# A DISCUSSION WITH DR. CHESTER SPATT

Dr. Chester Spatt is the Pamela R. and Kenneth B. Dunn Professor of Finance at Carnegie Mellon's Tepper School of Business. In addition to his academic duties, he is a Research Associate of the National Bureau of Economic Research and a Fellow of TIAA-CREF Institute.

Dr. Spatt is the former Chief Economist and the Director of the Office of Economic Analysis at the U.S. Securities and Exchange Commission (SEC). He has also served as President of the Western Finance Association and the Society for Financial Studies. His consulting practice focuses on providing expertise on such issues as securities litigation and financial markets, financial regulation, credit rating agencies, mortgages, real estate, trading, taxation and asset allocation and valuation, among other areas.

Dr. Spatt's research and teaching interests include the economics of financial market regulation; fixed-income, commodity and options valuation and hedging; taxation and asset allocation; market microstructure; and real estate. His articles have been published in the leading academic journals including the Journal of Finance, the American Economic Review, the Journal of Political Economy, the Review of Financial Studies, the Journal of Financial Markets, and the Journal of Real Estate Finance and Economics, among others. He has also served as an editor for a number of leading academic journals.

Dr. Spatt has a Bachelor's degree in Economics from Princeton University, and Master's and Ph.D. degrees in Economics from the University of Pennsylvania.

**Describe your primary areas of academic research and specialization.**

"I have become best known for my research on taxation of investments and asset allocation, for example analyzing taxable vs. tax deferred accounts, the tradeoffs between capital gains taxes and portfolio rebalancing, and novel techniques in estate planning.

I also am known for my foundational studies of mortgages and mortgage contracting including the structure and features of mortgages and mortgage securities, the tradeoffs between debt contract terms, and how the presence of refinancing costs affects the dynamics of valuation. A significant portion of my current research focuses upon credit rating agencies and issues such as ratings shopping, solicited vs. unsolicited ratings, pricing of rating agency services, and regulatory reliance on ratings. I also am currently studying securitization trading, market spreads and transparency; the Dodd-Frank Act; and re-characterization and conversion options within Roth IRAs."

**Describe your role as Chief Economist of the SEC during 2004-2007.**

"As the Chief Economist of the SEC, I guided its staff of economists and provided advice on economic questions to the SEC chairman, commissioners and division directors. I consulted on a wide range of issues concerning public policy and rule-making as well as enforcement and compliance issues. I advised on matters involving specific financial products, capital structure and the behavior of markets on both qualitative and quantitative dimensions.

I was particularly involved in such issues as the mutual fund market-timing cases, including settlement distribution mechanics, as well as options expensing and back-dating, short-sale regulations, market (trading) structure and the modifications to the statutory framework of the rating agencies."

**Describe your responsibilities as a Research Associate with the National Bureau of Economic Research.**

"I participate in conferences featuring leading research on such topics as market microstructure, asset pricing, and corporate finance and organized a conference on credit rating agencies."

**As a member of the Shadow Financial Regulatory Committee, describe your roles and responsibilities.**

"I have been a member of the Shadow Financial Regulatory committee since I left the SEC. The Shadow Financial Regulatory Committee is comprised of academic experts who study and comment upon financial regulatory policies affecting the economy. We seek to apply market-oriented principles to suggest improvements on various aspects of regulatory decisions and processes."

**The Federal Reserve recently announced the formation of a Model Validation Council of which you are a member. Describe the primary objective of the Council.**

"The Federal Reserve created the Model Validation Council to enlist outside experts to provide independent advice on the process the Fed uses to assess the effectiveness of models used in supervisory stress tests of banking institutions. The Federal Reserve plans to use the council to help validate and review supervisory models and strengthen confidence in the integrity and independence of those efforts. Somewhat relatedly, I also have been recently appointed to an independent Systemic Risk Council, chaired by former FDIC Chair Sheila Bair."