The ESRB at 1

Report on the SUERF/Deutsche Bundesbank/IMFS Conference held in Berlin on 8–9 November 2011

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Among the many lessons drawn from the current financial and economic crisis there is a consensus view that policy makers need to pay much closer attention to macro-financial developments, i.e. to stability of the financial system as a whole, in addition to stability of individual financial firms. In 2009, the de Larosière report recommended, among other things, that a Union level body be established with a mandate to oversee risk in the financial system as a whole. This led to the creation of the European Systemic Risk Board (ESRB), which is part of the European System of Financial Supervision (EFSF), on 16 December 2010; with the inaugural meeting of the General Board of the ESRB being held on 20 January 2011. The seat of the ESRB is in Frankfurt am Main and its Secretariat is ensured by the European Central Bank (ECB), and the ESRB’s President is the ECB President. The ESRB shall contribute to the prevention or mitigation of systemic risks to financial stability in the Union.

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SUERF – The European Money and Finance Forum, the Deutsche Bundesbank and the Institute for Monetary and Financial Stability (IMFS) took the opportunity of the first anniversary of this new institution to organise a joint conference in Berlin on 8-9 November 2011. The purpose of this event was to take stock of first experiences with the ESRB; to discuss current issues in the field of macroprudential supervision, including the integration of macro-financial elements into macroeconomic models, the measurement and indicators of systemic risk, macroprudential tools and their effectiveness; and to identify forthcoming challenges for the ESRB and macroprudential supervision at large.

Hermann Remsperger, Chairman, Stiftung Geld und Währung, in his opening welcome address raised several pressing questions regarding macrofinancial stability: first, is the ESRB’s organisational structure conducive to its effectiveness, and will its recommendations be effective in the absence of strong mandates for financial stability at the individual member state level? Second, how good is our ability to detect macro-financial risks? Third, how much do we know about the transmission of, and the interaction between, various macroprudential instruments? How will policy makers overcome their bias towards inaction, e.g. when it comes to activating countercyclical buffers? And, finally, how should the line be drawn between central banks’ price stability and financial stability objectives? Can they be separated any longer?

Catherine Lubochinsky, President of SUERF, thanked the co-organisers for their excellent cooperation and generous support in making the conference possible. The conference topic serves as an excellent example of how SUERF can provide useful contributions by bringing together the major constituencies involved in the design of macroprudential supervision: from central banks and supervisors, financial practitioners and academic economists.

Helmut Siekmann, President of the Institute for Monetary and Financial Stability, thanked the organisers for putting together an interesting program. He remarked that systemic financial stability has long been an underrated issue, as has financial instability emanating from unsound public finances. Financial crises and the necessity to deal with them can also place severe threats upon central bank independence.

Stefan Gerlach, Deputy Governor, Central Bank of Ireland, introduced the keynote speaker Martin Hellwig, Max-Planck-Institute and ESRB, who spoke about “Systemic Aspects of Risk Measurement and Risk Management: Lessons from the Financial Crisis”. In the past, systemic risk was used to justify regulation which could not be justified otherwise. According to Hellwig, it is an illusion to measure systemic risk, and in fact, any risk. With regard to why banks are so exposed to interest rate risk, he pointed out that in the past, banks’ asset-liability managers had claimed that interest rate risk, being a market risk, was not relevant for the bank book. This stance neglects the systemic relevance of large-interbank-credits: while individual banks appear may be nearly fully maturity-matched, the system as a whole is not: Funding through money markets has also in the past caused bank failures. That individual banks are nearly fully hedged does not prevent the system as a whole from being exposed to substantial systemic risk. System risk is often not straightforward to detect. It may lie in the correlation of counterparty credit risk and the risk of the underlying assets. Typically this is neglected in risk assessments, and “market discipline” cannot correct the problem, since the information is not available. Repo borrowing and lending has been used as a mechanism for inflating short positions. Long transaction chains from investors to e.g. real estate credit involves many potential failures and risks. The neglect of systemic aspects resulted in delusion about maturity transformation and delusion about liquidity risks. All in all, therefore, the crisis has several causes: subprime loans as an initiator of the crisis (recently, the sovereign debt crisis acted as a new initial shock); the fragility of financing structures (excessive maturity transformation, liquidity transformation and leverage, shadow banks) as magnifiers; and self-enforcing downward dynamics based on the interplay of asset price declines, fair value accounting, the inadequacy of bank capital, deleveraging, and asset price declines.

Before and during the crisis, various forms of misbehaviour happened: yield hunger, excessive maturity transformation, market share focus, improper risk modelling, lack of understanding of nonstationarities and correlations, a lack of understanding that there are risks not covered in models, and improper risk control. EU and national capital requirements legislation on purpose attaches zero risk weighting to sovereign debt, while this is not stipulated in Basel regulation, and it was always obvious that this is incorrect. Regulators tolerated loopholes in regulation and reporting. Politicians see banks as a source of funds and rely on central banks to deal with stability problems. Hellwig identified several flaws in the de-
Sign of the financial system: lack of accountability and liability in mortgage origination and securitization, excessive securitization and intransparency of financial vehicles, governance biases towards return on investment, insufficient capital requirements imposed by regulation, procyclicality of regulation, and a lack conceptual understanding of the dynamic effects of regulation and its implementation. In fact, not much has changed in response to the crisis: There is still a lack of capital, and procyclical dynamics are again at work. An assessment of the effects of regulation on the economy needs to adopt a general equilibrium view. Systemic risk and macro risk are not the same. Systemic risk may be due to common exposures or from systemic interdependence due to information contagion, domino effects through contracts, fire sales and asset prices, and the breakdown of market making functions.

There are several reasons as to why risks are not “measurable”: the model based economizing on equity capital was wrong because many risks were not incorporated in the models. Risk correlations (among mortgage backed securities due to a common dependence on the same underlying factors, such as interest rates, real estate prices etc.; among counterparty credit risk and underlying risks in hedge contracts) are poorly understood. Time series are non-stationary, credit risks are endogenous and change over time. There is a lack of information about system risk exposure. Deleveraging, asset prices and bank balance sheets interact in nonlinear ways. In the absence of counterparties it is not even clear that equilibrium exists at all.

Hellwig concluded that regulatory reform should follow a few principles: Risk control of banks and of regulators do not pursue the same objective. Regulation should contain elements which are robust against “wrong” models. Regulation should reduce or better yet eliminate bubble and crisis enhancing elements of regulation. While for countercyclical macroprudential policy judgement is indispensable, the possibility of judgement mistakes by supervisors must be factored in when designing the supervisory architecture and the governance of supervisors.

The following policy panel, which was moderated by Mark Schieritz, Die Zeit, was opened by Philipp M. Hildebrand, President, Schweizerische Nationalbank. He highlighted two fundamental flaws of the financial system before the financial crisis: first, capital and liquidity buffers were far too low. Second, systemic risks had been grossly underestimated. Monetary policy geared towards price stability is an important ingredient for a stable macroeconomic development but it does not avoid excesses in the financial system, it can even, as the BIS has pointed out, can even provoke financial system instability. Before the crisis, the received wisdom was that interest rate policy is too blunt an instrument to avoid the build-up of risks in the financial system. After the crisis, a new consensus has emerged that central banks need an appropriate toolkit and more specific formal competence to mitigate the build-up of such risks in the first place. In Switzerland, for example, there is a big gap between the actual role the Swiss National Bank had to play during the crisis, which involved taking on enormous risks on its balance sheet, particularly with regard to the rescue of UBS in October 2008, and on the other hand the absence of any specific and formal competence to prevent financial instability. This gap must be closed by giving macroprudential tools and competences to central banks. This need is all the more compelling given the very low level of interest rates in many countries, which is likely to stay for some time. Past experience has shown that long periods of very low interest rates can ultimately be associated with excessive credit creation and the build-up of financial imbalances. The risk of that happening is particularly acute for countries where the financial system as a whole is functioning reasonably well, such as Canada, Sweden and Switzerland.

We have a lot yet to learn, the challenges are formidable. It is more difficult to detect ex ante, in real time emerging problems and then to decide about appropriate tools, the appropriate timing and the right dosage in their use. There are no easy mechanical rules. We have also to be extremely careful about the interaction between countercyclical macroprudential policy and traditional monetary policy, since these two set of tools are in many ways deeply related. Macroprudential tools can amplify, neutralize or undermine interest rate policy. The starting point for setting up a macroprudential framework is likely to differ from one country to another, depending on history, previous crises experiences, and legal, institutional set-ups and mandates, so there is no easy one-size-fits-all solution. Yet, similar to central bank’s experience with inflation targeting, a consensus will likely have emerged in 10 years’ time about the principles of macroprudential surveillance and tools.

In Switzerland, the new central bank law of 1984 gave the SNB a fairly classic legal mandate “to contribute to
financial stability”, without and specific competencies, tools, and responsibilities. The formal responsibility for financial supervision and stability lies with FINMA, with a focus, as is the case with most supervisory agencies, on intrusive and far-reaching micro-prudential regulation. Clearly, the SNB’s financial stability arsenal needs to be enhanced, to augment the resilience of the banking system and to moderate its pro-cyclical behaviour. Given its inevitable role of lender of last resort, the SNB will play an active role in financial crisis managing. In light of this reality and the vast potential costs of such a crisis, including risks on the balance sheet of the SNB, the SNB should have a clearer and more developed formal role in preventing crises from emerging in the first place. Work is currently being done in this direction in Switzerland. These enhanced competences should rest on two pillars: First, the SNB needs to have full access to bank data, which is not the case now. Second, the SNB should have a say on regulation with a direct bearing on financial stability. In particular, it should be the SNB’s responsibility to mandate a countercyclical capital buffer as set out in Basel III.

Summing up, Hildebrand emphasised that price stability must remain the key objective of central bank mandates. If central banks are to play a role in crisis prevention, they need additional, separate macroprudential instruments. By design, experience, and by trial and error, central banks are best equipped to be in charge of macroprudential supervision. But if they are to fulfil this role properly, they must be equipped with the necessary mandate and instruments. The worst combination would be an implicit or explicit expectation that the central bank will fulfil that role, without the appropriate mandate and the necessary instruments.

**Stephen G. Cecchetti**, Bank for International Settlements, addressed the challenges involved in “Measuring systemic risk”. To examine systemic risk, four phenomena require measuring: first, common exposures, e.g. aggregate exposure to USD mortgage-backed securities or European sovereign debt; second, leverage, which implies that small price movements can induce insolvency; third, maturity transformation, which can, e.g. if refinancing is concentrated in short-term markets, in the event of liquidity runs amplify shocks; and finally, cross-border linkages, which can amplify and propagate shocks, e.g. if cross-border capital flows suddenly come to a halt or are reversed, or in case of cross-border spill-overs of a drying up of wholesale funding. In the run-up to the crisis, e.g. non-US banks’ funding of long-maturity assets through short-term USD liabilities obtained in interbank and foreign exchange swap markets made them vulnerable. In the crisis, funding liquidity and market liquidity dried up simultaneously, implicitly lengthening the effective maturity of assets and shortening the effective maturity of liabilities. Another consequence of this development was that long-USD-banks, being unable to roll over their foreign exchange swap funding, were forced into the spot foreign exchange market to close these positions. The resulting increase of the demand for USD drove the strong appreciation of the USD in the months following the collapse of Lehman Brothers.

The fact that most financial markets are opaque in the sense that investors are unable to identify concentrated positions at the system level implies that they cannot appreciate the possible impact of a large and rapid unwinding in the event of a shock. This, in turn, hinders correct market pricing. Better data are crucial both for crisis prevention and crisis management. Joint analysis of data covering many institutions’ balance sheet positions, including breakdowns by instrument, counterparty country and type, currency and maturity, can uncover common exposures, concentrated funding patterns and system-level leverage and maturity transformation. By aggregating confidential data in meaningful ways and disseminating them to market participants, market pricing and discipline can be improved. For crisis management, policy makers need to make fast decisions about the systemic relevance of financial institutions: data on bilateral exposures between financial institutions is thus crucial (and was lacking e.g. in the days preceding the Lehman crisis).

Cecchetti concluded that currently, no national supervisor has a global perspective, there is a lack of infrastructure for sharing confidential data, so as a result there is no adequate system-level view and analysis. At the BIS, two statistical initiatives currently under way hope to improve the situation. First, the Committee on the Global Financial System has been working on enhancing the BIS’ international banking statistics, e.g. to capture most international linkages, albeit at the level of national banking systems rather than individual bank offices; this will help in assessing the stability of cross-border capital flows. Second, the G-20 Financial Stability Board data gaps process creates several bank-level datasets to be stored and analysed in a central data hub.

**Stefan Ingves**, Governor, Sveriges Riksbank, Chairman of the Basel Committee on Banking Supervision and of
the Advisory Technical committee of the ESRB, offered reflections on the ESRB after 10 months of existence. The institutional framework is in place, and the new institution is fully operational and has issued its first public recommendations. The ESRB’s Secretariat is provided by the ECB. Its General Board has 65 members, of which 37 may vote. The Steering Committee has 14 members, and is assisted by an Advisory Technical Committee with 62 members and an Advisory Scientific Committee with 16 members. The ESRB is embedded in a network of globally active institutions in charge of systemic stability. The Financial Stability Board works, inter alia, on globally active systemically important financial institutions, on shadow banking and OTC derivatives. The Bank for International Settlements provides inter alia inputs on capital adequacy, liquidity rules, and countercyclical buffers. Macropurvidual, micro-prudential and monetary policies may mutually reinforce each other but may also enter into conflict, thus calling for co-ordination and a clear division of responsibilities.

The ESRB’s strategy for the current crisis includes four main components: a pro-active adoption and implementation of credible, sustainability-oriented fiscal programmes and policies; coordinated action by EU supervisors to strengthen bank capital, including backstops, and a need for transparent and consistent valuations of sovereign exposures; a full and speedy implementation of measures to counter contagion risks; and coordinated and consistent communication by all policy-makers. The ESRB is currently dealing with foreign exchange lending, EU banks’ funding in foreign currencies, especially USD, and the use of macroprudential instruments at the national level. The ESRB started at an extremely turbulent period. To be successful, it needs to provide high-quality and timely risk assessments and to communicate effectively. The addresses in turn need willingly accept warnings and follow recommendations by the ESRB.

Alberto Giovannini, Unifortune Asset Management, raised the question about progress in our understanding of the financial system and of solving problems in the financial system. Quick and fast information about major financial institutions’ balance sheet positions and exposures is crucial in a financial crisis. To the extent that the global financial system has become more complicated, crisis resolution has become more difficult. We are currently trying to learn the lessons from the crisis but are only half way through. Supervisory institutions have insufficient information to truly address problems. The fact that the various Financial Stability Reports in their data and analysis usually focus on prices rather than quantities, is a good indicator of the persisting lack of information and understanding. The BIS was the first institutions putting more emphasis on quantities with its international banking statistics. Monetary authorities are stuck in a low interest-rate trap; persistently negative real interest rates are a symptom of the malaise of our financial system. The 2007/2008 crisis has reminded us that market failure is very important in financial markets, rather than efficient and self-stabilizing. Past bank-runs could be treated by well-known instruments. Also securities markets are subject to runs. These are multiple-equilibria market failures. No single actor in current complex and interlinked financial markets follows simple linear behavioural patterns. Therefore also financial market prices behave by their nature in a non-linear manner.

The multitude of transactions in securities and derivatives markets implies huge counterparty exposures. If markets dry up, the system fails. The role of collateral, and more generally the means of payment in financial markets, is not sufficiently understood; we should monitor this more closely. The CCP initiative is crucial in controlling the transmission of stress across markets more efficiently in the future. Current measures are useful insofar as they improve incentive structures of financial firms, and provide additional information for decision-makers active in financial markets. Trade repositories, by collecting key information on over-the-counter derivatives trades, provide an important function in mitigating the opacity of OTC derivatives markets but they may raise important legal issues such as ownership of information and conflicts of interest, not only in the private sector but also among authorities. The issue of liquidity dry ups is not sufficiently covered in recent initiatives; money market mutual funds should be regulated more tightly and be transformed into “narrow savings banks”. ABS should be set up by “narrow-funding banks” also subject to strict rules. The proposal for a securities transaction tax may be justified on fiscal grounds; but the objective to create disincentives for transactions that do not enhance the efficiency of financial markets fails to see that the liquidity of securities markets is there to save capital; if markets become more costly to trade in banks require more capital. These proposals suffer under fundamentals flaws in basic economic thinking.

The second keynote was given by Jens Weidmann, President, Deutsche Bundesbank, on the topic of “Managing
macroprudential and monetary policy – a challenge for central banks”. The crisis was, among other things, also caused by a long period of very low interest rates. In the future, therefore, monetary policy has to monitor more closely the build-up of financial imbalances, because the latter may ultimately have a bearing on price stability. Monetary analysis, with its medium to long-term perspective, will gain in importance in the future, and enable monetary policy to extend its horizon and behave more symmetrically over the cycle. However, monetary policy needs to be supplemented with macroprudential policy, which, in order to fulfil the expectations, needs to have an individual set of effective instruments: it needs to have tools to detect early on risks, be able to issue warnings and recommendations, and the latter need to be translated into actual policy action. Macrop verdictual authorities need a clear mandate. Central banks are ideally suited to fulfil this task, given their expertise and the necessary coordination between monetary and macroprudential policies. However, central banks’ primary objective to safeguard price stability must not be jeopardized. Countercyclical capital buffers will make it possible to “lean against the wind” of emerging financial imbalances, which is particularly important in EMU, given the asymmetry of many shocks across EMU countries. While final decisions on macroprudential policies should be taken at the national level, a purely national perspective would be misleading, given externalities, spillovers etc. The ESRB has a central and important role to play in this respect.

The Euro Area sovereign debt crisis shows that stability-oriented monetary and financial stability policies alone cannot ensure monetary, financial and macroeconomic stability. Sound public finances and a sound and competitive real macroeconomic is paramount. Monetary policy must not be overburdened in solving the crisis; if it takes on too many tasks, price stability may be endangered and incentives for the necessary structural reforms will be watered down. The prohibition of monetary financing is one of the most important achievements in central banking of the last decades: it reflects many governments’ short-sighted incentives to monetize debt, weakens central bank credibility, undermines the incentives for sound public finances, and ultimately risks destabilizing the currency. In EMU, it furthermore collectivises sovereign risks among euro area countries’ taxpayers, and is equivalent to issuing Eurobonds. It circumvents democratic decisions: Only national parlia-

ments have the democratic legitimacy to make such decisions. Also proposals to involve the Eurosystem in leveraging the ESFS would violate the monetary financing prohibition. Germany’s most important contribution to crisis resolution is that it remains an anchor of stability in EMU. Problem countries need to take the necessary steps to stabilize their public finances, and international help needs to be conditioned by progress in this regard. In the longer term policy makers need to decide which direction EMU should take: one option would be to return to the founding principles of the system but with enhanced mechanisms and incentives to ensure solid public finances; the alternative is to centralise fiscal responsibilities towards the EU.

Session 1, chaired by Jens Ulbrich, Deutsche Bundesbank and SUERF, dealt with theoretical and empirical models linking financial stability and the performance of the economy. The first paper, presented by Alexandros Vardoulakis, Banque de France, with the title “Financial Regulation and General Equilibrium”, explores how different types of financial regulation could combat many of the crisis developments observed in 2007 to 2009. The general equilibrium model they use for this purpose includes both a banking system and a shadow banking system. Shadow banks are less risk averse and face lower default costs than conventional banks: therefore, they use bigger leverage and less portfolio diversification. When households default, this triggers forced selling by shadow banks. Five different policies for countering defaults, credit crunches and fires sales are assessed: limits on loan to value ratios, bank capital requirements, bank liquidity coverage ratios, bank dynamic loan loss provisioning, and margin requirements on repo agreements used by shadow banks. They find that leaning against the wind to reduce credit expansions and house price booms via regulation is not easy: large asset price increases during the boom yield capital gains to owners, which improves their equity and lowers the loan to value ratio on their mortgages. High home prices improve bank capital ratios as mortgages become less risky and bank equity is raised. Thus, during a boom imposing higher loan to value requirements, raising capital standards, and raising margin requirements on repo loans enough to slow down credit expansion and house price increases is difficult. By contrast, dynamic provisioning and liquidity requirements are found to effectively support “leaning against the wind”. Given many complex interactions between agents, no single regulatory tool is sufficient to offset the many
distortions arising from a default. Multiple sources of inefficiency require multiple tools to correct for them. Capital alone is unlikely to be sufficient.

Philipp Hartmann, European Central Bank and SUERF, gave a presentation on “Macrofinancial models linking financial stability and the performance of the economy”. We have seen a number of failures recently: first, inadequate risk management - correction is under way. Second, financial regulation failed to lean against bubbles and prevent crisis – again, reforms are under way. Third, fiscal governance proved to be insufficient – here, some correction is under way. Also the economics profession needs to reform substantially. Economic theory ultimately shapes policy, as could be seen in the area of monetary policy. We need to reach a similar state in financial stability. The question now is how to integrate widespread financial instability into macroeconomic policies. There are three important elements causing widespread financial instability: big shocks, contagion, and the build-up of substantial imbalances leading to abrupt unravelling. We need to look at these issues in an integrated encompassing way. Why did economics fail to avoid the crisis? Financial frictions are missing from macro models. Work to remedy this is now on-going - financial sectors are now being included. However, other important phenomena are so far still largely neglected: defaults and break downs, non-linearities, a distinction between stable and unstable financial intermediaries rather than just one agent per sector, and non-rational expectations. Against this background, Hartmann called for a “new finance macro synthesis”. He then outlined the objectives, main lines of work and working method and organisation of the Eurosystem Macroprudential Research (MaRs) Network. One example of the work achieved so far is a composite coincident indicator of systemic stress, covering several markets.

The third paper of the session, presented by Stefano Neri, Banca d’Italia, addressed “Financial intermediation and the real economy: implications for monetary and financial stability prices”. The pre-crisis New-Keynesian models were suitable for developed economies during normal times with a stable steady state. The crisis showed many of the underlying assumptions were wrong. The main missing elements were: financial intermediation, insolvency, default, liquidity. The crisis is an opportunity to modify the current framework. Intensive research has been on-going since 2009. But to include non-linearity, there is need to simplify strongly in other areas. All existing models fall short of modelling systemic risk. New models require a lot of time, while policy makers need timely answers. Until new models become available, the most promising intermediate solution is to modify existing DSGE models and use them for policy analysis. The authors use such a model to answer what was the impact of the crisis on activity, whether monetary and macroprudential policies should cooperate, and whether macroprudential policies could be used to lean against financial cycles. They find that the 2009 recession was almost entirely caused by adverse shocks to the banking sector. The sharp reduction in policy rates attenuated the strong and negative effect of the crisis on the euro area economy. In normal times, macroprudential policy yields small benefits. If the monetary and macroprudential authorities do not cooperate, policy tools are extremely volatile. Benefits are sizeable when the economy is hit by financial shocks and when the two authorities cooperate. As regards leaning against the financial cycle by the macroprudential authority, they find that tighter capital requirements can be effective in containing the expansion of lending.

In his dinner speech, Jürgen Stark, European Central Bank, addressed the link between “Macroprudential policies and financial integration”. The growing integration of financial markets has raised issue of contagion and regulation. Without such far-reaching integration, the costs of the crisis might have been considerably lower. The recent crisis had several causes: high credit growth, an under-pricing of risk, wrong incentives triggered by securitisation and the resulting complexity and opacity. The ESRB was established to ensure the necessary macroprudential dimension to supervision. While the ESRB is closely linked to the ECB, it is nevertheless distinct and separate. It does not change the ECB’s statutory mandate. Fiscal policies are still a national competence. As distressed fiscal policy spills over, national fiscal policies need to be embedded in a firm rules-based framework. Recent reforms go in the right direction but are insufficient. These causes the crisis to escalate further and hinders effective crisis management. Ultimately, there further fiscal integration will be needed. There may also be a case for a single financial supervisor across EU countries. The banking system is a vital part of economic infrastructure. Disruptions can inflict big costs. The financial sector’s nature as a public good justifies strict regulation. The new regulatory framework is a major achievement. But more interaction between macro and
microprudential supervision is needed. Further steps are necessary towards integration in the area of supervision are therefore necessary, as will be the creation of a fiscal union and a “financial union”.

Session 2, chaired by Ernest Gnan, Oesterreichische Nationalbank and SUERF, was devoted to “Empirical models on the causes, transmission channels and the real impact of the financial crisis”. The session was opened by Elod Takats, Bank for International Settlements, who presented his work – together with Christian Upper form the BIS - on “Deleveraging and Growth”. The question their paper tries to address is the impact of private sector deleveraging in the aftermath of a crisis. Given that the build-up of the crisis involves excessive credit growth and increasing leverage of the private sector accompanying private consumption and real estate booms one should expect that the correction of the crisis involving deleveraging goes along with a more muted recovery of the real economy. Investigating that hypothesis in a cross-country panel analysis the authors do not find any robust correlation between private sector deleveraging and the strength of the economic recovery. This lack of correlation itself is robust over different specifications. Their explanation for this somewhat surprising result – given the prominent fears of the impact of necessary deleveraging for economic prospects – is that a focus on aggregate debt figures is misleading. Leveraging before a crisis involves capital misallocations, correcting these developments frees resources to be used in areas supportive to growth. Thus, it would be necessary to distinguish between “good” and “bad” deleveraging, a distinction that certainly deserves merit in qualifying currently flourishing fears of the on-going correction of highly leveraged positions. In addition, the authors find that growth-enhancing structural reforms play an important role for recovery processes after financial crises.

Claudia Buch, University of Tübingen, gave a paper on “Macroeconomic factors and microeconomic bank risks”. The authors try to identify how macroeconomic shocks are transmitted to bank risks and other banking variables. In that regard, the heterogeneity of banks plays an important and not-well understood role in the responses of individual banks to macroeconomic shocks. Using a factor augmented VAR the study finds that bank ending increases on average after expansionary macroeconomic shocks and average bank risk declines. While this is true on average there is also important heterogeneity among banks. Their findings have implications for banking regulation: regulators should focus on macroeconomic factors and regulative efforts in the form of capital and liquidity requirements directed towards macro influences deserve more prominence. Moreover, their methodological approach might entail some fruitful applications in regulatory stress tests aiming at identifying macro-micro linkages.

The third paper of the session, presented by Bin Li, International Monetary Fund, was devoted to “Creditless Recoveries”. The authors tackle the issue of recovery processes that are characterized by the absence of usual patterns of credit growth. They can be expected to play a role after financial crises when the private sector needs to deleverage and/or banks have to reduce excessive leverage positions. Thus, in a sense their paper poses a very similar question to the first paper of this session. Their answer, however, stands in some contrast to the findings presented by Takats: Creditless recoveries occur after banking crises and the recovery of the real economy is usually more protracted than in these cases. Driving factors for these developments are bank-supply related factors. Taken together, the empirical analyses of the dependencies between financial crises, deleveraging processes and recovery strength deserves more detailed research. Central in that respect would be to identify beneficial deleveraging compared to harmful deleveraging and to gain further insights into the supportive role of structural reforms in the recovery process.

Session 3, chaired by Thilo Liebig, Deutsche Bundesbank, was devoted to “Measuring Systemic Risk”. Laurent Clerc, Banque de France, opened the session with a paper on “Measuring aggregate risk: can we robustly identify asset boom-bust cycles? Implications for macroprudential policies”. As a response to the financial crisis, several initiatives have taken place to develop macroprudential regulation to prevent systemic risk and the built-up of financial imbalances. Crucial to the success of such policy is the ability of the macroprudential authority to identify in due time the development of these imbalances, which are generally associated to asset-price boom-bust cycles. In his paper, we investigate the extent to which it is possible to detect asset-price booms according to alternative identification strategies and we assess their robustness. Based on these different strategies, the authors infer the probability that an asset-price boom turns into an asset-price bust. In addition, they try to disentangle costless or low-cost from costly asset-price booms. Clerc presented some evidence that house price booms are
more likely to turn into costly recession than stock price booms. Resorting both to a non-parametric approach and a discrete-choice (logit) model, he analyzed the ability of a set of indicators to robustly explain costly asset-price booms. According to the results, real long-term interest rates, total investment, real credit and real stock prices tend to increase the probability of a costly housing-price boom, whereas real GDP and house prices tend to increase the probability of a costly stock-price boom. Regarding the latter, credit variables tend to play a less convincing role. Interestingly, the credit-to-GDP gap indicator sometimes put forward in the literature does not seem to be a robust leading indicator of asset price booms.

Ester Faia, University of Frankfurt, presented a paper on “Attributing Systemic Risk to Individual Institutions”. She took as a starting point the pervasiveness of interlinkages in current financial systems. Understanding the nature and driving forces of these cross-dependencies is crucial to gain insights in systemic aspects of risks and to set the right regulatory incentives to tackle the accompanying problems. In her model she analyses these issues within a network context focussing on balance sheet exposures that form the links between nodes in a network of interconnected banks. Systemic effects in such a model context have their roots in network externalities and network models are well-suited to analyse those interlinkages. Regulatory implications to internalise externalities in network structures are well-known to economists in the form of Pigouvian taxes. However, concrete regulatory implications in the form of a mechanism design still have to be developed.

The session was concluded by Jon Danielsson, London School of Economics, with a presentation on “Dealing with systemic risk when we measure systemic risk badly”. Danielsson, thus, provided a thorough analysis of the criticism raised by Hellwig in his keynote about our (in)ability to identify and measure systemic risk properly. He confirmed the pessimism raised by Hellwig with regard to some of the currently most prominent measures used by financial market participants. In his conclusion remarks he remarked that current measures of systemic risk are quite bad, and are barely distinguishable from random noise. The interesting question from a policy point of view then arises of how to deal with such a sober conclusion. As potential costs to society are large when regulators focus on a wrong model he concludes that – besides other factors – the focus on point forecasts are plainly wrong. Dealing with estimation and model risk requires confidence intervals. We should not fall into the illusive trap of numbers that gives a pretend precision to current measures of systemic risk that does not in actual fact exist.

Session 4, chaired by Jürgen Pfister, BayernLB and SUERF, discussed “Macroprudential instruments to contain system risk”. The session was opened by Francesco Mazzaferro, ESRB Secretariat, with a paper on “Macroprudential instruments for containing systemic risk: the ESRB view”. Mazzaferro took as a starting point the deficiencies that had emerged in the financial crisis in the macroprudential frameworks in the EU and elsewhere in the world. He described in detail the process of setting up the ESRB at the European level as part of a broader framework for macro and microprudential supervision on a European level. The scope of the ESRB is extensive: its macroprudential oversight covers not only banks, but all financial intermediaries, markets, products and infrastructures that may cause systemic risks to financial stability. The ESRB’s focus in that regard is one of systemic risks.

The ESRB, however, has only limited tools at hand to address these issues. Of particular importance to note, it has no binding powers for macroprudential policy, but is instead endowed with the instruments of warnings and recommendations. These warnings and recommendations can be addressed to the EU as a whole or to specific member states. As such, they are not legally binding but follow the philosophy of “Act or Explain”.

Right from the beginning, the ESRB has been thrown into a crisis-driven financial environment. Thus, while not being a typical crisis management institution, the first steps of the ESRB nevertheless have had to take into account the difficult state of the European financial system. It should then come as no surprise that the ESRB in its first year has been very active in issuing warnings and recommendations on a broad range of topics (forex loans, USD funding of European banks, implementation of decisions agreed upon at different European summits). The ESRB can also support member states in developing a toolkit of macroprudential instruments, not least as such a toolkit is somewhat underdeveloped in Europe. All in all, the first year of the ESRB has been an active and fruitful one. But important work remains to be done before a robust and effective macroprudential framework in the EU can emerge.

The euro area view was juxtaposed by Simon Hall, Bank
of England, who gave an overview of the “Development of macroprudential policy in the UK”. In the light of the crisis the UK regulatory framework also underwent significant change. With regard to macroprudential supervision, the Bank of England has gained importance similar to other central banks as far as a macroprudential mandate is concerned. The newly established Financial Policy Committee (FPC) under the roof of the Bank of England is one of the central elements in a reformed regulatory framework. The FPC’s tasks are to identify and monitor systemic risks, but also to take actions to reduce them. The FPC clearly resembles the same kind of challenges all macroprudential watchdogs face, namely to gain a proper understanding of the nature, measurement and development of systemic risks. This means that “terra incognita” has to be conquered and macroprudential functions have to be reconciled with the traditional goals of a central bank in safeguarding price stability. In that respect an effective toolkit will have to be implemented, but also a communication strategy will have to be designed for the general public and the parliamentary legitimized institutions by which accountability will be guaranteed and a common understanding about macroprudential issues is built. Simon Hall made clear that these issues do not differ from the ones identified by Francesco Mazzaferro for the ESRB. However, designing and implementing a macroprudential mandate at the national level is certainly less complex than at the European level, where initiatives have to respect the ultimate sovereignty of member states.

Volker Wieland, Institute for Monetary and Financial Stability, concluded the conference by asking whether we will have made progress in terms of predicting and/or warning of financial crises by the time that further “anniversary conferences” are held, and whether we will be able to do better in terms of maintaining financial stability and moderating booms and busts in the real economy. He acknowledged that for the current crisis professional forecasters erred by a wide margin. While our understanding of the interlinkages between real and financial sectors of the economy will certainly improve and while also our understanding of the nature of systemic risk will progress we should not rely on automatic improvements on these fields. Wieland argued that similar to the progress made in designing robust monetary policy frameworks the new strand of macroprudential analysis should also focus on a pluralistic modeling approach. But pluralism should by no means imply losing scientific rigor. In the end, it is all about fitting empirical benchmarks and identifying policy recommendations that are robust to model uncertainty. In that regard, the macroprudential approach could and should learn from the research agendas of monetary policy frameworks over the past decades. The latter have increasingly focused on comparability and robustness. And given the large uncertainty of models in the macroprudential realm interlinking the real, monetary and financial sectors such an approach would be even more appropriate for policy advice in macroprudential issues.
Future Risks and Fragilities for Financial Stability

Report on the ICFR-SUERF conference held in London on 8th March, 2012

By Stefano Pagliari, ICFR, London

Richard Reid, Director of Research at ICFR welcomed the speakers and participants at the conference held in Friends House, Euston Road, London and expressed his enthusiasm for the ICFR/SUERF partnership in organising this important conference on the key issue of financial stability. Explaining the reason for the conference he suggested that the regulatory response to a crisis may have the effect of setting the parameters for the next. It is starting from this insight that this conference, organised jointly by the ICFR and SUERF, on “Future Risks and Fragilities for Financial Stability,” explored what the next pressure points for financial stability might be, how these may arise from the response to the last financial crisis, and how the industry and the regulators can prepare for them.

In order to discuss this theme, the conference brought together a select group of academics, industry practitioners and policymakers to discuss a range of connected issues, mainly incentives and market discipline, regulation, competition and shadow banking, and size and structure of business models.

The paper presented by Clive Briault (Senior Adviser, KPMG) discussed the role of incentive structures in driving the conduct of the financial sector in the run-up to the crisis. During this period, the financial sector frequently responded to incentives originating outside the financial sector itself, such as global imbalances, loose monetary policies, and loose fiscal policies, as well as tax incentives. These external incentives interacted with, and were magnified by, incentives internal to the financial system, such as the targeting of return on equity and a reliance on short-term remuneration packages. The crisis also demonstrated how the impact of these incentives within financial institutions can survive the combined scrutiny of management, internal control systems, internal audit, as well as the discipline imposed by financial markets, for a significant length of time. Briault discussed different approaches to strengthen those incentives faced by financial firms and their management that seemed to have gone missing ahead of the crisis, as well as ways to encourage firms to internalise their negative externalities. The final part of Briault’s presentation discussed the regulatory response to the crisis and highlighted how there is significant scope for well-intended regulatory initiatives to generate perverse incentives. These are already visible in the reaction of banking institutions seeking to implement Basel III, but also in the conduct of regulators who tend to be excessively risk-averse in order to meet their statutory objective.

The second paper, presented by Professor Alistair Milne (Professor of Financial Economics, Loughborough Uni-
versity) suggested a more hopeful view of the role that market discipline can play in promoting the safety and soundness of the financial sector. According to Milne, the failure of market discipline in the lead-up to the crisis could be attributed to the failure in making information available to investors in an appropriate form. Existing international accounting standards fail to provide a complete view of the situation of firms as complex as major international banks, while the performance measures upon which investors rely to assess the performance of financial institutions, such as return on equity and related techniques of economic capital allocation, have proved to be inadequate.

Building upon this analysis, Milne discussed the need to supplement international accounting standards and existing performance measures with additional disclosures to allow investors to better understand the internal functioning of banks. More specifically, Milne advocated the creation of an “open-source” banking system, allowing investors to request, and to obtain on demand, complete information on bank exposures along any appropriate dimension so as to enable comparison to be made between different financial institutions. In order to achieve this objective, Milne endorsed the shift towards “contingent reporting”, expecting banks to be responsible for providing relevant information at reasonably short notice to either regulators or to investors, as well as the establishment of a private sector disclosure council to determine such contingent disclosures, and regular stress testing as demanded by the same investors.

Patricia Jackson (Ernst & Young LLP) discussed the implications that Basel III and other recent regulatory reforms have on the “shadow banking” sector. Jackson argued that the request for banks to increase the quantity and quality of equity capital against different activities will have deep behavioural impacts in the business models of banks, which are already meeting their new obligations by retreating from different lending activities. Conversely, with banks capital constrained, hedge funds are already moving into lending activities alongside private equity firms, asset manager and lending between companies. Jackson raised the issue of the extent to which this expansion in financial intermediation occurring within the shadow banking sector is sustainable. While macroeconomic or regulatory changes may force a contraction in some lending channels, this shortfall in the shadow banking sector will not necessarily be met by an expansion in the balance sheet of banks, which remain constrained by the newly-imposed capital and leverage ratios, as well as by the new liquidity ratios. This reduction in the provision of credit to the economy may negatively affect the real economy.

The proposal presented by Jackson to avoid this outcome is to regenerate the securitisation market around stricter rules and standardised structures to prevent the failures that characterised these markets in the past. However, according to Jackson, measures to restart the securitisation markets are unlikely to succeed without the intervention of regulatory authorities, for instance by allowing financial institutions to count securitisation as part of the liquidity pool under Basel III.

Vicky Pryce (FTI Consulting) discussed the issue of competition in the financial system, and the extent to which this will be affected by recent regulatory reforms. Increasing competition within the financial sector was one of the explicit goals that informed the work of the UK’s Independent Commission on Banking, which identified different measures to enhance the level of competition in the UK. According to Pryce the impact of these measures on the level of competition is uncertain and the level of competition within the UK banking sector may not change significantly over the next few years.

According to Pryce, the outcome is not necessarily a negative one. While the promotion of competition is generally associated with greater efficiency of markets, in the case of finance this objective needs to be weighed against other concerns such as ensuring the stability of vital functions, services and the protection of consumers. At the present moment, allowing existing financial institutions to recover may be a greater priority. Moreover, according to Pryce, both theory and empirical evidence remain ambiguous regarding the nature of the payoff between financial stability and competition, and some countries with heavily concentrated banking sectors have weathered the financial crisis better than other less concentrated countries. Indeed, the level of concentration in the financial sector should not be equated with the lack of competition, which still remains possible amongst a small number of incumbents.

The paper presented by Professor David Llewellyn (Loughborough University and the Vienna University of Economics and Business) explored the evolution of bank business models before and after the crisis. Indeed, a complex two-way causation exists between business models and regulatory policies where the change in business
models over time is influenced by, and in turn influences, the content of regulatory policies. This is the ‘endogeneity’ problem. Regulatory policies such as the original Basel Agreement, together with other factors, contributed to an important evolution in bank business models, creating incentives for banks in the years before the crisis, including the movement of assets off their balance sheet, and an increasing reliance on securitisation and on credit risk shifting instruments, and a departure from the traditional business model where banks accept originated loans and accept the risk in their balance sheet. Some of the by-products of this change in business models, such as an over-reliance on wholesale funding and increased gearing into higher risk assets, have been closely associated with the origin of the financial crisis.

According to Llewellyn, the financial crisis has generated new pressures upon banks to further adjust their business models. The unique conditions in the markets generated by the financial crisis, as well as changes in the regulatory environment, have generated a massive tightening in credit conditions and a contraction in the interbank markets, and forced the European Central Bank (ECB) to become a semi-permanent financier of commercial banks in Europe. According to Llewellyn this model is unsustainable. Indeed, while it is still unclear how the adjustment process will take place, Llewellyn argues that the crisis will be transformational although banks are unlikely to converge on a single business model: diversity in business models will continue.

Other challenges for financial stability that may emerge from the crisis were discussed by a panel including David Lascelles (Centre for the Study of Financial Innovation), Emil Levendoglu (HM Treasury) and Thorsten Beck (Tilburg University). In his discussion, Beck pointed to the risks emerging from the growth in the size of the financial sector relative to the rest of the economy, arguing that there may be no additional benefit from the growth of financial lending after a certain level. According to Beck, regulatory policies should not be designed with the objective of avoiding bank failure, but rather of ensuring that bank failures do not create significant costs for the rest of the economy. Finally, Beck discussed the benefits of cross-border banking, and argued that to preserve financial stability policymakers may be forced to choose between increasing the international coordination of regulatory policies and segmenting cross-border banking activities.

Emil Levendoglu discussed the reforms being introduced to redesign the British regulatory architecture. Levendoglu highlighted how the novelty of certain regulatory measures (such as the implementation of macro-prudential frameworks) should lead policymakers to be cautious and avoid running too quickly before having ensured the development of the right tools. Similarly, in the design of a new regulatory framework it is important to keep in mind how overly detailed prescriptions could create the wrong incentives.

Lascelles in his remarks discussed what the major sources of future risks are as perceived by the banking community. While the macroeconomic environment and the Eurozone crisis are perceived as the major present risks, followed by the sovereign and consumer credit risk, regulation also continues to be perceived by banks as a high risk area given the costs it imposes and the competition issues it generates. However, this perception is not shared by market players outside of the banking community which continue to have a more positive view of regulation.

In conclusion to the conference, Michael Saunders (Citigroup) spoke on the challenges for financial stability that are emerging in this phase from the overall economic outlook. The global economic outlook is currently threatened by the interaction of three different processes: the deleveraging taking place in the private sector, the deleveraging by the public sector, and the existing weaknesses in the banking system. Indeed, the extent of these challenges is clearly tied to the size of the credit boom before the crisis, a process whose origins can be found in the regulatory policies introduced over that period.

Given the major costs that credit boom/bust cycles pose in terms of bank recapitalisation costs, as lost jobs, business failures, and public spending, Saunders concludes that one of the major aims of economic and regulatory policies should be that of dampening credit cycles and of minimising the losses that result from them.

According to Saunders policymakers need to pay close attention to credit, housing and balance sheets during the boom. Sharp rises in debt and leverage are warning signs that should not be overlooked. Policy makers need to act to dampen this through monetary tools, as well as through the use of different macroprudential regulatory tools such as variable capital weights and LTV ratios, as well as through traditional monetary policy instruments. Saunders also called for ending the tax advantages of debt finance. However, these lessons have not been fully
learnt yet. In his concluding remarks, Saunders called on policymakers to be more forceful in demanding banks to recognise their losses and recapitalise in a timely manner, while not allowing them to aggressively deleverage to meet capital targets.

The conference was concluded by Barbara Ridpath, Chief Executive of ICFR, and Catherine Lubochinsky, President of SUERF. They thanked the speakers, chairpersons and the participants for their contributions to a very interesting event. Catherine Lubochinsky expressed the hope that this successful joint venture between the two organisations would lead to further collaboration in the future.

30th SUERF Colloquium
States, Banks and the Financing of the Economy
sponsored by UBS,
Bank Julius Baer, the Department of Banking and Finance, University of Zürich,
NCCR FinRisk, the Swiss Finance Institute and KOF ETHZ
University of Zürich, Rämistrasse 74, CH-8032 Zürich
on 5–6 September 2012

OUTLINE PROGRAMME

Wednesday 5 September, 2012

08.30 Opening and Welcome
   Urs W. Birchler, University of Zürich, SUERF President

Plenary Session – Keynote Speakers
   Jean Pierre-Danthine*, Vice-President
   Schweizerische Nationalbank
   Axel Weber*, Vice Chairman, UBS
   Jean-Charles Rochet*, Prof. of Banking, Uni. Zurich & Toulouse

11.00 Coffee Break

11.30 Commission Work – Session 1
   1: The role of monetary and fiscal policy
   2: Bank lending, alternative financing, capital structure and growth
   3: Resolution of banks or states, bail outs and contagion

13.00 Lunch

14.00 Commission Work – Session 2
   1: The sovereign debt crisis and Eurobonds
   2: Government bonds: risk, performance and liquidity
   3: Bank ownership, performance and supply of credit

15.30 Coffee Break

16.00 SUERF Marjolin Lecture
   Chairperson: Urs W. Birchler
   Money and Banking in Times of Crisis
   Lorenzo Bini Smaghi*, formerly ECB
   Followed by Q&A

17.30 SUERF General Assembly

Thursday 6 September, 2012

09.00 Commission Work – Session 3
   1: Monetary and fiscal policy
   2: State owned vs privately owned banks and firms
   3: Safety nets and government intervention

10.30 Coffee Break

11.00 Commission Work – Session 4
   1: Taxation issues
   2: Cross border issues in a global economy
   3: Independence of policymakers and supervisors in times of crisis

12.30 Lunch

13.30 Commission Summaries – Chairmen of the Commissions

Closing Plenary Session
   Benoît Coeuré, European Central Bank
   D. Wilson Ervin, Crédit Suisse
   Yves Robert-Charrue*, CEO, Bank Julius Baer
   Stephen Cecchetti*, Chief Economist, BIS
   Haig Simonian*, Correspondent Switzerland/Austria, FT

15:45 Presentation of the Marjolin Prize by SUERF President

16.00 End of Colloquium

Further information & programmes to follow and appearing on the 30th SUERF Colloquium microsite: www.suerf.org/c30
2012 SUERF Annual Lecture and SUERF/OeNB Workshop

*The Interaction of Political, Fiscal and Financial Stability: Lessons from the Crisis*

Monday 18 June, 2012

Kassensaal, OeNB, Otto-Wagner-Platz 3, A-1090 Vienna

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**Programme**

Monday, 18 June, 2012

<table>
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<th>Time</th>
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<td>12.15</td>
<td>Registration and Buffet luncheon</td>
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| 13.15 | Opening and welcome  
Ewald Nowotny, Governor, OeNB  
Urs Birchler, SUERF President and University of Zürich |
| 13.30 | 2012 SUERF Annual Lecture  
Chair: Urs Birchler, SUERF President and University of Zürich  
*The Interaction of Political, Fiscal & Financial Stability: Lessons from the Crisis (tbc)*  
András Simor, Governor, Magyar Nemzeti Bank |
| 14.30 | Session 1 – Political Economy of Sovereign Debt Crises  
Chair: Peter Mooslechner, OeNB |
| 16.00 | Coffee |
| 16.30 | Session 2 – What is Special about the Debt Crisis in the Euro Area?  
Chair: Ernest Gnan, SUERF Secretary General and OeNB |
| 18.00 | End of Event |

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**2012 Annual Lecturer – András Simor, Magyar Nemzeti Bank**

Governor of the Magyar Nemzeti Bank since 3 March 2007, **András Simor** holds a university degree in economics. He started his professional career as an executive at the MNB’s Foreign Exchange Management Department in 1976. Between 1979–1985, he worked at Hungarian International Bank Ltd, the MNB’s London-based subsidiary. Returning to Hungary, he was Deputy Head of the Bank's International Division. In 1989, he was appointed Chairman of the Board and President of the newly founded CA-BB, later Creditanstalt Értékpapír Rt. Under his management, one of Hungary's first securities brokerage firms became a market leader. In 1997–98, he served as Executive Chairman of CA IB Investmentbank A.G. in Vienna, where he managed the merger of the investment businesses of Creditanstalt and Bank Austria, affecting eight countries. Returning to Hungary, he was elected Chairman of the Board of the Budapest Stock Exchange. In this capacity, he made an important contribution to the transformation of the BSE from a public utility organisation into a profit-oriented corporation. He served his post at the Budapest Stock Exchange until 2002. From 1999, he was Chairman of Deloitte Hungary and then the firm's Chairman and Office Managing Partner between 2000–2007. Under his management, the company became the second fastest-growing member of Deloitte Central Europe group. Mr Simor was a member of the group's regional board of directors between 2002–2006.
Since 2005, property prices all over the world have been extremely volatile. Price increases and decreases have resulted in capital gains and losses for investors and fluctuating consumption possibilities of households. Trends in property markets affect financial stability, earnings and risks of the financial industry, and they are strongly affected by policy decisions made by governments and central banks. The aim of the conference is to bring together analysts and practitioners, who can contribute to the understanding of causes and consequences of property price booms and busts and in particular the role of real estate financing.

Papers should focus on policy-based implications and should also be non-technical. Authors should be prepared to publish a short policy-oriented version of their paper in the conference volume. Among the issues to be addressed at the conference are:

– What are the links and interactions between real estate price bubbles and monetary policy? Do low interest rates in uncertain times sow the seeds for the next bubble in property prices? Which causal links are there between mortgage credit growth and volatility in property prices?

– To what extent and why are house price cycles across countries synchronised respectively different?

– Which role do housing subsidies, taxation rules and political restrictions on house rent play for property prices?

– What legal rules should exist regarding loan–to–value ratios, loan maturity, repayment profiles and refinancing options for house owners?

– Which types of financial institutions are most efficient in housing finance?

– Which risks are associated with institutions specialised in real estate financing and how can these risks be managed?

– How much state ownership/influence should there be in mortgage institutions?

– Which types of derivative instruments have been or could be appropriate in housing finance?

– How do rating agencies evaluate mortgage bonds and how does the rating affect the decisions of portfolio managers?

– How will Basel III and related legislation affect housing finance?

– What can we expect from macroprudential policies in property market stabilisation?

Authors should submit 2–3 page abstracts or a full paper online through the conference microsite at www.suerf.org/nykredit-cph by 15 May 2012 and should specify which of the research questions in the Call for Papers they seek to provide answers to. Notification of acceptance or non acceptance will be provided before 30 June 2012. The final draft of the accepted paper must be received by 30 September 2012. Papers already published prior to the conference are not eligible. Enquiries should be addressed to michael.bailey@oenb.at.

Limited funds may be available to meet travel and accommodation costs for presenters from academic and/or non-profit institutions where the presenter’s institution is not able to cover these costs. There will be no charge for participating but other participants should expect to pay their own travel and accommodation costs, and advanced registration will be required.
2011 was once again a busy year for SUERF with a full programme of events and publications including the 29th SUERF Colloquium on “New Paradigms in Money and Finance” in Brussels on 11-12 May 2011. In total some 530 participants registered for SUERF’s programme of events in 2011. With the year characterised by the ongoing sovereign debt crisis and potential sovereign defaults within the Eurozone, the year’s events started in wintry Warsaw in early March with a conference on “Monetary Policy after the Crisis”, before the Brussels Colloquium in May, including Governor Athanasios Orphanides’ SUERF Marjolin Lecture on “New Paradigms in Central Banking?”. SUERF was honoured to collaborate with the Bank of Finland in its 200th anniversary year with the CEPR and the Journal for Financial Intermediation in Helsinki, for the conference “The Future of Risk Management”, with Gabriel Bernardino, Chairman of EIOPA delivering the SUERF Annual Lecture during the event. In early November, amid a deepening crisis within the Eurozone, SUERF, the Deutsche Bundesbank and the Institute for Monetary and Finance Stability held a 1½ day conference on “The ESRB at 1”, attended by a capacity audience of 170 participants.

1. Publications

Five SUERF Studies were published in 2011, in part reflecting the Association’s events programme – covering contributions to the conferences held in Budapest and Dublin in 2010, the SUERF Conference in Warsaw on “Monetary Policy after the Crisis” as well as an extended version of the paper given by Jens Forssbaeck in Barcelona in December 2010 at the SUERF/UPF Conference on “Disclosure and Market Discipline: What Role for Transparency?”. The final SUERF Study of 2011, “Roles, Missions and Business Models of Public Financial Institutions in Europe” presents the main results by the authors in their report for the European Association of Public Banks, published in 2011 and reflects the changing balance between publicly and privately owned financial institutions within Europe. Detailed information about published SUERF Studies can be found on the SUERF website at www.suerf.org/suerfstudies.

The SUERF Studies continue to be printed by Larcier, with members receiving copies of the Studies and all SUERF Studies are available for electronic downloading from the SUERF website. The outlook for the flow of publications in 2012 continues to look very positive, with Studies in preparation handling the output from the Brussels Colloquium (2012/1 and 2012/2) and the SUERF/Bundesbank/IMFS Conference on “The ESRB at 1”. Members are of course invited to make submissions of unpublished research for potential publication in the SUERF Studies series, with guidelines for submissions being available on the SUERF website.

Since its re-launch in late 2010, the SUERF Website has established itself as the “hub” of SUERF’s activities – with submissions to Calls for Papers, and registration forms to participate at SUERF events, being handled over the website. Additionally the announcement service for Calls for Papers and Events has allowed SUERF to publicise members’ events and events of kindred associations reciprocally. Announcements for publication should be sent to the SUERF Secretariat. Further features are currently under development, including further social media integration.

2. SUERF Events in 2011

The 29th Colloquium, three conferences and the Annual Lecture were held in 2011.

– A SUERF/NBP Conference on Monetary Policy after the Crisis jointly organized with the National Bank of Poland in Warsaw on 4 March, 2011 (the conference proceedings have appeared as SUERF Study 2011/3);

– The 29th SUERF Colloquium on New Paradigms in Money and Finance? in Brussels on 11-12 May 2011 jointly organised with the Belgian Financial Forum, the Brussels Finance Institute and CEPS and sponsored by Dexia Bank, KBC, BNP Paribas Fortis and Larcier (the Colloquium proceedings will appear as SUERF Studies 2012/1 and 2012/2);

– A two day SUERF, Bank of Finland, CEPR and JFI Conference on The Future of Risk Management was held in Helsinki on 22-23 September, 2011 (The proceedings of the conference will appear in a second edition of the Journal of Financial Intermediation);

– A one and a half day SUERF/Deutsche Bundesbank/IMFS Conference on The ESRB at 1 was held in Berlin on 8-9 November 2011, with the proceedings to be published as SUERF Studies 2012/4).
The SUERF Council of Management would like to take this opportunity to thank all co-organizers, sponsors, speakers and scientific committee members for their contributions. We are convinced that our events have made a significant contribution to public debate on important issues.

3. Outlook to 2012/13

The following SUERF events have taken place or are planned to take place in 2012.

- **A SUERF/ICFR Conference** on *Future Risks and Fragilities for Financial Stability* jointly organized by the International Centre for Financial Regulation in London on 8 March 2012 (a report is also included in this newsletter);

- **A SUERF/OeNB Workshop and SUERF Annual Lecture** on *The Interaction of Political, Fiscal and Financial Stability: Lessons from the Crisis* to be held in Vienna on 18 June 2012 (the programme is included in this Newsletter);

- **The 30th SUERF Colloquium** on *States, Banks and the Financing of the Economy* to be held at the Department of Banking and Finance, University of Zurich, on 5-6 September 2012, sponsored by the Schweizerische Nationalbank, the Swiss Finance Institute, NCCR Finrisk, and KOF ETHZ.

- **A SUERF/Nykredit Conference** on *Property prices and real estate financing in a turbulent world* to be held in Copenhagen on 15 November 2012 (the Call for Papers is included in this Newsletter).

The SUERF Council of Management is currently in the process of finding potential partners for SUERF’s 2013 events. While there is no Colloquium in 2013, the year promises to be a particularly special year for SUERF, as the association celebrates its golden jubilee, with the programme of events commemorating this milestone in various ways. The Council of Management is keen to receive views and suggestions from members about possible future events and publications for coming years.

4. Membership

Corporate Membership levels remained stable, with new Corporate Members joining the association at a similar frequency to those leaving. At the end of the year, Corporate Membership stood at 86 (including 29 Central Banks) (88 in 2010). Academic Institution Membership (AIM) remained constant, with membership drawn from 15 countries. Personal membership decreased slightly over the previous year, due partially to retirements. Library Subscription Service (LSS) uptake remained unchanged. SUERF members are located in the following 39 countries.

- Albania, Austria, Australia, Belgium, Brazil, Canada, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Liechtenstein, Lithuania, Luxembourg, Macedonia, Malta, New Zealand, Norway, Poland, Portugal, Republic Of Kosovo, Republic Of Singapore, Romania, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, The Netherlands, Turkey, United Kingdom, United States.

5. Financial Situation

SUERF’s financial situation remains steady, although the association’s financial situation remains reliant on membership contributions, sponsoring of events and publications wherever possible. Increased publication costs, reduced financial sponsorship of events, further cost-cutting by member organisations leading to their resignation as members of SUERF and continually low interest rates on savings contributing to a cashflow deficit in 2011. While publication expenditure was lower in 2011 than in 2010, it still made up a very substantial amount of expenditures.

On the income side SUERF crucially depends on revenues from membership subscriptions to finance its activities. In 2011 cash-flow basis receipts from membership stood at just over € 128,700, a modest increase from 2010. Corporate
Members and Central Banks contributed approx. € 110,000. Personal members contributed just over € 9,000 whilst Academic Institution Membership (AIM) and the Library Subscription Service (LSS) contributed approx. € 9,200. With membership fees having remained unchanged for over ten years, while prices and costs for conferences, publications and salaries have continued to increase considerably, in order for SUERF to continue to provide its services to its members and to the public at large at the same capacity it was necessary to adjust annual membership fees, effective from 1 January 2012, for all categories of membership.

We would like to extend our special gratitude to all members – Corporate, Personal, Academic – and to our cooperation partners and sponsors for their continued support and interest in our products. Your support and interest allows SUERF to continue to provide high-quality events, publications and networking opportunities to you.

6. Miscellaneous

Council of Management

At the General Assembly held on 11th May 2011, in Brussels, Urs W. Birchler, University of Zurich, was elected to the SUERF Council of Management for a three year period from 1 January 2011 to 1 January 2014. In addition, the mandates of Morten Balling, Philipp Hartmann, Esa Jokivuolle, Frank Lierman, Catherine Lubochinsky, Donato Masciandaro, Jürgen Pfister and Jens Ulbrich were extended for a further term of 3 years from 1 January 2012 until 1 January 2015. Jan Marc Berk, De Nederlandsche Bank, Philip Molyneux, Bangor Business School and Marc-Olivier Strauss-Kahn, Banque de France, stood down from the Council of Management during 2011.

Allard Brinshoof, Rabobank Nederlands; Jakob de Haan, De Nederlandsche Bank; Patricia Jackson, Ernst & Young; and Christian Pfister, Banque de France were all invited to join the Council of Management as Observers. They will be eligible for election at the 2012 General Assembly to be held during the Zurich Colloquium.

During 2011, the Council of Management met on 4 occasions, coinciding with SUERF events, to plan the activities and monitor the association’s finances and work of the Secretariat. Information about SUERF Council of Management members can be found on the SUERF website at www.suerf.org/councilmembers.

SUERF Presidency

Frank Lierman, Chief Economist, Dexia Bank Belgium, was elected by the Council of Management as Vice President of SUERF for a period of three years (1.5.2011 - 30.4.2014) in succession to Philipp Hartmann, who had served in the position for two terms since 2006.

Donato Masciandaro, Professor of Economics and Director of the Paolo Baffi Centre on Central Banking and Financial Regulation at Bocconi University in Milan succeeded Hugo De Moor as SUERF’s Honorary Treasurer.

Executive Secretariat

The SUERF Secretariat continues to be staffed by Michael Bailey, Executive Secretary (part-time), and Veronika Brookes, Secretary (full-time). I would like to cordially thank Mr. Bailey and Ms Brookes for their ongoing work.

New SUERF Studies


1 This figure includes some payments for 2012 at higher rates received in 2011.
Corporate Members:

FINLAND
Municipality Finance PLC
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Forthcoming Events

The Council of Management has approved the following forthcoming events in 2012.

18 June 2012
Vienna, Austria
SUERF/OeNB Workshop and SUERF Annual Lecture
The Interaction of Political, Fiscal and Financial Stability: Lessons from the Crisis
Conference Microsite: www.suerf.org/vienna2012 – online registration open!

5–6 September 2012
Zürich, Switzerland
30th SUERF Colloquium
The State, Banks, and the Financing of the Economy
Conference Microsite: www.suerf.org/c30 – programme to follow

15 November 2012
Copenhagen, Denmark
SUERF/Nykredit Conference
Property prices and real estate financing in a turbulent world
Conference Microsite: www.suerf.org/cph-nykredit – Call for Papers open!

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