**Banking after Regulatory Reforms: Business as Usual?**

**Key findings from a conference jointly organised by SUERF, and the Bank of Finland held in Helsinki on Thursday 13 June, 2013**

By Esa Jokivuolle, SUERF and Bank of Finland

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After the global financial crisis, banking regulation has gone through major changes but more might be coming. Capital and liquidity regulation has been reformed, thanks to Basel III, and new regulations to resolve systemically important banks have been developed both in the EU and the US. But structural changes in banking are still partly in progress, notably in the EU where the Commission is expected to come out this year on how it might take further the proposals of the High-Level Expert Group (HLEG).

The regulatory changes are likely to affect banks' business models, and regulations on banks' structure would interfere with business models directly. This is the broad theme around which the fifth joint Bank of Finland-SUERF conference was centered in Helsinki, 13 June 2013. "Banking after regulatory reforms – business as usual?" attracted one hundred registered participants to follow the one-day program with three keynotes, four invited speakers, and a distinguished panel.

The Bank of Finland's Governor, Erkki Liikanen, who chaired the work on the report "High-level Expert Group on reforming the structure of the EU banking sector", released in October 2012, and also known as the Liikanen Report, had kindly agreed to deliver one of the keynotes in the conference. The other two keynotes were by Alan Blinder of Princeton University, and Paul Tucker, Deputy Governor of the Bank of England.

Notably, most of the members of the HLEG were present in the audience and contributed actively to the discussions during the day. Two of the HLEG members, José Manuel Campa from IESE Business School, and Hugo Bänziger (Eurex), also served as panelists.

The program started with two presentations from the regulatory side, the first by Mario Nava from the European Commission, and the second by Jukka Vesala, Deputy Director General of the Finnish FSA.

In his talk "The current state of reforming bank structures", Mario Nava did not really anticipate the Commission's forthcoming actions on the basis of the HLEG's report but discussed at the more general level the need for structural changes in banking; "what, why, and why at the EU level?". He demonstrated the importance of the banking sector
for the EU economy, compared to the United States, and noted that regulating banks' structure implies restrictions on banks' activities and (financial) connections between banks. He pointed out the distinction that while capital requirements target banks' incentives, structural measures can be seen as a quantity-based regulation. Nava also said that structural measures can add value by facilitating risk control; referring to the point made by the Deputy Governor, Pentti Hakkarainen of the Bank of Finland in a speech in Paris earlier this year. Moreover, structural measures may help control the size of banks, and thereby the too-big-to-fail problem. Mario Nava then commented on the banking union by saying that before the crisis, the governance of the financial markets did not keep up with the liberalization of the markets. He demonstrated this by what he called the "Mother of all slides" from the HLEG's report (charts 2.3.6 and 7, page 15), which shows that European banks' liabilities grew strongly via increasing leverage while the amount of banks' equity did not keep up. On the asset side, the growth took place in other activities than lending to the real sector, and Nava questioned whether this really benefited the real economy. When briefly comparing the HLEG report to the earlier structural proposals in the US ("Volcker Rule") and the UK ("Vickers Report"), Nava concluded that the HLEG landed in the middle "where virtue lies". In the floor discussion, the question of losing some positive stability effects from reduced diversification between different activities as a result of structural measures was raised. David Llewellyn (SUERF) wondered whether structural measures mainly target the (social) losses given a bank's failure, and not so much the probability of failure of a bank. Finally, the question concerning the obstacles to implementing structural reforms was raised. Mr. Nava acknowledged that strong political support will be necessary for successful implementation.

Speaking about "Regulatory and resolution measures needed to foster market discipline", Jukka Vesala first noted that he would not focus directly on structural measures, but more generally on how to move from bail-out to bail-in policy, even in the case of the largest banks, by developing the resolution mechanism. Europe has a history of bail-outs. Vesala pointed out that bank resolution is by nature discretionary, and national discretion is also what the member states of the EU currently want. In these circumstances, what can be done to enhance market discipline? The answer according to Vesala is that resolution needs clear ex ante rules and certainty of implementation when there are bank failures. He saw that two-stage bail-in instruments would be useful. First, banks should have obligatory debt instruments which at a given trigger point before the resolution point either convert into equity or absorb losses. A similar proposal is included in the HLEG's report. Second, an all-inclusive bail-in of debt instruments could take place at the resolution point. He denoted the mandatory first-stage bail-in instruments as "Tier 3 capital". Vesala stressed that bail-in debt instruments, instead of corresponding amount of equity, are needed especially for market discipline. He also supported depositor preference for the protected part of deposits, and called for higher non-risk-based capital requirements in trading activities. These should come on top of the risk-based requirements in order to retain banks' incentives to develop risk measurement further. He also said a Single Resolution Mechanism is needed in Europe for cross-border bank failures. In the discussion that followed Jean-Charles Rochet commented that the disciplining effect of debt seems largely to be an academic argument, something that practitioners do not necessarily acknowledge. Marco Mazzucchelli (HLEG member) asked who will buy the bail-in bonds if other banks are not allowed to. Jan-Pieter Krahnen (also a HLEG member) first stated that we have to make banks failable. He then said that if carefully implemented, bail-in bonds would have a market as there is a high potential demand for high coupon bonds. Andrea Enria, Chairman of the European Banking Authority (EBA), pondered whether conversion to equity would be a better mechanism than write-offs, concerning the design of bail-in bonds.

There were two presentations based on academic research papers, the first by Steven Ongena (Tilburg University) and the second by Jean-Charles Rochet (University of Zurich). In a fascinating paper, "A Century of Firm – Bank Relationships: Did Banking Sector Deregulation spur Firms to add Banks and borrow more?", based on a hand-collected unique data set, Ongena studied the effects of the UK's banking deregulation of the 1970's on the number of bank-firm relationships. He found that after the deregulation (unlike before it), if a firm added a new bank relationship, this was related with increased leverage of the firm. He interpreted the result to indicate that increased bank competition (as a result of deregulation) may have had an impact on firms' leverage. Marco Mazzucchelli noted that the results suggest that "one-stop shopping" is not what firms necessarily want from banks, and thus may have implications for the universal bank model. Ernest Gnan (OeNB and SUERF) had a remark that technological development and diversification of financing risks may also be natural drivers of the increased number of firm-bank relationships.

The second academic paper by Jean-Charles Rochet provided a theoretical analysis of the question "How much speculation is socially optimal?". His formal model included hedgers and speculators, and the possibility that a speculator defaults, which would break the hedge. In this case, perfect hedging is not socially desirable, unless there are bail outs. An optimal cash reserve requirement for the speculator would balance the cost of
keeping reserves and the cost of bailing out defaulted speculators. As Rochet noted, these type of policies are already implemented for centralized trades. In the Q&A, it was brought up that it may be easier to use quantity based regulation such as reserves than price based regulation such as taxes. It was also pointed out that in the absence of bail-outs there could possibly be too little speculation, and hence too little provision of hedges.

In between the two research papers, Alan Blinder (Princeton University) gave the first keynote on “Guarding against systemic risk: the remaining agenda”. His main point was that not enough has been done in reforming financial regulation and that we can do better; he sees bad habits are creeping back again. Finance has proven not to be self-regulating, and losses have most likely exceeded efficiency gains from financial engineering. He said we cannot get rid of the problem of too-big-to-fail institutions, so we have to deal with them. His list of remaining regulatory tasks included the following parts. First, a resolution authority for SIFIs (systemically important financial institutions) is needed. Second, the work of the systemic risk regulator is still in its infancy and needs to be developed. Third, more capital and liquidity are needed in the banking system. Illiquidity may actually have played a larger role in the crisis than lack of capital. Fourth, he saw that reforming the derivatives market is a slow process because the industry is fighting back. More standardization is necessary (the KISS principle; “keep it simple, stupid” should be followed), and also global harmonization is needed because derivatives trading can easily change location. Fifth, regulating bankers’ (dysfunctional) compensation has focused too much on level and less on incentives. He also noted that far too little had been done on how rating agencies are compensated, in order to correct their distorted incentives. Lastly, he commented on the structural reform proposals, saying that curbing proprietary trading may actually be more useful for preventing the next crisis than it would have been for the recent one, but that it is important all the same. He saw that the three main proposals; Volcker, Vickers, and Liikanen, are “cousins” who all seek to separate insured deposits from risky trading, an aim he agrees with. He noted that his own idea of separating trading in his 2009 paper comes closest to the HLEG report, and that keeping trading within the bank holding company, unlike the Volcker rule does, is good. Further, he thinks the Vickers approach throws too many activities out of the deposit bank. However, he noted that in the HLEG approach it would be essential to prevent downstreaming of capital from the parent to the trading subsidiary. He would not be so worried about trading moving to hedge funds as they play largely with their own money, not with other people's money. It is just important to regulate hedge funds that become SIFIs. In the discussion, Rochet noted that the level of compensation is related to incentives as well because level tends to be related to the size of the employer institution. Rochet also raised the need to put limits on sovereign debt, and called for truly independent regulators. Blinder answered that Europe needs common resolution, supervision, and deposit insurance. On the fiscal side, he saw that Europe needs a constitution (not like the first US constitution) and needs to maintain possibility for “Keynesianism” at some level. Professors Campa and Krahnen also raised the issue of rating agencies, and Krahnen noted that problems arose particularly in structured finance. Blinder replied that the KISS principle is important also for a well-functioning structured finance market. Mr. Moen from Norges Bank was also concerned about the downstreaming from parent to trading subsidiary and Blinder agreed with him that the credibility problem (ie, the parent credibly committing not to find a way to downstream capital in a crisis situation) is quite general, also concerning resolution regimes. The last question was made by Marco Mazzucchelli who asked why the US had often been a laggard, compared to Europe, in implementing new Basel regulations.

In the second keynote of the day, Governor Liikanen pondered "On the size and structure of the banking sector", reflecting the views and ideas from the HLEG report on reforming bank structures, which he chaired. Before he started, he entertained the audience by drawing a parallel to restrictive policies on the use of alcohol in society, quoting a leading Finnish politician from the 60's, having famously said "Too much (alcohol) is too much, but moderately is absolutely too little", and wondered whether the same principle might apply in restricting banks' riskiest activities. Mr. Liikanen started his presentation by surveying views on the relationship between financial development and economic growth. The crisis itself, as well as, e.g., recent BIS research has questioned the economic benefits of expansion of the financial sector beyond a certain point. This is a markedly different view from the one that prevailed before the crisis. Concerning the factors which may drive excessive financial expansion, he mentioned several possible reasons but also market expectations of too-big-to-fail institutions. Such institutions seem to benefit from relatively cheap funding. He noted that no one knows what the optimal size of financial markets or individual institutions should be, but what should be done is to limit incentives which may drive their excessive growth. This is largely what his High-Level Group focused on in its proposals. In the Q&A, Ernest Gnan asked why there are differences between the proposals for different jurisdictions; is it because of history, prevailing bank structures, or perhaps political economy reasons. Governor Liikanen replied that Vickers approach focuses much on retail banks and enhancing competition between them, also aiming to ensure that Northern Rock type of episodes cannot
repeat themselves. The HLEG proposal has to apply in many countries because it is for the whole EU. Mr. Liikanen acknowledged also that the HLEG had the follower advantage, relative to Vickers (and the Volcker rule). SUERF president Urs Birchler asked about banking sector's reactions which varied, according to Governor Liikanen, from analytical responses to "enough (regulation) is enough" type of reactions. Admittedly, Governor Liikanen, said we need to conclude the reform process soon in order to ensure certainty to the banking sector in terms of planning for the future. Ernest Gnan also asked what European banks will look like in ten years' time. In Governor Liikanen's view, they will be better capitalized, with more liquidity buffers, and there will be a single supervisor making sure not only rules but also practices are the same. There will be a recovery and resolution procedure in place, and simplicity in structures and organizations will hopefully have increased. Alan Blinder commented that perhaps subsidisation would indeed be good for curbing the spreading of the investment banking culture as this can be bad for compensation practices in retail banks. Finally, Mario Nava, alluding to Governor Liikanen's earlier career in the European Commission, asked what he should have rethought as a Commissioner around the year 2000. Mr. Liikanen said convergence of sovereign debt spreads within the Euro area should have warranted more consideration, and we would have needed a single banking supervisor.

The third keynote of the conference was provided by Deputy Governor Paul Tucker. His speech was titled "Banking Reform and Macroprudential Regulation: Implications for banks' capital structure and credit conditions". He emphasized two things: a richer capital structure for banks, and the use of macro-prudential policies in accordance with prevailing credit conditions. Further, resolution is the necessary antidote to the too-big-to-fail problem, and requires proper legal rights. On bank capital, Mr. Tucker first noted that the famous Modigliani-Miller irrelevance theorem does not literally hold for banks in particular, mainly because of the tax advantage of debt, and the property of deposits that they are a liquidity product. These factors give rise to incentives to high leverage in banking. However, bankruptcy costs are especially high for banks, taking also account of their social aspect. Because of these costs, standard capital structure theory advises to decrease bank leverage. He then sketched a capital accord for the future to be four-layered: first, equity would provide primary loss absorbing capacity (LAC); second, contingent capital bonds (CoCos) with a high trigger point would provide for recovery; third, CoCos with a low trigger point would facilitate resurrection, and finally, long term debt (bonds) could also be bailed in in a resolution phase. Mr. Tucker stressed that long-term debt can provide a basis for market discipline. He then moved to macro-prudential policy, saying that it should function as economy's memory. He presented a heuristic analysis of the effect of the UK's Financial Policy Committee's (FPC) hypothetical decision to change the overall capital requirement on banks, hinging upon the market's view of the FPC's current analysis of the credit conditions in the economy. He concluded this highly interesting analysis by inviting academic research to complement it in a more formal manner. Overall, Tucker concluded that as we reduce the too-big-to-fail problem, there will be more diversity in credit supply as more non-banks start providing long-term finance. He predicted that banks' capital and debt structure will be richer in the future. Macro-prudential policies should take the edge off busts by enhancing resilience. During the discussion, Mark Flannery (University of Florida), a well-known expert on CoCos, and Tucker exchanged views on the triggers used in CoCos. Prof. Flannery pointed out the problem of book value based triggers being too slow and backward-looking to react early enough, while Mr. Tucker said that overreaction is the problem related to market value based triggers. Prof. Krahnen observed that Mr. Tucker's views on the future debt structure of banks and CoCos resembled the HLEG's views. Mr. Tucker added his view on regulating bank structures by saying that systematic across the board measures are needed but they need to be complemented by bespoke restructurings which should not stop with the (systematic) measures of the HLEG, Vickers, and Volcker. Finally, in his view, the Vickers approach focused on making retail banks domestically super resolvable, while the HLEG report and the Volcker rule were mainly about bringing down banks' probability of default.

The conference ended with a panel including expertise from the academia, financial sector, regulation, and central banking. The chairman, David Llewellyn (Loughborough University, SUERF, and EBA) invited the panelists to express their views on whether banks in the future will be smaller, whether banking will be more costly (which may be good because it better reflects the true trade-offs in banking), and whether the volume of bank credit will be lower and capital markets bigger. He himself saw that European banking is still in transition, it has not reached the new steady state yet. Andrea Enria (EBA) reminded in his opening statement that the G-20 reform package is quite radical; it called for more bank capital, liquidity, smaller and simpler institutions, and less interconnectedness. He then made observations of the current landscape in European
banking; e.g., trading book sizes are still largely the same as they were before the crisis. However, banks do not yet trust each other (in the aftermath of the crisis), which shows up as less inter-banking. Consequently, there is more home bias in balancing assets and liabilities so that banks have become increasingly national in structure.

José Manuel Campa (HLEG member) started his statement by asking what we would like banks to look like in the future. He pointed out that the sector grew a lot in the 10 years preceding the crisis. Maybe not all of that was good, and did not support the real economy. In his view, banking needs industrial restructuring, as has happened in many other industries over the years.

Hugo Bänziger (HLEG member) provided in his remarks a decomposition of the universal bank business model and considered the likely changes to come. He predicted that proprietary trading will be greatly reduced because shareholders do not actually like it. He then brought up the effect of the best execution requirement as part of the MiFID regulation, and said this might reduce investment banks’ role in asset management. Moreover, OTC derivatives markets would lose ground as a result of high costs. He thought that in retail banking asset management can be profitable if done properly; it is about technology. Overall, he said that much of the recent investment banking business is not sustainable in the longer run. On bank structures he said that bank resolution plans will work only if there will be a structural change to subsidiarisation (as, e.g., proposed by the HLEG).

Philipp Hartmann (ECB, SUERF) ended the opening round with his account of the European Banking Union project which comprises the single supervisor, recovery and resolution, and deposit insurance. Banking Union's rationale is to break the bank-sovereign loop by bringing back private (market) discipline on banks. The industry should benefit from the single supervisor in particular. He saw that a single resolution mechanism would need to be developed in parallel with the single supervisor. That would involve two things: a European resolution fund and a single resolution authority. Harmonized deposit insurance is also highly important.

In the floor discussion, Natacha Valla (Goldman Sachs, SUERF) reflected on the need for having more liquid assets and for having more instruments as liabilities, saying that most notably there will be the challenge as to the kind of investors in such instruments. Urs Birchler asked how bankers see the future of the banking union. José Manuel Campa replied by pointing out that we need to get rid of national supervisors' home bias and they need to build a trust in the single supervisor. Morten Balling (Aarhus School of Business and SUERF) made a concrete suggestion that a group of experts should make a model prospectus for bail-in bonds, an issue dealt with by several speakers during the day.

David Llewellyn concluded the panel (as well as the entire successful conference day) with a bit of dark humor by pondering what would happen if risk managers in financial institutions and nuclear power plants changed places: there would no longer be financial crises, but that would not help much as we would all be dead by the following week.
## Programme

**Friday, 4 October, 2013**

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<td><strong>2013 SUERF Annual Lecture</strong></td>
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<td><strong>The value of banks and the financial sector after the end of the great financial expansion</strong></td>
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<td>Session 1 - What impact does bank size have?</td>
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<td><strong>Big banks, bio-diversity and systemic risk aspects</strong></td>
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<td><strong>Size and stability of big banks</strong></td>
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<td><strong>Banking system characteristics and crisis performance</strong></td>
<td>Clemens Kool and Mark Sanders, Utrecht University and Sustainable Finance Lab</td>
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<td><strong>Business model supervision</strong></td>
<td>Femke de Vries, De Nederlandsche Bank</td>
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<td><strong>Cooperative banks’ performance during the crisis</strong></td>
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<td>15:30</td>
<td>Session 3 - What have we learnt about banks and their business models?</td>
<td>Chair: Dirk Schoenmaker, Duisenberg School of Finance</td>
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<td><strong>What have we learnt about banks and their business models?</strong></td>
<td>Klaas Knot, Governor, De Nederlandsche Bank</td>
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<td>Panellists:</td>
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**Online registration:** Registration for the conference is now open at [www.suerf.org/registeramsterdam](http://www.suerf.org/registeramsterdam), handled on a first come, first served basis. There is no charge to participate, but advanced registration is required.

**Accommodation:** Participants requiring accommodation are advised that there are a limited number of rooms available at the Crowne Plaza Amsterdam-South, George Gershwinlaan 101, NL-1082 MT Amsterdam, Netherlands. A special rate of € 209 for the night of 3 October 2013 including breakfast and Internet access has been secured – please book using the link on the SUERF website at [www.suerf.org/amsterdam2013](http://www.suerf.org/amsterdam2013).

**Conference Microsite:** [www.suerf.org/amsterdam2013](http://www.suerf.org/amsterdam2013)
Further Information:

Registration for this event will open shortly, and will be handled through the SUERF website, via the conference microsite at www.suerf.org/paris2013, with registration being on a first come, first served basis. There will be no charge for registration but advanced registration will be necessary, and in the event that the conference is over-subscribed, a waiting list will operate. Registered participants who are unable to attend are therefore requested to inform the SUERF Secretariat that they will not be able to attend.

Accommodation:

Block bookings have been made at a number of hotels located close to the conference venue at the Banque de France's premises, at varying prices, and levels of comfort. Further information about accommodation including booking codes and rates can be found on the SUERF website at www.suerf.org/parishotels. Participants are advised to book early, since there is likely to be strong demand for rooms, availability is limited, and rates can not be guaranteed after the dates specified.
Motivation:
The financial, economic and sovereign debt crisis has, among many other things, caused a severe setback for banking and financial market integration in the European Union and the Euro Area. Interbank money markets have become substantially less liquid, cross-border lending came to a virtual halt during acute crisis periods, requiring the Eurosystem to step in as an intermediary. The sovereign debt crisis has been characterised by sharply diverging risk perceptions among Euro Area sovereign borrowers, resulting in soaring yield differentials and sharply increased home bias in sovereign bond markets. Actual or feared bank runs and massive capital flight from some Euro Area countries prompted heavy central bank and government crisis intervention, including in one Euro Area country even the introduction of capital controls. Banks are suffering substantial losses due to crisis and recession-related developments, forcing them to downsize and restructure their national and crossborder operations. In an effort to prevent a repetition of the crisis, a substantial body of new regulation has been designed at the international and EU levels, and is now being implemented by national regulators and gradually fulfilled by banks and other financial intermediaries. Financial innovation is stigmatised and has lost much of its pre-crisis momentum, potentially reducing arbitrage across markets and regions. Recognition of the incompatibility of internationally operating banks with national supervision, bank resolution and deposit insurance has prompted the creation of a European Banking Union, with work on the Single Supervisory Mechanism being most advanced. Increasing fiscal pressures prompt higher taxation of capital, wealth and the financial industry, and have recently invigorated national and international measures to fight tax arbitrage and evasion.

Against this background, papers of high scientific quality are sought, which analyse the driving forces, interrelationships and possible consequences of the above developments with respect to the integration or segmentation of banking and financial markets in Europe. The papers may be both of a theoretical or empirical nature, their research question and conclusions should have clear policy relevance.

Information about the Prize:
The SUERF/UniCredit & Universities Foundation Research Prize is open to authors and co-authors who are citizens or residents/students in the EEA, Switzerland, and other countries in which UniCredit is present (in addition to EEA countries, the latter also include Azerbaijan, Bosnia and Herzegovina, Russia, Serbia, Turkey and Ukraine) and born after 15 September 1978. Prizes of EUR 5,000 gross will be awarded to up to two outstanding papers on topics related to "Banking and Financial Markets between Integration and Segmentation after the Crisis". The winning papers will be presented at a short SUERF/UniCredit & Universities Foundation Seminar to be held in Vienna on the morning of Thursday, 12 December, 2013. Subject to agreement by the authors, SUERF and the UniCredit & Universities Foundation the papers may be published on the organisers' respective websites.

Information about Submissions:
Submissions should be submitted through the online submission form on the UniCredit & Universities Foundation website at www.unicreditanduniversities.eu in PDF format by 15 September 2013, in English. Applications should be accompanied by brief curriculum vitae including the candidate's date of birth and a copy of current identity documents that confirm the author's/authors' date of birth(s) and eligibility. The prize is open to papers that have been finalised within the last 12 months prior to the deadline for submissions. Full terms and conditions of entry can be downloaded from the organizers' websites.

See: www.suerf.org/researchprize & www.unicreditanduniversities.eu
Architecture is created by human beings. That applies also to global financial architecture. Benn Steil, Council on Foreign Relations, has written a fascinating book on the two main architects behind the Bretton Woods System, which provided the basic financial framework for international trade and economic cooperation from the end of World War II to the early 1970s. The Bretton Woods system can to a large extent be conceived of as the outcome of a tough contest during the war and culminating at the conference in July 1944 between two very intelligent and very different personalities. When John Maynard Keynes, fellow at Kings College, Cambridge University was appointed by the British Government as chief negotiator, he was already a world famous economist. He had also become a member of the House of Lords in London. Harry Dexter White, in contrast, was a little known bureaucrat, who through hard and dedicated work had established a strong position for himself in the US Treasury. Treasury Secretary Henry Morgenthau had close relations to President Roosevelt, and Morgenthau relied in monetary matters very much on the advice and analyses of White. As a result, White had gained broad influence on American foreign policy in the 1940s. Morgenthau would in Bretton Woods apply his outstanding insights concerning the role of money in the economy in the design of a new global monetary order, built around a new international reserve currency. Such a framework would, however, be a threat to the global supremacy of the US dollar, and White was determined to keep it from seeing the light of day. Keynes had also come to the conference in the United States with the mission of conserving what he could of bankrupt Britain’s historic imperial prerogatives. President Roosevelt and his government wanted to support Britain in its warfare against Germany but had not much sympathy with the long-standing British interests, particularly as they related to the empire. Morgenthau and White used in fact on several occasions the Lend-Lease Program to press the British for financial and trade concessions that would eliminate Britain as an economic and political rival in the postwar landscape. A peculiar feature in the context of the “battle” is that White, who had a Lithuanian/ Jewish family background, seemed to be fascinated with the Soviet Union and had several contacts with people working for the Soviet underground. After World War II, FBI Director J.Edgar Hoover accused White of being a Soviet agent, and in 1948 White had to testify before the House Un-American Activities Committee.

In December 1941, Morgenthau expressed the aim to move the financial center of the world from London and Wall Street to the United States Treasury and to create a new concept between the nations of international finance. His trusted assistant White accordingly produced the first complete draft in March 1942 of what would become known as the “White Plan”. Providentially, Keynes, entirely on his own initiative, had begun germinating his own ideas for a new international monetary system in August 1941, just a few months before White began formally developing his. The facades of the two schemes looked remarkably similar. But the structural supports suggested very different engineering concepts, reflecting clashing national interests. Like White, Keynes wanted a system that would support liberalized trade while keeping global payments imbalances from emerging and, when they did emerge, allow them to be corrected with minimal economic pain. In both plans, stable exchange rates were considered desirable. Keynes was, however, in favour of some restrictions on capital and trade flows, while White feared that such restrictions would involve discrimination against the US. According to the “Keynes Plan”, international transactions should be settled through a new International Clearing Bank (ICB). Clearing accounts should be expressed in a new currency “bancor”. Creditors as well as debtors should be pressured to take corrective action to reduce imbalances. According to the “White Plan”, an International Stabilization Fund” should allow member states to borrow against collateral of their national currency and gold. Borrowing should be subject to tough conditions. White’s opposition to the ICB was grounded in the fact that the USD had already risen to the global role that Keynes wanted to bestow on “bancor”. So, the United States had no incentive to yield its power to expand or contract the supply of global money to a supranational structure. Keynes’s plan allowed member countries far greater borrowing power. Under White’s plan, the United States should only commit its subscribed capital. Both plans envisioned the voting power of members being heavily weighted in favour of the more economically powerful states. The process of reconciling the two plans took two years. It began on July 1942, when the draft White Plan was sent to London. The two plans were later gradually distributed to other countries, and both authors were engaged in efforts to convince the allied countries to support their respective plans. The tone of the discussions between the two men was often rude. White, ever mindful of the gulf between his own background and that of his...
ennobled interlocutor, once said: “We will try to produce something which Your Highness can understand”. In June 1944, during preparatory meetings before the Bretton Woods conference started, Keynes and White clashed several times. White worked on establishing a special position for the USD, while Keynes tried to avoid this. White succeeded in structuring the conference with himself at the head of the commission dealing with the Fund (IMF). Keynes was shunted to head the commission dealing with the World Bank. White had arrogated to himself vast power over the organisation of the conference, which started July 1, 1944. In an introductory speech to the American delegation, he emphasised the strong US position. The secretaries of the different sub-committees – responsible for writing the minutes - were all Americans, appointed by White.

The delegates used a lot of time on discussing the size of quotas in the IMF. Future voting power and commitments were determined by the quotas. A crucial meeting in the Fund Commission’s Committee 2 took place on July 6, 1944. A Joint Statement working document indicated “that the par value of a member country’s currency would be expressed in terms of gold”. The American delegates proposed an alternative text: “be expressed in terms of gold as a common denominator, or in terms of a gold-convertible currency unit of the weight and fineness in effect on July 1, 1944.” This text had never, however, been approved by the British, and Keynes – who was busy chairing the commission on the Bank – had never seen it. In a meeting one week later, Dennis Robertson represented the British, and he did not see the implications of the change and even suggested that payment of official gold subscription should be expressed as official holdings of gold and US dollars. This change would, he remarked incautiously, require wording changes elsewhere in the agreement. During the following night, White’s technicians replaced “gold” with “gold and US dollars” throughout the 96-page Final Act. Keynes would only discover the changes after his departure from Bretton Woods, and they became part of the final IMF Articles of Agreement. The adoption of the agreement on the International Monetary Fund took place on July 22, 1944 and the Agreement entered into force on December 27, 1945. Other member countries than the US should fix the par value of their currencies in terms of USD, and their central banks could exchange their dollar holdings into gold at the official gold price USD 35 per ounce. This option was not available to firms or individuals. Indirectly, all currencies pegged to the USD had a fixed value in terms of gold. Thus, the Bretton Woods Exchange Rate system rested on two pillars: The US commitment to convert dollar holdings of foreign central banks to gold at a fixed price, and the obligation of other member countries to defend by intervention in the spot market fixed exchange rates in terms of USD.

The last chapter in Steil’s book is an epilogue. He gives an overview of major exchange rate adjustments after 1945, the adoption of the Marshall Plan, the allocation of IMF’s Special Drawing Rights (SDR) and other important events concerning the Bretton Woods System. Around 1970 after years with massive deficits on the US balance of payments, a dollar confidence crisis evolved. On August 15, 1971 President Nixon closed the gold window. The US would no longer redeem the dollar holdings of foreign central banks. This meant that the first pillar under the Bretton Woods construction disappeared. In March 1973, the G10 formally acknowledged the end of two years of tortuous efforts to re-establish fixed exchange rate parities. This meant that the second pillar disappeared. The international monetary architecture designed according to the White Plan lay in ruins.

Steil’s book is an outstanding piece of political science research. It is strongly recommended. His analysis of the interplay between the politicians, the economists and the central bankers on both sides of the Atlantic Ocean who in the 1940s all contributed to the design of the Bretton Woods system is extremely well written and well documented. Notes, references and the index are impressive and contribute to the understanding of the behaviour of the key players. The author has several aims. He wants to deprive readers of the illusion that the Bretton Woods was created by English speaking gentlemen in Britain and the US with a common goal of constructing a fair and balanced framework for deficit and surplus countries. He also wants to deprive today’s politicians of the view that it is desirable to re-establish a kind of Bretton Woods System in order to put an end to the current global mixture of floating and pegged exchange rates. His sympathy is rather with an updated version of the Keynes Plan. The political feasibility of this plan is, however, uncertain. The future of the international monetary framework is uncertain.

New SUERF Members

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SUERF commemorates its 50th anniversary with the publication of a special volume entitled "50 years of Money and Finance: Lessons and Challenges", to appear later this year, and is currently in the final stages of production. The volume will be published by Larcier, our publishing partners for the SUERF Studies. The researchers who have contributed to the volume were asked to look at the monetary and financial history of the last 50 years, and to summarise the most important trends and experiences and to then draw conclusions for the future. They were asked to identify the main trends in international financial markets, in global and European macroeconomic (im)balances, in European financial integration, in central banking, in banking and securities markets, in financial innovation and in the origins and handling of financial crises. Path-breaking events, politicial decisions and relevant outstanding research contributions in the field since the early 1960s all feature significantly.

Edited by Morten Balling and Ernest Gnan, with a foreword by Christian Noyer, preface by Urs Birchler and an introduction by the editors, and concluding with a timeline of the major events of the last fifty years, the book will consist of the following chapters:

- Global and European Monetary Arrangements: from Bretton Woods to EMU
  Niels Thygesen
- Global and Euro Imbalances: China and Germany
  Guonan Ma and Robert N. McCauley
- Is Monetary Policy a Science? The Interaction of Theory and Practice over the Last 50 Years
  William R. White
- Unconventional Monetary Policy of the ECB during the Financial Crisis: An Assessment and New Evidence
  Christiaan Pattipeilohy, Jan Willem van den End, Mostafa Tabbâe, Jon Frost and Jakob de Haan
- Financial markets and the development of financial theory
  Morten Balling and Ernest Gnan
- Integration versus Interdependence and Complexity in Global Trade and Finance in the Post-War Period
  Paul Atkinson, Adrian Blundell-Wignall and Caroline Roulet
- From National Towards European/Global Financial Regulation
  Charles A.E. Goodhart

The printed version of the volume will be distributed to all SUERF Members free of charge, while a limited number of copies will be available for sale to non-members through the SUERF Secretariat.

**Further information is available at:** [www.suerf.org/50yearsofmoneyandfinance](http://www.suerf.org/50yearsofmoneyandfinance)
Forthcoming SUERF Events

The Council of Management has approved the following forthcoming events in 2013-14. Further information about each event can be found, in the first instance, by consulting the respective event microsite.

4 October 2013
Amsterdam, The Netherlands
SUERF/DNB/Rabobank Conference and 2013 SUERF Annual Lecture
The value of banks and their business models to society
Conference Microsite: www.suerf.org/amsterdam2013

22 November 2013
Paris, France
SUERF/Banque de France Conference
The Financial Reconstruction of Europe
Conference Microsite: www.suerf.org/paris2013

12 December 2013
Vienna, Austria
SUERF/UniCredit & Universities Foundation Workshop
Banking and Financial Markets between Integration and Segmentation after the Crisis
Workshop Microsite: www.suerf.org/vienna-uuf2013

13 March 2014
London, United Kingdom
SUERF/EY Conference
Conference title to be confirmed
Conference Microsite: www.suerf.org/london2014

4-5 June 2014
Milan, Italy
31st SUERF Colloquium & 9th Finlawmetrics Conference
Money, Regulation and Growth: Financing New Growth in Europe
Colloquium Microsite: www.suerf.org/c31

Further information about all forthcoming events is available from the SUERF website at www.suerf.org

Forthcoming SUERF Studies

The remaining SUERF Studies planned for 2013 will consist of the proceedings from the SUERF/Nykredit Conference in Copenhagen (SUERF Study 2013/4) and the SUERF/OeNB/BWG Conference in Vienna (SUERF Study 2013/5).


The proceedings of the conferences held in Helsinki, Amsterdam and Paris will be published as part of the 2014 output in the SUERF Studies series.

SUERF/UniCredit & Universities Foundation Research Prize

Closing Date: 15 September 2013
1st SUERF/UniCredit & Universities Foundation Research Prize
Banking and Financial Markets between Integration and Segmentation after the Crisis
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