that in the G-SIB surcharge. If the G-SIB surcharge is changed in the US, the short-term funding feature is likely to be removed.

The enhanced supplementary leverage ratio is another area of concern. The deregulation bill that President Trump signed in 2018 contains a provision that deals with custody banks, and it takes out central bank reserves from the denominator of the enhanced supplementary leverage ratio. If you take something out of the denominator, it has a boosting effect, and so, in this case, it looks as if there's more capital when, in fact, there isn't.

That was changed by legislation, and it was followed by rulemaking that made additional changes to the supplemental leverage ratio by pegging it to the G-SIB surcharge. Now there's talk about changing the G-SIB surcharge itself, which would have a further impact on leverage capital requirements because they are linked. All of this is to say, there's a lot of complexity in capital regulation, and that complexity often leads to a weakening of standards under the guise of "technical" changes and the presumption that banks have more capital and liquidity than they need.

I don't think that's the case. I think banks are making a lot of money. I think they make a lot of profits. There's no reason to reduce capital requirements at this stage. If anything, given our countercyclical aims, given that we are in boom times, what we should be doing is increasing capital instead of chipping away and reducing it.

**YPFS:** **Wouldn't the banks argue that they have not been able to make the kind of money that they are accustomed to because interest rates have been so low for so long and risk standards are different so their trading departments aren't making as much?**

Vasisht: They are making record profits. But they would need to be reminded that we are not talking about normal times, and how much money they're making today versus yesterday. What we're talking about is reducing the likelihood of a crisis and the severity of a crisis. That is our bigger aim here, and that dictates, given the lessons that we just learned, that more capital is good, and more liquidity is good. To undermine capital requirements during the good times will be detrimental for us in the bad times, notwithstanding the arguments about how much money banks are making today versus yesterday. It's kind of a frivolous argument to the extent that it's being made. Our focus is that low-frequency, high-severity event. By definition, that's our universe. We're focused on things like the repo market, which functions well most of the time, but when it doesn't it can be highly destabilizing, as we saw during the crisis.

**YPFS: Since you brought it up, I will digress and ask you about the current state of the repo market because in the last few weeks there's been some aberrations in that market that people are concerned about and don't fully understand. Can you speak to that?**

Vasisht: It's very interesting, and I'm happy to share my views but you may be more informed than me on this front. But it appears to have been a confluence of factors that came together and caught people off guard.

**YPFS: I'm wondering, too, if one of the outcomes of the financial crisis is a hyperawareness when things go a bit awry. Do you see that?**

Vasisht: Yes, and in this case it's particularly important because the repo markets were the center of instability during the last crisis. So, we're reminded of how unstable the repo markets still are, and can be, and that we haven't really solved a lot of the problems of short-term debt, and liquidity, and how things can freeze very quickly. That can have a profound impact on the market. It's basically the plumbing of our financial system. People will say, 'Well, you know the short-term funding markets are sort of yesterday's news, and we don't really need to do much in this area, since reliance on short-term debt has come down.' But we haven't done enough. One of the items that the Financial Stability Board was considering only a couple of years ago was minimum haircuts on collateral and that hasn't gone anywhere.

The recent turmoil shows the repo markets can still have a profound effect on financial stability. We know that from the financial crisis. I think one of the dangers of a system that relies so heavily on short-term debt is the inherent instability of the maturity and liquidity transformation, which has plagued us throughout our monetary history. We resolved that through the Federal Reserve and the FDIC [Federal Deposit Insurance Corporation], but then the activities morphed, and broker-dealers, money market funds, hedge funds, and others started relying on these techniques outside the traditional banking systems. The basic instability and potential for instability remains and should really be looked at as more unfinished business on top of the other things that we've talked about.

**YPFS:** **Have the changes that have been made in financial regulation under Dodd-Frank, for example, since the crisis made a difference and are they enough to avert future crisis? Or are the regulations slowly being eroded? How do you see it?**

Vasisht: They have made a difference and made the system safer, but the system isn't safe enough and that goes to all the things we've been talking about. We seem to be spending a lot of intellectual capital figuring out clever ways to chip away at the progress we've made.

**YPFS:** **Were we to find ourselves in another crisis are we in a good place to address it or are we still open to unimaginable issues that may result in a deep downturn?**

Vasisht: The banks are better capitalized, so they are more resilient. But they are not resilient enough. There is a resolution framework that might work for idiosyncratic failure, but we'll see. It will be tested in the next disruption. If it's a systemic failure then the framework that we've established so far likely won’t do the job of preventing widespread damage and the need for taxpayer bailouts. I think we'll find ourselves in the same situation as we were 10 years ago, and policymakers will have to make the same choices as last time. We should be mindful of that and continue the work that we were doing to make our frameworks more resilient and practical.

That means looking very seriously at central counterparties because now we have central clearing of derivatives, which, although good policy, means there's a lot more risk in the financial market infrastructures. Who's responsible for resolving a CCP? I would say that it's the FDIC, but some argue it's unclear. How would we resolve a CCP? Do we have the mechanisms to do that? What is the impact on the big banks?

**YPFS:** **What institutions are you talking about specifically?**

Vasisht: There’s ICE Clear Credit, CME Group, and Options Clearing Corp, among others. These are big infrastructures. They are the core of the whole system because of central clearing, which makes the system safer overall, but has concentrated a lot of risk in the central counterparties. These central counterparties now need to be regulated appropriately from a systemic risk perspective.

**YPFS:** **They're not currently regulated?**

Vasisht: They are regulated, including by the Federal Reserve to the extent they're systemically important financial market utilities but we still need an appropriate resolution framework for them. We need to do a lot more work on this front, which is happening. But a lot of intellectual firepower needs to be applied to come up with a clearer understanding of what happens if one of these central counterparties faces problems.

**YPFS: If it's happening, how is it happening? You suggest there's debate about who has oversight over these counterparties.**

Vasisht: There is some debate on this, though I think the FDIC's authority in resolution is clear. The argument that gets raised is the FDIC has nothing to do with central counterparties. It doesn't regulate them. It doesn't supervise them. They're not banks. Yet, the authority to resolve is vested in the FDIC under the Dodd-Frank Act. The issue is that the Dodd-Frank Act rightly mandates central clearing but that has an impact on how systemic and how important these institutions have become. So, we have systemically important institutions that don't have an appropriate regulatory framework yet.

That creates a vulnerability that we need to address and the FSB [Financial Stability Board] is very focused on this issue, and has issued papers, and is working on this issue on a global level, but a lot of work still needs to be done and will continue to happen. There's been a bit of a slow start on this, but what I'm suggesting is that it is an example of work that needs to be completed.

**YPFS: Are there takers for that argument? Are there people who are agree with that in Washington?**

Vasisht: Yes. Broadly speaking, the challenge is that while there are some groups that are pushing to finish the unfinished business, the large banks have incredible resources. There are a lot of economists and a lot of trade groups that are arguing that post-crisis rules are slowing economic growth and reducing market liquidity.

If market liquidity has been impacted, show me the evidence. There is no conclusive evidence. There's plenty of evidence that it's not been impacted and remains robust. Even if you assume for argument's sake that market liquidity has been reduced or diminished, well, the next question is, 'Is it a problem? Should I care?' because too much liquidity can be a problem too, as we saw during the crisis, and maybe it's good that we have a little less liquidity now.

The next question is, 'Are the markets functioning appropriately?' At the end of the day, market liquidity is about how fast you can sell stuff. So, the question is, 'Is there a major problem in the appropriate functioning of the markets because of a lack of liquidity?,' the answer is clearly no. But even assuming that is the case, the third question I would ask is, 'What's the root cause?' If you say it's regulation, show me. Tell me which regulations, and then let's talk about whether the rule is a net positive or net negative for stability.

This idea that we need to be awash with liquidity during normal times is something that traders might like, but I think their interests might diverge from the public's interest.

**YPFS:** **Since you are working for the Volcker Alliance, we should probably talk about the Volcker Rule and what you think about proposed changes to it and what the potential impact changes could have.**

Vasisht: The changes to the Volcker Rule are disappointing. There are two parts to the Volcker Rule: There's the proprietary trading piece and the covered-funds piece. The set of changes that were adopted in August narrow the scope of the proprietary trading prohibition, allowing hundreds of billions of dollars of financial instruments to be used for prop trading. That is a problem and, together with the upcoming anticipated changes on covered funds, I fear it will introduce a lot of the same risks that we had before the crisis and do so precisely at the wrong time.

The procyclicality worries me too. We are setting the conditions to increase risk-taking and reduce resiliency at the end of a credit cycle. If we're freeing up a lot of these financial instruments to be used for prop trading purposes and if that number, hundreds of billions of dollars, continues to grow, then that could get us into trouble down the road when we have less loss-absorbing capacity.

What's ironic is that a group of economists at the Fed published a study on the Volcker Rule just a few month ago where they looked at one piece of the rule and found that it's had a very important effect on financial stability, that it's actually enhanced financial stability.

Then there's the covered funds aspect that's going to be happening probably before the end of the year.

**YPFS:** **Explain what you mean by a covered fund?**

Vasisht: The covered funds piece of the Volcker Rule is the limitations on bank investment in and sponsorship of hedge funds and private equity funds. The prop trading rule says you can't trade for your own profit or your own account. You can do it for your customers, you can do it for market-making and underwriting purposes, but you can't trade for your own profit. The covered-funds piece deals with bank investments in hedge funds and private equity funds. It will deal with instruments such as collateralized loan obligations or CLOs, and collateralized debt obligations, CDOs—precisely the types of instruments that got us into trouble last time.

It will increase leverage. It will increase complexity. It will create the very dynamic that we saw the last time around and it will erode the core purposes of the rule: reducing moral hazard, systemic risk, and conflicts between banks and customers. What's the upside? The stated upside is that it will make the rule less complex and simpler. But the new rule that was adopted a few weeks ago goes way beyond simplification and actually undermines the rule's core, and that's very disappointing.

**YPFS:** **To be fair, do you see any need to change the Volcker Rule? Could the Volcker Rule benefit from changes or improvements? These may not be the right changes but are changes needed?**

Vasisht: The Volcker Rule could benefit greatly from changes. It should be significantly tightened, not loosened. My fear, though, from a practical perspective is that any further changes that are made to the Volcker Rule would not tighten, but probably loosen it. Given that, it's probably not a good idea to make any changes. The problem from the very beginning with the Volcker Rule, and this is not a problem unique to the Volcker Rule, is that rulemaking becomes much more complex because everybody is looking for an exclusion, an exemption, and when you provide that, it adds layer upon layer of complexity to a relatively simple concept. The complexity that gets created from the intense industry lobbying itself becomes a vehicle of attack on the rule. That's something that we've seen over and over again, not just in financial regulation, but rulemaking everywhere: You engage in intense lobbying, the rules become very complex, then you complain that the rule is too complex and you try to kill it.

**YPFS:** **Is there an example of any simple rules that are effective? Can you point to any rule or regulation that exists that is a thing of beauty in its simplicity?**

Vasisht: I don't think so, and that goes to my overall point, which is that this stuff is hard. One piece of that is that there are a lot of regulators involved and each regulator has its own mandate, its own constituency, its own prerogatives and concerns, and is subject to its own lobbying. That adds another layer of complexity when you've got so many hands and no real owner of the rule.

If one were to look at the Volcker Rule, it would be a case study of what happens with a system like ours. You've got moneyed interests. You've got intense lobbying. You've got a revolving door. You've got a fragmented regulatory system. The result of all of that is complexity. That complexity becomes a vehicle for attack in boom times when people have a bias to the present. As time goes on, memories of the financial crisis recede. New traders, who don't have a perspective come to Wall Street, old people retire, and you're back into the same thing again. Then, as a regulator, are you going to spoil the party? Are you going to be lauded as the person who ushered in an era of prosperity or blamed for taking the punch bowl away? It all sort of boils down to the type of people that are put in places of decision-making. You can't legislate good people.

**YPFS:** **Do you see a financial crisis on the horizon?**

Vasisht: I'm tempted, as most people are when they're asked this question, to be dismissive and say, "I don't have a crystal ball," but I will say that it's great the Federal Reserve is now publishing a financial stability report on a regular basis, and in those reports they've identified areas of increased vulnerability and risks. That's very important as one looks forward. At the same time, you have to go back to that crystal ball comment and say, 'Whatever happens, it's likely to be unanticipated and different.'

The vulnerabilities are in excessive levels of corporate debt, operational risks, and cyber risks. The solution to that comes back to resilience, which is why I'm even more dismissive of the banks' arguments about economic growth. They need more capital. They need to be more resilient because, if they are not, our recession will be deeper. It will last longer and will affect more people. We have studies on how much capital they should have.

I also think regulators should act in a countercyclical way and come up with policies that might pull back the risk-taking in the boom times and benefit us in a crisis. I don't think you can be ready for a crisis other than by being resilient. Wherever the crisis comes from, you have to be able to withstand it, and withstanding requires resilience and resilience requires capital and liquidity. That's why the big banks are important. If they fail, it will affect the rest of us for a longer time and in a more severe way.

**YPFS:** **There is a large bank that is constantly in the news for rogue practices that speaks to a culture of corruption, and yet that bank made it through the financial crisis and continued to act in ways not beneficial to consumers. Is that resilience? Or is that lack of enforcement?**

Vasisht: There have been so many instances of wrongdoing in so many ways, whether it's money laundering, breaching sanctions, or crisis-related matters. There's a long list. One thing that is important in the question you asked, and in terms of resilience, and in terms of risk management, is the role of supervision. I would put supervision in the unfinished business category, as well. It's not enough to come up with the rules of the road, which is what regulation is. You have to make sure those regulations are being implemented the right way and that supervisors are doing what they need to do effectively.

The job of the supervisor is very difficult. Because of the opaque nature of supervision, because we're concerned about bank runs, historically, supervision tends to be confidential. That's where people can have a further impact on resilience and risk management.

I've found that bank examiners, because of the complexity of their job and because of the reliance that they have on the institutions themselves, may not be as forceful as they could be to ensure the safety and soundness of particularly large, complex financial institutions. That is an area that needs to be looked at much more carefully, and I also think that that's an area where the lobbying interests will focus on next. There's already talk on how unsafe and unsound some of the practices that supervisors and examiners have that are not grounded in anything other than custom and practice.

You're lobbied so much in the supervisory area now outside of the public glare that we need to make sure that that area gets a little bit more attention. I think that if we do, that we will make in-roads to being sure that banks are better managed from a risk perspective and that we have a better handle on their activity. Talk about too big to manage, many of these institutions are too big to supervise. You have hundreds of regulators and examiners showing up to work at any one of the big Wall Street banks, at all of these institutions, and what do they do there on a regular basis?

How does London Whale happen, and how do you get caught? How do you get blindsided by some of the things that have happened if you're spending all of your time is a group of these institutions? What form of regulatory capture are they facing? What enticing prospects of the revolving door might they possibly be thinking about? It's fascinating, the secrecy and the confidential nature of supervision, to ask these questions. Not to suggest that they've been nefarious or anything, but it's just a very interesting thing to focus on if one is interested in making sure that the banks are operating in a safe and sound manner.

**YPFS:** **Thanks, Gaurav.**

Suggested Citation Form: Vasisht, Gaurav, 2022. "Lessons Learned Interview by Sandra Ward, September 27, 2019." Yale Program on Financial Stability Lessons Learned Oral History Project. Transcript. https://ypfs.som.yale.edu/library/ypfs-lesson-learned-oral-history-project-interview-gaurav-vasisht