



Yale SCHOOL OF MANAGEMENT

Program on Financial Stability



The Yale Program on Financial Stability (YPFS)

A global hub for the creation and dissemination of knowledge about financial-crisis management

The New Bagehot Project at the YPFS

“lend freely at a penalty rate against good collateral”

Walter Bagehot, author of Lombard Street (1873)

- Insufficient to guide the complex policy actions necessary to stabilize a 21st century financial system

The New Bagehot Project

- The biggest knowledge gaps exist for “wartime” crisis-management policies.
 - During the Global Financial Crisis (GFC), nations around the world had attempted hundreds of crisis interventions, only a fraction of which had been studied by researchers.
 - Going back further in time, most research on past crises focused on macroeconomic issues, with much less attention paid to the mechanics of crisis-fighting tools.
- To fill this gap, YPFS launched the New Bagehot Project in 2017.
 - Support from Jeff Bezos, Bloomberg Philanthropies, Bill Gates, the Peter G. Peterson Foundation, and an anonymous donor
- Aims to expand the crisis-fighting playbook through detailed case studies of specific interventions, synthesizing these case studies into best practices, and then presenting this synthesis across a variety of media (online platform)

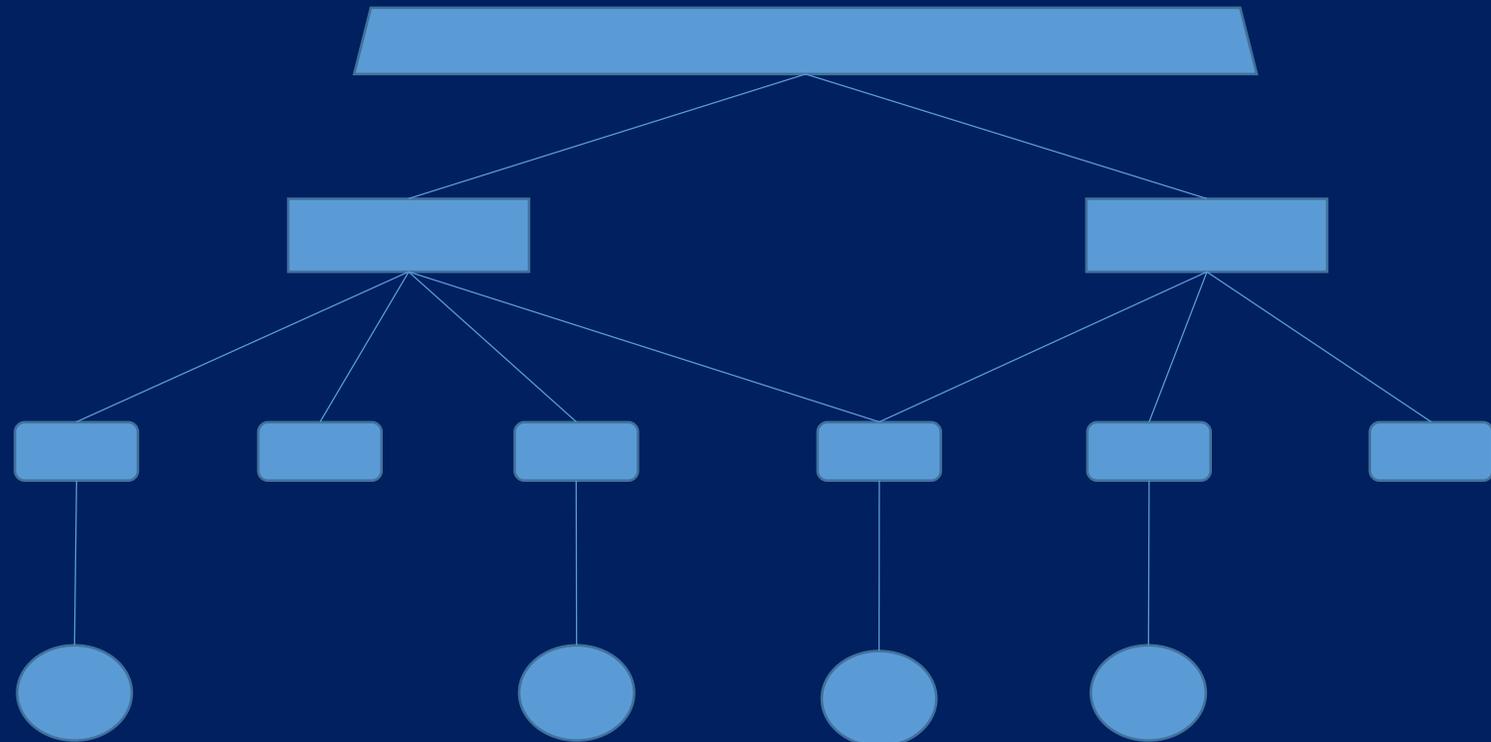
Online Platform Hierarchy

**Level IV –
Doctrinal Documents**
(e.g. “Best practices for large
bank failure”)

Level III – Surveys
(e.g. “Stress Testing”)

Level II - Caserventions
(e.g. “SCAP,” “FSA Stress
Test”, “EBA Stress Test”)

Level I – Lessons Learned



New Bagehot Project - Deliverables

- Caservention - standardized-template studies of specific policy interventions
 - Example: Table of Contents – Temporary Guarantee Program for Money Market Funds

Contents	
I. Overview.....	1
II. Key Design Decisions.....	4
1. Only funds with a market-based NAV per share of at least \$0.995 as of September 19, 2008 were eligible.	4
2. Only shares owned as of September 19, 2008 were eligible.	4
3. The Guarantee Program was designed to last for three months, subject to extension for up to one year by Treasury.....	4
4. Funds had to pay either 1 basis point or 1.5 basis points (based on NAV) for the initial three-month period, with the aggregate, annualized fee either 4 basis points or 6 basis points.	5
5. Funding would have been provided from the ESF, and amounts payable pursuant to the Guarantee Program were limited to what was in the ESF.....	5
6. In order to make a claim pursuant to the Guarantee Program, a MMMF would have to liquidate.....	5
III. Evaluation	6
IV. References.....	6
V. Key Program Documents	7

New Bagehot Project - Deliverables

- **Surveys** - framing essays that attempt to synthesize and draw lessons from a collection of Caserventions on a given topic (a broad category of interventions or a summary of multiple interventions for a specific crisis or part of a crisis)
 - * Ensure the analytical quality and historical accuracy by actively seeking the input of our community of intended users throughout the process of developing our materials
- **Lessons Learned** - material created based on interviews with the architects of the interventions and intended to highlight the main insights they have drawn from the experience

New Bagehot Project - Impact

- Peacetime training
 - High-level in-person sessions at Yale (currently part of the Systemic Risk Institute each summer) and possible partnerships with the IMF, BIS and major central banks;
 - Graduates of these high-level programs bringing the training in-house to their institutions; and,
 - Online availability of all Project materials with self-paced learning programs
- Wartime decision support
 - User-friendly online interface for a time-crunched decision-maker
 - Focus groups from central banks to provide feedback both on content and the user experience

New Bagehot Project – Online Interface

- Traditional search functionality and a set of **detailed filters** that allow users to hone in on documents meeting their selected criteria
- **Matrix** that allows users to quickly compare multiple interventions of a given type across all relevant dimensions
- **“Invited commenting” feature** that will enable designated users to provide feedback on the documents produced
 - Assembling an informal network of advisors consisting of representatives from the central banks, regulatory agencies, etc. that are the primary target audience of the Project
 - Members of this network will be given special access to the online platform to enable them to comment on the materials, with those comments accessible by the other members of the network

New Bagehot Project - Timeline

- By December 2020, expected to have at least 200 Caserventions and 12 Surveys completed
 - Cover most interventions during the GFC and significant interventions in other historical episodes
 - Online interface to be fully functional
 - Launch a beta version of the platform open to all central banks and major agencies
- Following the December 2020 beta launch, continuing work will be to build the database backwards and updating Surveys as needed.

Example Takeaways & Interesting Features – Credit Guarantee Programs

- Takeaways – important lessons for future policymakers. Examples:
 - Utility of guarantee affected by credit rating of sovereign
 - Utility of guarantee affected by promptness of guarantee payment
 - Counterintuitively, uniform fees across jurisdictions create uneven playing field
- Interesting Features – unique design decisions for future policymakers to consider. Examples:
 - Opt-out system to encourage widespread use/reduce stigma (US)
 - Use of SPV to issue guaranteed debt to reduce coordination problems (AT, FR)
 - Requirement that debt payments be deposited several days in advance to provide early warning of default (FR)

Example Takeaways & Interesting Features – Market Liquidity Programs

- Takeaways – important lessons for future policymakers. Examples:
 - Balance between intervening forcefully enough to reengage long-term market participants, but not so forcefully as to crowd them out
 - An overly restrictive program may create a stigma problem
 - Ability to roll out a program quickly provided benefits in some cases, serving as a bridge as other programs put together
- Interesting Features – unique design decisions for future policymakers to consider. Examples:
 - Designs to deal with stigma:
 - Auctions instead of standing facilities (US, UK)
 - Redesign of eligible collateral structure for existing central bank's repo program (US)
 - Keeping the names of borrowers confidential (US, UK)
 - Consultation and involvement of private institutions can ensure accuracy and effectiveness (US, UK)
 - Terms of loans under programs to match the terms of underlying collateral (US)