A Call to Action

Here are the top 20 principles for rebuilding the financial system, as developed by participants in The Wall Street Journal Future of Finance Initiative.

1 STRENGTHEN UNDERWRITING STANDARDS
Bank management and bank examiners must enforce the banks' minimum underwriting standards, focused on the borrowers' ability to repay debt from income. Extend supervisors' authority beyond banks to mortgage brokers and other bank agents. Ensure national real-estate appraisal standards.

2 BOLSTER FDIC
Bolster the Federal Deposit Insurance Corp. and provide it with additional funds and flexibility so there is capacity to handle escalating bank failures.

3 REGULATORY OVERHAUL
Streamline the regulatory architecture so there is more effective and consistent regulation across financial services and an end to regulatory arbitrage. Improve effectiveness of regulators. Provide them with better training, pay, status and resources. Specific industry experience desirable. Testing, licensing and continuing education required.

4 CREATE A NEW CLEARINGHOUSE
Create a clearinghouse to enhance transparency for standardized credit-default-swap contracts, including individual corporate names and indexes. The clearinghouse would also extend to overnight financing and interest-rate swaps.

5 RAISE CAPITAL REQUIREMENTS
Writers of credit-default swaps should face higher capital (reserve or margin) requirements. Banks heavily involved in the CDS market should face a further surcharge for concentration risk.

6 ENHANCE COLLATERAL
Enhance collateral requirements on over-the-counter derivatives to protect the system. To minimize the effects of financial-institution failure, regulators should segregate customer collateral in the event of a bankruptcy by a firm involved in the credit-default-swap market.

7 SMARTER SECURITIZATION
Improve disclosure in securitization, improve underwriting standards, require all parties in the process to have "skin in the game." Create meaningful standards for transparency of financial flows in all instruments, and make the information available in an easily accessed form.

8 RATING-AGENCY REFORM
Eliminate special status of rating agencies. Reform pay structure for rating agencies to align incentives better so they are paid over time as their ratings prove to be accurate.

9 CONSISTENT REGULATORY SYSTEM
Include nonbank financial institutions under regulatory umbrella and require them to provide information to the systemic regulator. Regulation should be risk-based. Firm-specific information should be private, and only aggregate information made public.

10 CONSTRAIN LEVERAGE
Limit leverage across large, systemically important financial institutions, and enhance capital requirements for certain products. Be clear about how risk gets measured for purposes of leverage and capital requirements.

11 LET TARP CAPITAL BE REPAID
Make regulators explicitly state conditions for the repayment of money to the Troubled Asset Relief Program.

12 EXECUTIVE COMPENSATION
Limit the government role in executive compensation to companies where the government has a stake. Companies should be sure executive compensation provides the right set of incentives.

13 TRANSPARENCY BEFORE REGULATION
Systemic risk regulator should require all firms first to provide information. Regulation should be limited to those deemed to pose a systemic risk. Intermediaries with sufficiently long investor lock-ups and sufficiently low leverage relative to risk should be granted a safe harbor from regulation. Regulator should publicly disclose cross-industry liquidity and concentration risk.

14 PRICE AND VOLUME TRANSPARENCY
The industry should publish price and volume data on over-the-counter derivatives.

15 FED SHOULD BE SYSTEMIC RISK REGULATOR
The Federal Reserve should be the systemic risk regulator of nonbank financial institutions. It is important that the regulator be independent and apolitical. We recommend using private-sector advisory bodies. In order to take on these responsibilities, the Fed may have to reallocate some responsibilities to other agencies.

16 ENSURE SUCCESS OF PUBLIC-PRIVATE PARTNERSHIPS
To improve the chances that the Public-Private Investment Program works, the government should recognize that many sellers of these assets are reluctant because of the impact on their balance sheet, and should allow for regulatory forbearance on capital requirements or accounting flexibility.

17 ACCOUNTING RULES
Have a sensible set of accounting rules to reflect value for financial reporting and capital purposes.

18 NEW RESOLUTION AUTHORITY FOR NONBANKS
Create an FDIC-like model for winding down nonbank financial institutions that pose system risk. Adopt global standards for determining how different classes of creditors are treated.

19 AUDITORS ENFORCE CONSISTENT MARKS
Encourage disclosure of disparate asset marks, by asking auditors to raise instances of price discrepancies among clients.

20 LIMIT FORECLOSURES
More efforts to limit foreclosures through interest and principal reductions, rent-to-own and other creative solutions. Create a new federal agency with sufficient resources to limit foreclosures. Force banks to identify potential troubled borrowers.