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Registration Open!

16 September 2016
SUERF/ PSE/CEPII Conference
Rethinking Capital Controls and Capital Flows
Online registration: www.suerf.org/paris2016

5-6 October 2016
SUERF • Columbia|SIPA • EIB • Société Générale Conference
Global Implications of Europe’s Redesign
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17 November 2016
SUERF/EIB Conference
Financing Productivity Growth in Europe

9 December 2016
SUERF/Belgian Financial Forum/Eggsplode Conference
FinTech and the Future of Retail Banking

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Central banking and Monetary Policy: 
What Will Be the Post-Crisis New Normal?

Report on a conference jointly organised by SUERF and BAFFI CAREFIN Centre (Bocconi University) 
Milan, 14 April 2016 
Sponsored by Intesa Sanpaolo

By Ernest Gnan and Donato Masciandaro

Central Bankers are currently facing big challenges in designing and implementing monetary policy, as well as with safeguarding financial stability, with the world economy still in the process of digesting the legacy of the crisis. The crisis has changed central banking in many ways: by shifting the focus of monetary policy from fighting too high inflation towards fighting too low inflation; by prompting new “experimental” non-conventional measures, which risk to cause large, long-lasting market distortions and imbalances and which also have more far-reaching distributional consequences than “normal, conventional” monetary policy; and by broadening central banks’ responsibilities particularly in the direction of safeguarding banking stability and financial stability at large.

This raises several questions for the future: How long will ultra-easy monetary policies last? What are post-crisis growth trajectories, and how will the natural rate of interest rates evolve? How could an exit from ultra-easy monetary policy and a return towards higher nominal interest rates be eventually managed smoothly? Does ultra-easy monetary policy itself affect the economy in a lasting and structural way? Is the pre-crisis economic paradigm governing monetary policy still valid? If not, in what ways should it be adjusted? Are there any reasonable and practical alternatives? Against this background and given the larger post-crisis range of central banks’ responsibilities: is the current institutional set-up governing central banks and their relationship to government, Parliament and the financial system still appropriate? What adaptations might be considered? Would they bring an improvement or, on the contrary, a set-back to the unsuccessful policy approaches of the 1960s and 1970s?

To discuss these issues, on 14 April 2016 the Baffi Carefin Centre (Bocconi University) hosted a SUERF Conference.

The conference was opened by Andrea Sironi, Rector of the Bocconi University, Donato Masciandaro, Baffi Carefin President and Department Head, Bocconi University and SUERF, and by Urs Birchler, SUERF President and Professor of Banking, University of Zürich.

The first speech was by Fabio Panetta, Deputy Governor, Banca d’Italia and Member of the Supervisory Board, SSM (ECB) on the topic of “Monetary Policy and Central Banking: What We Learned”. He gave a comprehensive diagnosis of current central banks’ policies. Also in the light of the crisis experience, there is no reason to challenge central banks’ primary objective of price stability. But central banks should not allow inflation to fall too low below their target for too long, because of the risk of debt deflation spirals and the risk of a de-anchoring of inflation expectations. The current low level of real equilibrium interest rates and the very low level of inflation in the euro area challenges monetary policy in the sense that the zero lower bound of interest rates has been reached. However, recent practice and also theory shows that nominal interest rates can fall below zero. Furthermore, central banks can also achieve further monetary expansion through enlarging the quantity of the money supply. The ECB’s Expanded Asset Purchase Programme (APP) has so far been quite effective in stimulating demand and preventing inflation from falling even further. But monetary policy should not be the only game in town:
fiscal policy should also play its role in adding stimulus. For sure, financial stability repercussions of expansionary policies must be monitored closely, financial stability also requires economic growth. The credit cycle in the euro area is still in a negative phase, there is no excessive risk taking. Prudential authorities, while closely monitoring developments, should not act prematurely as excessive restrictions might, by hampering the recovery, increase, rather than decrease, financial stability risks. Regarding the future, central banks’ approach to “never say never” will continue to apply in the future.

An important topic was central bank transparency and communication in the post-crisis world. Petra Geraats, University of Cambridge, gave an overview of “Transparency of monetary policy in the post-crisis world”. Central banks’ increased range of tasks make transparency and communication more important but also more complicated. Communication in the guise of forward guidance is taking on the role of a separate policy instrument. Forward guidance may take several forms: qualitative or quantitative, time-dependent or state-contingent (or a combination), it can relate to various variables. Experience has shown that it can be very powerful. Also for large-scale asset purchase programs, announcement effects were quite important, emphasizing the role of communication. Despite all benefits, transparency should not be taken too far. E.g. it should not lead to postponement of necessary decision just because they were not pre-announces. A monetary policy transparency index compiled and currently being updated by the author for over 100 central banks for the post-crisis period captures five aspects of monetary policy making: objectives, economic data and models, procedures including the strategy, minutes and voting, the explanation of policy decisions and operational aspects including the transmission of monetary policy.

Bilin Neyapti, Bilkent University, argued that the crisis was among other things triggered by lack of an effective institutional framework to prevent and deal with financial crises. Spread responsibilities and thus lack of accountability among various institutions led to slow recognition of the building up of risks. The crisis thus led to a rethinking of the roles of central banks, the state and financial institutions in achieving macroeconomic stability. But the issue is by no means resolved, neither in academia nor in policy. Effective macro-prudential supervision requires effective accountability.

Sylvester Eijffinger, President Tilburg University Society, Professor of Economics and CEPR, drew parallels of the institutional status of modern monetary authorities and highest-level courts; he used this insight to translate empirical methods used to study deliberations of courts to the study of central bank committee voting behaviour. Employing spatial voting models, he used voting records to estimate the latent preferences of policy makers in various central banks. For the Bank of England, he found no evidence that internal MPC members are systematically more dovish than external ones, but the preferences of internals are more clustered. By contrast, he interpreted the remarkable differences between internal and external members at the Hungarian central bank as an indication of highly politicized appointments. For the Fed, he found that Board members are on average more dovish than the Fed President but little evidence on the existence of a political appointment channel. He generally found no or only modest evidence for systematic differences according to Board members’ career backgrounds.

Alessandro Riboni, Ecole Pleytechnique Paris, pointed out that various authors may mean different things when distinguishing between “hawks” and “doves”. Apart from favouring or disliking “activism” or the propensity to vote for high versus low interest rates, in the monetary economics literature hawkishness or dovishness refers to the relative weight a policy maker attaches to inflation versus output or employment stabilization. Comparing his own reaction-function based assessment of hawkishness with the one of Eijffinger et al, he found that results coincide only partly. Furthermore, particular voting procedures may influence voting behaviour; according to previous research by the author, in practice major central banks’ policy committees operate on the basis of a consensus model, which coincides with results from experimental economics. Finally, he asked what committee members in their voting behaviour actually maximize: public welfare in the sense of the best possible monetary policy decision, or maximization of their personal reputation; some research in this field indicates
that external committee members tend to hold more extreme views and that anti-herding behaviour may reflect career considerations.

The following three papers took historical perspectives, in order to gain insights for central banking nowadays. Michael Bordo, Board of Governors Professor of Economics, Rutgers University, gave a paper on “Central bank credibility: insights from an historical and quantitative exploration”. The paper examined the empirical determinants and the historical evolution of central bank credibility using both historical narrative and empirics for a group of 16 countries, both advanced and emerging. The key determinants of credibility are the monetary regime and institutional factors such as the central bank’s mandate, its independence and its governance. He showed that the evolution of credibility went through a pendulum where credibility was high under the classical gold standard before 1914, then it was lost and not regained until the 1980s. The advent of inflation targeting further enhanced central bank credibility. The financial crisis, central banks’ massive discretionary interventions in financial markets, and their increased focus on financial stability, including macro-prudential supervision, have mixed monetary with fiscal policy and threatened independence. QE may become problematic for central bank credibility if inflation ensues. Financial crises can damage central bank credibility.

Tommaso Monacelli, Bocconi University, pointed out that central banks’ forward guidance at the zero lower bound also hinges on the “credibility” of the central bank’s commitment to a future “inflationary boom”. Such announcement can be expected to suffer from time inconsistency, particularly for “conservative” central banks, for whom it is difficult to “commit to being irresponsible” if they pursued inflation targeting successfully before. An understanding of financial fragility requires non-linear models, in which financial fragility accumulates slowly in normal times (such as the “Great Moderation”) but then it takes relatively small shocks to trigger deep recessions. This understanding should form the foundation for macro-prudential policies. History also tells us a lot about the evolution of central bank governance and design. Forest Capie, Professor, Cass Business School, City University, London, and Geoffrey Wood, Professor, University of Buckingham, offered a comparative history and analysis of governance in the Bank of England and the Reserve Bank of New Zealand. They show that discretionary monetary policy aiming to achieve a broad set of objectives under the Government’s control was – apart from war times - experimented with only during a relatively short time in the second half of the 20th century. This experiment led to high inflation. By contrast, external anchors such as in particular a metal standard or also an external exchange rate anchor provided an effective tool for the preservation of the value of money in the long term. Without such anchor, monetary policy needs to be guided by a very clear price stability objective, and the central bank needs to have the instruments necessary to pursue its statutory objective, in order to avoid erosion of the value of money. Safeguarding financial stability should be the central bank’s competence, not least because the necessary information and know how is more easily pooled at this institution and there are synergies with central banks’ function as lender of last resort. What is to be avoided by all means is a lack of clarity on responsibilities among various government bodies and lack of accountability. As it cannot be taken for granted that the government uses its delegated power in the long-term interest of the electorate, central banks need to be granted independence; however, independence itself is subject to change, unless it is protected by high barriers against change in constitutional law.

Charles Goodhart, Emeritus Professor, London School of Economics, supplements this analysis with a vivid account of how governance in the Bank of England changed over time as a result of historical developments (such as the post-WW I period), the appearance of outstanding personalities as well as group dynamics within the Bank of England, without changes in formal laws requiring such change. The result was that the nature of decision making varied between the extremes of committee decisions and concentration of power in a single person, i.e. the governor.

Martin Melecky and Anca Maria Podpiera, Lead Economist and Consultant, respectively, at the World Bank, talked about “Central bank design and banking
supervision”. They recalled that before the crisis, there was a general tendency to unify prudential supervision in special agencies outside the central bank; since the crisis, in many countries prudential supervision has again been re-integrated into the central bank. The authors show empirically that countries with deeper financial markets and countries that undergo rapid financial deepening can benefit from having banking supervision in the central bank in terms of safeguarding financial stability. They also interpret their results as suggesting that policy makers benefit from detailed knowledge of the microstructure of the financial system for safeguarding systemic financial stability.

Like in other public and private sector institutions, the topic of gender diversity in top management is gaining in importance. Davide Romelli, Bocconi University, presented preliminary results from a paper on “Gender and monetary policymaking: trends, drivers and effects”. They built an index of gender representation in central bank boards for 112 countries as of 2015. They find that central banks with certain governance structures such as higher independence or lesser involvement in banking supervision are associated with larger women participation in central bank boards. Regarding monetary policy decisions, the economic literature so far has investigated e.g. the link between “dovishness” and gender, the link between inflation performance and gender composition of boards, or also aspects of gender impact on risk behavior. The authors find that women are best represented in central bank boards in Caribbean, North America and Africa; Europe and Asia achieve only moderate scores. Women representation is inversely related to countries’ income level, with low-income countries showing the by far highest score. Roman Catholic countries have by far the lowest women representation, Eastern orthodox and other Christian religions have the highest scores. The authors also find that gender diversity is inversely related with inflation and money growth: thus, the presence of women in central bank boards seems to be associated with more hawkish monetary policy.

Aleksandra Maslowska-Jokinen, University of Turku, proposed several avenues for a further refinement of this research. First, it is not clear whether the research addresses risk aversion or inflation aversion. Furthermore, various explanatory variables might interact, and some seeming explanatory factors might actually in turn be driven by other factors, such as political cycles. Women might also be elected into central bank boards for “swing voter” characteristics. She also noted that some countries with particularly high women shares in monetary policy boards are found in countries with quite unfavourable corruption and democracy ranks. Therefore, she urged to conduct robustness checks to verify the empirical findings, e.g. by looking at different time periods for the data.

The distributional effects of ultra-easy monetary have gained increasing attention recently. It was also a recurring theme at the conference. According to Bilin Neyapti, expansionary policies in response to the crisis have contributed to inequality; also macro-prudential policy should take distributional consequences more into account. Fabio Panetta pointed out that the impact of non-conventional monetary policies on inequality must be considered in a general equilibrium framework, which also takes into account the positive employment effects for workers; while the rich benefited from financial gains triggered by central bank asset purchases, the poor benefited from cheaper debt and jobs, which overall led to a decrease in inequality in Italy. Jan-Egbert Sturm, KOF Swiss Economic Institute, ETH Zürich, revisited the question on how liberalization of the financial sector is related to income inequality. Contrary to previous research, they find that both financial development and financial liberalization are associated with increases in income inequality. The effect is stronger if financial development is higher. This needs, however, not necessarily be bad for the poor to the extent that finance may promote economic development and thus raise overall living standards.

Pierre Siklos, Professor, WLU Canada, pointed out that the results from the quite limited number of available theoretical and empirical studies on this issue are not directly comparable, as they use different theoretical frameworks, define financial development differently, and define and date financial crises differently. Also, important social policy elements of financial systems, such as deposit insurance provisions, are neglected. More generally, Siklos opines that post-crisis ultra-easy
monetary policies distort markets substantially and generate huge redistribution from lenders to borrowers. Overall, to conclude, conference participants shared the view that reconsidering the pre-crisis central banking model would imply considerable risks, which are difficult to gage at this point in time and may be underestimated. How to hedge this risk is a fundamental issue that must be considered to understand not only what will be the economics of “post-crisis” monetary policy, but also which political economy drivers motivate initiatives to reforms of central bank governance. Central bankers are sailing in uncharted waters. While not offering answers to these complex and potentially far-reaching questions, the conference at least highlighted where the deeper issues and risks may linger beneath the surface.

The conference report and the conference presentations are available online at:

www.suerf.org/milan2016
Preliminary Programme

Thursday, 15 September 2016
19:30  Conference Dinner (upon invitation only)  11:30  Policy Panel - Capital flows and the international dimension of monetary policy
Dinner Speech by Benoît Coeuré, Member of the Executive Board of the European Central Bank

Friday, 16 September 2016
08:15  Registration  13:00  Lunch
08:45  Opening and welcome
Urs W. Birchler, SUERF President and University of Zurich

09:00  Session I - Capital controls and foreign exchange interventions  14:00  Session II - Capital flows and macroeconomic performance
Chair: Marc-Olivier Strauss-Kahn, Banque de France
Banks Make Sterilized FX Purchases Expansionary
Márcio Gomes Pinto Garcia, Pontifícia Universidade Católica do Rio De Janeiro
Optimal Capital Controls and Real Exchange Rate Policies: A Pecuniary Externality Perspective
Alessandro Rebucci, John Hopkins University Carey Business School
On the Desirability of Capital Controls
Fabrizio Perri, Federal Reserve Bank of Minneapolis
Currency Wars or Efficient Spillovers? A General Theory of International Policy Cooperation
Anton Korinek, Johns Hopkins University and NBER

11:00  Coffee  16:00  Closing remarks
11:45  Policy Panel - Capital flows and the international dimension of monetary policy
Moderator: Francesco Giavazzi, Bocconi University
Kristin J. Forbes, MIT Sloan School of Management
Lorenzo Bini Smaghi, Société Générale
Jonathan Ostry, IMF
Karim El Aynaoui, OCP Policy Center

14:00  Session II - Capital flows and macroeconomic performance
Chair: Philippe Trainar, Scór
Are Capital Inflows Expansionary or Contractionary? Theory, Policy Implications, and Some Evidence
Olivier Blanchard, Peterson Institute for International Economics
Monetary policy with large capital flows
Hélène Rey, London Business School
The Two Components of International Portfolio Flows
Frank E. Warnock, Darden Business School-University of Virginia
International Sectoral Portfolios
Natacha Valla, EIB and SUERF

16:00  Closing remarks
Romain Ranciere, Paris School of Economics
16:15  End of Conference

www.suerf.org/paris2016
Motivation - Europe’s Economic and Monetary Union (EMU) has been a driving force of the global economy and financial markets since the project was first launched on 1 January 1999. The crisis revealed the structural fault lines of the initial project and although significant progress has been made to strengthen the institutional setup, further work lies ahead. Bringing together leading policymakers, technical experts and practitioners, the first SUERF conference held in the United States offers a unique opportunity to gain an in-depth understanding of EMU and the key factors to watch for both economic and market trends. The conference will address the following key questions: What is required for European finance to become fit for growth? Does the ECB have enough ammunition to get inflation back to target? Is helicopter money the next unorthodox policy tool? Can the Single Market deliver a new growth spurt for Europe? How will Europe tackle the changing political landscape? What implications will Brexit have for EU integration?

#### Preliminary Programme

**Wednesday, 5 October 2016**

<table>
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<tr>
<th>Time</th>
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<td>12:00</td>
<td>Registration and Welcome Sandwiches</td>
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<td>13:15</td>
<td>Welcome</td>
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<td>Urs W. Birchler, SUERF President, Professor of Banking, University of</td>
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<td>13:30</td>
<td>SESSION 1 - MAKING EUROPEAN FINANCE FIT FOR GROWTH</td>
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<td>Policy address: Lessons learnt from the crisis</td>
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<td>Klaus Regling, Managing Director of European Stability Mechanism (ESM)</td>
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<td>14:00</td>
<td>Panel Discussion: How the crisis has changed finance - drawing cross</td>
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<td>Atlantic parallels</td>
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<td>Chair: Michala Marcussen, Global Head of Economics at SGCIB and SUERF</td>
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<td>Charles Calomiris, Professor of Financial Institutions, Columbia</td>
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<td>Ambroise Fayolle, Vice President, European Investment Bank</td>
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<td>15:00</td>
<td>Coffee</td>
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<td>15:15</td>
<td>SESSION 2 - UNLOCKING THE POTENTIAL OF EUROPE</td>
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<td>Panel Discussion: Exploiting the Single Market</td>
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<td>Chair: Debora Revoltella, Director of the Economics Department at the</td>
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<td>European Investment Bank (EIB)</td>
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<td>Edmond Alphandéry, Chairman of the Centre for European Policy Studies</td>
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<td>Edmund Phelps, Professor of Political Economy, Columbia University</td>
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<td>Patrick McMahon (tbc), CEO, MKP Capital Management</td>
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<td>Øyvind Schanke, CIO for Asset Strategies, Norges Bank Investment</td>
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<td>Management</td>
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17:00  Policy Address: Next steps towards an innovative Europe  
       Werner Hoyer, President of the European Investment Bank (EIB)  

17:30  Closing Address of Day 1 - European Opportunities  
       Lorenzo Bini Smaghi, Chairman of Société Générale  

18:00  End of 1st Day  

Thursday, 6 October 2016  

08:00   Registration and Welcome Coffee  
08:30   Welcome  
       Ernest Gnan, SUERF Secretary General, Head of Economic Analysis Division at Central Bank of Austria  
08:45   Welcome Address - The high cost of muddling though  
       Patricia Mosser, Senior Research Scholar, Founding Director, Initiative on Central Banking, Columbia University  
09:15   SESSION 3 - CHALLENGES FOR THE SINGLE MONETARY POLICY  
       Policy Address: Monetary Policy Transmission in the Euro Area  
       Peter Praet, ECB Executive Board  
09:45   Panel Discussion: European Monetary Policy and Implications for US Markets  
       Chair: Natacha Valla, Deputy Director of CEPII, Head of Policy and Strategy Division at EIB  
11:00   Coffee  
11:30   SESSION 4 - MORE OR LESS EUROPE  
       Policy Address:  
       Marco Buti, Director General for Economic and Financial Affairs, EU Commission  
12:00   Panel Discussion: Debating the Future Geography of the European Union  
       Chair: Jan Svejnar, Professor of Global Political Economy at Columbia University  
       Joachim Fels, Global Economic Advisor, PIMCO  
       Boris Vujcic, Governor, Central Bank of Croatia  
       Patrick Bolton, Professor of Business, Finance and Economics, Columbia University  
13:15   Conclusions  
       tbc  
13:30   Light Lunch
Joint conference organised by SUERF and EIB

Financing Productivity Growth in Europe

Thursday, 17 November 2016
98-100, Boulevard Konrad Adenauer
L-2950 Luxembourg

Preliminary Programme

Thursday, 17 November 2016

08:30  Registration and Welcome Coffee

09:00  Welcome Remarks
       Urs W Birchler, President, SUERF
       Opening Remarks
       Werner Hoyer, President, European Investment Bank

09:30  Panel Session I

Investment in Europe - a matter of supply and demand
This session will discuss the factors that continue to hold down private and government investment in Europe. In most European countries investment has not yet rebounded to pre-crisis levels. Supply of finance in Europe may have played a role as European banks still reel from the banking and sovereign debt crises, and at the same time, debt and equity markets, as well as private equity, are small relative to the economy. Debt overhang in the private sector further constrains investment, as do other demand factors such as lower demand for goods and services and the uncertain economic outlook.

Chair: Debora Revoltella, Chief Economist, European Investment Bank
       Catherine L. Mann, Chief Economist, OECD
       Marco Buti, Director General, DGEcFin, European Commission
       Thomas Wieser, President of the Euro Working Group, Council of the European Union

11:15  Coffee

11:30  Panel Session II

Efficiency of European financial sector in allocating finance
This session will discuss structural and post crisis challenges for the European financial sector. The discussion will distinguish among different segments of the financial sector, namely addressing the banking sector, the securities market and the equity market. The debate will seek proof of evidence concerning fragmentation and/or efficient functioning of different markets over the crisis. What is the impact of QE thus far? What is the impact of banking regulation, including capital and liquidity requirements, on banks capacity to lend, in the short and in the long term? What is the impact of the banking union? What is the impact of capital market union? What additional factors have to be considered to allow a more effective reallocation of resources to more productive means?

Chair: tbc
       Philipp Hartmann, Deputy Director General, European Central Bank
       Mario Nava, DG Fisma, European Commission
       Reza Moghadam, Vice-Chairman for Global Capital Markets, Morgan Stanley
13:15  Lunch

14:30  Panel Session III

**Making European non-financial corporations more resilient - Lessons from the financial and sovereign debt crises**

The financial crisis caused severe liquidity problems, especially for banks that were very dependent on wholesale funding. Falling asset prices and, in many countries, deteriorating credit portfolios put an additional strain on banks’ loan supply. Given the significant dependence of European non-financial corporations (NFC) on bank financing and the dearth of alternative financing options, many businesses were financially constrained in their operations. There is evidence that efficiency of capital allocation by European financial systems is hampered also in the post-crisis period. Moreover, fiscal treatment of debt versus equity might lead companies to sub-optimal financial structure.

Chair: Pedro de Lima, Head of Division, Economics Studies, European Investment Bank
Sebnem Kalemli-Özcan, Neil Moskowitz Endowed Professor of Economics, University of Maryland
Gianmarco Ottaviano, Professor of Economics, LSE
Reinhilde Veugelers, Professor, University of Leuven and Bruegel
Eric Bartelsman, Professor, Vrije Universiteit
Jan Svejnar, Professor, Columbia University

16:30  Closing Remarks

Ambroise Fayolle, Vice President, European Investment Bank

17:00  End of Conference
Joint conference organised by SUERF, Belgian Financial Forum (BFF) and Eggsplore

FinTech and the Future of Retail Banking

Friday, 9 December 2016
Auditorium National Bank of Belgium
Rue Montagne aux Herbes Potagères 61
1000 Brussels, Belgium

SUERF, the Belgian Financial Forum (BFF) and Eggsplore will hold a joint one-day conference in Brussels on 9 December 2016 as part of the BFF’s 80th anniversary celebrations. The conference will feature a keynote session by Jan Smets, Governor of the National Bank of Belgium, and will cover the following areas:

Session I: The Threats and Opportunities of FinTech: Is FinTech an Enabler and or a Disruptor?
Session II: Testimonies of FinTech Startups and new disruptive Financial Institutions
Session III: Economic and Legal Vision on FinTech
Session IV: Vision of leading banks, insurance companies and asset management companies

Confirmed Speakers:
Michael Anseeuw, CEO, Hello Bank
Wim De Waele, CEO, Eggsplore
Jean Hilgers, President of BFF, Member of the Executive Committee of the National Bank of Belgium
Jürgen Ingels, Managing Director of Smartfin Capital, Founder of Clear2Pay
Frederik Meheus, Global Head of Retail Technology, BlackRock
Marc Niederkorn, Senior Partner, McKinsey & Company
Jan Smets, Governor, National Bank of Belgium
Gunter Uytterhoeven, Chief Marketing Officer & Head of Transformation, AXA

www.suerf.org/fintech2016
4th SUERF/UniCredit & Universities Foundation Research Prize

Asset management at crossroads

Call For Papers

Deadline for Submissions 15 October 2016

Motivation:

The asset management industry currently faces powerful forces which are reshaping it fundamentally. Ultra-low interest rates put returns under pressure and may either lead to disappointment with ultimate investors or push managers towards taking on more risk. The correlation among various asset classes has been changed by the economic and financial crisis. Active asset management has come under pressure; high fees are hard to justify in a world of lower returns. A drive towards low-cost passive management and ETFs puts asset managers’ jobs in question. A number of funds have been liquidated as a result. A strategic rethinking of asset management business models is thus taking place. Demographic change alters the relative weight and the profile of asset managers’ various target groups. A rising number of wealthy individuals with considerable financial sophistication open up new avenues for custom-tailored wealth management. At the same time, cost-effective customer services need to be shaped for all customer segments. Investment advisory services are no longer offered “for free” but are increasingly charged for individually or in the form of various levels of service provided. FinTech is also entering into the asset management business. Electronic and mobile banking are progressively being used and are fundamentally changing customer behaviour and asset managers’ relations with customers. The economic and financial crisis has triggered far-reaching changes in new regulation, which force asset managers to select and price their business more rigorously. Consumer protection requires asset managers to rigorously tailor the risk profile and complexity of the products offered to their customers.

Against this environment, asset managers will have to rethink their investment strategies, cost structure, channels of distribution, business and operating models, generate radical and continuous innovation to bridge cost pressures with changing customer needs and the need not to lose touch with their customer base, while at the same time observing regulatory rules and managing risk wisely.

Content of submissions:

This call for papers invites original research – theoretical or empirical, academic or policy-oriented – on aspects relevant for the current challenges being faced by the asset management industry in the years to come. Some examples for fields of research are:

Performance, management strategies, risk management

- What can asset managers take away from new theoretical and empirical research results in the finance literature?
- Changes in asset management approaches, e.g. tendency from active towards passive management, various new asset management strategies, such as smart beta, and their theoretical and empirical assessment
- How do ETFs perform relative to active management and pure index-based passive management?
- Do bigger asset management firms offer better returns?
- Role of risk management as a driving force within asset management?
Costs, fees, business models

- How will the quest for productivity affect asset management? New models to manage costs and expenses: different layers of customer service, models of wealth management contracts
- What is the profitability (ROE or ROA) of an asset management company? What is the contribution of the different categories of fees? What is the cost to income ratio? Is the capital level sufficient?
- Implications for asset managers’ business from pressures on fees and margins
- How does the structure of fees evolve: entrance, management, performance, exit etc.?
- Is "open architecture" the appropriate response to meet investors’ expectations?
- What are the pros and cons of discretionary and advisory management mandates compared to a factory approach to asset management?

Consolidation of the industry, new entrants

- What role for mergers and acquisitions within the industry?
- The future of hedge funds
- Challenges for asset managers in the insurance and pension fund industry: How to cope with non-conventional monetary policies and ultra-low interest rates, and for how long? What effects has new regulation?
- How may new entrants change the industry?
- Will Fintech also be relevant in the asset management industry? – What role for internet based investment information and advice? Should internet information and advice be free or also charged for? Which models have been tried so far? How did customers react?

Regulation, consumer protection, customer education, ethics

- Implications for asset managers from tighter regulation and enhanced consumer protection? Implications of MiFID II (e.g. elimination of retrocession of fees to distribution channels)?
- Financial education and consumer protection – prospects and challenges for the asset management industry
- Is there a culture change going on in asset management?

Broader issues

- What prospects for asset managers from European Capital Market Union?
- Implications for asset managers’ business from changing demographics, including ageing and wealth distribution
- How important is asset management within the shadow banking business?

This list is non-exhaustive, other contributions fitting into the overall topic of the call for papers are welcome.

Formal Requirements and Procedure for Submissions:
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 30 September 1981. Prizes of EUR 3,000 gross will be awarded to up to two outstanding papers on topics related to “Asset management at crossroads”. The winning papers will be presented at a SUERF/UniCredit & Universities Foundation Workshop to be held at Vienna University of Economics and Business either in December 2016 or January 2017 (still to be confirmed). Subject to agreement by the authors, SUERF and the UniCredit & Universities Foundation, the papers may be published on the organisers’ respective websites.

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Handbook on Corporate Governance in Financial Institutions

Edited by Christine A. Mallin
Edward Elgar Publishing, Cheltenham, UK and
Northampton, MA, USA 2016
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Reviewed by Morten Balling, Aarhus University and SUERF

According to the Oxford Dictionary of English, a “handbook” is a book giving information such as facts on a particular subject or instructions for operating a machine. The present book does not give instructions on how to create and operate an appropriate corporate governance structure in a financial institution. It is in fact a collection of papers on individual financial institutions and the development of their governance structures in recent years. The selected institutions are located in a range of countries around the world. They operate therefore under different legal systems. The Editor – Christine A. Mallin – University of East Anglia, UK has an impressive professional network that spans the world. She has therefore been able to convince experts from the US, UK, Germany, Italy, Japan, China, Nigeria, Australia and Brazil to write essays on corporate governance arrangements in important banks in their own countries. Chapter 9 on determinants of corporate governance in Russian banks is, however, written by authors affiliated with University of Hawaii at Manoa, and chapter 11 on corporate governance in Islamic financial institutions is written by an author affiliated with University of Birmingham, UK.

In chapter 1, Alessandro Zattoni and Francesca Cuomo give a fascinating and evolutionary overview of the ownership, governance and strategy of Mediobanca, which for many years was the dominant investment bank in Italy. Until the end of the last century, Mediobanca played an influential role in the national economy by supporting the development of the Italian family-based capitalism model. It supported the creation of stable groups of shareholders, which through control-enhancing mechanisms controlled large industrial groups. The history of Mediobanca is intertwined with the vision and life of Enrico Cuccia, its leader for about 50 years. In 1956 Mediobanca was listed, but the control of the bank still remained firmly in the hands of the three state-controlled founding banks: Banca Commerciale Italiana, Credito Italiano and Banco di Roma. In the following years, Mediobanca gradually became the house bank of the large Italian family groups. On several occasions, the bank played a key role of “white squire” by providing strategic advice and financial resources to contribute to the survival of large private groups facing a tough financial and industrial crisis, such as Fiat and Montedison in the 1970s and 1980s. In 1988, the ownership structure was changed fundamentally. The founding banks sold some shares, while private shareholders, including industrial groups such as Pirelli, Agnelli, De Benedetti, Ferrero, Feruzzi, Marzotto and financial institutions such as Lazard, Berliner Handels-Gesellschaft, Assicurazioni Generali and La Fondiaria bought shares. An agreement between the old and new shareholders regulated the rights for the appointment of board members. The privatization of Mediobanca caused a discussion on potential conflicts of interest. Large private companies were now at the same time shareholders and clients of the bank. The new shareholders were described as a wealthy club of entrepreneurs – the so-called “noble wing” (ala nobile) of Italian capitalism. In the 1990s, the Italian government started a massive privatization process, which included the two large state-owned banks, Banca Commerciale Italiana and Credito Italiano, which were important shareholders and supporters of Mediobanca’s financial power. In addition, the rising importance of the Stock Exchange opened the possibility for companies to find
new industrial allies and to access financial resources outside of the Mediobanca system. In 1993, a new banking law based on the principle of despecialization was passed. Universal banks were allowed again. Structural changes in the Italian banking industry made the monopolistic position held by Mediobanca for decades within the national financial and industrial system unsustainable. The most recent ownership data in the book shows that the Unicredit group in October 2014 was the largest shareholder with 8.66% of the Mediobanca shares. Since 2005, the number of directorships in other Italian listed companies held by Mediobanca board members has decreased. The main reason behind this trend was a new law in force since 2011 aimed at reducing interlocking directorates. Mediobanca has for many years contributed to stability of control of large Italian companies. Critics have argued that ownership stability can be seen as an obstacle to the creation of an efficient market for corporate control that allocates the majority shareholding of a firm to the most suitable investors.

In chapter 2, Christine A. Mallin discusses the background to the Co-operative Bank in UK, its serious corporate governance problems in recent years, and the original values and principles, which underpin the co-operative movement. The Co-operative Bank, which was founded in 1872, follows the so-called Rochdale Principles. Headlines applied in the principles are: voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education, training and information and concern for community. The author gives an overview of corporate governance codes and guidelines published in the UK since the Cadbury Report (1992). She also examines the board structure of the Co-operative Bank over a period of time from 2008 to 2012. In 2008, the Co-operative Bank received the prestigious Financial Innovation Award for the “Best Corporate Social Responsibility Programme”. The bank was badly hit by the fallout from a number of factors including the aftermath of the global financial crisis, poor strategic decisions and weak risk management practices. Partly as a consequence of these problems, the composition of the bank’s board was changed. The Co-operative Bank’s Financial Statements 2012 recognized that the bank did not meet the UK Corporate Governance Code’s recommendation regarding the proportion of independent non-executive directors on the board. During 2013 and 2014, there were again a significant number of changes to the board of the bank. The corporate governance failings of the Co-operative Bank were analysed in a 2014-report written by a committee under the chairmanship of Sir Christopher Kelly. An important lesson identified in the report was that the bank tolerated a culture of underperformance, weak transparency and lack of accountability. In relation to the problems in the bank, the whole Co-operative Group was subject to regulatory enforcement investigations by the Financial Conduct Authority, the Prudential Regulation Authority and the Financial Reporting Council. The author summarizes the strong criticism of the Co-operative Bank’s governance structure expressed in 2015 by the authorities. Keywords are: “entirely inadequate, shocking, board members lacking financial services experience, well-meaning, but inexperienced, democratic members of the board, with the façade of a prudent and ethical business”. The chapter ends with an optimistic note: The Co-operative Bank now (2016) has a much stronger board with a wealth of relevant experience in the financial services sector. Its ownership structure has changed significantly and the majority of shares are now held by investors, who do not have the same ethical stance as that underpinned by the co-operative movement principles. It interesting that the author concludes by expressing the hope, that these principles will be retained as one of the fundamental and distinctive features of the Co-operative Bank.

In chapter 3, Stefan Frigge looks at remuneration-based incentives in Deutsche Bank and the bank’s behavior before, during and after the 2007-2008 financial crisis. He presents data from Deutsche Bank’s annual reviews from 2007 to 2014. The bank applied primarily two performance measures: return on equity and total shareholder return of Deutsche Bank shares relative to a peer group of international banks. The trend in management board remuneration has been an increasing long-term orientation. Deutsche Bank uses extensively incentive schemes with deferrals, which expose managers to the future development of the bank. In 2006 and 2007, the percentage share of the performance-based part in total remuneration of the supervisory board was between 60% and 70%. This changed dramatically in the following years. Due to weak performance, the share declined after 2007. The bank’s decision in 2013 to comply with the new German Corporate Governance Code implied that performance pay of the Supervisory Board was abolished.

In chapter 4, Martin J. Conyon and Lerong He investigate CEO-compensation in US financial and non-financial companies in 2013. They find that CEO compensation in US financial institutions is lower than in non-financial companies. They find also that the CEO pay structure is different. Salaries as a percentage of total pay, and bonuses as a percentage of total pay, are higher in financial institutions compared to non-financial institutions. Within the financial
sector, CEO compensation is lower in commercial banks compared to non-bank financial sector firms. Their empirical study of 2013-data indicates that the observed compensation differences can partly be explained by differences in agency costs, ownership patterns and regulation. In chapter 5, Rafael F. Schiozer and Paulo R. S. Terra discuss regulation, ownership and corporate governance in Brazilian banks. In 1993, governmental banks had 51 per cent of the total bank assets in the country. From 1996 to 2002, drastic restructuring programs implied that the number of banks in Brazil dropped from 263 to 194. Foreign banks were allowed to enter and many state-owned banks were privatized. Lula da Silva stepped in as president in 2003, reassuring the country of his commitment to fiscal discipline, inflation targeting and orthodox macroeconomic policy. In the years up to the 2007-2008 financial crisis, Brazil experienced a period of economic stability and growth. The authors go through new initiatives in capital market legislation and stock market self-regulation with implications for corporate governance of Brazilian companies. Ownership concentration of Brazilian banks is still quite high. Over the period 2007-2013, the average ownership of the main shareholder was 52.7 per cent.

In chapter 6, Christina L. Ahmadjian writes about corporate governance of Japanese banks. In the early post-war period, Japan adopted a bank-centered economic system. Banks were at the core of business groups, often called “keiretsu”. Banks usually took an equity stake in customer firms and sent current or former executives to sit on the board. Banks were expected to move according to a “convoy system” in which the strong protected the weak and provided capital and support, when the Ministry of Finance expected them to. A financial crisis in 1997 gave the impetus to the government to take decisive action. In the following years, a set of mergers created a handful of mega-banks and corporate governance reforms were implemented. The author gives an overview of the experiences with corporate governance reforms in three banking groups: Resona Holdings, Shinsei Bank Group and Mizuho Financial Group. The role of independent directors was strengthened in all three groups. The Japanese banking sector has in recent years carried out a strategic and cultural reorientation to move away from the entrenched culture of banks in the pre-crisis period.

In chapter 7, On Kit Tam, Hsin-Yu Liang and Kuo-Jen Chang examine the development of China’s city commercial banks. They list a number of milestones concerning China’s banking system and major corporate governance initiatives. One important milestone was that the government in 1995 decided that CCBs were to be joint stock companies with board of directors, supervisory boards and senior management as a basic corporate governance structure. Since the 1990s, China has followed a policy objective of gradually diminishing state ownership of banks. Studies indicate that differences in corporate governance effectiveness have an impact on bank performance. From 2005 to 2013, the market share of CCBs increased. It was a period with a rapidly growing Chinese economy. Cost-income ratios and non-performing loans ratios indicate, however, that CCB managers had to cope with many problems. The authors combine these observations with data that documents a low proportion of independent directors in CCBs. They show also that the CCB board members have relatively low scores concerning professional expertise in accounting, finance and legal matters. They expect that the scheduled WTO liberalization of market entry to China by foreign banking and financial institutions will create further pressure on CCBs’ competitiveness and a need for more effective corporate governance to ensure good performance. In chapter 8, Gail Pearson gives a critical analysis of management and advisory practices in Commonwealth Financial Planning Limited (CFPL), which was part of the Commonwealth Bank of Australia (CBA) Group. In 2008, whistleblowers within CFPL sent anonymous reports to the regulator Australian Securities and Investments Commission (ASIC) with information on malpractices. The directors had tolerated misconduct of advisers and planners. They were also alleged to be involved in a cover up. ASIC found that CFPL had failed to meet their legal obligation to ensure that their representatives complied with financial services law and had provided poor documentation and record-keeping. The ASIC did, however, not initially take an enforceable undertaking from CFPL which would have been made public. The author calls it a sorry story. Despite the public appearance of robust corporate governance and the use of language that indicated good corporate values and compliance with those values and law, something went seriously amiss in CFPL. Neither the CBA board nor the CEO knew the full details of illegal conduct by financial planners and those managing them. Part of the problem was the regulator’s failure to make CFPL’s law-breaking public early enough.

In chapter 9, Inessa Love and Botir Okhunjanov analyse determinants of corporate governance in Russian banks. Most of the banks in Russia are “denovo” banks, that is, privately owned banks that entered the market after the fall of the communist empire, while the rest of the banks have changed ownership from public to private in the last two
decades. Ownership is in most cases highly concentrated. Corporate governance mechanisms are largely underdeveloped. An empirical study suggests that in Russia banks with more concentrated ownership have lower rankings on corporate governance. In their regression analysis, the number of shareholders is positively and significantly related to the governance index. Banks with large owners score lower on the corporate governance index than banks without large owners. The authors suggest that improving the legal protection of minority shareholders is likely to increase the number of minority shareholders in Russian bank ownership, which in turn may be associated with better corporate governance.

In chapter 10, Chris Ogbechie looks at corporate governance practices in the Nigerian banking industry. The corporate governance of banks in developing economies, like Nigeria, is critical. Banks are the most important source of finance for the majority of the firms and the main depository for the economy’s savings. Central Bank of Nigeria (CBN) was founded in 1959. It has after a Nigerian banking crisis in 2009 followed a recapitalization policy in order to strengthen the Nigerian banking sector. CBN has also supported corporate governance initiatives to build and strengthen accountability, credibility, transparency, integrity and trust. In 2014, CBN published a revised Code of Corporate Governance for Banks in Nigeria. It includes a section for whistleblowing. The background to these initiatives is that the country has experienced significant levels of corruption, corporate misdemeanours and insider abuses of corporate privileges. The author characterizes the regulatory agencies as weak, inefficient and inadequate. This makes enforcement difficult. Many banks in Nigeria seem to close their eyes to governance, ethical, social and environmental issues. Recently, all Nigerian banks have embarked on several corporate governance initiatives in response to the mandatory CBN Code. The chapter concludes with an optimistic remark concerning the overall governance standards in the country and the opportunities for companies in the financial sector to begin to differentiate themselves in the marketplace.

In chapter 11, Hisham Farag documents the significant growth in the Islamic banking industry. Islamic financial institutions play a very important role in the Middle East and South East Asia. The author presents main economic indicators for the Islamic finance industry, the regulatory bodies governing them, their governance mechanisms and the main challenges they face. The Islamic Financial Services Board (IFSB) and the Accounting Organization for Islamic Financial Institutions (AAOIFI) have developed global Islamic financial standards. In 2006, IFSB issued Guiding Principles for Corporate Governance of Institutions offering only Islamic Financial Services. The author explains the main differences between the OECD Principles of Corporate Governance (2004) and the Principles of Islamic Corporate Governance. He writes that the Shari’ah law has a strong focus on ethics, accountability, transparency and corporate social responsibility. Islamic institutions should have in place an appropriate mechanism for obtaining rulings from Shari’ah scholars, applying fatawa and monitoring Shari’ah compliance in all aspects of their products, operations and activities. This role is undertaken by a Shari’ah Scholars Board (SSB). The SSB is said to add value to the governance mechanism through their intellectual capital. It is supposed to bring trust, knowledge and wisdom to the Islamic institution. There is, however, a lack of qualified Shari’ah scholars specialized in the Islamic finance industry. Mallin et al (2014) recommend that policy makers should encourage Islamic banks to adopt policies to increase the number of eligible SSB members.

Mallin’s book is a collection of essays, which all give a good understanding of how corporate governance problems are dealt with by very different financial institutions and their regulatory authorities all over the world. It seems to be a common global feature that corporate governance recommendations, rules and regulations have been tightened in recent years as a response to financial scandals and crises. OECD, the Basel Committee and other international organizations have published principles for corporate governance, which have inspired rules and codes in many countries. The book makes it clear, however, that there are still considerable differences between the national regulatory and governance frameworks and the type and seriousness of conflicts of interest between stakeholders in the institutions. The book is recommended to readers, who want to learn more about governance of financial institutions in the selected sample of countries. If readers do not want to read the whole book but are looking for contributions from specific authors or information about the activities of specific institutions or agencies, they can find help in an excellent index.

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The following SUERF publication is currently in preparation: “Central banking and monetary policy: Which will be the new post-crisis normal?”, edited by Ernest Gnan and Donato Masciandaro.

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