1. From a global perspective, contemporary regulatory structure in financial regulation follows one of three basic models:
A. The Single Peak Model

(a consolidated, universal regulator that has authority over all financial institutions)

The Standard Example: the U.K.'s Financial Services Authority
B. The Twin Peaks Model

(banking and securities regulation are separated under different regulators because of perceived conflicts)

Examples: The Netherlands
Australia
C. **Functional Regulation**

(a different regulator for every class of institution)

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**The Himalayas**

The Unique Example: The United States
THE POLICY DEBATE

1. **The Case for a Centralized Regulator**
   1. Efficiency (no duplication, no exposure to inconsistent standards)
   2. The regulator has better knowledge, gained from all classes of institutions
   3. No Regulatory Arbitrage
   4. Potentially a reduced danger of “regulatory capture”

2. **The Case for a Twin Peaks Model**
   1. The cultures and priorities of banking and securities regulators differ
   2. Fear of “runs on the bank” can lead banking regulators to subordinate the goal of investor protection to the protection of bank solvency
   3. Transparency tends to be diminished when bank regulators run the show
   4. Greater political accountability, as choices and conflicts become visible

3. **The Case (if any) for Functional Regulation**
   1. Highly specialized to the individual industry and responsive
   2. Approaches Self-Regulation (for better or worse)
Where Have Banking and Securities Regulators Disagreed?

1. Mark to Market Accounting
2. Disclosure of Off-Balance Sheet liabilities (e.g., liquidity puts)
3. Loan Loss Reserves

Where Could Further Conflicts Emerge?

1. Systemic Risk Regulation
2. Short Selling
3. Supervision of OTC Clearinghouses (e.g., Who Should Have Jurisdiction? Should there be an exemption for customized derivatives? Will the exception swallow the rule?)

Political Accountability and Regulatory Structure

1. If conflicts between banking and securities regulators are inevitable, a “twin peaks” model forces them out into the open and into the political arena for resolution!