

27th SUERF Colloquium

New Trends in Asset Management: Exploring the Implications

jointly organized with  Bayerisches Finanz Zentrum
12–14 June, 2008, Munich, Germany

HVB Forum

Kardinal-Faulhaber-Straße 1, D-80333 München / Munich

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Call for Papers

Notes on the theme of the Colloquium

Asset management has become more prominent in recent years as manifested by at least four trends. First, the amounts involved have increased strongly as private sector assets have continued to grow and governments and central banks have more assets under management (sovereign wealth funds and larger foreign exchange reserves). Second, assets are managed more actively, both by large institutional investors, like pension funds and insurance companies and also by mutual funds and similar funds mainly set up for private investors. Third, the scope of asset management has been extended. Once mostly limited to traditional long-only equity and fixed income investments, asset management now encompasses a wide range of "alternative" investments including hedge funds, structured products, private equity, commodities, foreign exchange, real estate and even climate-linked products. Fourth, investment strategies have become so sophisticated that much higher risks can be managed than a decade ago. These trends are having effects on the asset management industry itself and the economy at large as asset classes and investment strategies evolve, asset prices and wealth affects become potentially more important for economic outcomes and the stakes for financial stability become potentially bigger.

This Colloquium will discuss these phenomena and their implications from three different perspectives:

- that of central banks and supervisory bodies
- of academia and financial research centres
- of asset managers and financial practitioners.

On the Commissions:

In addition to the plenary sessions, the commissions reporting session, and the **Marjolin Lecture**, one and a half days are reserved for presentation and discussion of some 36 papers in three parallel commissions. SUERF is interested in contributions from academics and members of the central bank, banking and insurance communities which deal with the topics addressed below. Policy-oriented papers will be given preference.

More detailed bullet points are available from the Chairpersons.

◆ COMMISSION I:

Evolving interaction of asset management with the economy

Chairperson: **Már Gudmundsson**, Deputy Head, Monetary and Economic Department, Bank for International Settlements
mar.gudmundsson@bis.org

Submitted papers may address inter alia the following issues:

- Asset pricing, risk premia, and the yield curve
- Effects of more active AM of pension funds and insurance companies
- Role of private equity in finance
- Debt vs. equity based economy (*from shareholders to fund managers*)
- International imbalances and globalisation of AM
- Impact of asset management of pension funds and insurance companies
- Asset prices, wealth effects and bubbles
- Carry trade; drivers and effects

◆ COMMISSION II:

Changing approaches to asset allocation

Chairperson: **John P. Calverley**, Chief Economist & Strategist, American Express Bank
john.p.calverley@aexp.com

Submitted papers may address inter alia the following issues:

- Changing asset classes (e.g. real estate, commodities, derivatives)
- New investment strategies (e.g. structured products)
- Changing institutional structures (e.g. hedge funds, private equity)
- New paradigms of risk
- Expected returns and realized performance
- The role of leverage
- The New focus on Asset Liability management
- Central banks as asset managers (*should they become more active?*)
- Behavioural Finance
- The relationship with the trading industry
- Socially Responsible Investment?

◆ COMMISSION III:

Is there an optimal regulation for Asset Management?

Chairperson: **Franco Bruni**, Professor of International Monetary Economics, Università Commerciale Luigi Bocconi
franco.bruni@uni-bocconi.it

Wolfgang Gerke, President, Bayerisches Finanz Zentrum Munich
gerke@bfzev.de

Submitted papers may address inter alia the following issues:

- Impact of regulation on AM strategies
- Competition in AM through disclosure, transparency, taxation, accounting, distribution
- Issues in taxation and accounting
- Who should be the regulator? (*national vs. international, Central banks vs. Regulation authorities, lead supervisor solution*)
- Investment styles and financial stability
- Harmonization in the EU
- MIFID

Preliminary Programme

Thursday, 12 June, 2008 morning

Venue: Maximiliansaal, HVB Forum
Kardinal-Faulhaber-Straße 1
D-80333 München / Munich,
Germany

Registration
Opening Session
Welcome **SUERF**
Addresses: **Bayerisches Finanz Zentrum e.V.**

Keynote Speakers: 1) **Axel Weber**, President,
Deutsche Bundesbank
2) tbc
3) tbc

Thursday, 12 June, 2008 afternoon

Commission work in three parallel sessions in three
seminar rooms

Evening reception

Friday, 13 June, 2008 morning and afternoon

Commission work in three parallel sessions in three
seminar rooms

Late afternoon: SUERF General Assembly

Evening reception

Saturday, 14 June, 2008 morning

Plenary Session Concluding panel discussion
(SUERF President and the
Chairpersons of the three
commissions)

Marjolin Lecture Marjolin Lecturer, tbc

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

approx. 12.00 *End of the Colloquium*

Afternoon **OFFICIAL CONFERENCE
EXCURSION WITH DINNER**

A detailed Programme will be available end of 2007

SUERF Colloquium 2006 Volume

Money, Finance and Demography: The Consequences of Ageing

Edited by **Morten Balling**, University of Aarhus, Denmark, **Frank Lierman**, Dexia Bank, Belgium and
Ernest Gnan, Oesterreichische Nationalbank, 2007, EUR 50.

Available shortly from the SUERF Secretariat!



SUERF and Bank of Finland joint Conference *Financial Markets, Innovation and Growth*

Thursday 20 and Friday 21 September, 2007

Venue: House of the Estates,
Snellmaninkatu 9, 00170, Helsinki

PRELIMINARY PROGRAMME

Wednesday, 19 September, 2007

19.30 *Dinner for those interested – on a self-payment basis (please notify the SUERF Secretariat two weeks in advance)*

Thursday, 20 September, 2007

8.45 *Registration*

9.00–9.15 *Opening session*
Sinikka Salo, Member of the Board, Bank of Finland

9.15–10.30 *What are the financial factors of growth in mature economies?*
Keynote speech **Peter L. Rousseau**, Vanderbilt University

10.30–11.00 *Coffee Break*

11.00–12.30 **Session 1**

The Quality of banking and regional growth

Authors **Iftekhar Hasan**, Lally School of Management and Technology, Rensselaer Polytechnic Institute, **Michael Koetter**, Deutsche Bundesbank and University of Groningen and **Michael Wedow**, University of Groningen

Discussant tbc

Banking competition, Financial dependence and Economic growth

Authors **Joaquín Maudos**, Ivie and Universitat de València and **Juan Fernández de Guevarra**, Ivie

Discussant tbc

12.30–14.00 *Lunch*

14.00–15.15 *Appetite for risk: On the financing of innovative firms*
Invited speech **Cilian Jansen Verplancke**, Rabobank

15.15–15.45 *Coffee Break*

15.45–17.15	Session 2 <i>When do R&D Subsidies Boost Innovation? Revisiting the Inverted-U Shape</i>
Authors	Juha Kilponen , Bank of Finland and Torsten Santavirta , Helsinki, School of Economics
Discussant	tbc <i>Credit Constraints and the Cyclicity of R&D investment</i>
Author(s)	Nicolas Berman , University Paris I Panthéon-Sorbonne and Banque de France, Laurent Eymard , Banque de France, Philippe Aghion , Harvard University and PSE, Philippe Askenazy , Paris School of Economics and IZA, and Gilbert Cetto , Banque de France and Aix-Marseille II University
Discussant	tbc
17.15–17.30	Closing remarks first day
18.30	<i>Conference Dinner, Bank of Finland Banqueting Hall</i>

Friday, 21 September, 2007

9.00–10.15	<i>The role of financial markets and innovation for productivity and growth in Europe</i>
Invited speech	Philipp Hartmann , European Central Bank
10.15–10.45	<i>Coffee Break</i>
10.45–12.15	Session 3 <i>Which firms benefit more from Financial Development?</i>
Authors	Jan Bena , LSE and Štěpán Jurajda , CERGE-EI
Discussant	tbc <i>Regulation of Financial Systems and Economic Growth,</i>
Authors	Alain de Serres , Shuji Kobayakawa , Torsten Sløk and Laura Vartia , OECD
Discussant	tbc
12.15–13.45	<i>Lunch</i>
13.45–15.15	Session 4 <i>Bank Behaviour with Access to Credit Market Risk Transfer,</i>
Authors	Benedikt Goderis , Oxford University, IanW. Marsh , Cass Business School, Judit Vall Castello , Universitat Autònoma, and Wolf Wagner , Tilburg, University and CERF
Discussant	tbc <i>Self Selection and Advice in Venture Capital Finance</i>
Authors	Christian Keuschnigg , University of St. Gallen, CEPR and CESifo and Soren Bo Nielsen , Copenhagen Business School, EPRU, CEPR and CESifo
Discussant	tbc
15.15–15.45	<i>Coffee Break</i>
15.45–17.00	<i>The financial factors of growth in mature economies: what have we learnt?</i>
Keynote speech	Paul Wachtel , New York University
17.00–17.15	Concluding Remarks
17.15	<i>End of the event</i>
17.15–22.00	<i>Visit and dinner at Hvitträsk (home of architects Eliel and Eero Saarinen)</i>

Partners are welcome to attend the evening dinner on Thursday and the visit and dinner on Friday:
They are requested to notify us 2 weeks in advance about their registration!
We also need to know about participation on Wednesday evening. The Registration Form and the Hotel Reservation Form are attached to the SUERF Newsletter and are available from www.suerf.org

Pre-Announcement: SUERF Conference

Financial Statistics in the Perspective of Central Banks and the Asset Management Industry (preliminary title)



Jointly organized with Pioneer Global Asset Management SpA

Monday, 3 December, 2007 **Venue: Palazzo Clerici, Via Clerici 5 – I-20121 Milano**

A detailed Programme and Registration form for this full-day Conference will be available in the summer 2007 – see also www.suerf.org.

Report on SUERF Seminar

Corporate Governance in Financial Institutions

Jointly organized with the Central Bank of Cyprus in Nicosia, 29-30 March 2007

By Morten Balling, Frank Lierman, Ernest Gnan and Constantinos Tsolakkis

On March 29–30, 2007, SUERF and Central Bank of Cyprus jointly organized a seminar *Corporate Governance in Financial Institutions*. Approximately 150 participants gathered at Hilton Hotel Cyprus, Nicosia.

The seminar was opened by **Catherine Lubochinsky**, SUERF President and Professor of Economics and Finance, University Paris 2 and **Costas Poullis**, Senior Manager, Banking Supervision and Regulation Division, Central Bank of Cyprus.



Spyros G. Stavrinakis, Senior Manager, Central Bank of Cyprus gave the first Keynote Address. He reminded the audience that Cyprus had entered the EU on 1st May 2004 and had recently applied for joining the Euro Zone. With reference to EU Regulation in force, the speaker described the ongoing implementation in Cyprus of Corporate Governance Principles. Boards of directors of banks are supposed to take the lead by setting standards of ethical behaviour and ensure that safeguards are in place to deal with potential conflicts of interest. It is the responsibility of the board that the bank monitors compliance with all legal rules. Family owned and state owned banks have particular corporate governance problems because owners can potentially influence the day-to-day management of the bank. Transparency regarding corporate governance issues is important. A bank should disclose the incentive structure for senior managers and codes of ethical behaviour on its website. Directors and managers should be appointed after a careful evaluation of their qualifications. Non-executive directors have an important role as independent members of the board and should ensure that the bank's responsibility towards shareholders is fully understood. The implementation of corporate governance principles in Cyprus was inspired by EU-initiatives and developments in international practice and cases of corporate failures. There had fortunately been no major negative corporate governance episodes in Cyprus.

Session 1 *Key Issues of Corporate Governance in Financial Firms* was chaired by **Franco Bruni**, Professor of International Monetary Economics, Bocconi University.

Kasper Roszbach, Sveriges Riksbank presented the first paper: *Governing the Governors: A Clinical Study*

of Central Banks. The paper is co-authored by Lars Frisell and Giancarlo Spagnolo. It raises the broad question of whether the current institutional setup and governance structure of central banks are optimally configured to make them execute the tasks assigned to them by the public in the most efficient way. Governance of central banks is complex because they have many tasks to perform. A central bank is the bank of the banks and insurers, the monopoly provider of public goods, a regulator, and sometimes a competition authority at the same time.

The authors survey institutional arrangements in a large number of countries. The coverage varies, but the largest sample of countries comprises 101 countries. Based on the procured data, they show in pie charts and tables the relative importance of respectively price stability, currency stability and other central bank objectives, the inclusion of banking supervision among the central bank activities, the ownership structure, the position of the central bank governor in relation to the supervisory board, the separation of the supervisory board from the executive board, the procedure for Governor appointment and dismissal, term limits for governors, central bank budget independence and governor remuneration. The study makes clear that aligning central banks' incentives with their multiplicity of objectives is a very complex task. The institutional arrangements vary strongly between countries.

Professor **Christian Harm**, University of Münster presented the next paper: *The Governance of the Banking Firm*. The author applies recent insights from theories of agency and delegation, the firm, and its governance to banks and their management. The combination of demandable debt contracts, illiquid investments and high



leverage makes banks “*special*”. They are consequently heavily regulated and regulators supervise their activities on behalf of depositors and the public at large. The mission of bank managers is complex to define and this implies that evaluation of the performance of bank managers becomes difficult. Complexity works against incentives. The stakeholder character of banking firms implies contractual incompleteness and makes the definition of optimality criteria ambiguous. The complexity of the task of a bank board is nicely captured by a board member quotation from Demb and Neubauer (1992): “*We do not know what directors are supposed to do; we only know that they are supposed to do it ‘with care’*”.

The discussant of the two papers **Marios Clerides**, Hellenic Bank underlined the importance of good central bank governance for financial stability. He remarked that most banks in Cyprus are shareholder oriented and that bank employees are important stakeholders but that they do not have property rights. During the general discussion, several participants referred to the role of the central bank as part of a country’s constitutional framework and the potential political pressure from the Government on the central bank. Cooperative financial institutions seem to perform quite well even though some of them have their own “*governance deficit*”. Managers of banks with weak performance can in some cases “*hide behind diffuse objectives*”.

Session 2 *Strengths and Weaknesses in Governance Arrangements* was chaired by **Ernest Gnan**, Head Economic Analysis Division, Oesterreichische Nationalbank.

Professor **David T. Llewellyn**, Loughborough University presented the paper: *Corporate Governance Issues in Non-Shareholder Value Financial Institutions: A Case Study of Mutual Building Societies in the UK*. Mutuals do not have externally-held risk capital, there are no specialist outside risk-takers which supply equity capital and, leaving aside subordinated debt, the only sources of capital for mutuals are the profits of the organization. This structure implies that there is no (or only weak) discipline exerted by the capital market, there is no active secondary market in ownership claims and no market in corporate control. The objectives of a mutual are difficult to define and the wide dispersion of ownership rights means that management is insufficiently accountable to owners. Conflicts of interest between managers

and owners are less easily identified. It is difficult to create management incentives. Members have weak incentives, feasibility and ability to exert influence. In many cases, members of mutuals do not know they are owners with ownership rights. There is therefore ample scope for mutuals to be inefficient. There is, however, no evidence that this has affected the efficiency and performance of mutuals.

Professor **Giovanni Ferri**, University of Bari presented the next paper: *Governance Diversification and Performance: The Case of Italy’s ‘Banche Popolari’*. The paper is co-authored by Paola Bongini. The cooperative banks in Italy have, according to the authors, been successful through 140 years. In recent years, they have had lower profit volatility than other Italian financial institutions. Mergers have taken place in the sector and more mergers are under way. Board composition has been more stable than board composition in incorporated banks. The speaker characterized recent proposals to transform the cooperative banks to incorporated banks as ill grounded.

The discussant professor **Andreas Charitou**, University of Cyprus underlined the importance of improving corporate governance in all types of financial institutions. The size and composition of board, executive compensation, ownership structure and other characteristics should be monitored and it was not enough to look at financial firms listed on the stock exchange. During the discussion, Professor Llewellyn was asked why several mutuals in the UK had decided to become incorporated banks when they were already efficient and profitable financial firms. He answered that managers were motivated by a much higher level of compensation after incorporation while members obtained “*windfall gains*” through payouts more than proportionally related to their deposits. In fact, reserves of mutuals accumulated during 150 years were partly paid out to current members. Professor Ferri supplemented his remarks about low profit volatility in cooperative banks with the observation that the profit level in most years was lower than the level in incorporated Italian banks.

Session 3 *Governance in Financial Supervisory Agencies* was chaired by Professor **David T. Llewellyn**, Loughborough University.

Marc G. Quintyn, Division Chief, IMF Institute presented the paper: *Governance of Financial Supervisors and its Effects – Some Stocktaking*. Regulatory agencies are extensions of the government, and yet, they are supposed to operate at arm’s length from the government. In order to explain the crucial role of financial supervision, the author defines a so-called “*Governance Nexus*” concerning the interrelationships between governance in the public sector, the regulatory agency, the financial sector and non-financial firms. A virtuous impact can be expected from good governance at each level.

Good regulatory governance rests on four pillars: independence, accountability, transparency and integrity. These four pillars hold each other in balance and reinforce each other in supporting good governance practices. The speaker referred to a comprehensive study based on data from 32 supervisory agencies. The independence of the agencies was measured by means of 19 criteria while the accountability of the agencies was measured by 21 criteria. By comparing pre-reform and post-reform results, it is possible to document an upward trend in both independence and accountability.

Studies of the impact of higher quality of regulatory governance on the various elements of the governance nexus are surveyed. The evidence fairly unambiguously demonstrates that improvements in regulatory governance have a beneficial impact on the soundness of the financial system.

Henrik Bjerre-Nielsen, Director General, The Danish Financial Supervisory Agency presented the next paper: *Governance Systems of Financial Regulatory and Supervisory Authorities in a European Perspective*. Financial Regulatory and Supervisory Authorities (FRSAs) may be considered as principals as well as agents: principals of the supervised financial firms and agents in relation to governments and customers. There is substantial diversity among the governance systems of FRSAs in Europe. The speaker argued that there is a need for European regulation of the governance systems because of the increasing integration of financial markets and institutions. FRSAs are not able to monitor all the actions of all financial firms. Hence, supervision must be based on selection. Supervisory activities should focus on areas where probabilities or impacts of non-compliance are high. It must be expected that governments in Europe may enhance their cooperation regard-

ing crisis management. That applies in particular when financial firms in trouble may have an impact on financial stability in more than one country.

The discussant Professor Emeritus **Morten Balling**, Aarhus School of Business – University of Aarhus pointed out the conceptual links between the two papers. Both speakers are deeply interested in applying agency theory to the interplay between FRSAs, the government, the regulated financial institutions, the customers of these institutions and international organizations. Quintyn applies, however, a global perspective while Bjerre-Nielsen applies a European perspective. The discussant asked about possible weaknesses in the collection of data used to measure independence and accountability and about the relevance of the Basel Core Principles to the studies referred to. He also asked about the possibility of arranging balanced hearings about the European regulatory process. Quintyn answered that there were problems in collecting relevant provisions from the legal frameworks globally but that National supervisory agencies had been given the chance to read the basis for measurements before they were published. Bjerre-Nielsen answered that one of the difficulties in hearings is that consumers are not well represented.

Session 3 was followed by a Keynote Address given by Professor **David T. Llewellyn**, Loughborough University. The title of the address was *Will There Be a Convergence on the Anglo-Saxon Model of Corporate Governance?* The speaker compared the governance systems applied in respectively Continental Europe and the Anglo Saxon Countries. Characteristic features of many corporate governance systems in Continental Europe are: strong insider control, limited shareholder rights, close ownership, relatively strong managers, focus on stakeholders, strong takeover defenses, limited transparency, cross-shareholdings and voting power differentiation. In contrast, characteristic features of the corporate governance systems in Anglo Saxon countries are: strong external influence, diversified ownership, strong shareholder rights, focus on shareholder value, high level of disclosure and one-share-one-vote at shareholder meetings.

The speaker presented evidence documenting the relationship between average return on equity in banks and the proportion of bank business taken care of by stakeholder oriented banks. The evidence supports the



hypothesis that in countries where stakeholder oriented banks dominate, the return on equity of banks is low. British banks are among the most profitable in the world and the explanation is according to the speaker that they focus on return on equity and shareholder value. The occurrence of share-buy-backs is also much higher in Anglo Saxon countries than elsewhere. Globalization of capital markets intensifies competition about capital and shareholder oriented banks are competitive also in this respect. The trend towards more shareholder activism also favours profit oriented banks. All in all, the speaker concluded that there will be a convergence on the Anglo Saxon Model of Corporate Governance.

During the discussion, several participants from Continental Europe questioned some of the premises of the speaker. Doubts were expressed concerning the disciplining role of the takeover market. Available evidence does not support the hypothesis that foundation-owned companies are less efficient than widely held firms. There seemed, however, to be broad agreement that competition among different corporate governance systems was beneficial. Market forces should to a large extent be allowed to influence the future development of the systems.

Session 4 *The Market and Fund Managers Viewpoint* was chaired by **Morten Balling**, Professor Emeritus, Aarhus School of Business – University of Aarhus.

The first paper in the session was presented by **Bridget Gandy**, Fitch Ratings Ltd. The title was *Corporate Governance in Emerging Market Banks*. Weak corporate governance has had a direct bearing on the collapse or partial collapse of a number of emerging countries' banking systems. There has, however, been a marked improvement in governance practices in the past three to five years. Emerging market countries have been exposed to pressures from the global market place. There has generally been more focus on corporate governance. In CEE-States, preparation for EU-accession has

contributed to improved practices. The level of oversight of risk management by a bank regulator is highly influential in the effectiveness of a bank's governance structure. The implementation of Basel II frameworks in banking systems throughout the world has been a strong driving force behind development of improved risk management systems, control environments and disclosure. Fitch has identified the single most common driver of the strength of corporate governance to be ownership. Fitch keeps an eye on banks with state ownership and ownership by a group of private individuals or a family. Listed banks with a wide ranging shareholding base tend to have the highest relative standard of corporate governance.

Martin Murtfeld, Council of Europe Development Bank presented the next paper: *Corporate Governance and the Markets – Challenges, Opportunities and Responsibilities*. The speaker first referred to the leading role played by stock exchanges in establishing principles of corporate governance. After that he described the activity of institutional investors and the increasing tendency to publish principles and guidelines regarding their corporate governance policy in relation to companies in which they invest. All over the world, investment decisions are to an increasing extent sensitive to the quality of corporate governance in the security issuing companies.

The discussant Professor **Catherine Lubochinsky**, University Paris 2 emphasized the importance of cross-border differences in ownership structures. Gandy's analysis of state ownership of banks and related party transactions was very illuminating in an understanding of conflicts of interest. Institutional investors are very important shareholders in the US and UK and this has far-reaching consequences for the corporate governance systems in these countries. Differences in the legal environment are also important. Parliaments should be ready to adjust the legal framework of corporate governance when needed.

Session 5 was a *Panel Discussion of Practitioners, Market Agents and Supervisors*. The session was chaired by **Costas Tsolakkis**, Manager, Bank Supervision and Regulation Department, Central Bank of Cyprus.

David Archer, Head of Central Banking Studies, BIS in his introductory remarks pointed out the many changes in governance systems in the last ten years. He stressed the importance of dealing with governance issues in a systematic way. Objectives should be specified, incentives should be aligned and there should be proper arrangements for transparency and accountability. The limited measurability of financial stability is a serious problem for central banks.

Luigi Passamonti, Senior Advisor, The World Bank focused in his remarks on the pivotal role of bank boards. Boards are responsible to shareholders. The bank should deliver sustained valuation growth by delivering financial services to the public. Boards are responsible for risk management which again is essential for financial stability. The agenda of the bank board is a useful instrument. Supervisors could rely more on bank boards in monitoring if they ensured themselves about the skills of bank board members.

Evgenios Evgeniou, Partner, PricewaterhouseCoopers Financial Services focused on the role of auditors. Spectacular corporate failures had shaken the public trust in auditors. Efforts were needed to rebuild confidence. In relation to corporate governance, an important task of auditors is to ensure that transparency is sufficient. Rules are needed but so is good judgment.

Andreas Ittner, Director of the Financial Stability and Bank Inspection Section, the Austrian Central Bank reminded the audience that the word “*Governance*” is derived from an old Greek word describing navigation of a ship. When conflicting interests and forces are affecting the course of a bank, it is important to create the right mix of checks and balances in the governance arrangement. Codes and standards may be helpful.

During the general discussion, Archer questioned the idea of delegating supervisory functions to bank boards. Ittner characterized bank business as risk business. He asked if the right candidates for bank boards are available. Evgeniou said that we should aim for the right balance between rules and principles. Ernest Gnan referred

to the often expressed view that different systems of corporate governance may be suitable in different countries and financial systems. He argued that we should not carry this argument to the extreme: Not each and every – possibly inefficient – system can be justified with cultural, legal and whatever diversity. For not every system of corporate governance will be able to support the efficient use of scarce resources to the same extent.

In his concluding remarks, **Costas Tsolakkis**, Manager, Central Bank of Cyprus summarized the seminar discussions and gave three recommendations: 1) We should focus not only on structural and procedural issues. Attention should also be given to the cultural context in which the board operates. 2) We should insist on director competence, allocation of resources to the board, and training of directors. 3) Boards should be more involved in company ethics and compliance programs. He concluded with a quotation from Aristotle: “*Moral virtue is acquired by practice. None of the moral virtues arise in us by nature; we are adapted by nature to receive them, and are made perfect by habit*”.

Ernest Gnan and **Costas Tsolakkis** concluded the seminar by thanking the organizers – SUERF and Central Bank of Cyprus – the speakers, the discussants and the panellists for their contributions. On behalf of the SUERF Council of Management, Ernest Gnan thanked the Central Bank of Cyprus for hospitality, excellent organization and support.

Book Review • Book Review • Book Review



Globalisation of Accounting Standards

Edited by Jayne M. Godfrey and Keryn Chalmers, Monash University, Australia

Hardcover, 309 pp; Edward Elgar Publisher, 2007,

ISBN-10: 1845428528; ISBN-13: 978-1845428525

Reviewed by

Department of Business Studies, Aarhus Business School
University of Aarhus

I recommend this well-crafted and insightful book on the globalisation of accounting standards. The introduction chapter is written by the two editors and provides a suitable framework for understanding the ongoing globalisation process related to financial reporting. The commitment of countries towards adopting international accounting standards is characterized as “one of the most significant and controversial recent trends in business”. This commitment is evidenced by the fact that more than 100 countries now have adopted International Financial Reporting Standards (IFRS) for the financial statements of domestic listed companies. The themes of the book are identified as: (1) Role of financial reporting, (2) Catalysts for the globalisation of accounting standards, (3) National approaches to globalisation, and (4) Issues emerging from the implementation process.

These overall themes receive attention through an abundance of well-written chapters on the globalisation process. One strength of the book is that the collection of individual contributions manages to go beyond a mere presentation of harmonization status in individual countries and beyond the now dated discussion of rule-based vs. principles-based accounting systems. The insights provided in several of the chapters are based on frank and honest observations of the political power struggles taking place among standard regulators, financial market players, accountants and other stakeholders. Another strength of the book is that it provides a multidimensional presentation of the globalisation issues steaming from obvious differences in national and international approaches considered. The insights will be valuable to any keen observer of or participant in the process of globalisation of accounting standards. The content and structuring of the chapters is presented below.

Chapter 2 explains the role of accounting information in an increasingly global finance market and the inevitability of the globalisation of accounting standards. The dominant position of institutional investors in the financial market is underlined and the consequences for the information needs are discussed.

Chapter 3 is an account of the personal experience of Kevin Stevenson as participant in the work of the International Accounting Standards Boards (IASB) and the progress in globalisation of accounting standards. The strong and sometimes adverse positions of the countries involved are described with great candour. He concludes with a warning note that neither US nor Europe is the proxy for the world in terms of a balanced representation of all interests in the standard setting process.

Chapters 4 to 7 are written by authors affiliated with the UK, the US, Canada and Australia. These countries were part of the original “group 4+1” part taking in accounting harmonization efforts in collaboration with the International Accounting Standards Committee (IASC), which was the precursor to the IASB. Because the authors have been close to – but not part taker in – the standard setting process of their particular country, they accomplish to provide interesting insights to the efforts and motivation of the respective national accounting standard bodies. It is fascinating to note the difference in arguments on behalf of each country which obviously reflects different standard setting traditions and values. As such the UK perspective is described as a third option to the US and EU perspectives on standard setting, while the US perspective focusing upon the content of the standards thus favouring a technical rather than geographical representation in the IASB. The Canadian perspective is presented as a link between the rule based US system

(economic relationship) and the principle based UK system (legal relationship). Finally, the Australian perspective provides insight in to a full adoption of the IFRS system for not only listed companies but all companies previously adhering to the Australian Accounting Standards. The coping mechanisms of the Australian business community provide remarkable insights from which lessons may be learned in the context of full adaptation for all companies in other countries too.

Chapter 8 to 10 provides a sequence of chapters with focus on issues and experiences of countries from the European Union. These chapters are written of authors affiliated with Italy, France and Germany. These countries are not necessary representative for all EU countries, but they typify a wide spectrum of issues considered across Europe. The one thing in common for the EU countries is of course that they had no real choice but to adopt IFRS as a result of the EU's commitment that all its members would do so for listed companies' financial report ending on or after January 2005. Issues related to

willingness vs. acceptance of adoption are common observations across the countries. Concrete problems are identified and discussed in further detail as for example the institutional setting and implementation speed (Italy), the importance of the link to tax and to SME reporting (France), and the risk of lowering the quality of reporting by adopting IFRS standards (Germany).

Chapter 11 to 16 provides interesting examples from countries with a large variety in adoption or harmonization decisions. Chapter 11 is a stand alone chapter of the implications of the Australian decision to include the requirement of adopting international standards even for public sector entities. Chapter 12 to 14 provides insight into ongoing processes in three countries with significant economies, namely China, Japan and India. Chapter 15 to 16 provides insight into the experiences of Malaysia and South Africa, which goes beyond economics, i.e., the role that religion can play in the case of Malaysia and as part of the efforts to overcome the South African nations' economic difficulties.

SUERF Publications

New SUERF Studies

2007/1 Information and Uncertainty in the Theory of Monetary Policy, by Helmut Wagner, Spring 2007, ISBN 978-3-902109-36-X

2007/2 Economic Convergence in South-Eastern Europe: Will the Financial Sector deliver?, by Valerie Herzberg and Max Watson, ISBN 978-3-902109-38-5

New SUERF Book

SUERF Colloquium Volume: Money, Finance and Demography: The Consequences of Ageing

Edited by **Morten Balling**, University of Aarhus, Denmark, **Frank Lierman**, Dexia Bank, Belgium and **Ernest Gnan**, Oesterreichische Nationalbank. Spring 2007. ISBN: 978-3-902109-37-8, EUR 50 – available from the SUERF Secretariat.

A significant ageing trend can be observed in Europe and in other parts of the world. Fertility is decreasing and life expectancy increasing. The impact of migration is growing. This book deals with the implications for financial markets of these demographic trends. Leading economists and financial experts from Europe and the United States evaluate the challenges to public pension systems and the private pension industry. Based on long-term projections of productivity and employment they look at

potential growth in GDP per capital and implications for savings and wealth. Pension fund portfolio management is discussed together with the ability of capital markets to serve retirement-financing purposes. Fiscal as well as financial sustainability are analysed in depth. The roles of global imbalances and international capital movements are included. Most chapters also discuss policy implications – in particular with regard to how pension saving incentives and rules and incentives for retirement

should be in order to ensure fiscal and financial sustainability. All contributions in the book are based on presentations at the 26th SUERF Colloquium on Money, Finance and Demography – the Consequences of Ageing held on October 12-14, 2006 in Lisbon sponsored by Banco de Portugal and Millennium bcp and in cooperation with Universidade Nova de Lisboa.

Contents: 1. *Introduction* 2. *Longevity Risk and Financial Markets* **Ignazio Visco** 3. *Global Imbalances, Demography and China* **Barry Eichengreen** 4. *Looming demographic ageing: a constraint to economic growth and living standard increases in the EU 25* **Gilles Mourre, Giuseppe Carone, Declan Costello, Nuria Diez Guardia, Bartosz Przywara and Aino Salomäki** 5. *Postponing retirement: the political push of aging* **Vincenzo Galasso** 6. *A Note on Demand for High-*

Quality Fixed-Income Bonds: What Demographics may imply **Sebastian Schich and Mark Weth** 7. *Sensible Individual Behavior, Wrong Collective Policies - Why promoting Private Savings is only part of the right ageing public strategy* **Etienne de Callatay** 8. *Implicit Pension Debt and Fiscal Sustainability: An Assessment for Germany* **Martin Werding** 9. *Population Ageing in Italy: Facts and Impact on Household Portfolios* **Marianna Brunetti and Costanza Torricelli** 10. *Ageing, National Savings and the International Investment Position: The Experience of the Netherlands* **Wim W. Boonstra** 11. *The Impact of Projected Demographic Developments on Funded Pension Provision in Austria* **Stefan W. Schmitz** 12. *General Government Debt Sustainability in Slovenia* **Hana Genorio**.

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For complete addresses of the Council Members and Curricula Vitae see: www.suerf.org

Future SUERF Events

The Council of Management has decided on the following forthcoming events for 2007. **Other events may 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 – to receive the most up-to-date information. The Council of Management is always pleased to consider suggestions for joint events from members.

20/21 September 2007
Helsinki, Finland

SUERF Conference *Financial Markets, Innovation and Growth*, jointly organized and hosted by the Bank of Finland – see the Programme and Registration Form in this Newsletter

3 December 2007
Milan, Italy

SUERF Conference *Financial Statistics in the Perspective of Central Banks and the Asset Management Industry* (preliminary title), jointly organized with Pioneer Global Asset Management SpA, in Milan

12–14 June 2008
Munich, Germany

27th SUERF Colloquium *New Trends in Asset Management Exploring the Implications* jointly organized with Bayerisches Finanz Zentrum e.V. – See also the Call for Papers in this Newsletter.

**For more details and latest news on SUERF Events
and for Registration Forms, please visit**

www.suerf.org

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