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CHRISTINE CUMMING, FIRST-VICE-PRESIDENT OF THE NEW YORK FEDERAL BANK, DEILVERS REMARKS AT THE COUNCIL OF COUNCILS THIRD ANNUAL CONFERENCE

SPEAKER: **CHRISTINE CUMMING**, FIRST-VICE-PRESIDENT OF THE NEW YORK FEDERAL BANK
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ROZENTAL: If I could ask -- if I could ask you to quickly finish serving yourselves your breakfast and taking your seats, we can begin. We're very lucky this morning to have Christine Cumming with us. Christine is the first Vice President of the Federal Reserve New York. That means she's number two in the Federal Reserve, after her -- the chairman -- or the president.

CUMMING: The president.

ROZENTAL: President. And what I thought would be interesting -- because yesterday at the table I was at at dinner, I gathered that not everybody knows how the U.S. Central Bank system is structured and how it works. So I'm going to start by asking Christine to give us a brief overview of how the decentralized system of the Central Bank in the United States and the Federal Reserve work. Because it's quite different from any of our own countries -- or most of our own countries, I'd say. Probably all of it. So, Christine, welcome.

CUMMING: Thank you.

ROZENTAL: It's a pleasure to have you here. This is a gathering of internationalists, political scientists, economists. I think we have a few medical -- we have at least one doctor here, if Gordon's around. So, welcome and please. Go ahead and give us a little bit of (speaking French) of the New York Fed and the Federal Reserve in general.

CUMMING: Will do. Thank you very much. It's a pleasure to be here. I should not that I will be expressing my own views and not those of the Federal Reserve System -- the Federal Reserve Bank in New York. So, just for the record.

I also hope that some of you are familiar with the history of the U.S. because the Federal Reserve is a reflection of that history. It was created in 1913 -- 1914. We're celebrating our 100th Anniversary this year.

The Federal Reserve reflects the great tensions in American Society. On the one hand, in 1907, we had a panic that was sort of single -- handedly resolved by JP Morgan and that made the country very uncomfortable. So that's New York. And at the same time, the United States at that time had a deep distrust of large centralized government in Washington. And so we had this very decentralized system in the U.S.

The Board of Governors in Washington, and the 12 reserve banks scattered around the United States, scattered according to the population distribution of the early 20th Century. And therefore, the San Francisco District covers about, you know, 25 percent or more of the Western part of the United States -- 25 percent or more of the land mass, whereas we have Boston, Philadelphia, New York, you know, all of us in this corridor very well represented.

So the New York Fed has always been special within the Federal Reserve. As you know, the monetary policy making body of the central bank is called the Federal Open Market Committee. It has 12 voting members at maximum, and 19 participants at maximum from the 12 reserve bank presidents and the seven governors. We only have seven sitting governors.

The FOMC is chaired by the Chair, or Chairman, of the Federal Reserve, right now Janet Yellen. The Vice Chair of the Federal Open Market Committee is permanently the President of the New York Fed. And so that's the one president of the 12 who is a voting member at all times and also is the Vice Chair and works very closely with the Chair on the monetary policy stance in the meeting.

So the Fed has this very important role as a policy making participant as well as we execute the monetary policy for the U.S. So we have the Open Market Trading Desk at the Fed, at the New York Fed, and we every year are elected by the members of the FOMC to be the bank that executes monetary policy.

We also have the benefit of geography in terms of another important responsibility. The Federal Reserve is one of our several regulators here in the United States. But it is the holding company regulator, which means that it is, you know, in a way, the one with the most comprehensive view of large bank holding companies and now large financial holding companies. And so, since many of those companies are located in New York, in the second district, the Federal Reserve Bank of New York has a large share of the assets to supervise of the biggest banks of the country, and that is a very big focus of our work. We actually have the largest number of people in a group in the bank work in bank supervision, given the challenges in that world.

The last important responsibility, the Federal Reserve has generally is in the payments arena, both as payments oversight, something that the Dodd-Frank Act actually strengthened for the Federal Reserve, as well as an operator of some payments systems. The one that affects New York the most is Fedwire, the wholesale payment system, the way that corporations and banks can make large transfers. And those are -- we actually run that business on behalf of the Federal Reserve in New York.

So we have a lot of history helping us out. We were very special at the time that Bank for International Settlements was created. And so, while the Board of Governors has the, you know, U.S. Central Bank seat, the Federal Bank of New York was also invited to join the Governors' meeting, to join the Basel Committee as that was being created.

And so we are an important member of those international bodies, now G20 related bodies, for the most part. And that also gives us a very interesting perspective on the world. We also are the correspondent banker for central banks around the world who choose to hold their dollars in the Central Bank here. And so we have a, I don't know, $3 trillion, or something, assets for which we are a custodian. And that also gives us, of course, a tremendous opportunity to interact with countries around the world. So, that in a nutshell is the New York Fed.

ROZENTAL: Well, it's an important nutshell. It's an important nutshell because we all, in one way or another, have, in all of our countries, some sort of a relationship to what goes on, not only in the international Federal Reserve System, but of course in the New York Fed, which is the most important of the regional Feds.

So, when are we going to see the U.S. economy back where it needs to be, growing at a sustained 4 to 5 percent growth rate? So that we can all relax and be happy? And see our own economies move? Because, after all, the U.S. economy, in many ways, certainly for my country, Mexico, but for many countries is really the locomotive that will bring back a much more robust economic growth pattern. Sustainable on the one hand, but also one that really will put an end, maybe, to the financial crisis that broke out in 2008.

What are your thoughts about where we can go on that?

CUMMING: So of course, no one has a greater interest in seeing a much more robust growth rate in the United States than the people of the United States. You can't be here very long -- and I'm sure you've heard some of this discussion, you know, in the margins, on television, or whatever, a lot of concern these days about the lack of growth of income for many people in the United States. I can tell you from the conversations we have with business people and with bankers, an emerging big concern is what is going to happen to our children in this world where growth has been so slow, opportunities are constricted, the labor market has been weak, and often student debt is very high. So this is an issue that's very important to Americans.

The -- right now, when you look at some of the key economic sectors, it is hard not to be optimistic. So, take for example, the household sector. The household sector, as you know, accumulated an enormous amount of debt in the run up to the financial crisis, mostly mortgage debt but other kinds of debt as well, and households have brought back their debt to income ratio -- the debt service to income ratio, I should say, down to levels that are, you know, comparable to the early 80s. A really dramatic shift in the financial position.

You look at corporations in the U.S. and the amount of cash that those companies have is just extraordinary And you look at where interest rates are, and you look at the -- at least the growth potential in the U.S. and the world, and there's a tremendous opportunity to invest, which we just are not quite there in terms of really taking advantage of. So if you asked for what are the conditions in which you could have much stronger growth, a household sector that's in good financial shape, and a corporate financial sector that's in excellent financial shape, and has both cash and access to credit, you would think would be just ideal.

The U.S. government has brought down its deficit really quite substantially, so that's -- what we're looking for, I think, is much less fiscal drag. We've had a lot of restraint in the fiscal sector and both state and local, and federal government It's actually kind of weighed on the economy, but that is lessening. Again, another reason to be optimistic.

And the one bright spot from the past, which is looking just a little bit murkier has been the export sector. Again, the U.S. has had a good run. It's probably the strongest of our financial sectors through these last few years -- of our economic sectors of the last few years has been exports. A lot of -- but if it was very small business and creative products, or whether its larger business in the core areas that have been strong for some time in the us, the fact that, particularly, the emerging markets were growing really quite rapidly was a big boon to the U.S.

Now, you know, things are looking a little slower, and so that does take a little bit of the bloom off of the rose there. But nonetheless, a lot reason to believe that growth could be very strong.

ROZENTAL: Well, that's good to hear. I think that we still see a very tepid housing market in this country. There's still a lot of surplus housing that came out of the mortgage crisis and of what happened in 2008, 2009, on the one hand.

On the other hand, a lot of the cash of these private sector behemoths are using, they're not using enormously to expand. They're using to merge. They're using to swap stock and to become even larger than they already are. So I think it's good to hear it.

Christine, when you meet, when the FOMC meets, or when you meet with your colleagues, and you decide what your future action is going to be in the minutes we all read about later, but not when -- of just when you're meeting, how much do you take into account the outside of the U.S. world? I mean, obviously a central bank has as its primary function to defend its own monetary system, its own currency to keep inflation down and so on. How much does what goes on outside -- and I ask the question, because we all, I think, have seen that in the most recent decisions, and the tapering decisions, quantitative easing before that, that has such an enormous effect on the world because the U.S. dollar is the reserve currency -- global reserve currency because we all look to the U.S. How much do you take into account what goes on outside?

CUMMING: So, I think you can probably gather from both the minutes and the statements that are made by the FOMC immediately after the meeting, that, in fact, the primary focus is on the U.S. economy. And you might ask why is that? And one of the most important reasons is one of those central tenants of good macro-economic management is a focus on making sure the policy stance in your country is actually appropriate. And in the U.S., we have this need to grow, but we've also provided an enormous amount stimulus to the U.S. economy through the monetary channel.

And inevitably, that stimulus needs to be moderated. It's not being taken away, but just moderated. And that of course is the source -- was the source in spring and summer of 2013 and recurring a little bit as the -- but that has actually begun tapering, I believe, in the suggestion that we were going to be tapering on creative volatility.

And I think that this is part of a larger issue that we all share in common, which is that the world has become, first of all, it's a wealthy world. We have a lot of wealth. When you think about the 19th Century, even the early 20th Century, the problem in the financial world was the scarcity of capital and the search for where's that capital that can be used to invest.

Today, we have lots of wealth. And some of that is committed for the long term. And some of it is much more opportunistic looking for, you know, where's the best yield or the best return in the short run.

And so, when you look at a global world in which so many more countries have joined the global financial market, and have a local financial market that's tied in with the global financial market, the potential flows, where money can flow, and what the purpose of that -- what those flows are, become much, much harder to read. So, I look back to -- even the financial crisis itself, in 2008, one of the big surprises was the extent in which capital flows, which had been very strong into the emerging markets, turned on a dime in the fourth quarter of 2008 and the first quarter of 2009. Absolutely reversed. You know, big flows in suddenly became big flows out. And then again, back in the spring and summer of 2013, we saw again, that capital moved away, as it looked like the Federal Reserve might be changing its policy and that this more opportunistic positioning might take place somewhere else.

We all, I think, need to have a better grip, a better understanding, better measurement of capital flows. We've been on the journey to improve that. But I think it illustrates how really important it is for local, the national authorities to understand what kinds of flows are coming in what kinds of flows might be going out so that they can read the financial conditions

Here in the U.S., we often focus on the interest rate, but in fact we talk about the financial conditions more generally, about how they can tighten and they can loosen in a way that might actually work contrary to what the Fed was doing with the interest rate, or today with the purchasing program that we've had. And so, again, I think that other countries, that's an issue. And the better we can understand those flows, the better we can prepare -- be able to read what the long-term commitment really is, and what is that more opportunistic financing that might depart rather quickly.

ROZENTAL: Yeah, and of course now we have, I think, a greater degree of cooperation -- of international cooperation in the financial systems. You have a Financial Stability Board that is meant to be a guarantor of global financial stability. You have the G20 elevated to leaders level, but still very much focused on the financial crisis and the economic consequences of that. Does that make you sleep better at night? That there is a greater degree of global and multilateral cooperation in the financial world?

CUMMING: I do think that...

ROZENTAL: Or maybe you sleep well anyway.

(LAUGHTER)

CUMMING: Central bankers are paid to worry. But I do think one of the really great breakthroughs was the expansion of what had been forums, largely for the G10 or the G11 countries, to G20, where we have a much wider array of voices at the table and where there is more opportunity. Take the issue you just asked me about, how much does the Federal Reserve pay attention to what's going on overseas.

Central bank governors can actually have that discussion in a room, the G20 central bank governors, and actually talk about monetary coordination or, well, how policy might be changing, what impacts it's having. All I think really helps to clarify and also create more certainty for other central bank governors about what the intent of Federal Reserve policy is, and/or policies in other countries as well. So, I think that's a very important breakthrough that we've had.

Also, you know, the great opportunities that we've had in the global financial system lie in many of the newer numbers of the G20, in that there's still a tremendous amount of growth, tremendous potential to raise standards of living, to develop a more robust and resilient financial sector And so very important to have their voices at the table as well.

ROZENTAL: Great. I'm going to ask you one last question before we throw it open to a Q&A, if you're okay with that. One of the new threats, if you like, to the global financial system is the unregulated part of it, shadow banking, non-bank banking, a whole series of -- bitcoins, a whole series of new things that didn't exist, you know, in the past. How do you see that?

I mean, how -- how -- how are we able to bring into the governance of the international financial system all of these pieces that are designed to be outside? Designed to be not regulated. Designed to be outside of the regulatory system.

CUMMING: So, I think that the assistance of the shadow banking system is something that weighed on the minds of the Congress as they took a look at the need for reform after the financial crisis, and has weighed on the Financial Stability Board as well And so, what we've seen in both instances, is an effort to identify systemically important institutions that are not just banks.

And so here in the U.S., we have the opportunity through the Financial Stability Oversight Council, that is sort of a council that is chaired by the secretary of the treasury and includes the major regulators in the United States, a council of 10, I think. They can designate non-bank institutions as systemically important, which brings them under the regulatory umbrella of the federal reserve, which is, as I said, the holding company regulator here in the United States. And so they would be subject to the same kind of regulation that bank holding companies receive here. So that was one response.

The Dodd-Frank -- and we have, in fact, designated a couple of companies. AIG is one of them. And GE Capital is another. And that process is one that can continue to look at other kinds of institutions as needed.

The Dodd-Frank Act also allows the FSOC to designate a systemically important activity, which would be something that would be, you know, again, usual in that they might pick an entire activity and say that's systemically important and it needs some additional regulatory oversight.

At the Financial Stability Board level, a similar process has gone on. You may be aware, there are 29 so -- called Gsippies (ph) that are subject to special regulatory attention by agreement by members of the financial stability board. But they have also designated some systemically important insurance companies and have a study on shadow banking as well, which is taking a look at different kinds of firms.

So I think we're much more aware of the -- of the issue of very large institutions. I think there is still the question, as we saw in the run up to the financial crisis, of this activity base. In the U.S., we had a lot of essentially lightly or not regulated mortgage brokers, and mortgage conduits were an important part of the run up to the crisis, the over expansion of housing finance in the U.S. And so those will be our challenge, when we see the next version of that in our financial system.

ROZENTAL: With the benefit of hindsight -- with the real benefit of hindsight, you think things should have been different with Lehman Brothers?

CUMMING: Now there's a provocative question.

(LAUGHTER)

CUMMING: So -- so, I -- you know, my own personal view is that the opportunity to have recognized that -- that particularly the housing expansion and the related -- housing related markets, things like CBOs and other other very complex securities, that we should have recognized that that was going off the rails much earlier. And in fact, by the time we were in 2006, 2006, you know, with the benefit of hindsight, you can look back and see how big the subprime and the Alt-A mortgages sectors were, the proliferation of CBOs, et cetera, really should have known. And that was probably the best moment we had to actually intervene in some way and have been able to -- probably not, you know, there would have been a financial problem, I'm sure, but to have moderated it.

But by the time you get into the heat of the battle, and you start making those decisions, I think there, you know, there are people making decisions as best they can under very tough circumstances. And you know, some of them work well. In that particular case, Lehman, of course, the consequences ended up being far more dire, I think, than anyone really appreciated.

ROZENTAL: Good. Thank you very much. Let's -- let's open this up and I will remind everyone first of all that this session is on the record. So whatever anybody says will appear tomorrow morning, on the front page of the New York Times. Or the Wall Street Journal. So, I ask -- I know that there's going to be lots and lots of questions.

So, let me start with Rohinton Medhora. Rohinton is the president of the Center for International Governance Innovation, the Canadian member of the Council of Councils.

CUMMING: My two neighbors, here.

ROZENTAL: Yes. Yes. We make a good sandwich.

MEDHORA: Hence my comment about blackberries. My question has to do with two things. One, one gets the sense that after 2008, the infallibility of leaders in finance has become questioned. And you refer to the sort of longer trend in this country, but others too, of suspicion of centralized power. And I've heard central bankers say that as a result, central banking independence has been, if not eroded, certainly is being questioned in ways that we didn't until then. In fact, the trend was to see this as an independent technocratic function.

How do you see Dodd-Frank and all 2,400 pages of it, and -- and -- and other such trends affecting the way the Central Bank can do its job? Are we better off with more oversight of these technical issues, political oversight? Or is there risk there too?

ROZENTAL: Thank you, Rohinton. Christine, do you want to take two or three questions?

CUMMING: That'd be great.

ROZENTAL: So we can sort of get -- somebody raised their hand in the back of the room. Yeah. Go ahead, Ricardo.

ALCARO: Actually, I'm Ricardo Alcaro from the International Affairs Institute in Rome. My question, pretty much, is related to the previous question. I'm not an economist, so I was just wondering whether you could tell us a bit, whether you think that the work the U.S. government has done, in terms of building safeguards against potential repetitions of crises the size of the (inaudible) we had in 2008, 2009 is sufficient, or there is still much work to be done? Or the safeguards are still to be tried, and still to be tested? Thank you.

ROZENTAL: Please. Memduh Karukullukcu, our Turkish colleague.

KARUKULLUKCU: Thank you. Memduh Karukullukcu from the Global Relations Forum in Istanbul. Let me ask a few sort of technical, numerical questions. One is the potential growth rate of the U.S. Does the Federal Reserve work with a potential growth rate projection for the U.S. and what is it going forward for the next 5 to 10 years.

The second one is, you said you indicated that the capital, financial wealth around the globe, is abundant. Can you tell us, since interest rate is effectively the equilibrium of the capital pricing, savings, and investment, given the abundance, should we, when we look forward 5,10 years, do you foresee a low real interest rate globally? Is that the new equilibrium? Does your abundance point indicate that?

And just one final question, sort of a qualitative question. If the crises management of central banks were to end, hopefully they will at some point, the overall flow of global capital around the world, how far are we from that equilibrium because of this crisis management by central banks? Is there major distortion going around the optimal allocation of capital around the world?

ROZENTAL: Thank you, Memduh

CUMMING: So, on the question of central banking and dependence, as you know, the Federal Reserve did some extraordinary things during the crisis. The loan to AIG would probably be in that category. And as the Congress reviewed what the Federal Reserve's powers were, it took away the power to intervene in the case of individual institutions.

That's a power that was in the Federal Reserve Act from, I don't know when, the early years, was actually used a little bit in the Great Depression and had never been used since. And certainly talked about, you know, as something that might need to be used some day. Well, the day came. And the Congress decided that that kind of program of lending to individual corporations and other non-banks had to end.

The interesting thing, though, is that the Congress did not take away the power to do the kind of programs -- market wide programs, that we did, the commercial paper lending facility, for example, which ended up being really something that helped corporations in general, and not just banks, or banking holding companies. And so, I think the Congress was very thoughtful about what they wanted to see the way Central Bank intervention in the future, also put more safeguards for any sort of fiscal like action to support the banks, similar to TARP, or other such measures.

So, you know, I don't think that central banking dependance has been reduced, in a significant way. I think the monetary policy instrument and the discount window, the lending -- emergency lending that the Federal Reserve and other banks can do, very, very powerful instruments as we saw, in the crisis. Not to fix the crisis, but to create time and to create -- to stabilize the economy and stabilize the financial sector, in a way that allows them all to regroup and actually start the road to recovery.

The -- I think that the -- the -- and now I'm trying to recall these questions, which I should have written down. I think as you look at what the -- help me out here.

ROZENTAL: Well, there were -- there were -- there were two questions that were very related. I think Ricardo's was a follow on question from...

(UNKNOWN): (OFF-MIC)

CUMMING: Thank you for -- so I think that -- that there are more safeguards. So back to the -- the United States put in a three key system. I think there are similar systems in other countries, where, in particular, the finance ministry ends up playing a larger role in making decisions about really significant interventions.

For example, in the U.S., we had a systemic risk exception, which really required the FDIC and the Fed to agree. But today now the Treasury would also need to agree. And the President of the United States would need to be consulted. I think there are more safeguards about doing these kind of really significant interventions in a more, in a way that really involves the elected sector a little bit more, because ultimately there is a commitment of public funds that has to lie behind any of these really major interventions.

ROZENTAL: But that doesn't take away from central bank independence in terms of decision making.

CUMMING: That's right, particularly about things that are really specific to what the central bank is supposed to do. Again, emergency lending and of course, monetary policy.

ROZENTAL: The third question, which our Turkish colleague asked was really related to the global flow of capital, and whether the interest rate projection -- you were also asked to say how the U.S. economy is going to be growing over the next five years -- but whether these global financial slows are being, in one way or another, dampened or held back U.S. interest rate policy.

CUMMING: I believe you started with the question about potential growth rate. And potential growth rate, as most of you probably have learned at some point, is really the sum of population growth and productivity growth. So here in the U.S., the estimates of potential growth rate are in the two to two and a quarter range. It's probably down just a smidgen from the 90s and much of the 2000s.

The uncertainties, though, that surround that are real. For example, we've seen this big drop in the labor force participation rate. We don't know whether Americans have a different relationship with work than they did before. Those are the kinds of things that you would watch. And then of course, the productivity growth, we had tremendous squeezing of cost out of a system during the financial crisis as companies, especially small business, are particularly known, as they really tried to defend themselves against the much changed financial conditions.

And so, productivity growth actually soared during the crisis, very unusual, as companies really pulled back to defend themselves. And so, again, a little uncertainty about where that productivity growth will be. But sort of two to two and a half or two and a quarter is where people seem comfortable, which is a decent growth rate for a mature economy.

Now you asked a very provocative question of where interest rates are going, which I can't answer. But you asked, I think, a question I can answer, which is about, you know, what would you hope for in the equilibrium interest rate -- real interest rate? Great question. And my hope would be in that 5 to 10 year time frame, that we're back more at a normal situation.

And where is that? I don't know especially, but, you know, through much of our history, that real interest rate has been sort of three or four -- in the median term. And that it would be really good to get back there. Why do you want interest rates, you know, kind of higher than they are today? Because it reflects, not just the supply of funds, but reflects the demand for funds, and having a much stronger demand because people have investment projects, that pay a return -- earn a return, a real return, would be really positive.

I have to say, we live in an environment, and I think this is one of the disappointments of financial mediation and the way the financial system has evolved, look at even at your agenda over this day and a half. And the tremendous opportunities -- the tremendous challenges, but also opportunities, that are there. The investments that we need to deal with climate change. The rise in the standard of living in emerging markets and even now, potentially, in the African continents and places like that, tremendous opportunities that need to be financed.

They involve risk. They involve the commitment of capital, the willingness to lose some money. But, tremendous opportunities ahead of us, and that's where the financial system -- what the financial system should be doing. Is finding those risk, those people willing and able to take a risk and get the funds where there are these tremendous opportunities, from which we would all benefit.

ROZENTAL: Thank you. We have one question there. And then after that, I will get to you. Yeah.

ROGGEVEEN: Thank you. Sam Roggeveen, from the Lowy Institute in Sydney. I want to ask you a question about -- about women in finance and the corporate sector.

ROZENTAL: Good question.

(LAUGHTER)

ROGGEVEEN: We haven't heard it yet.

ROZENTAL: I'm just looking at this pretty much generalized male audience here.

ROGGEVEEN: So a couple of years ago, I saw on YouTube a TED Talk by Sheryl Sandberg. And she argued that one of the reasons there is a -- an imbalance between men and women at the singular levels of the corporate world, one of the reasons, is that the system, broadly conceived, rewards confidence, and men tend to be more confident than women.

One of the examples she gave is that when men are asked to explain their success, they tend to say, in a nutshell, it's because I'm awesome. So they attribute their success to their own talents, their own energy, and so on. On the other hand, when women are asked to explain their own success they tend to attribute it to -- more to external factors, a very supportive family, you know, a great education system, et cetera.

So, I just want to tie that back to the financial crisis and ask you about the role of confidence and over confidence It seems that in -- not just in the financial crisis, but in various types of international crises, including war, you might say, that over confidence bias plays an enormous factor in governments and companies making enormous mistakes, sometimes disastrous mistakes. So, I just wonder if you could say a little bit about the idea that the -- the lead up to the financial crisis was fueled by over confidence and whether that has any links to the question of gender.

ROZENTAL: Thank you. Interesting question. Please

(UNKNOWN): (OFF-MIC)

ROZENTAL: This is my colleague from Mexico, just so you know.

ZABLUDOVSKY: (OFF-MIC) ...conference, because this is very much related to what just -- what we just heard. I heard that on apologies, saying that men are much more risk lovers...

ROZENTAL: Risk takers.

ZABLUDOVSKY: ...risk takers than women. And he asked why don't we have Lehman Sisters?

(LAUGHTER)

ROZENTAL: Please. Yes. Right here at this table. Our Nigerian colleague

AGWU: Thank you. My name is Fred Agwu from the Nigerian Institute of International Affairs. I would like to know what is in all of this for Africa, particularly, with respect to the question posed to you on how the level of interest will have in our bad (ph) economies. Because, I know, you are talking about the abundance of capital and the challenge of using that capital elsewhere (inaudible) risks. In our economy, in Nigeria particularly, I recently -- there was a revision of the economy, and there was uproars (ph) all over.

But we, the citizens (ph) (inaudible). (inaudible) because we are a busy economy. We are being counted as just economy in Africa where we don't have any productive base, where we don't have infrastructure. So the pattern (ph) does not make sense to us. So how does what all of this you've said, what is in Africa? (Inaudible) in making sure that when capital goes to Africa, at the level of governors, apart from the profit it makes, does it also benefit Africa? Because part of the trouble in Africa today is that (inaudible) of poverty and inequality. And they all lend to the conflict. So how does this benefit Africa?

ROZENTAL: Thank you, Fred. Last question for this round to Tieren (ph) (inaudible), our French colleague.

DE MONTBRIAL: Well, thank you very much. I might have fallen asleep for one minute or two, but there is one word -- there is one word I didn't hear since the beginning of this morning, which is inflation. It's quite interesting that nobody seems to worry about the possibility of inflation. So how do you look at that aspect of the economy in the foreseeable future in the U.S., but also outside? In some parts of the world, of course, people speak more of deflation, another word that has not pronounced. There is maybe a third one which was very popular in the 70s, which is stagflation. Inflations (ph) and things.

ROZENTAL: Thank you, Thierry. So you have a question about gender, womens' less risk taking status. You have a question about the credibility of the idea of a surplus of capital in countries and in parts of the world where poverty and inequality sill reign. And you have this last question about inflation.

CUMMING: So, let me start, maybe, with the inflation question. I think there is still tremendous concern about the long-run potential for inflation reoccurring. As you know, the focus in all three of the advanced regions of the world, so -- called advanced economies, Japan, the U.S., and the European zone, all keenly interest in getting their economies going. And that is job number one.

And as you said, there have been moment where there's been real worry about deflation in all three of those regions at different times. But the worry is there and I think we've a much better understanding of how costly deflation can be. So it's important to word that away as well.

And so, you might look at the monetary policies in all three countries and really say that the focus is appropriate right now. That in all three places we're not performing as well as we could be, and that we want to get out of this, get the recovery started. But then be wary, for the risk of inflation, because of course, we've laid out a lot of liquidity in these major countries in the last few years. And therefore, you know, that's got to be drawn back in to get to a more normalized stance.

ROZENTAL: And then you still have the outliers, you now, the Venezuelans and the Argentines (ph) and the Brazilians -- excuse me. The Brazilians who do have a problem with inflation. They've not been able...

CUMMING: Absolutely.

ROZENTAL: ...stimulating their economies without taking into account that aspect.

CUMMING: Right. And so that, you know, the challenge will be all the greater in a world in which others are normalizing their policy as well. Those are very large countries. So that's that issue. I don't think that just because the discussion isn't there, there is still a lot of concern about it. And it's expressed, for example, in speeches by various presidents within the Federal Reserve. We continue to keep warning that someday we'll have to worry about that inflation problem.

On the issue of gender, you know, I think that there is great value in the diversity of views (ph) and the diversity of personalities within any organization. But I really think the important think for risk taking institutions is governance. And, you know, one can look back to the entry into the crisis and really be greatly disappointed about what had been tremendous progress in terms of improving and strengthening governance within institutions.

Banks created risk management committees of their directors. The risk -- the Chief Risk Officer often reported to those risk committees. But when things got really bad, many risk managers were put to the side, you know, ignored. That risk management process, that governance, didn't work that well. And it's really so much about the willingness about the people at the top to hear the bad news, and to deal with the bad news, to accept the diverse viewpoints. Not just the business managers who are saying we can make so much money, but also the risk managers saying, you know, this is a huge problem.

I think that problem is one that needs a lot more attention, you know, in our business schools, and, you know, in our organizations of all sorts. Really important that governance really works. And that is about individual will. And there's only so much you can do with rules. It has to come from people at the top of the organization. In the common internal patrol framework that we all use, it talks about tone at the top as being the most important thing. It is the most important thing.

ROZENTAL: Christine, how many women are presidents of the Reserve?

CUMMING: Let's see. We have Loretta Mester is one. I think at this point she might be the only woman. And then of course, Governor Yellen, now Chair Yellen.

ROZENTAL: First time. First time, yes?

CUMMING: First time a woman...

ROZENTAL: First time a woman was...

CUMMING: ...was Chair of the U.S. Federal Reserve, yes. A big moment. And we've had as many as three women governors. So, you know...

ROZENTAL: So for those of you who believe that women take lest risks than men, we're in good hands.

CUMMING: We'll see.

ROZENTAL: But it's an interesting question. Because I -- I sit on the risk management committee of one of the largest banks in my country. And there are no women on that risk management committee. There are a lot of women in staff and so on, but there are no women. And I think -- I think it's probably true that women are generally more cautious, more conservative, and don't want to take the same type of risks that men take. And if you look at all the scandals that have taken place in the frauds that have happened in the banks, in French banks and other banks, you'll find that never a woman. They're always men.

CUMMING: Well...

ROZENTAL: Always men who've been involved in these things. At least, as far as I can -- as far as I can remember.

Lehman's Sisters.

CUMMING: So, I do -- I do hope that we'll see more women in high places. I'm sure we'll see some of them are not really good people, just like -- they're human beings too. But again, I think diversity of viewpoint could be really, really valuable here.

So on to, your question about Africa. First of all, my sense is, that as the -- as Asia, as Latin America, have moved up the development curve and excuse me for using that term, but, you know, have advanced substantially, that, you know, capital is looking for where is the next Asia? Where is the next Latin America? And we are inevitably drawn to look at Africa.

I do -- and I'll just be candid here -- think it's really important that the kinds of institutions that -- that really create the environment in which capital can enter a country and that investors can be reasonably confident about the ability to get their money back at some point, is a really key part of the equation, as well as the creation of some sort of safety net as the financial system advances.

I remember going -- I would say it's probably almost 20 years ago, to Asia, to a conference that was held by the Association of Deposit Insurers, which was really about talking to the Asian countries who, I think it was right around -- right immediately following the Asian crisis, talking about the need for a safety net in their countries to prevent bank runs, to prevent the kinds of things that, you know, we had learned about through bitter experience in many of the so-called advanced economies. And so, really important I think to think about what those institutions are that really help to encourage capital to come there because, in fact, the returns expected will be available and will -- can flow back to the investor. That's my thought there.

ROZENTAL: That's pretty good. I think we have time for maybe two more questions and then we have to wrap it up. So, speaking of gender equality, I'm going to start with the gender -- the female gender here. Our Brazilian colleague

Lazarou: Good morning. I'm Elena Lazarou from the Getulio Vargas Foundation in Brazil. I couldn't possibly not take the risk after everything having been said, even though I'm not an economist. So my question is going to be more about the social dimension of the crisis, and the global financial system.

It seems to me that, on the multilateral level, when the G20 get together, there is a discussion about a social dimension, about platforms I remember it was in the meeting of Los Cabos (ph) at Brazil, Argentina and Mexico proposed a social protection platforms. But when it comes to the national level, how can, or can central banks bring in the social dimension to their policies to face crises? Can the social dimension, social protection, come into monetary policies, and how -- what is the role of central banks in that? Thank you.

ROZENTAL: Thank you. Yes.

QUESTION: Steve Tredway (ph), former of Pimco (ph). Specific question. Would you be in favor of extending the oversight of the Federal Reserve over the large U.S. asset managers, which I know is under discussion today, when in fact their assets are segregated and they're the ones with the unleveraged balance sheets?

ROZENTAL: Boy, nice technical question. One more?

CUMMING: Okay.

JOSHI: Please. I'm Sunjoy Joshi from the Observers Research Foundation of New Delhi. Instantly, India has top three banks headed by women. But that has not reduced the number of their NPAs.

ROZENTAL: Not reduced the number of their...

JOSHI: Non-performing assets.

ROZENTAL: Non-performing assets.

JOSHI: No, my question is, I'd like to probe a bit further on a statement that you made that there are individuals and companies sitting on a lot of cash. And the avenues for investment, perhaps they're still probing and looking for them for the fall. From what we've seen, this is not a typical U.S. problem. We're seeing it happening in a lot of countries, including the emerging economies.

On the one side you have large corporation sitting on huge piles of cash. On the other side, you have over-leveraged companies, you know, over-leveraged their debts. You look at the flow of funds internationally and what you're seeing is there is easy hot money going into portfolios, going into commodities, going into all kinds of assets. And as to the (inaudible) adding to a lot of volatility in the markets. How much of this do you feel is due to the regulation in policy uncertainty, which has existing within economies, that is the ability of the central banks and the political executive to send very, very clear signals on who are going to be future policies for long-term investments?

ROZENTAL: Good.

CUMMING: So, on the asset manager question, there is a process, as you well, know, that the FSOC uses to look at different categories of firms. The process has criteria and so I would say that's an analytical question How do those particular types of firms match up against the criteria? And that's probably about all I can really say.

There's a similar process at the Financial Stability Board Level, which again, is looking at a set of criteria, and looking at different kinds of firms, including asset managers, and so I think I'd let that analytical process -- you've pointed out some of the things that might be the issues. And, you know, let that process really run to its -- run its course.

On the question of the social dimension, I think that's a very difficult question to answer. You've heard Chair Yellen talk about the social consequences, the consequences for individuals, of the kind of environment that we're in right now. Not so much about the monetary policy, but about the consequences of the high unemployment rate, and the persistent unemployment rate in the United States, especially when you factor in those who are no longer looking for work.

In addition, I think there's been a fair amount of attention to the inevitable costs of any policy is that you are -- because you are intervening in the marketplace, you're going to change something. And so, in our particular case with -- in the U.S. here with the low interest rates and the abundant liquidity, for say, older savers, who are counting on a return from their savings account, or fixed income investments, that income has been drastically reduced because of low interest rates.

That has a consequence. You can't go on forever from their perspective, because they have to dip into principle to be able to live. So we have to be cognizant of what the long run impact of policy is. But again, you know, the focus has to be on what is the most important problem we have to solve, which is to get the economy going.

I'd also say, a lot of the social dimension ultimately is really a matter for government as opposed for the central bank. The central bank can underscore issues that it sees, but it's really for the elected sector to make the decisions about what needs to be dealt with.

So, the last question was on, you know, the -- the -- the problems of...

(UNKNOWN): (OFF-MIC)

CUMMING: So, I'd say that this is one -- I think, one of the -- one of the deeper reckonings that needs to go on in finance today, is that when you look at what helped drive the run up to the financial crisis, it is -- and I'll call it an illusion, although plenty of money was made, but the illusion that you can make money, lots, and lots of money, through a lot of short-term positioning, or selling, you know, developing products and selling them to people when they don't fully understand them, and a host of other things that are really about making money the easy way. And you know, the reality is, that the real opportunities lie in making people's lives different. Companies, real people, making -- bringing them to a higher standard of living, a higher performance. Recognizing the opportunities out there, addressing the more problematic things that are out there, those are where the long-run opportunities are.

Why did Bill Gates end up being one of the richest people in the world? Because he managed an organization that produced things that we didn't have before, that have made a dramatic difference in all of our lives.

So I don't mean to sound, you know, like Polly Anna here. But that is where our focus should be. That's where more of the financial focus should be. That is what is going to get us out of this and move on to the next phase of development and growth in all of our countries.

And it's just important that we keep our eye on the ball. I don't think we're doing enough to make sure that we're realizing those long run opportunities and mitigating the risk. And that's where the creative juices should be going. Not so much into coming up with a complex new thing that might yield a few more basis points and lose a lot if things don't go right.

We need a lot more focus on how do we tackle those big problems we have ahead, many of which you're talking about over this day and a half. And how do we mitigate the financial risks that are associated with actually dealing with the problems?

ROZENTAL: Thank you, Christine. That was fascinating.