

## SUERF Annual Lecture 2005

### *Stock Market Consolidation and Security Markets Regulation in Europe*

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Delivered by Commissioner Charlie McCreevy  
European Commission for Internal Market and Services

on 30<sup>th</sup> November, 2005 at the National Bank of Belgium



### Stock exchange consolidation

Thank you for inviting me to deliver your annual lecture. I know that your discussions this afternoon focused on stock exchange consolidation. This issue arouses strong passions. Many people are concerned about the flurry of possible mergers and acquisitions which we have seen

recently. There is the perceived perennial problem in the EU of the existence of many exchanges fragmenting liquidity on a pan-EU basis – particularly disadvantageous for the growth of small and medium sized companies. Some would like to see public authorities intervening to

For the preliminary Programme of the  
26<sup>th</sup> SUERF Colloquium, see pages 5–11

somehow determine the number of exchanges that Europe ends up with. This is nonsensical, in my view. Consolidation and restructuring of exchanges must be market-led. Public authorities must ensure that competition rules are respected, including the rules about mergers and the abuse of dominant position. And the Commission must be vigilant against protectionist measures on the part of particular Member States. But the Commission should not be in the game of ‘picking winners’ or backing particular horses. Furthermore, our interest is to keep our capital markets as open as possible... with good rules, good prudential controls, proper investor protection.

Of course, the structure of the market for EU equities trading and post-trading is important. Some people fear that greater consolidation could push up trading prices. I agree that this is a serious issue. It has to be thoroughly examined. But no-one should assume that consolidation per se will have negative effects. If competition rules are fully respected, the opposite should occur – after all, significant economies of scale are there to be realised, to the benefit of users and shareholders alike. And we should remember that mergers have the potential to increase innovation in terms of the products and services that are offered to investors.

The final factor to consider is the EU's evolving regulatory framework for financial services. The Commission sees its role as instigating legislation which facilitates cross-border trade and promotes competition between all forms of securities trading venues. If we are successful, then fears concerning the anti-competitive effects of consolidation in this sector will, I believe, prove to be groundless.

## MiFID

There is one piece of legislation which will do more than any other to open exchanges up to fresh competition – the Markets in Financial Instruments Directive or ‘MiFID’.

We need MiFID because the old ISD needs replacing. The ‘passport’ is not working well enough. It has to be updated so as to inject fresh competition into the investment services industry which will be so vital in addressing the financial implications of the pensions time-bomb. And investor protection needs to be updated to attract new investors to EU capital markets. Also, new services such as investment advice and new financial instruments such as derivatives need to be brought within the scope of the legislation.

The new MiFID will abolish the so called ‘concentration rule.’ This means that, in many Member States, stock exchanges will be exposed to competition for the first time from multilateral trading facilities and ‘systematic internalisers’, so called because they systematically execute client orders internally on own account.

The MiFID also updates and extends the ‘single passport’ for investment firms, which was first introduced in the 1993 Investment Services Directive. This will allow provision of investment services in 25 Member States on the basis of a single authorisation. In return for this, investor protection rules will be harmonised so that investors can feel confident in using the services of investment firms, wherever those firms originate from in the EU.

The MiFID will be important – not just for the financial services industry, but for Europe as a whole. It is a cornerstone of the Commission's Financial Services Action Plan or ‘FSAP’. While other FSAP measures such as the Prospectus Directive or Transparency Directive regulate the way in which issuers issue into markets, for example, the MiFID will profoundly change the shape of markets themselves.

It is difficult to assess exactly what the impacts of these changes will be. ‘Big bang’ may be too strong a word. But it’s clear that MiFID will be the catalyst for significant market changes. It will dramatically increase levels of competition among and between execution venues and investment firms. It will definitely increase cross-border competition and lower costs for issuers and investors of accessing capital markets.

On the implementation side, the clock has already started ticking in forward-thinking circles. Serious participants in the debate are telling us they think trading volumes and financial information flows could well double. Investment in IT systems may well take up a bigger part of firms’ budgets as they seek to deliver best execution. For those firms prepared to adapt and to make the necessary preparations, the opportunities in this new landscape of open and hyper-competitive marketplaces will be enormous. Not just for equities. Experts predict that internaliser firms will use their new electronic kit to trade other financial products as well. The first-mover advantage will be all-important. And those investment firms that try to ignore MiFID may well find themselves fatally weakened.

Europe faces some tough challenges. The economies of many of our Member States are growing too slowly. Unemployment is high. We face fierce competition from

abroad. MiFID is crucial to the development of the deep, more liquid and efficient capital markets which we need to face up to these challenges.

The MiFID has reached a crucial phase. As many of you will know, it is a so-called ‘Lamfalussy’ Directive. This means that it is split into two levels – the ‘Level 1’ Directive which establishes the guiding principles and the ‘Level 2’ implementing measures. The ‘Level 1’ Directive was adopted in April 2004. But the ‘Level 2’ measures are still very much under discussion. The Commission will present its proposals for these measures to the relevant comitology committee and to the European Parliament in the next few weeks. The planned extension Directive should cement a start date of November 2007, with Member States due to publish final rules 9 months ahead of that, by the end of January 2007.

If barriers to open markets are to be broken down, if single market freedoms and passports and all the benefits that they bring are to be made available, we must get the ‘Level 2’ measures right. This is no easy task. Like all our European processes, the Lamfalussy process contains a complex and sophisticated set of checks and balances. This is as it should be. It allows a large number of actors – EU institutions, regulators, market participants and consumers – to shape the measures. But it means that the Commission has to contend with a wide range of diverging approaches and interests. We are in the middle of a perfect storm – with no peace!

Any ‘Lamfalussy’ Directive is complicated. With the MiFID, the stakes are high. The sums involved big. This has given the debate an added edge. Indeed, my services tell me that this may be the toughest securities law dossier they have ever had to deal with!

But we will stick to our guns. I am determined that the ‘Level 2’ measures will scrupulously respect the compromise reached at ‘Level 1’ by all Member States and the European Parliament – that is the framework that binds us all. Creating a level playing field across 25 Member States is certainly difficult, but not impossible. The Committee of European Securities Regulators (CESR) provided us with comprehensive advice on the proposed measures. We have accepted the substantive part of that advice. But we have found ways to pare back some of the detail – which we regarded, in certain parts, as excessive.

Our financial services companies already face tough global competition. And it will get tougher. China and India are already challenging Europe, not just in labour-

intensive sectors, such as textiles, but also in some high tech and services sectors. How long before they become major players in the financial services sector too? They are already buying banks in Europe. This is just the start. So we must create the best framework for our investment services companies to compete not just internally, but in the emerging global capital market. We need a framework that is as clear and unambiguous as possible in a pan-European context.

That is why it is my intention to present as much as possible the implementing measures in the form of a Regulation rather than a Directive. This will certainly be contested in certain areas. Opponents will invoke the principle of subsidiarity. And yes, I care very much about subsidiarity. But our firms need a level playing field. To achieve this, we must limit the possibilities for ‘gold-plating’ by Member States. They need clear legal rules that are implemented on time – and equivalent throughout the EU. Our consumers need to know that if they choose a foreign provider of services, they will not be jeopardised. For all these reasons we need a Regulation on many of the key issues. And incidentally there are major political declarations in the Stockholm European Council (2002) and in the European Parliament to use regulations whenever possible.

It would make a mockery of our approach to Better Regulation, to competitiveness and to real market integration if we were to open the Pandora’s box to large scale gold plating of the MIFID to Member States. I have no intention of doing so.

## Financial Services White Paper

Let me end by saying a few words about our Financial Services White Paper which we will publish in the next few days. It focuses on the new post-FSAP phase. In simple terms – it is our financial services policy for the next 5 years. Believe it or not, adopting the FSAP was the easy part! Making sure that the measures are consistently transposed and enforced will be much harder.

One of our problems is that - while firms increasingly organise and manage themselves on a cross-border basis – supervisors remain nationally rooted. Many firms also operate across different sectors and have to contend with overlapping or conflicting supervisory requirements as a result. This increases their costs and damages their international competitiveness.

Clearly, this has to change. That is the aim of ‘Level 3’ of the ‘Lamfalussy’ process. It will promote convergence of supervisory practices in Europe. CESR – which is the

‘Level 3’ committee in the securities area - is now gearing up to the challenges ahead. It is already working on common reporting rules and formats to reduce regulatory costs. It is developing mechanisms for mediation and alternative dispute resolution. And it is beginning to cooperate with its counterparts in banking and insurance to solve cross-sectoral issues.

In order to reap the benefits of convergence and to bed down the FSAP in practice, regulators need to be given the necessary powers and resources to do this job. We at the Commission certainly feel that many regulators are understaffed for the huge task of getting implementation right. Member States need to consider carefully whether existing arrangements – be they funded by taxation or by industry levies – remain fit for purpose in the 21st century.

Some firms are calling for the development of a more integrated supervisory system. I understand these demands, certainly for cross-border and global players. But they are premature, and currently unrealistic. Our view is that the priority over the next years is to make the Lamfalussy process deliver its full potential – all 4 levels. The key is to get implementation right; simplify our rules and avoid multiple reporting requirements.

In addition, the White Paper deals with a three key issues in the securities field:

### Clearing and settlement

My line on this is quite clear. Cross-border clearing and settlement, within Europe, is much more costly and less efficient and safe than domestic clearing and settlement. This puts an unacceptably high burden on cross-border investment. Everyone agrees on this. The Commission has been working with the market in the past few years to try to eliminate the causes for excess costs. There is now a growing conviction in the market that the creation of consolidated structures in the EU, such as a pan-European CCP hinted by some actors, could help the development of the European capital market. But I do not want to impose a solution. The market must decide on the degree or nature of the consolidation which should take place. I just want them to hurry up about it! If they really believe in a more consolidated post-trade environment, then they should put their money where their mouth is and take the lead to achieve it.

The Commission will of course have to play its part in providing the appropriate environment for consolidation to be a real option. We will do so. Our priority at the moment remains the completion of our regulatory

impact assessment. Upon its completion, we will be able to decide on the appropriate content of a possible Directive. We will look at all options – including what, if anything, our competition colleagues find in their current enquiries. And we will certainly be examining how to inject much more transparency into this market.

### Investment funds

The fund industry currently manages over 5 trillion euro of assets. It is a vital link between financial markets and the real economy and household savings. Our Green Paper was published in July 2005. The results of the consultation as well as work underway will provide the elements for us to decide on future work. We are looking at how the existing Directive can be better implemented and also at new challenges such as those posed by the gradual move towards open distribution architectures.

Also, the White Paper will confirm that no legislative action is planned for the moment in the area of credit rating agencies. A Communication towards the end of this year will explain how the Market Abuse and Capital Requirements Directives will apply to rating agencies. It will also set out the provisions of IOSCO's recently adopted code. The Commission intends to ask CESR to monitor compliance with the IOSCO Code and to report back regularly. In short the rating industry remains “on watch” and aside from CESR monitoring the industry’s compliance with the IOSCO code I believe that the industry’s performance, in particular in respect of its ratings of some of the less well established, structured finance-type transactions that have mushroomed in more recent years needs continuous monitoring. In this regard, I anticipate that a group of security markets practitioners will have an important role to play in monitoring on our behalf the timing, speed, and extent of grade migration in the structured finance area in particular.

I know that the financial services industry is looking forward to a well deserved regulatory pause after the rash of regulatory initiatives of the past five years. That is now in sight. The lion’s share of the small number of new measures we have signalled for coming years are measures that should facilitate financial services businesses to take advantage of the benefits that a true single market should confer. I give you that promise now and it is a promise I intend to stick to.

## 26<sup>th</sup> SUERF Colloquium

# *Money, Finance and Demography – the Consequences of Ageing*

October 12–14, 2006, Lisbon

in co-operation with the Universidade Nova de Lisboa  
jointly organized with and sponsored by the Banco de Portugal  
and by Millennium bcp



### General Information

#### Location

The Colloquium will be held at the

Reitoria of the Universidade Nova de Lisboa  
+ Seminar Rooms at Faculdade de Economia  
Campus de Campolide  
P-1099-032 Lisboa

### Costs for Members and Non-Members of SUERF

**Non-members of SUERF** may decide to join SUERF to take advantage of the very much reduced Colloquium fees for members. Being a member does not only mean qualifying for the reduced Colloquium fee but also being invited to all other SUERF Events (such as Seminars, Annual Lecture, Conferences) that are free of charge to members. **Therefore: the earlier you subscribe for this year the more you will benefit in 2006.** Members receive three Newsletters and a minimum of four *SUERF Studies* (or even more at no extra charge) per

year. Members are provided with a password to download all *SUERF Studies* from our website [www.suerf.org](http://www.suerf.org). Please see the Subscription Forms attached to this Newsletter: If you wish to take advantage of this offer, you are asked to complete the subscription form and to return it to the SUERF Secretariat together with your registration form. If you do not want to become a SUERF member, but wish to participate, you are requested to pay the full amount of EUR 2.500.

## Colloquium Registration Fees for SUERF Members

	Early registration discount registration <b>until</b> 15 August 2006*	Registrations <b>as of</b> 16 August 2006
Students (proof of student status!)	EUR 50	EUR 60
AIM – up to 3 people, each additional participant	EUR 100 EUR 200	EUR 120 EUR 240
Personal Members	EUR 250	EUR 300
Staff members of Corporate Members*	EUR 550	EUR 660
<b>Non-members</b> not wanting to join SUERF	EUR 2500	EUR 2500

**Only for payments by cc**

Included in the registration fee are the lunches and the evening reception/dinner. Partners will, however, have to pay EUR 30 for attendance of the reception and of the dinner.

Depending on need a limited number of grants are available for residents from Central and Eastern Europe (academics and members of non-profit institutions). Applications must be addressed by 31<sup>st</sup> July, 2006 to the SUERF Secretariat.

### Registration

- Please return the completed **Registration Form** to the SUERF Secretariat (ANNEX E).
- For the **Hotel Reservation** as well as the Application for the **Official Conference Excursion** and for the **Partner Programmes** please contact the local Conference Agency MundiConvenius [www.mundiconvenius.pt](http://www.mundiconvenius.pt) in Lisbon. Click on the SUERF Logo button and you will be guided through the electronic form and receive also all necessary local information.

Note that you will receive a confirmation of your registration from the SUERF Secretariat, respectively from

MundiConvenius for your hotel and excursion bookings. No invoices will be sent!

The amount due for Registration is to be paid **before 28th September, 2006** into the

**SUERF Account BE03 439794700784**

**BIC/SWIFT Code: KREDBEBB**

**at KBC Bank, Arenbergstraat 11**

**B-1000 Brussels, BELGIUM**

or you allow us to charge your credit card (**VISA or MASTER CARD**) by returning the completed form (see ANNEX E). Please note that the early booking bonus is only applicable for registrations made until 15th August and paid by Visa or Master card.

Corporate Members or other Institutions which support SUERF are invited to send one or more delegates at the above fee. **New Corporate Members are entitled to send one participant free of costs!**\*

### Hotel Accommodation

Arrangements have been made with four hotels at different price levels. All hotels are located in the vicinity of the venue. For detailed information on special rates and addresses see below.

Hotel reservation (and registration for social excursion and partner programmes) must be made by **ON-LINE REGISTRATION** under

<http://www.mundiconvenius.pt> with

**MundiConvenius**

Av. 5 de Outubro, 53-2º

P-1050-048 Lisboa

Tel. 351-21 315 51 35

Fax 351-21 355 80 02

**The deadline for booking is September 28th, 2006. After that date no guarantee can be given on available rooms at the special rate. Please note the cancellation policy!**

**Hotel Le Meridien \*\*\*\*\***

Rua Castilho 149  
P-1090-034 Lisbon

[www.lemeridien.com](http://www.lemeridien.com)

single 169 EUR – twin/double 187 EUR

**SANA Malhoa Hotel\*\*\*\*\***

Avenida José Malhoa 8  
P-1099-098 Lisboa

[www.sanahotels.com](http://www.sanahotels.com)

single 82.50 EUR – twin/double 93 EUR

**Novotel \*\*\*\***

Avenida José Malhoa – Lote 1642  
P-1099-051 Lisboa

[www.novotel.com](http://www.novotel.com)

single/twin/double 80.00 EUR

**SANA Rex Classic Hotel\*\*\***

Rua Castilho 169  
P-1070 051 Lisbon

[www.sanahotels.com/e\\_rex.html](http://www.sanahotels.com/e_rex.html)

single 72 EUR – twin/double 82.00 EUR

**Social Programme**

For the afternoon of Saturday, 14th October, 2006 an **Official Conference Excursion** will be arranged. On 12th October a 1/2 day and on 13th October a 1/3 day

excursion will be offered to partners. For details see please the last page of this Programme (page 10).

**Procedure for the Colloquium**

The official Conference language is English. After the opening Plenary Session, the participants will meet in three discussion groups, the Commissions. The authors will give a short presentation of their papers followed by a general discussion. **Papers presented at the commissions will only be made available for participants for downloading from the internet. A password will be**

**provided.** No papers will be made available at the conference!

On Saturday morning, there will be a concluding panel discussion followed by the **Marjolin Lecture** delivered by Professor Barry Eichengreen and the presentation of the **Marjolin Prize**.

**The Marjolin Lecture and the Marjolin Prize**

The **Prix Marjolin** (EUR 2000) will be awarded to the author(s) of the paper selected by the SUERF Council of Management for having made the best contribution to the Colloquium. The award is restricted to author(s) below the age of 40 on the 14th October, 2006 (all authors of the chosen paper must fulfil this restriction).

**Robert Marjolin** (1911–1986) was one of the most distinguished European economists of his generation and a leading architect of post-war Europe. From 1948 until 1955 he was the first Secretary General of the OEEC (Organization for European Economic Co-operation). This organization was established to channel US Marshall Aid into the reconstruction of Europe. Marjolin was a leading negotiator of the Treaty of Rome for France and Vice President of the European Commission for finance and economics for ten years. He served as a Professor of Economics at the University of Paris and the University of Nancy, and in the private sector as advisor to leading European and US Companies.

In awarding the Prix Marjolin SUERF wishes to honour his memory by supporting a young outstanding author's publication.

The Marjolin award will be presented by the Marjolin Lecturer 2006, Professor **Barry Eichengreen**. The awarded contribution will be published in the *Special SUERF Series – Colloquium Papers*.

## PRELIMINARY PROGRAMME

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### Thursday morning, 12 Oct., 2006

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**Venue** Reitoria of the  
Universidade Nova de Lisboa  
Campus Campolide  
P-1099-032 Lisboa

*Museum followed by a Welcome  
Cocktail/Reception in the gardens of the  
Museum (included in the fee for partici-  
pants – partners must pay a participation  
fee)*

**9.00 a.m. Opening Session**

**Welcome Addresses** **Catherine Lubochinsky**  
SUERF President and  
Professor of Economics  
ASSAS Finance, Université Paris 2

**9.30 a.m. Plenary Sessions**

**Speakers** **Vitor Constâncio**, Governor  
Banco de Portugal  
Ageing and Financial Stability

**Fernando Teixeira dos Santos**  
Minister of Finance, Portugal, tbc

*Coffee break at the Hall of the Reitoria*

**Ignazio Visco**  
Central Manager for International Affairs  
Banca d'Italia  
*Longevity Risk and Financial Markets*

*Buffet lunch at the Hotel SANA Malhoa*

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### Thursday afternoon, 12 Oct., 2006

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**Commission work in three parallel sessions.**

**Venues:** **Commission I – room 102, 1st floor**  
**Commission II – room 240, 2nd floor**  
**Commission III – room 241, 2nd floor**

**Faculdade de Economia**  
**Universidade Nova de Lisboa**  
**Campus Campolide**

**2.00 p.m.** Commission work

**7.00 p.m.** *Visit to the Portuguese Ancient Art*

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### Friday 13 Oct., 2006 – full day

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**9.00 p.m.** Commission work  
*Buffet lunch at the Hotel SANA Malhoa*

**afternoon** Commission work

**7.00 p.m.** *Conference Dinner at “Espaço Tejo”  
(included in the fee for participants –  
partners must pay a participation fee)*

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### Saturday morning, 14 Oct., 2006

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**Venue** **Room A14**  
**Faculdade de Economia**  
**Universidade Nova de Lisboa**

**9.00 a.m. Plenary Session**  
Concluding panel discussion

**Chairperson:** **Catherine Lubochinsky**,  
President of SUERF

**Panel Members:** Three Chairmen of  
the Commissions

*Coffee break at the Vestibule of the  
Library*

**11.00 a.m. Marjolin Lecture**  
to be delivered by  
**Professor Barry Eichengreen**  
George C. Pardee and Helene N. Pardee  
Professor of Economics and Political  
Science, University of California,  
Berkeley  
*Global Imbalances: What Does  
Population Ageing Imply for their  
Evolution?*

### Robert Marjolin Prize

Award for the best contribution to the Colloquium given by author(s) below the age of 40.

approx.

12.00 noon End of the Colloquium

### Afternoon OFFICIAL CONFERENCE EXCURSION WITH DINNER

Optional excursion to Alcobaca, Nazare and Obidos including Dinner in Obidos (not included in the participation fee).

See also page 10

## On the Commissions

In addition to the plenary sessions, the commission reporting session, and the Marjolin Lecture, one and a half days is reserved for presentation and discussion of some 45 papers in three parallel commissions.

### ► Commission I

#### The Real Economy, Public Finances and Demography

Submitted papers may address inter alia the following issues:

- Productivity and real growth issues
- Migration and employment issues
- Effects on budget expenditure and debt as well as sustainability issues
- Tax policy, pensions and savings issues
- Financial versus real resources implication of ageing
- The balance between public and private financing arrangements
- Types of tax incentives to save for retirement
- Possible punishment of early retirement

#### Chairpersons: Morten Balling

Professor, Department of Accounting,  
Finance and Logistics  
The Aarhus School of Business  
[mb@asb.dk](mailto:mb@asb.dk)

#### Vasco Santos

Professor, Faculty of Economics  
Universidade Nova de Lisboa  
[vascos@fe.unl.pt](mailto:vascos@fe.unl.pt)

#### Invited Speakers Commission I:

**Christoph Courbage**, Geneva Association –Health and Ageing Program, tbc

**Daniel Gros**, CEPS, *Demographic decline: a problem without a solution*

**Anne Lavigne**, Université d'Orléans, *Interaction between demographic, economic and financial factors in determining pension reserve fund sustainability: an application on French data and projections*

**Martin Werding**, ifo Munich, *Implicit Pension Debt and Fiscal Sustainability: An Assessment for Germany*

### Thursday, 12 October, 2006

Session I and II from 2.00 to 5.00

### Friday, 13 October, 2006

Session III – IV from 9.00 to 12.45

Session V – VI from 2.30 to 5.30

### ► Commission II

#### Monetary and Financial Stability, Supervision and Demography

Submitted papers may address inter alia the following issues:

- The impact of ageing on inflation and the interest rate (structure)
- Ageing and the (future) stability of the financial system
- The impact of ageing on exchange rates and the international monetary system
- The intra- and intergenerational distribution of ageing risks
- The funding ratio of pension funds
- The use of fair value accounting by pension funds
- The regulatory view on pension fund investment policies
- The optimal mix of DC and DB elements in pension schemes
- Other regulatory issues

#### Chairpersons: Ryszard Kokoszczyński

Director, Bureau of Macroeconomic  
Research National Bank of Poland  
[ryszard.kokoszczyński@mail.nbp.pl](mailto:ryszard.kokoszczyński@mail.nbp.pl)

#### Manuel Sebastião

Executive Director  
Banco de Portugal  
[msebastiao@bportugal.pt](mailto:msebastiao@bportugal.pt)

#### Invited Speakers Commission II:

**Caspar van Ewijk**, Netherlands Bureau for Economic Policy Analysis, *Demographic uncertainty and sustainability of government finances*

**Karl-Olof Hammarkvist**, Stockholm School of Economics, *From defined benefit to defined contribution. Experiences from the first five years of the Swedish Premium Pension Scheme*

**Jan B. Kuné**, ABP Pension Fund and University of Amsterdam, *Global Ageing: Can we grow older comfortably*

**Pierre Siklos**, Wilfrid Laurier and Viessmann Research Centre, *Rules Versus the 'Wisdom of Men': How Necessary Are Central Bank Governance Principles?*

**Thursday, 12 October, 2006**

Session I and II from 2.00 to 5.00

**Friday, 13 October, 2006**

Session III – IV from 9.00 to 12.45

Session V – VI from 2.30 to 5.30

### ► Commission III

#### Financial Institutions, Markets and Demography

Submitted papers may address inter alia the following issues:

- The financial innovation (inflation-linked, longevity, perpetual ... bonds)
- The future of company pension schemes
- The institutionalisation of individual savings via e.g. mutual funds
- The revitalisation of sleeping capital in the hands of aged people (succession, heritage, etc.)
- The asset allocation of pension funds and group insurances (IAS 19, deficits, absolute versus relative return, etc.)
- The implications for equity and bond markets

- The developments in the housing markets (reverse mortgages, real estate prices, etc.)
- The strategies of financial institutions (banks, insurance companies, asset management companies, etc.)

**Chairpersons: Frank Lierman**

Chief Economist

DEXIA BANK BELGIUM

[frank.lierman@dexia.be](mailto:frank.lierman@dexia.be)

**Manuel Alves Monteiro**

Former Head of the Lisbon Stock

Exchange and Executive Director of

Euronext

[amonteiro@mail.telepac.pt](mailto:amonteiro@mail.telepac.pt)

**Invited Speakers Commission III:**

**Etienne de Callatay**, Bank Degroof, *Brussels Why promoting private savings is only part of the aging solution*

**Theo Peeters**, KU Leuven and Ageing Study Group in Belgium, *Financial Threats of Ageing. The Case of Belgium*

**Thursday, 12 October, 2006**

Session I and II from 2.00 to 5.00

**Friday, 13 October, 2006**

Session III – IV from 9.00 to 12.45

Session V – VI from 2.30 to 5.30

### The Official Conference Excursion

14th October, 2006 – 1.30 p.m.-11.00 p.m.



Guided excursion to **Alcobaca**, **Nazare** and **Obidos** with a Colloquium Dinner in Obidos included. **Price: 80 EUR**

## Partner Programmes

Thursday, 12<sup>th</sup> October, 2006



Guided Lisbon Tour from ca. 10.00 a.m. – 1.00 p.m. – **39.00 EUR** (minimum participants: 15).

Participants will be visiting the “**Jerónimos Monastery**” the “**Tower of Belem**” and the **Saint Georges Castle**. Meeting point for this excursion is the “Sana Malhoa Hotel”.

In the evening partners may wish to join the **Colloquium Welcome Cocktail** at the **Portuguese Ancient Art Museum** followed by a Welcome Cocktail in the gardens of the Museum (see registration fee for Colloquium participants - attending partners will be charged **30 EUR**).

Friday, 13<sup>th</sup> October, 2006



Guided tour from ca. 10.00 a.m. – 5.00 p.m. to Queluz, Sintra passing Cascais and Estoril on the way back to Lisbon. **77.00 EUR** with lunch included (minimum participants 15). Meeting point for this excursion is the “Sana Malhoa Hotel”.

In the evening partners may wish to join the **Colloquium Dinner** at “Espaço Tejo” (see registration fee for Colloquium participants – attending partners will be charged **30 EUR**).

## Report on the SUERF Seminar

### *Consolidation of European Securities Markets*

By Morten Balling,  
Professor, Aarhus School of Business,  
Member of the Council of Management of SUERF

The seminar that took place on 30<sup>th</sup> November 2005 at the National Bank of Belgium in Brussels was organized in co-operation with the Belgian Financial Forum, Euronext and the Catholic University of Leuven and sponsored by Dexia Bank and Fortis Bank. **Jürgen Pfister**, SUERF Vice-President and Senior Vice

President, Bayerische Landesbank and **Frank Lierman**, Chief Economist Dexia Bank welcomed the participants. **Session I – “Competition, Clearing and Settlement”** – was chaired by **Frank Lierman**. **Patrick Van Cayseele**, Katholieke Universiteit Leuven presented a paper co-authored with **Christophe Wuyts**.

The title was “*Cost Efficiency in the European Securities Settlement and Safekeeping Industry.*” The speaker pointed out that the increasing cross-border trading on securities markets creates a need for a more efficient international settlement infrastructure. There are so far only published a few research papers on efficiency in the settlement and custody industry in Europe. The speaker compared the research methodologies and results in studies by respectively Schmiedel, Malkamäki & Tarkka (SMT) and Van Cayseele & Wuyts (VCW). SMT define output as number of transactions settled and the value of deposits held. VCW measure output as number of clients and number of securities held. There are also differences in the ways in which the two groups of researchers measure costs of input. In spite of the differences in methodology, both groups conclude that there are scale economies in the settlement and custody industry. The policy implication is that further consolidation will increase cost efficiency.

**Paul Bodart**, Bank of New York (Brussels) was discussant of the paper. He fully supported the view that securities settlement and safekeeping is an industry where economies of scale and economies of scope can be achieved. The challenge is cross-border investment. He would like the authors to broaden their analysis to cover some of the larger markets in Europe.

The general discussion was very much focused on the differences between horizontal and vertical integration. Competition policy concerns were referred to in warnings against too much vertical integration between providers of trading facilities (exchanges) and providers of settlement and safekeeping facilities.



**Erik Theissen**, Bonn Graduate School of Economics gave the next presentation “*Competition Between Exchanges: Euronext versus Xetra.*” The comparative study of transaction costs in Euronext and Xetra was car-

ried out in co-operation with *Maria Kasch-Haroutounian*. The trading systems at the two exchanges are similar: They both have an anonymous electronic open limit order book, an opening and closing call auction, liquidity provision arrangements for less liquid stocks, pre-trade transparency and volatility interruptions. The main differences between the two markets concern trading hours, number of liquidity provision agreements and presence or absence of domestic competition.

Market quality is measured as respectively quoted half-spread, effective half-spread, price impact and realized half-spread. Quoted spreads, effective spreads and realized spreads are significantly smaller in Xetra. Price impacts are significantly larger in Xetra than in Euronext. In a regression analysis, the included stock characteristics do not fully explain the differences in execution costs.

The discussant was *Rudy De Winne*, University of Mons. He put question marks to the use of market capitalization as a matching criterion and to the composition of the samples of German and French stocks. He also asked if the results would be different if the researchers had focused on some intervals of the trading session. Execution costs could be measured in other ways. Duration weighted averages are better than simple arithmetic averages. Researchers should go on developing market quality analysis methodology.

**Session II – “Consolidation of European Stock Exchanges”** – was chaired by **Jan Bart de Boer**, Fortis Information Banking.

As the first speaker in the panel, **Poul Erik Skaaning-Jorgensen**, OMX Exchanges gave a presentation “*Stock Market Consolidation and Regulation in Europe.*” OMX headquartered in Stockholm consists of six regional exchanges in the Nordic region and is on a consolidated basis the number seven exchange in Europe in terms of market capitalization. The exchanges in Oslo and Reykjavik share the same trading systems but do not belong to OMX. A common platform to get full efficiency benefits and to enable easy access to and within the region, regulation and supervision by local authorities and regional harmonization of market practices are key features of the OMX model. The speaker argued that there is a limit to the economies of scale that can be obtained by increasing the size of an exchange. An exchange covering the Nordic Region including the Baltic Countries is accordingly close to an optimal size.

**Barbara Wösner**, Vienna Stock Exchange described the role of the exchange in the Austrian capital market. The exchange is owned by some of the largest Austrian banks and listed companies. The exchange is a member of the alliance Central European Exchange Group together with exchanges in eight other Central and Eastern European countries. The co-operating exchanges are all owned by institutions with a strong interest in a development of the region. The group aims at lowering the transaction costs, more efficient allocation of capital, wider choice of financial instruments, improved equity financing opportunities and a decrease in the cost of capital. An exchange has several strategic options. The alliance option lies somewhere between the extremes standing alone and a merger with other exchanges. An alliance makes it possible to obtain access to advanced trading and clearing systems, reduced costs and improved liquidity while maintaining a certain degree of independence.

**Robert Thys**, Euronext Paris described the milestones which Euronext had passed in its development from single domestic exchanges in Amsterdam, Brussels, Paris and Lisbon to a pan-European market. He used the expression: “We had to team up in order to meet the market users’ and issuers’ demands.” In its development, Euronext has used both a horizontal and a vertical model. Thus, Euronext is the biggest individual shareholder in LCH Clearnet and cooperates with Euroclear that provides settlement systems for domestic and international securities transactions and acts as Central Securities Depository (CSD) for Dutch, French, Irish and UK securities. In terms of equity market capitalization, Euronext is the second largest exchange in Europe after London Stock Exchange. In terms of the trading value of the central order book, Euronext is now the largest exchange in Europe. The revenue structure of Euronext based on data from 2004 is interesting. Not less than 36% of the revenue comes from derivatives trading. It partly reflects that Euronext N.V. in 2001/2002 acquired LIFFE – the London International Financial Futures and Options Exchange.

**Carmine Di Noia**, ASSONIME, Rome presented data on Borsa Italiana, which is today a privately held company. A planned listing of the company has been delayed due to regulatory reasons. The exchange offers a broad spectrum of equity products, fixed income products and derivatives. In terms of market capitalization in August 2005, Borsa Italiana is ranked as number six in Europe after London Stock Exchange, Euronext, Deutsche

Börse, Spanish Exchanges and the Swiss Exchange. In terms of daily average shares turnover on electronic matching trading systems, Borsa Italiana is number three in Europe. After giving an overview of factors that drive the consolidation trend in the European stock exchange landscape, the speaker outlined a number of trends that he expected to see in the years to come: The emerging “market” framework will be characterized by competition among trading venues, greater disclosure for listed companies, less importance of voluntary listings, harmonization of rules for disclosure and investor protection and consolidation of the provision of information on companies and markets. The emerging regulatory/supervisory framework will – according to the speaker - be characterized by greater powers to supervisors, a single monetary policy in the Euro area and maintenance of national rules in company laws. It is still too early to establish a SEC in the EU. In the exchange industry, the speaker expected more consolidation with (implicit) mergers, more transparency and price consolidation, intermediaries that function more as markets or exchanges that function more as intermediaries, specialization of exchanges including exchanges that provide ratings and sell other kinds of information.

During the general discussion, the attraction of listing was one of the topics. The takeover by equity funds of listed companies and the many recent examples of delistings were seen as a temporary consequence of low interest rates. Representatives of exchanges expected that many delisted companies would relist after some years as privately held. The success of the alternative trading systems (ATs) in the United States was another topic. It was explained by the relative slow electronification of the American exchanges. Competition from ATs was not feared by the exchanges in Europe. As one exchange representative said: “ATs cannot do it cheaper than we can.”

**David T. Llewellyn**, President of SUERF thanked the co-organizers, the chairmen, the speakers and the participants for their contributions to a very interesting seminar.

# Report on the Zurich Seminar

## *The Changing Face of Corporate Financing*

by Sébastien Kraenzlin  
Credit Suisse Economic Research

The SUERF seminar that took place on 16th March 2006 was jointly organized with Credit Suisse. The key issues addressed by the seminar were changes in corporate financing, their implications for corporate strategy and the responses to these changes by the Swiss financial industry. Academics and practitioners spoke about the different issues from their particular points of view. **Alois Bischofberger**, Chief Economist of Credit Suisse Group and Council member of SUERF, led the conference and the following discussion. Introductory literature provided in advance of the seminar included Economic Briefings No. 39 ("Systems of Corporate Financing") and No. 42 ("Mezzanine Finance – A Hybrid Instrument with a Future") published by Credit Suisse's Economic Research Department.



The way in which companies are financed is undergoing profound and lasting change, as is the banks' role as intermediaries between those who can supply capital and those who want it. There is an optimal financing structure for every investment project, every business model, and every phase of a company's development. Bank loans are the ideal instrument for many, but not all, financing requirements. Capital market financing, by contrast, is too unwieldy and expensive for many small and medium enterprises (SME) and so cannot be regarded as alternative source of financing for them. Alternative forms such as mezzanine finance are becoming increasingly popular as a supplement to the traditional forms of corporate financing.

**Rudolf Volkart**, Professor at the University of Zurich, pointed out that the Swiss system of corporate financing stands out very much as a hybrid, with strong elements of both the bank oriented and capital market oriented systems. While it is reasonable to suggest that the choice of capital structure in each country is a result of a complex interaction between many institutional features, including the national legal environment, two main obstacles to capital market financing stand out. Firstly, the influence of investors whose demand for information and communication almost always surpasses the resources of small and medium sized enterprises. Secondly, ownership structures, which have a substantial influence on financing decisions. While publicly owned firms finance themselves via capital markets, family owned firms hesitate to do this - basically because they do not want to lose their freedom of decision-making by allowing stockholders to actively participate in defining corporate strategy.

**Maurice Pedergnana**, Professor at the University of Applied Sciences of Central Switzerland, highlighted the second obstacle mentioned by Rudolf Volkart. As well as the obvious financing gap there is also a mentality gap on the entrepreneurial side. One solution to both the financing and the mentality gap is mezzanine debt. Mezzanine debt is a hybrid financial instrument employed for such things as growth financing and buy-outs. By combining the characteristics of debt and equity instruments, mezzanine finance provides borrowers with financial flexibility and investors with attractive risk-adjusted returns and current cash flows. Ultimately, this provides firms that do not have the right risk profile for further bank loans with an alternative source of finance. Compared to the U.S., however, it is far more difficult to bridge financing gaps with venture capital in Europe.

**Urs P. Gauch**, Head Corporate Clients Switzerland – Large Corporates at Credit Suisse, agreed that the venture capital market in Europe is underdeveloped, but that some progress has been achieved lately. Credit Suisse, for instance, launched a new form of mezzanine finance (CSF Mezzanine), which gives Swiss SMEs access to economic equity capital and risk capital without affect-

ing the firm's decision-making freedom. Credit Suisse has also developed “Preferred Pooled Shares” (PREPS™) in collaboration with Capital Efficiency Group (CEG). These allow medium-sized companies to obtain equity capital indirectly on the international capital markets. In contrast to CSF Mezzanine, where the interest rate currently lies between 9.5% and 12% p.a., the current price for PREPS™ is 6.8%.

**Werner Tschan**, CEO of MDC Group Max Daetwyler AG, recounted his experiences with PREPS™. He believes that PREPS™ provide cost-effective financing without compromising the company's ownership rights. Additionally this form of financing enlarges the scope for growth and succession financing. Werner Tschan also mentioned the great importance of close dialog between businesses and banks, and the way this can reduce information asymmetry. Nevertheless, he argues that it is the quality rather than the quantity of information that increases transparency and closes the information gap.

As **David Llewellyn**, Professor at Loughborough University and President of SUERF, pointed out in his opening speech and closing statement, there will always be a mix between capital market and bank financing – it is solely a question of the relative importance of the financing source. In the near future further efforts will have to be made by banks to develop and design products that meet the particular financing needs of small and medium-sized enterprises. Yet financial gaps can also be closed if the mentality of entrepreneurs shifts to enable more innovative corporate strategies and financial structures. He also expects banks in Europe to tend much more towards shareholder orientation – as banks in Anglo-American countries have already done – and less towards stakeholders. This is mainly because of risk-return considerations.

Please note that the presentations given during the seminar can be downloaded from the SUERF website [www.suerf.org](http://www.suerf.org).

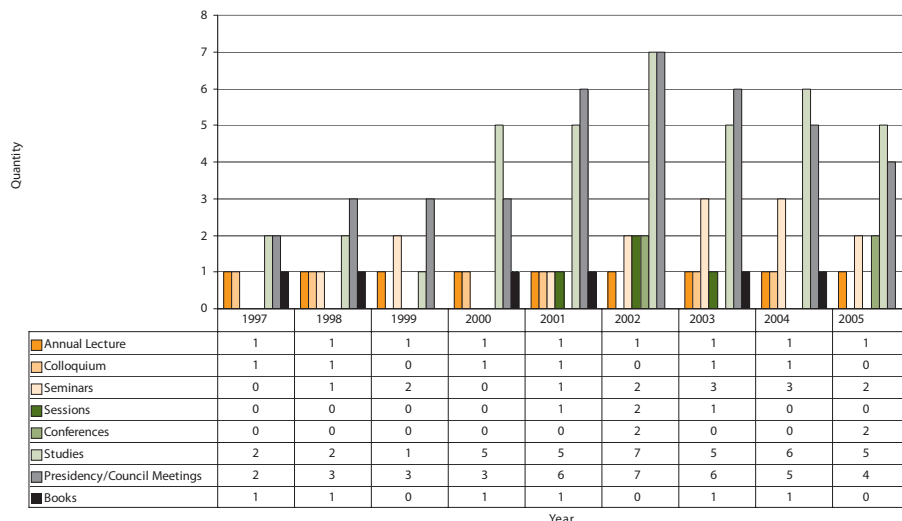
## SUERF Highlights 2005

**Eduard H. Hochreiter**  
Secretary General of SUERF

2005 was an “interim year”, as we call a year during which there is no Colloquium. Nonetheless SUERF remained vibrant, we raised our visibility further and, so we hope, the Network’s usefulness for our members also increased. At the same time, we started to prepare the institutional and personal ground for the second half of the first Decennium of the new century.

As you can see from the activities chart, our activities continued at a high pace and showed a distinct profile. We laid particular emphasis on co-organizing our events with institutions representing the three pillars of SUERF. With the second term of the President and Vice President drawing to a close in April 2006, foremost the President committed significant time to ensure a smooth change-over. A detailed account of 2005 follows below.

### Development of SUERF Activities



## 1. Membership

Corporate Memberships decreased to a total of 87 (including 27 Central Banks) equating to a decrease of 9 members from 2004. Personal membership remained almost the same with 219 members (220 in 2004). Academic Institution Membership (AIM) developed well with 23 institutions now having signed up (17 in

2004). This group membership explains also the loss of some Personal Members now becoming AIM. LSS subscriptions increased by one, to four.

SUERF members are located in the following 37 countries - most of them of course from Europe but non-European are also welcome!

ALBANIA	DENMARK	IRELAND	POLAND	SWEDEN
AUSTRALIA	ESTONIA	ITALY	PORTUGAL	SWITZERLAND
AUSTRIA	FINLAND	JAPAN	ROMANIA	THE NETHER-
BELGIUM	FRANCE	LATVIA	RUSSIA	LANDS
BRAZIL	GERMANY	LUXEMBOURG	SLOVAKIA	UNITED
CANADA	GREECE	MACEDONIA	SLOVENIA	KINGDOM
CYPRUS	HUNGARY	MALTA	SOUTH AFRICA	UNITED STATES
CZECH REPUBLIC	ICELAND	NORWAY	SPAIN	OF AMERICA

## 2. Activities

Events and publications continued at a similar level to previous years, with two conferences, two seminars and the Annual Lecture. Five SUERF Studies were published in 2005 – one less than in the previous year. For detailed information about published SUERF Studies, please consult our website at [www.suerf.org](http://www.suerf.org). SUERF events were attended by 670 people – an increase of 220 over 2004, despite the fact that there was no Colloquium in 2005.

### Publications

SUERF Studies 1-22 and 2003/1-2003/5 can now be downloaded by everybody from the website. The more recent Studies (2004/1-2005/5) are offered to members only to download with a password, which can be obtained from the Executive Secretariat.

### SUERF Events

#### Annual SUERF Lecture

The 12th Annual SUERF Lecture, held on 30th November, 2005, was organized with the Belgian Financial Forum, in co-operation with the Centre for Economic Studies (KU Leuven) and Euronext, sponsored by Fortis Bank and Dexia Bank and hosted by the National Bank of Belgium in Brussels. The Lecture was delivered by Commissioner Charlie McCreevy, European Commission, on *Stock Market Consolidation and Securities Market Regulation in Europe* (120 participants).

### Conferences

SUERF organized the follow two Conferences in 2005:

- Full day Conference jointly organized with UniCredit in Frankfurt am Main (9<sup>th</sup> March 2005) on Governance and Structure of European Finance after EU Enlargement (300 participants).
- 1/2 day Conference jointly organized and hosted by the Bank of Finland in Helsinki (22–23 September 2005) on *Open Market Operations and the Financial Markets* (60 participants).

### Seminars

SUERF arranged the following two Seminars in 2005:

- Full day Seminar in Vienna (3<sup>rd</sup> June, 2005) *The Future for Private Banking in the New EU Member States of Central and Eastern Europe* jointly organized with Bank Gutmann AG in cooperation with the Vienna Institute for International Economic Studies (WIIW) and the Austrian Society for Bank Research (about 70 participants);
- Half day Seminar in Brussels (30<sup>th</sup> November, 2005) *Consolidation of European Securities Markets* with the Belgian Financial Forum, in co-operation with the Centre for Economic Studies (KU Leuven) and Euronext and sponsored by Fortis Bank and Dexia Bank (120 participants).

On behalf of the SUERF Council of Management, I would like thank all co-organizers for their contributions. We are convinced that our events have made a significant contribution to public debate on important issues.

### 3. Financial Situation

SUERF's financial situation continues to be quite healthy, despite a net loss in corporate members in 2005. We heavily rely on corporate membership subscriptions to finance our activities. In 2005 they stood at nearly € 117,000, sadly a decline of some € 7,000 from the year

### 4. Outlook to 2006

For 2006 we plan to hold the 26<sup>th</sup> SUERF Colloquium (Lisbon), four seminars (Zurich, London, Malta and Klagenfurt) with the Seminars in Zurich and London

### 5. Miscellaneous

#### Council of Management

By decision of the General Assembly on 30<sup>th</sup> November 2005 in Brussels:

- **Morten Balling**, Aarhus School of Business, Denmark; **Alois Bischofberger**, Credit Suisse, Switzerland; **Frank Lierman**, Dexia Bank, Belgium; **Juergen Pfister**, Bayerische Landesbank, Germany; **Eric Pollefliet**, KBC Bank, Belgium; **Fernando Restoy**, Banco de España, Spain and **Marc-Olivier Strauss-Kahn**, Banque de France, France were re-elected as members of the Council of Management of SUERF for another three year term until 1 January 2009.
- **Miguel Beleza**, Senior Advisor, Millennium BCP in Lisbon (and also Professor at the Universidade Nova

before. Personal members contributed € 10,900, Academic Institution Membership (AIM) category brought in € 4,600 and the Library Subscription Service € 1,000. Finally, income from the sale of SUERF Studies stood at € 2,120.

having already taken place at the time of going to print., an Annual Lecture and to publish five to six Studies.

de Lisboa); **Wim Boonstra**, Chief Economist, Rabobank Nederlands; **Harris Dellas**, Professor in Economics at the University of Bern; **Philipp Hartmann**, Head of the Financial Research Department at the ECB and **Catherine Lubochinsky**, Professor of Economics at the University of Paris 2 were elected to the Council of Management for a three year period until 1 January 2009.

The **Executive Secretariat** continues to be staffed by **Beatrix Krones** (Executive Secretary, full-time) and **Michael Bailey** (Assistant, part-time). On behalf of the Council of Management I would like to cordially thank Ms Krones and Mr Bailey for their outstanding work. Their devotion to SUERF is exemplary.

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### SUERF Council of Management

David T. Llewellyn, President  
Eduard H. Hochreiter, Secretary General

Morten Balling, Chairman Editorial Board  
Luís Miguel Beleza  
Alois Bischofberger  
Wim W. Boonstra  
Claudio E.V. Borio  
Franco Bruni  
John P. Calverley  
Harris Dellas

Jürgen Pfister, Vice-President  
Eric Pollefliet, Treasurer

Willy Friedmann  
Philipp Hartmann  
Ryszard Kokoszczyński  
Frank Lierman  
Catherine Lubochinsky  
Fernando Restoy  
Marc-Olivier Strauss-Kahn

For complete addresses of the Council Members and Curricula vitae see: [www.suerf.org](http://www.suerf.org)

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## New SUERF Studies

2006/1 **Fiscal Issues in the New EU Member Countries: Prospects and Challenges.** By **Helmut Wagner**, Vienna, March 2006, ISBN 3-902109-31-9

## Book Review • Book Review • Book Review

### New International Financial Architecture

Edited by Nouriel Roubini, Professor of Economics, Stern School of Business, New York University, US and Chairman, Roubini Global Economics, LLC and Marc Uzan, Founder and Executive Director, Reinventing Bretton Woods Committee, New York, US. 45 articles, dating from 1995 to 2004; Contributors include: G. Calvo, B. Eichengreen, S. Fischer, A. Krueger, J. Stiglitz, L. Summers. Two volume set 2005, 1296pp Hardback, 1 84376 808 9 £315.00, Elgar Mini Series

by Professor Franco Bruni, Università Commerciale Luigi Bocconi  
and SUERF Council of Management

With their two-volumes-1300-pages collection of articles from academic journals and books, working and unpublished papers, and various contributions from research institutes and departments, Roubini and Uzan offer a valuable reference tool for scholars dealing with financial crises, their remedies and management, including the reorganisation of international rules and institutions, such as the IMF, that aim at promoting global financial stability.

Volume I is devoted to the causes of financial crises, concentrating the attention on the last decade. Case studies are presented, ranging from Mexico 1995 to East Asia, Russia and South America, followed by a number of theoretical explanations “of the last generation” (not older than 1998). Volume II deals with the remedies: crisis prevention and resolution, the role of the IMF, bail-ins versus bailouts, optimal exchange rate regimes, capital controls and lending of last resort.

The material is rather abundant and would have benefited from a richer editors’ introduction, guiding the user in a rapid and effective search of the readings that fit her needs. On the other hand the tables of contents are well organised, detailed and clear.

Following the end of the gold standard, a period of world-wide financial repression, with few exceptions and short interruptions, lasted more than 60 years, resulting in all sorts of inefficiencies and distortions. During this period financial over-regulation has been among the causes of a slower rhythm of global economic growth, but it also forced, especially after the great crisis of the ‘30s, a relatively high degree of financial stability, though in a very artificial way. Financial liberalisation and globalisation is thus a relatively recent adventure and both well developed and under developed economies have often shown to be unprepared to manage the new financial freedoms. Even now, while advancing into the new millennium, a number of

“emerging economies are still at the early stages of understanding how they can best benefit from global financial markets”, as Roubini and Setser put it in one of the first papers of the collection (vol. I, p. 25).

Several episodes of financial turbulence recently characterised international capital markets. Both scientific research and policy analysis are still looking for an effective and comprehensive way to deal with the issue. According to Dornbusch, Park and Claessens (vol. I., p.384) “neither the exact causes nor the best architecture for guiding international capital is yet known”; “contagion”, from a country in crisis to previously healthy financial systems, deserves special attention and further research as “economists still do not know precisely the factors that make countries vulnerable to contagion and the exact mechanism through which it is transmitted” (vol. I, p. 398). The complexity of the problem increases with “twin crises”, hitting both currency and banking, and “triple crises” when sovereign debt is also involved. Triple crises are discussed in the book as happened in Argentina, Russia and elsewhere. “Sudden stop” is a key word in explaining financial crises, when abundant international capital inflows that were benefiting an emerging economy are interrupted, triggering unexpected balance of payments difficulties: Roubini and Uzan include in their collection an important paper by Guillermo Calvo that starts by observing that the topic is a source of “great confusion in the economic profession” and tries to offer a “simple economics of sudden stops” (vol. I, p. 561).

The second volume begins with the neat 1999 survey by Rogoff of the possible improvements of international institutions that could favour global financial stability. Rogoff, showing intellectual courage and generosity, states that “it is [too] easy to fall into the trap of thinking that big institutional changes are unrealistic or unfeasible”: therefore the list of innovations to be discussed

must also include several “entries in the save-the world-game” practiced by “men or women who would be Keynes” (vol. II, p. 11-12).

The collected contributions include various proposals to reform and refocus the IMF. There is also the famous 2002 Anne Krueger paper (vol. II, p. 225) explaining the reasons why the IMF staff argued in favour of a new role of the Fund within a super-national sovereign debt restructuring mechanism. The proposal met strong political opposition (see also the paper by Under Secretary John Taylor: vol. II p. 253) and it is still considered totally unfeasible. I think that the blockage of this line of thinking is unfortunate and that a step in this direction would signal a new desire of innovative and courageous international cooperation.

In my opinion the weakening of international coopera-

tion is correctly the strongest danger for global financial stability. Roubini and Uzan cover several important issues where cooperation is indispensable, like the international lender of last resort (see the last section of vol. II), but they do not deal with the present status of global macro imbalances (US’ twin deficits vs Asian surpluses) which could trigger a major international currency and financial crisis and that should be remedied with a new, strengthened spirit of multilateral cooperation. By including some appropriate material the two volumes should have also stressed the crucial importance of the finalisation of Basel II and of its uniform application world-wide: they currently look as objectives difficult to achieve – in spite of their importance for the prudential architecture of international finance – due to a lack of impetus of global multilateral cooperation

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## Future SUERF Events

The Council of Management has decided on the following forthcoming events for 2006. Other events will follow during the year and will become available on the website and in the Newsletters in due course. You are therefore invited to visit the website regularly – [www.suerf.org](http://www.suerf.org) – to receive the most up-to-date information.

The Council of Management is always pleased to consider suggestions for joint events from members.

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4–5 May 2006 St Julians, Malta	<b>SUERF Seminar</b> <i>The Adoption of the Euro: Challenges and Vulnerabilities on the Last Stretch</i> , jointly organized with the Central Bank of Malta.
1 September 2006 Klagenfurt, Austria	<b>SUERF Seminar</b> <i>Financial Integration in the Alp-Adriatic Area</i> jointly organized with Klagenfurt University.
12–14 October 2006 Lisbon, Portugal	<b>26th SUERF Colloquium</b> <i>Money, Finance and Demography – the Consequences of Ageing</i> , jointly organized with the Banco de Portugal in co-operation with Universidade Nova de Lisboa. <b>See the Preliminary Programme in this Newsletter.</b>

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**For more details and latest news on SUERF Events and for Registration Forms, please visit [www.suerf.org](http://www.suerf.org)**