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# Fed's Rosengren Backs More Rules for Banks Based Outside U.S.

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By Joshua Zumbrun

Sept. 29 (Bloomberg) -- Federal Reserve Bank of Boston President Eric Rosengren said the challenges at some banks based outside the U.S. highlight how regulators need to curtail the vulnerability of global banking to more turmoil.

"It has become clear that financial stability is too central to the performance of economies not to explore options for moving forward and reducing instability," Rosengren said today in remarks prepared for a speech in Stockholm. "The global banking system currently remains more vulnerable than it should and could be," he said.

Rosengren singled out the need for foreign banks to become less dependent on short-term funding, especially from money market mutual funds. Three years after the collapse of Lehman Brothers Holdings Inc., money-market borrowing rates for dollars are rising, leading the Fed and European Central Bank to make the currency available to Europe's institutions for as long as three months.

Money market mutual funds are contributing to dollar shortages as they "shun some financial institutions with various exposures to troubles in Europe -- a situation that is having negative impact on short-term credit markets," he said. He didn't comment on the outlook for the U.S. economy or interest rates.

U.S. prime money-market funds cut their exposure to euro- zone bank deposits and commercial paper, or short-term IOUs, to $214 billion in August from $391 billion at the end of last year, according to data from JPMorgan Chase & Co.

Influence Stability

"I would suggest that the financial stability issues raised in 2008, and which have become increasingly prevalent of late, require a reexamination of issues that influence the stability of short-term credit markets," Rosengren said at the Global Interdependence Center's Conference on Capital Markets in the Post Crisis Environment.

Rosengren said he would prefer requiring money market funds to have "a meaningful capital-like buffer" that should exceed "their single-issuer concentration exposure limits -- perhaps on the order of 2 to 3 percent."

"It is critical that one way or another we make the industry less susceptible to credit shocks and liquidity runs," Rosengren said.

Additional steps are needed to make foreign banking operations less dependent on short term funding, he said.

"While we should actively consider a variety of options, my personal preference would be to move towards all foreign banking operations requiring some form of bank capital," Rosengren said.

Rosengren, 54, joined the Boston Fed as an economist in 1985 and became its president in 2007. Fed presidents rotate voting on monetary policy, with Rosengren next voting in 2013.

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