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Registration Open!
32nd SUERF Colloquium and Deutsche Bundesbank/IMFS Conference
3-4 February 2016
Regional Office of the Deutsche Bundesbank
in Hesse Taunusanlage 5,
60329 Frankfurt/Main, Germany
Online registration: www.suerf.org/ssmat1

Save the date - 2016 SUERF EVENTS

SUERF/Baffi Carefin Center, Bocconi University Conference
Central banking and monetary policy:
Which will be the new normal?
Date: Thursday, 14 April 2016
Location: Milan, Italy

SUERF/CEPII Conference
Rethinking capital flows and global imbalances
Date: Friday, 16 September 2016
Location: Paris, France

SUERF/EIB Conference
Investing in European competitiveness –
creating the right incentives for private and public finance
Date: Monday, 26 September 2016
Location: Luxembourg

SUERF – Société Universitaire Européenne de Recherches Financières

www.suerf.org
As from 4 November 2014, the ECB mandated a supervisory role to supervise centrally the financial stability of systemically relevant financial institutions based in participating countries. The Single Supervisory Mechanism (SSM) is the first established part of the EU Banking Union (EBU) and will function in conjunction to the Single Resolution Mechanism (SRM). At the Colloquium experience with the SSM in the first year of its existence will be summarized. It will be evaluated to which extent the SSM is already fulfilling the declared objectives. Areas of necessary improvements will be identified. Effects on banks, credit and the macro-economy will be discussed. The Colloquium will bring together policy makers and supervisors, academics and financial industry practitioners to exchange their views.

### Preliminary Programme

**Wednesday, 3 February 2016**

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<th>Time</th>
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<tr>
<td>13:00</td>
<td>Registration and Coffee</td>
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<td>13:30</td>
<td><strong>Opening and welcome</strong></td>
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<td></td>
<td>Jens Ulbrich, Deutsche Bundesbank and SUERF</td>
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<td>Urs W. Birchler, SUERF President and University of Zurich</td>
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<td>14:00</td>
<td><strong>Keynote Speech</strong></td>
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<td>Luc Laeven, ECB</td>
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<td>14:45</td>
<td><strong>Coffee and Poster Sessions</strong></td>
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<td>16:00</td>
<td><strong>Panel Session 1 - Interaction of micro-/macropрудential policies and monetary policy</strong></td>
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<td>Chair: Jens Ulbrich, Deutsche Bundesbank and SUERF</td>
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<td>Angel Ubide, Institute for International Economics</td>
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<td>Claudio Borio, Bank for International Settlements</td>
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<td>Sergio Nicoletti-Altmari, ECB</td>
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<td>17:30</td>
<td><strong>Keynote Speech</strong></td>
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<td>Chair: Ernest Gnan, OeNB and SUERF Secretary General</td>
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**Financial Sector Reform After the Crisis: Has Anything Happened?**

- Isabel Schnabel, Mainz University and German Council of Economic Advisers

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<th>Time</th>
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<tr>
<td>18:30</td>
<td><strong>End of first day’s proceedings</strong></td>
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<td>19:30</td>
<td>Dinner</td>
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<td>Dinner Speaker: Andreas Dombret, Deutsche Bundesbank</td>
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[www.suerf.org/ssmat1](http://www.suerf.org/ssmat1)
Thursday, 4 February 2016

09:00  SUERF 2016 Marjolin Lecture
      Chair: Urs W. Birchler, SUERF
             President and University of Zurich
      Mario Draghi, President of the European Central Bank

09:50  Presentation of the Marjolin Prize by the SUERF President

10:00 Coffee

10:30 Panel Session I –
The SSM after the Comprehensive Assessment. Has the CA served its purpose? Have legacy assets been dealt with effectively?
      Moderator: Mark Schroers, Börsenzeitung
      Klas Knot, De Nederlandsche Bank
      Martin Blessing, Chairman, Commerzbank
      Phillip Hildebrand (tbc), Blackrock

12:00 Interview Session - Completing the Banking Union/Capital Markets Union – where do we stand?
      Claudia Buch, Deutsche Bundesbank
      Moderator: Mark Schieritz, Die ZEIT

12:30 Lunch

12:30-12:45 SUERF General Assembly (Members only)

13:45 Keynote Speech
      Chair: Carl-Christoph Hedrich, Commerzbank and SUERF
      Macroprudential policies to contain systemic risks
      Ignazio Angeloni, Supervisory Board

14:30 Panel Session II –
Banks’ business models: trends towards specialisation or outsourcing to the shadow banking system? Do we need a “shadow banking union”?
      Moderator: Mark Schieritz, Die ZEIT
      Wouter den Haan (tbc), LSE
      Enrico Perotti, University of Amsterdam
      Christian Thimann, Axa

16:00 End of Conference

2016 SUERF Marjolin Lecturer - Mario Draghi
The President of the European Central Bank

In his capacity as President, Mario Draghi chairs the Executive Board, the Governing Council and General Council of the European Central Bank, and is also the Chair of the European Systemic Risk Board. He is also a member of the Board of Directors of the Bank for International Settlements. From 2006 to October 2011 he served as Governor of the Banca d’Italia. In April 2006 he was elected Chairman of the Financial Stability Forum (later the Financial Stability Board), and served in that function until November 2011. He graduated from Sapienza University of Rome in 1970 and received his PhD in Economics from the Massachusetts Institute of Technology in 1977. Between 1975 and 1981, he was Professor of Economics at the universities of Trento, Padua and Venice, and from 1981 to 1991 he served as Professor of Economics at the University of Florence. Prior to taking the helm of the Banca d’Italia, he was Vice Chairman and Managing Director at Goldman Sachs International, and a member of the firm-wide Management Committee (2002-2005). He was Director General of the Italian Treasury (1991-2001), Chairman of the European Economic and Financial Committee (2000-2001), and Chairman of the OECD’s Working Party No 3 (1999-2001). In 1993 he was appointed Chairman of the Italian Committee for Privatisations and from 1984 to 1990 he was an Executive Director of the World Bank.

www.suerf.org/marjolin-lectures
The SUERF Marjolin Prize

Established in 1995, the SUERF Marjolin Prize is awarded to the author(s) of the paper selected by the SUERF Council of Management for having made the best contribution to the Colloquium. The prize winner receives 2,000 EUR as well as a one year personal membership of SUERF Association. To qualify for the prize, authors must be under the age of 40 on the first day of the Colloquium. In awarding the Marjolin Prize SUERF wishes to honour Robert Marjolin’s memory by recognizing and supporting publications of young outstanding authors. A full list of past winners of the SUERF Marjolin Prize can be found at: www.suerf.org/marjolin-prizes

Robert Marjolin (1911–1986) was one of the most distinguished European economists of his generation and a leading architect of post-war Europe. From 1948 until 1955 he was the first Secretary General of the OEEC (Organization for European Economic Co-operation). This organization was established to channel US Marshall Aid into the reconstruction of Europe. Marjolin was a leading negotiator of the Treaty of Rome for France and Vice President of the European Commission for finance and economics for 10 years. He served as a Professor of Economics at the University of Paris and the University of Nancy, and in the private sector as advisor to leading European and US Companies.

Poster Presentations – 3 February 2015

“The SSM at 1”

1. Zero Risk Contagion: Banks' Sovereign Exposure and Sovereign Risk Spillovers, by Josef A. Korte
2. Is the Comprehensive Assessment really comprehensive, by Roberto Baviera
3. Banking Business Models in Europe, by Rym Ayadi
4. Multinational Banks and Supranational Supervision, by Giacomo Calzolari
6. Believe me, it will be enough, Governmental guarantees and banks’ risk taking in the fair value portfolio, by Jan Riepe
7. Rules and Discretion(s) in Prudential Regulation and Supervision: Evidence from EU Banks in the Run-Up to the Crisis, by Alessandro D. Scopelliti
8. Banks vs SSM: The party has just started..., by Anna Damaskou

We hope that the poster session format offers an flexible and stimulating forum for discussion between posters presenters and conference participants. Abstracts of respective papers can be found at www.suerf.org/ssmat1.

Find more details and regular updates please see:

www.suerf.org/ssmat1
General Information

Venue – The conference will be held in the “Kuppelsaal” on the third floor of the Regional Office. ID badges will be distributed prior to the conference on 3 February at the registration desk. For security reasons, please display your ID badge where it is clearly visible throughout the event.

Dinner – Conference participants are cordially invited to attend the Official Dinner on Wednesday, 3 February 2016 at the restaurant Windows 25, Japan Tower, Taunustor 2, 60311 Frankfurt.

Hotel – Accommodation for participants has been reserved with block bookings at three hotels close to the conference venue. Please find the relevant details and the hotel booking forms at www.suerf.org/ssmat1. The rates include breakfast and taxes. To reserve a room, please complete the hotel booking form and fax or e-mail it directly to your preferred hotel by 6 January 2016 at the latest.

Registration – The Colloquium registration fee includes:
- Full Conference participation
- Conference Material
- Coffee breaks / lunch
- The Official Dinner on 3 February 2016
- A copy of SUERF Conference Proceedings, which will be based on a selection of papers presented at the Colloquium

REGISTRATION FEES:

<table>
<thead>
<tr>
<th>SUERF Member Registration</th>
<th>€ 150</th>
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<tr>
<td>- SUERF Personal Members</td>
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<td>- Staff from SUERF Member Institutions - Central Banks, Corporate and Academic Institutions</td>
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<tr>
<td>Non-member Registration</td>
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<td>Student Registration</td>
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<td>(Includes SUERF Personal Membership for 2016)</td>
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* SUERF as a non-profit-making association registered under the French 1901 Law (Loi du 1er juillet 1901) is exempted from paying commercial taxes, VAT, income tax and single business tax (taxe professionelle).

Please note, that in order to attend the conference, you need to register online, indicating your payment method. All fees must be received in advance, no payments will be taken on site.

SUERF’s bank account details:
KBC Bank NV Arenbergstraat 11, B-1000 Brussels
IBAN: BE29 439794698764 BIC/Swift Code: KREDKBEBB

Cancellation Policy: Notice of cancellation must be made in writing to the SUERF Secretariat at suerf@oenb.at, and must include all relevant information regarding the bank account to which a possible refund may be remitted (incl. IBAN and BIC). Refunds will be made after the conference. Registration fees may be refunded after the event as follows: Cancellation received by email before 21 January 2016 will be entitled to a 75% refund. Cancellations received after 22 January 2016 will be subject to the full fee. For non-attendance there will be no refunds and the full fee will be payable. Substitutions may be made at any time without additional cost by informing the SUERF Secretariat.
Central Bankers are currently facing big challenges in designing and implementing monetary policy, with the crisis perpetuating itself in several rounds of sudden adjustments around the world. Each of these rounds of tensions comes with international spillovers, through risk premiums, exchange rate fluctuations, asset prices, tensions among financial intermediaries, world trade and global demand. In this environment, central banks increasingly feel the international dimension of national monetary policies, and measures even though warranted from a single country perspective may not be optimal once global repercussions are considered. The problem is accentuated by globally divergent growth and inflation outlooks, which would normally call for different directions in major central banks’ policy. The crisis has also led to a substantial extension in many central banks’ legal or de facto mandates and competencies, with increasing emphasis on safeguarding micro and macrofinancial stability of banks and other financial market segments. Large sovereign bond purchase programmes and central banks’ involvement in crisis countries’ adjustment program design and monitoring have blurred the lines between fiscal and monetary policies. Against this background, the conference will discuss to what extent prevailing central bank governance rules - which were designed decades ago with a completely different economic setting in mind - are still appropriate in the post-crisis world. Are central bank independence, accountability and transparency, and the focus on consumer price stability (as embodied in its purest form in inflation targeting), which were at the heart of the pre-crisis central banking model, still functional and appropriate? Are existing governance mechanisms sufficient in the light of central banks’ increased powers? What adjustments may be called for?

To develop these themes the conference will bring together academics, central bankers and market practitioners to discuss new research, practical experiences and insights in the field.
## Preliminary Programme

**Thursday, 14 April 2016**

<table>
<thead>
<tr>
<th>Time</th>
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<tr>
<td>08:00</td>
<td>Registration</td>
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<tr>
<td>08:30</td>
<td><strong>Opening and welcome</strong></td>
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<tr>
<td></td>
<td>Andrea Sironi, Rector, Bocconi University</td>
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<td>Donato Masciandaro, Baffi Carefin President, Department Head, Bocconi</td>
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<td>University and SUERF</td>
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<td>Urs W. Birchler, SUERF President and University of Zurich</td>
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<tr>
<td>08:45</td>
<td><strong>Keynote Session I</strong></td>
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<td></td>
<td>Chair: Urs W. Birchler, SUERF President and University of Zurich</td>
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<td></td>
<td>Monetary Policy and Central Banking: What We Learned</td>
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<td>Fabio Panetta, Deputy Governor, Bank of Italy and Member of the Supervisory Board, SSM (ECB)</td>
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<td>Discussant: Guido Tabellini, Bocconi University</td>
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<td>09:45</td>
<td><strong>Paper Session I</strong></td>
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<td>Chair: Ernest Gnan, OeNB and SUERF Secretary General</td>
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<td>Transparency of Monetary Policy in the Post Crisis World</td>
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<td>Petra Geraats, Lecturer, Faculty of Economics, University of Cambridge</td>
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<td>Discussant: Bilin Neyapti, Associate Professor, Bilkent University</td>
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<td>Monetary Policy Committees and Voting Behavior</td>
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<td>Sylvester Eijffinger, President Tilburg University and CEPR</td>
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<td>Discussant: Alessandro Riboni, Ecole Polytechnique, Paris</td>
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<td>11:15</td>
<td><strong>Coffee</strong></td>
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<td>11:45</td>
<td><strong>Keynote Session II</strong></td>
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<td>Chair: Francesco Saita, Director BAFFI CAREFIN Centre</td>
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<td>Central Bank Credibility: Insights from an Historical and Quantitative Exploration</td>
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<td>Michael Bordo, Board of Governors Professor of Economics Rutgers University</td>
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<td>Discussant: Tommaso Monacelli, Bocconi University</td>
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<td>12:30</td>
<td><strong>Lunch</strong></td>
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<td>13:30</td>
<td><strong>Paper Session II</strong></td>
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<td>Chair: tbc</td>
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<td>Central Bank Governance: Evolution, Goals and Crises</td>
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<td>Geoffrey Wood, Professor, University of Buckingham</td>
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<td>Forrest Capie, Professor, Cass Business School, City University</td>
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<td>Discussant: Charles Goodhart, Emeritus Professor Chairman of the Banking Standards Review Council</td>
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<td>Central Bank Design and Banking Supervision</td>
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<td>Martin Melecki, Lead Economist, World Bank</td>
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<td>Anca Maria Podpiera, Consultant, World Bank</td>
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<td>Discussant: Alex Cukierman, Professor, Tel Aviv University and Research Fellow at CEPR</td>
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<td>14:30</td>
<td><strong>Coffee</strong></td>
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<td>15:00</td>
<td><strong>Paper Session III</strong></td>
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<td>Chair: tbc</td>
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<td>Central Bank Communication and Expectations</td>
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<td>Jan Egbert Sturm, KOF Zürich</td>
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<td>Discussant: Pierre Siklos, Professor, WLU Canada</td>
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<td>Gender and Monetary Policymaking: Trends and Drivers</td>
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<td>Donato Masciandaro, Bocconi University and SUERF</td>
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<td>Davide Romelli, ESSEC Business School and THEMA- University of Cergy-Pontoise, Paola Profeta, Dondena Gender Initiative, Bocconi University</td>
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<td>Discussant: Marc Quintyn, Institute for Capacity Development, IMF</td>
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[www.suerf.org/milan2016](http://www.suerf.org/milan2016)
Over millennia, mankind has used hard cash in various forms ranging from shells to gold coins and paper. More recently, cash has become unpopular in political circles, as it effectively restricts states’ power to tax (explicitly or via negative interest rates) or to survey and potentially control their citizens. Several states have enacted restrictions to the use of hard cash. Above all, a strong new competitor to cash has arisen in the form of various electronic means of payment. Are we heading towards a society in which “coined freedom” (Dostojewski) will cease to exist?

Under this provocative “motto” SUERF organised a combined evening event (in German at the University of Zurich) and one-day conference (in English at the theatre “Millers” in Zurich) to take stock of the arguments brought forward in the current debate on the pros and cons and, more generally, the future of cash.

The main findings were the following:

- There are three main lines of arguments brought forward against cash: first, it is costly, inefficient and outdated. Second, it facilitates criminal activity, money laundering and tax evasion. Thus cash generates several negative externalities.
- Third, it limits the leeway for monetary policy to drive nominal interest rates deeply into negative territory to fight recessions and deflation.
- The main arguments mentioned in favour of cash are: It is still the preferred means of payment by many people in many countries. It is fast and easy to use, and facilitates the monitoring of expenses; thus is particularly important for young, old, less educated and lower income groups. It preserves privacy and anonymity both vis-à-vis the state and against transaction partners. It limits states’ powers against individuals, which may be particularly urgent in unlawful states and in countries with hyperinflation. Thus world currencies available in cash generate a positive externality. Cash appropriately prevents central banks from implementing excessively low interest rates, which erode pension savings and lead to resource misallocation as well as asset price bubbles. It generates seigniorage for the central bank (i.e. for the state) rather than for private payment service firms.
- Ideally, the choice of payment instruments should be determined through competition; however, such an approach is difficult to implement because of the nature of payment services as a network industry. There are simultaneously various distortionary elements in force which either favour cash or put it a disadvantage. More systematic information on competitive neutrality and subsidisation of different payment as well as a systematic cost-benefit analysis of alternative methods of payment is desirable.
• Crises trigger a sharp increase in currency circulation over nominal GDP; this effect lasts for about two decades after the crisis, until memory of the crisis fades. Cash provides an insurance against very bad outcomes, such as economic crises, hyperinflation, or the failure of computer or electricity networks. The costs of cash can therefore be viewed as an insurance premium. It is not clear how robust electronic payment systems would be in the absence of cash.

• Moderately negative interest rates are possible also in the presence of cash. It is not undisputed whether negative interest rates are desirable at all. Monetary policy is not powerless at the zero lower bound (forward guidance, QE). The case for abolishing cash for monetary policy reasons cannot assume a binding zero lower bound, the effective lower bound on nominal interest rates is currently considered to be around -1%.

• Restricting the use of cash could indeed lead to less criminal activity. However, the impact would likely be modest. Crime should be addressed at the source not at the final stage of payment flows. Many of the most damaging crimes in the recent past were not associated with cash.

• Any attempt to restrict the use of cash must take into account the negative externalities of such regulations, including the impact on disadvantaged groups of society and on people in other countries (e.g. with regard to remittances, escape option in unlawful states and countries with hyperinflation).

• Electronic wallets could be a superior alternative to cash: transaction costs are lower, violent crimes are less likely, anonymity can be preserved, and negative interest rates can be implemented. The blockchain technology can be used in a wide range of applications including digital currencies.

The evening event was well attended with around 200 people filling all seats of the auditorium.

Peter Bernholz, Professor emeritus, University of Basle, started out with an overview of the usual arguments for an abolition, or limitation on the use of, cash: allowing monetary policy to move nominal interest rates deeper into negative territory; fighting tax evasion and black markets; fighting illicit transactions, money laundering and terrorism. However, these advantages have to be weighed against advantages of keeping cash: individual privacy and personal liberty; the poor might be particularly affected by an abolition of cash; a limit on financial repression and the threat to private pension savings from negative nominal interest rates; a limit to the negative real economic effects (misallocation of resources) from negative nominal interest rates; a limit to central banks’ capacity to generate stock and real estate price bubbles through negative interest rates; having a backup means of payment in the event of the failure of technical systems; and, last but not least, the possibility for citizens to hold (foreign) cash as protection against the arbitrariness of unlawful or irresponsible governments (e.g. authoritarian states, governments generating hyperinflation). If the US or the Euro Area were to abolish cash, the positive externality of these currencies for citizens from unlawful states would be lost. In a longer perspective, Bernholz views the current drive to actively abolish cash as a continuation of the erosion of monetary stability that started with the abolition of the gold standard and went on with the demise of the Bretton Woods system.

Friedrich Schneider, Professor of economics, University Linz, explained that our knowledge about the proceeds of transnational crime and about the eventual use of these proceeds is quite limited. The fight against international crime is hampered by the lack of international cooperation. Schneider calls for the establishment of international organisations that are in the position to fight transnational crime on a global level. Regarding the use of cash by criminals, Schneider observes that cash is used for many criminal activities because it does not leave traces. As a consequence, restricting the use of cash can reduce criminal activity. However, the impact will be modest (10%-20% at most) because profits of criminal activity will remain quite high even after a potential abolishment of cash. According to Schneider, in some cases (e.g. drug-trafficking) liberalisation and legalisation could help reducing organized crime.

The following panel discussion led by Michael Rasch, Neue Zürcher Zeitung, gave the audience the
opportunity to inquire about further details on both presentations. The comments and questions raised by the audience bore witness to a strong preference for cash, which is also reflected in the continued high importance of cash in Switzerland.

The conference on the following day assembled around 100 participants and was conduced as a court trial in which cash – in line with recent allegations by prominent economist – was “accused” of three charges: First, cash is an essential part of many kinds of criminal activities. Second, it is an inefficient means of payment. And third, it prevents central banks from implementing optimal monetary policy in times when price stability would require negative interest rates.

Ahead of the actual “trial”, two presentations provided an overview and background information. Malte Krüger, Professor of Economics, University of Applied Sciences in Aschaffenburg, critically reviewed the state of the debate on the pros and cons of cash. Resource costs of cash (production costs, time of users) are generally considered to be quite sizable. Regulators, monetary authorities and, not surprisingly, private payment services share this view and there are several initiatives at national and pan-European levels under way to promote electronic payments. Ideally, the choice of payment instruments should be determined through competition; however, the nature of payment services as a network industry and various distortions raise serious doubts about such a “market-based approach”. Access inertia, chicken-and-egg and critical mass effects favour cash as the incumbent. Simple rules such as “cost-based pricing” do not necessarily yield the optimal result. The nature of cash as legal tender in practice does not imply that everybody accepts cash of any denomination and amount as payment. Central banks, while often not charging for issuing and processing cash, are still considered to be the primary issuers. Contrary to private payment services, they do not advertise cash as a payments medium. On a regulatory level, cash is in many countries actually put at a disadvantage compared to electronic forms of payments (maximum amounts, constraints on tax deductibility of cash transactions). As regards the use of cash for illicit activities, the question is to what extent the abolition of cash would diminish these activities. This depends on the existence of substitutes for cash (foreign cash, electronic cash equivalents, some of which seem to have a number of other disadvantages). Also, the abolition of cash is probably not the first best measure to fight crime. He also questioned whether the abolition of illegal labor would be an unqualified benefit in all respects, given that high tax wedges on labor provide strong incentives for do-it-yourself, which may run counter to principles of comparative advantage. Krüger also reviewed various policy proposals aiming to make cash payments or holdings more expensive and less attractive. These proposals range from the abolition of large-denomination banknotes and making cash withdrawals less convenient; a carry tax on cash similar to Gesell’s Schwundgeld ideas; “monetary separation” in the sense of a flexible exchange rate between cash and deposits; to the abolition of cash altogether. Finally he also raised doubts of the robustness of a payment system without cash in periods of crises. A “bank run without cash” would imply that depositors, who no longer have the escape to cash, might frantically buy assets in the event of a panic.

Helmut Stix, research economist at the Oesterreichische Nationalbank, presented preliminary evidence on the demand for cash across countries and over time, drawing on unique data sets just recently compiled. He showed that currency in circulation in relation to nominal GDP has not fallen since the turn of the millennium but instead increased strongly since the onset of the financial crisis. The high per capital cash holdings of USD and EUR reflect mostly foreign demand and hoarding, rather than payment transactions. Long time series spanning the last one and a half centuries for Austro-Hungary/Austria, the United States and Germany/the Euro Area show that crises trigger a sharp increase in currency circulation over nominal GDP; this effect lasts for about two decades after the crisis, until memory of the crisis fades. Time series for 57 countries covering 95% of world GDP show that the most important currencies in circulation are the Euro, the US dollar, the Japanese yen and the Chinese renminbi. Per capital circulation is highest in Switzerland, Japan, Hong Kong, Singapore, the Euro Area and the United States. The increase in currency demand is widespread across the vast majority of countries. Even in 2009, when world GDP contracted
sharply, currency in circulation expanded. Econometric estimations indicate that the recent strong increase in currency in circulation cannot be fully be explained by standard money demand equations, i.e. the extremely low level of interest rates does not fully explain it. Instead, the current crisis seems to mirror observations from the Great Depression when a loss of confidence in banks and generally higher uncertainty drive people into holding cash.

Harry Leinonen, Senior Financial Counsellor, Finnish Ministry of Finance, with his presentation on “Why cash is suboptimal” acted as “witness of the prosecution” against cash. He started his observations with data on the evolution of the number of ATM cash withdrawals per capita between 2002 and 2014. The initial increase in all countries reflected the transition from branch cash to ATM cash; more recently particularly in the Nordic countries and the UK cash has increasingly been substituted by card payments, implying a decrease in the ATM cash withdrawals per capita. Basically, nowadays with ATM cash withdrawal being the norm, cash payments involve bank accounts much the same way as card payments, with the additional – costly detour of paper currency to be handled by banks and by stores. Cards and mobile payments are therefore cheaper and more efficient. In practice, cash payments are cross-subsidized by debit card payments, which results in biased user choices. In addition to direct payment and processing costs, cash also involves higher indirect costs (losses, robberies, safekeeping costs, tax evasion and black economy costs). 1-2% of GDP worth of savings could be achieved by abolishing cash. Cash is given preferential treatment by regulators, politics, consumer organisations and academics without good reasons. Regulators favour it by granting it exclusive legal tender status, accepting anonymity, and by subsidized cash transports and processing. Increased cost transparency would change consumer preferences in favour of card payments; probably, cash would disappear if it had to face open cost-based price competition. As a practical way forward, Leinonen proposed to abolish 1 and 2 cent coins as well as 100, 200 and 500 EUR banknotes. All payment instruments should benefit equally from zero interchange fees, i.e. all users would pay fees only to their own service providers. Basic payment accounts should also accorded legal tender status. Modern technology could be used to introduce audit trails also for cash payments, while card customer data could be made less transparent for payment recipients.

Aleksander Berentsen, Professor of Economic Theory, University of Basel, with his presentation on “The fallacy of a cashless society” was the first witness of the defense. He argued that, as various central banks have shown recently, cash is no impediment to moderately negative nominal interest rates. Having said this, Berentsen noted that the very idea of negative real interest rates is a bad idea in the first place since it amounts to encouraging investments with positive private but negative social return, thus resulting in a waste of resources. Regarding crime and tax evasion, an abolition of cash would simply lead to new forms of circumvention through other cash-like substitutes. In terms of return, cash has always been inferior to other forms of savings. The reason why people use cash as a store of value is that cash is an insurance against really bad outcomes, such as financial crises (e.g. Lehman collapse), confiscatory taxes (e.g. Cyprus, Argentina), or forced conversion (e.g. Grexit). It also avoids reliance on third-party transaction processing, since it involves immediate settlement. It is easy to use and allows anonymity.

Nicole Jonker, researcher at De Nederlandsche Bank and the second witness of the defense, presented survey results on Dutch cash usage. In Holland, cash continues to be the dominant payments instrument. Cash is more frequently used by very young and very old citizens, by less educated and lower-income people. While in 2004 the main motives quoted by survey respondents in favour of cash payments were speed of payment, monitoring of expenses and acceptance by merchants, in 2014 the monitoring and cutting of expenses as well as habit figured most prominently. For many people, particularly those who continue to prefer cash payments, cash has two major advantages: first, it allows them to monitor their expenditure behaviour very directly, preventing them from overspending; second, cash sets clear expenditure constraints based on the simple availability of cash in the wallet. Electronic forms of payment so far fail to provide the same immediate and direct benefits of
payment control, particularly for vulnerable groups, such as elderly, lower income or less educated persons.

**Jens Ulbrich**, Head of the Economics Department of the Deutsche Bundesbank and the third witness of the defense, offered some monetary policy considerations. He noted that the abolition of cash would impinge on civil liberty rights, affect confidence in the established monetary order and hurt the poor. Simulations conducted at the Deutsche Bundesbank show that indeed the zero lower bound of interest rates limits central banks’ ability to stimulate the economy and to drive up inflation. What does experience so far tell us about the effectiveness of open-market operations with long-term bonds (“QE”)? In theory, QE operates through a number of transmission channels, such as signalling (“forward guidance”), through which the entire yield curve can be lowered. The portfolio rebalancing channel implies that the term premium is lowered. Relative lower interest rates depress the domestic exchange rate. Empirical estimates by various authors find substantial effects of QE on real GDP and consumer price inflation. At the same time, QE also involves risks, such as disincentives for governments to pursue sound fiscal policies and structural reforms; search for yield and asset price bubbles; and a threat to banks and pension funds’ business model viability. All in all, monetary policy is not impotent at the zero lower bound; the zero lower bound argument is thus not suitable to argue in favour of the abolition of cash.

**Paolo Tasca**, Deutsche Bundesbank and ECUREX, acting as the first court expert, considered the potential role of digital currencies with a special emphasis on bitcoin. According to Tasca, the blockchain technology that underpins bitcoin allows for trustworthy records of transaction preserving anonymity. This technology cannot only be applied to digital currencies but to a much wider range of applications including rating or voting systems, distributed storage, authentication and anonymization of private information. Tasca presented figures showing that investment in bitcoin related start-ups is increasing rapidly even though the share of bitcoin related projects in total capital investments of start-ups is still relatively low. Furthermore, ongoing research reveals that the wealth distribution in the bitcoin system is highly unequal and that the mining industry can be regarded as an oligopoly.

The second expert of the court, **Friedrich Schneider**, complemented his presentation during the evening event at the University of Zurich by providing further information on money laundering. Money laundering is essential if criminals want to make use of the proceeds of their crime. Scrutinizing the different methods of money laundering, it becomes obvious that cash plays no dominant role. Furthermore, Schneider pointed to the growing importance of cybercrime. Cybercrime does not only entail direct costs (corresponding to criminal revenue) but includes also other cost components, e.g. costs to protect the computer infrastructure.

**Nikos Passas**, Professor of Criminology and Criminal Justice at Northeastern University and the third court expert, spoke about “Informal Payments, Crime Control and Fragile Communities”. Passas argued that many of the most damaging crimes in the recent past were not associated with cash. Cash neither contributed to the financial crisis nor to the LIBOR-scandal, nor was it used in the preparations of the 9/11 attacks. In the attempt to restrict the use of cash, the negative externalities of such regulations must be taken into account. Passas’ presentation made it clear that in this respect one cannot confine attention to Europe or the US but the impact on other countries must also be considered. For example, in their aim to fight terror, governments often hamper legitimate remittance payments. Even though regulation of the channels used for remittances is necessary to prevent the misuse of these channels for criminal activity, regulations should be proportionate to the risk and appropriate to socio-economic and cultural environments. In this regard Passas put special emphasis on the hawala-system. In the same vein, de-risking (i.e. financial institutions close down accounts that they regard as high-risk) raises both the cost to send remittances and systemic risk by e.g. shifting transactions to channels that are harder to monitor.

**Jean-Charles Rochet**, Professor of Banking at the University of Zurich, offered a wider view. He argued that cash does not matter but money is the important
issue. Rochet predicted that cash will soon disappear. Nowadays cash is neither a good store of value nor the most suitable means of payment because cash involves high transaction costs and tends to generate crime. Electronic wallets are a superior alternative to cash. Electronic wallets exhibit lower transaction costs compared to cash and make violent crimes less likely. Furthermore, anonymity can be preserved. If cash is replaced by electronic wallets, negative interest rates can be implemented. Hence, the zero lower bound disappears. Even though demand for M1 might decrease, money will still matter as unit of account. Rochet observes that monetary decisions have a big impact on people (e.g. the consequences of the abandoning of the CHF-EUR peg by the Swiss National Bank or the distributional effects of quantitative easing). Concerning the control of our money, Rochet argued that currently technocrats are in power and these policy makers (have to) take bold decisions, while from an academic perspective, our knowledge about many money related developments is still very limited.

The conference was concluded by the philosopher Peter Sloterdijk, Karlsruhe University of Arts and Design, who introduced the concept of postmodern money. The era of postmodern money began when President Nixon announced to suspend the convertibility of the US dollar into gold. Postmodern money neither has an intrinsic value nor does it represent value but it refers exclusively to itself. Furthermore, Sloterdijk stressed the role of believing. Human beings, as believing animals, also believe in the value of money. According to Sloterdijk, economists underrate the will of economic agents to believe. However, this will to believe must be taken into account in deliberations on cash and payments.

The positive feedback received by many spectators including the media after the “trial” of cash confirmed SUERF’s dedication and will to generate value through innovation and “out-of-the-box thinking” for the community of central banks and supervisors, financial practitioners, and academic economists. The topic addressed was proven to be not only relevant to monetary and financial circles but to societies globally. Merging deep analysis with a broad and encompassing collection of the various arguments and viewpoints has always been SUERF’s goal. The chosen “courtroom” setting proved not only to add an element of entertainment, thus ensuring full attention of the audience through the entire day, but it also helped to sharpen positions and to systematically confront views with counterarguments. It is for sure that the debate on the pros and cons of cash will stay with us for the years to come. But, as the conference made clear, beware of over-simplified views that neglect the multiple facets of the topic.

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Banking Reform

Insights from the conference organised by SUERF, hosted by EY
London, 3 December 2015

By Patricia Jackson, EY and SUERF, and Clement Wyplosz, EY

On 3 December EY hosted a SUERF conference on banking reform with Sir Howard Davies, the Chairman of RBS, and Dame Colette Bowe, the Chairman of the Banking Standards Board, as the two key note speakers. Professor David Miles gave the SUERF 2015 Annual Lecture on Capital and Banks.

Overall
There was consensus that the period since the crisis had seen necessary increases in the capital and liquidity of banks, which diminish both the probability, and severity of further crises. However, there was much less agreement regarding the future path of reform of the banking sector. The area where there was the least agreement was in terms of the appropriateness of requiring banks to hold even higher levels of capital than currently, including both higher levels of equity and the new TLAC. A number of the speakers touched on this issue – Sir Howard Davies, David Miles, Charles Goodhart and Harald Benink. There were contrasting views between those who thought the industry could and should hold significantly more capital with the extra cost being small and others who thought that the transition to higher equity would drive significant further deleveraging, given the incentives for shareholders, to the detriment of the real economy. David Llewellyn and Thorsten Beck looked at the issues around the need for proportionate regulation which included weighing up the need for complexity. The distortionary effect of capital requirements that are too high for particular portfolios was discussed by Patricia Jackson and William Perraudin. Simple requirements like the leverage ratio were attractive but the evidence that they
are superior to risk-based requirements is flawed – none of the papers on this topic have compared risk sensitive requirements under Basel II to the leverage ratio, for example. Also the trend in regulation to add arbitrary floors to different risk-based measures is a backwards step which will distort the playing field across banks and distort the lending markets.

The challenges of structural reform were discussed by Charles Goodhart, Tom Huertas and Simon Gleeson with the consensus being that it was hard to see that the proposals for ringfencing will bring added stability. On the regulatory agenda one repeated message was that the industry needs time to absorb the changes to date and that a halt to regulatory driven change was needed.

A further topic was the pressure on banks’ business models from a range of sources. The consensus was that banking business models were under pressure from shadow banks, fintech and the threat from lower cost challenger banks. Banks were also struggling to produce high enough returns to satisfy investors given the higher capital under Basel III – despite the industry now being safer. This was discussed in a panel including Andrew Bailey, Richard Portes, Anthony Thomson, Desmond McNamara and Jacob de Haan. One aspect of pressure highlighted is the conduct failings which have come to light which have affected the industry reputationally and financially though fines. The issues around ethics and culture in banking were discussed by Dame Collette Bowe, Allard Bruinshoofd, Michael Power and Roger Steare. It was recognised by a number of speakers that while substantive action has been taken, more work remains to be done in the industry on areas such conduct and governance.

**Capital**

Most controversial was the question of the composition and calibration of capital requirements. It was recognised by all that an important element behind the financial crisis was a pre crisis regulatory system that allowed banks to operate with minimal amounts of equity (particularly post the move in 1998 to allow hybrid capital into Tier1), enabling banks to use debt to finance risky and hard-to-value portfolios. It was argued that what lay behind this was the widespread notion that higher equity capital requirements would lead to sizeable increases in funding costs. However, one speaker set out calculations to show that, in theory at least, doubling equity would only lead to a small increase in overall funding costs. On this basis, and assuming that banks’ equity is not costlier than in other industries it was suggested that an optimal level of equity capital would be around 20% of RWAs (using different assumptions, another participant cited a 40% target). Another speaker pointed out that these calculations looked at two different equilibrium states – a low capital state and a high capital state. They did not look at the process of transition from one to the other. Rather than the move to much higher capital imposing limited costs it would impose costs on the economy because the incentives for the current shareholders would be to try to avoid dilution and therefore they would favour deleveraging as the means to achieve the higher requirement. Indeed banks were deleveraging but home authorities were leaning on banks to keep domestic lending unchanged; d- deleveraging therefore was focused on non-home markets, affecting global financial links. Another point was that it was important to recognize that the problem in the crisis was one of liquidity not capital for many banks. Greater capital requirements in an illiquid system could lead to fire sales.

One area of focus since the crisis has been complexity versus simplicity. Some papers in the past such as the ‘Dog and Frisby’ have concluded that the leverage ratio pre crisis was a better predictor of survival /non survival in the crisis than risk based capital requirements. Thinking has now turned more towards having both a leverage ratio and risk-based capital requirements, but the question still remains whether the leverage ratio is superior. Because the IRB under Basel II was introduced in 2008, the papers conducted to date have in fact focused on Basel I versus the leverage ratio rather than the Basel II IRB versus the leverage ratio. The results are also dominated by the inclusion of US securities firms and banks with large securities arms, effectively testing the market risk treatment under Basel I, known to be inadequate and since changed, against the leverage ratio rather than the credit risk treatment. The lack of comparability of the leverage ratio between the US and Europe was discussed because the US banks do not hold prime mortgages or high quality corporate on their books, the two lending books that have significantly lower capital requirements under the IRB. To even the playing field, if the leverage ratio bites, the EU would have to get the mortgage securitisation market going again.
One speaker pointed to the gradual decline in bank capital to total asset ratios over the past 150 years and the higher ratios in other industries and saw the cause lying in implicit guarantees, including deposit protection, tax incentives for funding through debt and so on. One important factor in the future would be to make risk weights forward rather than backward looking. Higher equity was important and TLAC was not a substitute because it is only effective in resolution. He thought other elements of supervision were important to break the ‘doom loop’ such as Banking Union in Europe, ring fencing and living wills.

The future path of capital regulation, with the greater use of regulatory floors going forward within the risk-based requirements was seen by some as a wrong turning. The floors are often arbitrary and with standardised approaches depending on capital look-up tables and risk-weightings for which no justifications have been provided; they tend to distort the playing field as the resulting requirements create uneven capital increases across different banks and portfolios. In any case, the belief that regulators can devise appropriate risk weight calibrations for all banks in all jurisdictions may be “hubris”. If so, a more appropriate response to concerns about comparability would be to encourage more industry benchmarking exercises, and put in place a stronger supervision of these exercises. Another point made was that regulators should not distort the risk-based models because this in turn would affect the risk signals in the bank - the introduction of the IRB had substantially improved the risk information in banks.

**Proportionality**

There was a discussion of proportionality in regulation with the case being made that currently it is not proportionate, with the nexus of a wide range of regulations making it too complex. The marginal benefits of more regulation are decreasing while the marginal costs are increasing. This lack of proportionality was due to the perception of regulation as a free good, the symbiotic relationship between regulators and banks with misbehaviour leading to more regulations, giving more potential for misbehaviour, and a failure to recognise the tradeoffs between growth and stability. It was suggested that going forward banking regulation should be more differentiated to reflect differences in business models, size, risk profile etc. Another speaker made the point that the main areas /solutions to focus on in terms of capital regulation are-

- Complexity v simplicity, simple measures are harder to evade, but more complex ones can better capture risk
- Macro-prudential regulation to ensure that the system itself is stable.
- A dynamic regulatory perimeter to capture new players taking risks, not just trying to prevent the last crisis
- Focus on resolution

**Structural reform**

Ring fencing proposals (e.g. Vickers, Liikanen) were seen as problematic in several respects. By concentrating housing finance in the retail ring fenced banks, ring-fencing proposals tend to exacerbate, rather than alleviate, liquidity risk and therefore potential financial system instability. More generally, the separation of commercial and investment banking activities may not bring more stability. The assumption that commercial banks are safer than investment banks is not always warranted. Ring-fencing is also likely to introduce greater complexity in the structure of banks, which may enhance resolvability of individual units, but not necessarily of the group as a whole. Similarly, the “balkanisation” of banks (for example through the Fed’s requirement that FBOs form an Intermediate Holding Company (IHC), or the proposal in Vickers that ring-fenced banks cannot have foreign branches or subsidiaries) is misguided. Not only does it wrongly assume that foreign activities are necessarily riskier than domestic activities, it also risks creating a home country bias, such that the resolvability of home entities may be enhanced, but global resolvability could be compromised. Bans on proprietary trading may not be a panacea for improved stability either. The Volcker rule, for instance, is too complex to be useful. For example, the distinction it draws between proprietary trading and market-making is fuzzy, and legislation to address this is likely to be so complex as to be largely ineffective. Likewise, the blurring of the distinction between bonds and loans makes bans on proprietary trading ineffective (if the ban applies only to securities) or counterproductive (if it applies to any instrument that trades).

Opinions were more divided concerning regulatory developments around resolution. Giving preference to
depositors in resolution is inadequate, as it may reduce the risk of deposits, but not necessarily of the bank as a whole. Similarly, while it facilitates resolution for deposits via a bridge bank, it still leaves the rest of the assets and liabilities in the rump to be liquidated over time – a process that is likely to increase losses to creditors and could disrupt financial markets and damage the real economy. Diverging arguments have been made concerning bail-in during a resolution. On the one hand, the limitation of bail-out could be dangerous as it concentrates losses on a small number of pension funds and insurance companies rather than a large band of taxpayers. On the other hand, reordering of the creditor hierarchy through bail-in could be seen as the most promising structural reform, since it reduces risk and enhances resolvability of the whole bank (as opposed to the ring-fenced bank only) – if so it is not clear whether separation would still make sense. Customers are likely to be treated in ways they do not expect leading to lawsuits. And host jurisdictions are likely to face many difficulties in resolution.

**Challenge to bank business models**

It was recognised that there are clear challenges to bank business models. Indeed pressure from non-bank financial institutions, challenger banks, and Fintech firms are likely to transform the banking sector, and in so doing will change banking but also pose challenges to the financial system. Data were presented showing the sharp growth in shadow banking in Europe and the US. While regulators are becoming more familiar with these participants, their activities remain comparatively under-regulated and opaque. Not enough data are available to estimate the financial health of these firms (or traditional banks’ exposure to them), and therefore to determine the potential system impact of the failure of some non-banks. For example, one speaker to pointed to the fact that we do not know how to measure (and compare) leverage in shadow banks. As these firms grow in importance, they will become more involved in the broader banking system with increased exposures of banks too them. Also they will increasingly be assuming critical functions for example becoming leading suppliers of credit in some areas – which could create macro-prudential risks if they suddenly withdraw from making credit available. It is already hard currently to determine the size of exposures of the banking sector to shadow banks.

Non-traditional institutions have distinct advantages over established banks, particularly since they do not have to contend with legacy real-estate, legacy infrastructure and systems, and legacy balance sheets. While incumbents will feel the pressure, it is worth noting that the improvements in risk management that traditional banks have made in response to the post-crisis regulatory environment now put them in a better place to drive change and innovation. Banks with higher capital to remunerate are exiting areas of activity in both lending and market making. This is decreasing market liquidity. One question posed was why European investment banks are struggling more than US investment banks and whether this was because US banks had a much larger home securities market. Competition from tech firms (especially in the area of payments) could be an important driver of change. Banks could be driven more to becoming utilities. One point of view was that the emergence of banks with new business models could take the place of some traditional banking but this will result in more not less competition and consumer choice. However, established banks also believe they can transform and embrace the new technologies.

**Risk culture**

The importance and difficulty for banks in changing their culture was emphasised. Such a change is key to banks regaining the public trust that has been lost with the financial crisis and the conduct problems since. By satisfying regulators that the banks have grasped the importance of culture and ethics, cultural change may also give the industry a chance to influence the rising tide of increasingly prescriptive regulations. In the UK the Banking Standards Board has asked the major banks what they are doing to define culture, how they intend to deliver a change in culture and how they will determine when a new culture has been implemented. Because culture is ultimately carried by individuals, efforts to bring about cultural change must be effective at the level of the individual. Some key areas to address are incentives, going beyond compensation to promotion and hiring, leadership and openness, culture in the round and ethics. There were two very different areas of focus within the
discussion. One was on the importance of information. Adequate information is necessary to encourage/reinforce good behaviour. The quality and assembly of information plays an important role in managing risk. From this perspective, a key task for banks is to create cross-functional networks to coordinate information throughout the organisation. Inadequate information damages the governance structures – the role of the board for example. An important problem is that information is typically put together by relatively junior people, who have disproportionate influence. Risk appetite is also appetite for knowledge about what is going on within the firm. The other perspective was that culture is a reflection of power relations and in this sense it is created and shaped by leaders. Therefore to improve culture it is necessary for leaders down through the organization display the right values. An important obstacle is that whereas in home life individuals are driven by compassion and caring for others, at work, there is a widespread idea that compliance with rules and targets come first, and caring for others is of secondary importance. In turn, the focus on compliance, on respecting the rules, on “doing the numbers”, instils a culture of fear. Accordingly, changing culture in banks requires an acknowledgement that values in the workplace should be the same as those in life, such that professional behaviour should be driven by integrity rather than fear. In turn, this requires that leaders have the courage and character to “do the right thing” – and to put integrity before profits.
Reviewed by Morten Balling  
Aarhus University and SUERF

The author of this book - Ben S. Bernanke - served as chairman of the Federal Reserve from 2006 to 2014. He carried therefore a main responsibility for US monetary policy and was a key political player during the global financial crisis 2007-2009. Bernanke’s book has a clear structure. The text is divided in three parts: Part I – Prelude – deals with the author’s family background, his education at Harvard University and MIT, his academic career at Stanford University and Princeton University and his first years as a member of the Federal Reserve Board. Part II – The Crisis – gives a detailed account of events and meetings in the two dramatic years from the summer of 2007 to the autumn of 2009. In Part III – Aftermath – the author discusses the later development of unconventional monetary policies as Quantitative Easing and the efforts to build a new and more resilient financial system. An Epilogue with comments on the recent activities of the Fed under the leadership of his successor Janet Yellen concludes the book.

In part I of the book, he describes his modest Jewish background and his years as a student at Harvard University. He felt academically disadvantaged compared with classmates from elite prep schools. His response to the challenges at Harvard was hard work. In order to earn money, he and a roommate ran a small grill and sold burgers to other students. Bernanke followed courses in economics taught by prominent economists like Martin Feldstein and Dale Jorgenson. His hard thesis work was rewarded with a National Science Foundation fellowship, which could pay for tuition and expenses for the first three years of graduate school. He moved to MIT, where Stan Fischer most influenced the course of his studies. Fischer recommended to his students the 1963 book “A Monetary History of the United States, 1867-1960”, by Milton Friedman and Anna Schwartz. Bernanke was fascinated by the book’s historical approach. He decided that he in his academic career would focus on macroeconomics and monetary issues. After some years at Stanford University as assistant and associate professor, Bernanke was offered a full professorship at Princeton University, and in 1985 he and his wife Anna moved to New Jersey. Due to his research work on monetary policy, Bernanke was invited to make visits and presentations at the Board of Governors in Washington DC. In 2002, Glenn Hubbard, chairman of President Bush’s Council of Economic Advisers, called Bernanke on the phone and asked if he would be interested in coming to Washington to talk with the president about possibly serving on the Federal Reserve Board. In July 2002, the Senate Committee on Banking, Housing, and Urban Affairs approved the nomination. The author describes in detail how he got to know the members of the Federal Open Market Committee and other colleagues at the Federal Reserve. A chapter on Bernanke’s time as junior member of the Federal Reserve Board under Chairman Alan Greenspan has the charming headline: “In the Maestro’s orchestra”. The US macroeconomic performance was in this period by and large considered as satisfactory. At the Kansas
City Fed’s annual Jackson Hole symposium in August 2005, Greenspan’s last as chairman, he was hailed as the greatest central banker in history. Warnings that a crisis might be under way were, however, published already at that time by Robert Shiller, Yale University, and by Claudio Borio and William White, BIS. The financial crisis of 2007-2009 had several triggers as analyzed by the Financial Crisis Inquiry Commission. Bernanke’s chapter on “The Subprime Spark” is partly based on material from the Commission (p.586). The author admits that many at the Fed, including himself, underestimated the extent of the housing bubble and the risks it posed (p.90). He writes also that the remarkable economic stability of the latter part of the 1980s and the 1990s (“the Great Moderation”) likely bred complacency (p.92). There are also critical remarks on the US structure of financial regulation. The structure before the crisis is characterized as highly fragmented and full of gaps. No agency had responsibility for the system as a whole. The coordination of the work done by respectively the Office of the Comptroller of the Currency, the Federal Reserve, the Federal Deposit Insurance Corporation, the Securities and Exchange Commission and the Commodity Futures Trading Commission was very incomplete. In May 2005, Bernanke was confirmed as Chairman of the President’s Council of Economic Advisers (CEA). The CEA had been a stepping-stone to the Fed chairmanship for Greenspan, and speculation about Bernanke’s appointment started immediately. On October 24, President Bush nominated him. On February 1, 2006, Bernanke became the fourteenth Chairman of the Federal Reserve. At the swearing-in ceremony Alan Greenspan, Paul Volcker and President Bush attended. An early priority for the new Chairman was forging cordial working relationships with international policymakers. Mentioned are the Governors Mervyn King, Bank of England, Toshihiko Fukui, Bank of Japan and Jean-Claude Trichet, European Central Bank (p.118).

Part II of the book deals with the financial crisis. On 9 August 2007 BNP Paribas, France’s largest bank, barred investors from withdrawing money from three of its investment funds that held securities backed by US subprime mortgages. Investor distrust of subprime-backed securities was so great that potential buyers had withdrawn from the market entirely (p.134). A wave of panicky selling in markets around the world followed. Until then, Bernanke and others at the Fed thought that subprime problems were unlikely to cause major economic damage (p.136). The author describes the new situation as a “Catch-22”: Investors were unwilling to buy securities they knew little about. But without market trading, there was no means to determine what the securities were worth (p.143). The Fed decided to increase liquidity in different ways. That included the supply of short-term funding to the shadow banking system. In November 2007, several large US banks announced that they were writing down their subprime holdings (p.179). In March 2008, the Fed decided to lend USD 30 billion in taxpayer funds to prevent the failure of the Bear Stearns Companies, the nation’s fifth-largest Wall Street investment bank (p.198). The author describes in great detail the deliberations that preceded that decision. The Board also approved an important new lending facility – the Primary Dealer Credit Facility – which allowed primary dealers to borrow from the Fed, just as commercial banks had always been able to (p.220). Ultimately, JPMorgan acquired Bear Stearns. The Bear rescue was heavily criticized. Bernanke defended the rescue arguing that the Fed had the protection of the financial system and the protection of the American economy in mind (p.224). During the summer of 2008, the Fed subjected the investment banks Goldman Sachs, Morgan Stanley, Merrill Lynch and Lehman Brothers to stress tests (p.253). The tests showed that none of them passed the test if exposed to circumstances like those Bear Stearns faced in March.

Concerns about the situation of Lehman now filled the media. Lehman was 50 percent bigger than Bear and its derivatives “book” was twice the size that Bear’s had been (p.259). The Fed hoped to find a solution for Lehman based on involvement of private financial institutions in the US and abroad. Financial Times and Wall Street Journal warned about the moral hazard implications of a new rescue plan. “We will have a new de facto federal policy of underwriting Wall Street that will encourage even more reckless risk-taking” (p.261). Bernanke’s view in September 2008 was that he was absolutely convinced that invoking moral hazard in the middle of a major financial crisis was misguided and dangerous. However, one by one the big financial institutions stepped back from participating in a rescue operation for Lehman. Bank of America reported that the Lehman assets in their view were worth USD 60-70
billion less than their official valuation, and Barlay’s option for Lehman was stopped by the UK Financial Services Authority and the concern for a possible involvement of British taxpayers (p.266). The Fed’s rescue strategy was based on finding a buyer. Without a buyer, and with no authority to inject fresh capital or guarantee Lehman’s assets, the Fed had no means of saving the firm (p.268). Lehman’s bankruptcy filing, at 1.45 a.m. Monday, September 15, 2008 reverberated through financial markets – at first abroad, then in the United States. Investors fled to the safety of US Treasury securities and banks hoarded cash. The huge insurance company AIG – with trillion-dollar insurance operations spanning 130 countries – was the next cause of concern. The company was so large and interconnected with the rest of the financial system that the ramifications of its failure would be massive, if hard to predict (p.276). AIG was about the size of Lehman and Bear Stearns combined. Its failure would create chaos and reduce confidence in the rest of the insurance industry. Bernanke saw no alternative to providing a loan of up to USD 85 billion against collateral in the going-concern value of specific AIG businesses (p.283). The AIG board accepted reluctantly the Fed’s offer. Bernanke admits (p.286) that he did not feel much sympathy for AIG. It got itself into trouble. After serious losses and restructurings, the US Government (the Fed and the Treasury combined) would make investments and loan commitments totaling USD 182 billion to prevent AIG from failing (p.286). Because Lehman failed but AIG was saved, serious questions persisted. Bernanke defends the Fed’s different decisions in the two cases. He does not want the notion that Lehman’s failure could have been avoided, and that its failure was consequently a policy choice, to become the received wisdom, for the simple reason that it is not true (p.291).

In late September, the Fed presented a Troubled Asset Relief Program (TARP) for the Senate Banking Committee. The program was greeted with deep skepticism. Many legislators raised the issue of compensation packages in financial institutions that benefited from taxpayer dollars (p.319). The proposed crisis measures became an issue in the ongoing presidential election campaign between John McCain and Barack Obama. After difficult negotiations, the negotiators in Congress approved a proposal for TARP legislation implying a disbursement in two USD 350 billion tranches. The political deal also required Treasury to develop a plan to help mortgage borrowers in trouble. The FOMC approved a more than doubling of the Fed’s swap lines with major foreign central banks to USD 620 billion. On September 29, however, The House of Representatives defeated the bill (p.334). Bernanke writes that he felt like he had been hit by a truck, and so did the stock market. The Dow Jones Industrial average plunged down 7 percent. After a sweetening of the bill by including an increase in deposit insurance from USD 100,000 to USD 250,000 both the Senate and the House passed the bill in early October. Notwithstanding the enactment of TARP, confidence in financial markets and institutions had nearly evaporated. The economic effects of the crisis spread rapidly, without regard for national borders. In October, the Eurozone countries agreed to implement capital injections and guarantees for their banks. At the end of 2008, the US Treasury’s investments in banks under the TARP program were approaching USD 200 billion. Bernanke writes (p.357) that he had no doubt that the TARP, together with all the other measures, had prevented a financial meltdown. In late November 2008, the Fed declared that they planned to buy up to USD 500 billion in mortgage-backed securities guaranteed by Fannie, Freddie, and the Government National Mortgage Association. The Fed also announced plans to buy up to USD 100 billion of the debt issued by Fannie, Freddie, and other government-sponsored enterprises to finance their own portfolios. In December 2008 Treasury agreed with President Bush to use TARP funds for the automakers GM and Chrysler (Ford decided not to participate). On January 20, 2009 President Obama was inaugurated. The new administration presented a major fiscal package, the American Recovery and Reinvestment Act of 2009. Plans for reducing mortgage foreclosures followed. The Fed’s new lending programs improved short-term funding markets. Capital injections from the TARP program and the positive results of stress tests gradually improved confidence in the banking system (p.397).

Bernanke concludes Part II of the book by summarizing the Fed’s response to the crisis (p.409). The response had four elements: 1) lower interest rates to support the economy, 2) emergency liquidity lending aimed at stabilizing the financial system, 3) rescues (coordinated
when possible with the Treasury and the FDIC) to prevent the disorderly failure of major financial institutions, and 4) the stress-test disclosures of banks’ condition. In his view, the Fed bore for much of the panic alone the burden of battling the crisis (p.410).

Part III of the book opens with a discussion of quantitative easing QE. The Fed’s large-scale asset purchases described above were called quantitative easing or QE by market observers. The monetary policy goal was to bring down longer-term interest rates, which might stimulate spending on housing and business capital investments. The following chapter deals with plans for reforming the US financial system. A Treasury report had as its goal to create a “three peaks” regulatory structure (p.436). The first peak should be a single “prudential” regulator focused on ensuring the safety and soundness of individual financial institutions. The second peak should be a new “conduct of business” agency charged with protecting consumers and investors. The third peak should be an agency responsible for the stability of the financial system as a whole. This broad role should fall to the Fed, which should monitor the financial system and address any vulnerabilities found. In contrast to the structure-simplifying Treasury-plan, a proposal from another part of the Obama administration left the existing set of regulators largely intact. The Basel 2 agreement with bank capital requirements had never been fully implemented in the United States. In December 2010, the Basel 3 accord was released. Its recommendations concerning tougher capital requirements were taken into consideration in the reform negotiations between the Senate and the House in Washington. The final bill left the US regulatory bureaucracy relatively intact (p.463).

The author refers several times to the cooperation between the US and European countries. At a meeting in the FOMC in April 2010 there were concerns that the weak European development might pose risks to the United States, but those risks had not materialized (p.482). Bernanke’s last month in office was January 2014. The first steps in slowing the Fed’s securities purchases had then been taken. But the delicate task of normalizing monetary policy would fall to Janet Yellen and her colleagues (p.561).

An interesting feature of Bernanke’s book is that he writes personal characteristics of many of the politicians, CEOs and central bankers he met and cooperated with. SUERF-readers will probably read with special interest his description of the ECB Presidents Jean-Claude Trichet and Mario Draghi. The author finds Trichet shrewd and diplomatic but too willing to accept the moralistic approach to macroeconomic policy advocated by many northern Europeans (p.524). Draghi is described as soft-spoken, bespectacled and scholarly (p.525). Bernanke quotes - with some admiration - Draghi’s speech on July 26, 2012, which included the famous sentence: “the ECB will do whatever it takes to preserve the euro” (p.525). He also writes in plain words that the reason why the earlier Bundesbank President Axel Weber (former member of the SUERF Council of Management) left the running for the ECB presidency was that he was a staunch opponent of ECB’s bond-buying program (p.524).

Bernanke’s book is a unique source of knowledge on the handling of the financial crisis of 2007-2009. The text reflects the author’s experience as a professor of economics and gives a detailed account of the interplay during the crisis between powerful politicians, leaders of large financial institutions, and central bankers all over the world. Complex financial topics are dealt with pedagogically and in a fluent language. The book has an excellent index, and also rich references to websites, which give access to the huge Federal Reserve World. Time invested in reading this book will give SUERF readers a high return.
SUERF HIGHLIGHTS 2015

by Ernest Gnan, SUERF Secretary General, and Dragana Popovic, Executive Secretary

2015 was another eventful and successful year for SUERF. With a series of topical events and publications, SUERF aimed yet again to help its members to reflect on key issues in money and finance and to encourage the debate between policymakers, academics and financial practitioners. SUERF hopes to have again made a contribution in furthering our understanding of issues central to all three SUERF constituencies and to society at large.

SUERF’s Council of Management thanks all co-organizers, sponsors, speakers, members and conference participants for their valuable contributions.

SUERF Events

SUERF welcomed a large number of well-known experts at SUERF conferences. Roughly 500 participants attended the 2015 events, which shows that the choice of topics met the interests of our audience.

The year started in Vienna with a full day conference in early March on “Asset-liability management with ultra-low interest rates”. The conference was jointly organised with the OeNB and the Austrian Society for Bank Research.

In July, in Helsinki, Erkki Liikanen, Governor of Bank of Finland welcomed SUERF and opened a joint conference on “Liquidity and Market Efficiency – Alive and Well?”.

In early November, SUERF jointly organised with University of Zurich and Liberales Institut an evening event (in German at the University of Zurich) and a one-day conference (in English at the theatre “Millers”) in Zurich. The topic of the conference “Cash on Trial” was deliberately provocative on the pros and cons of the future of cash.

The year concluded with a high-profile conference on “Banking Reform” in London, hosted by EY. The conference covered banking business models, proportionate regulation, structural reform, risk culture, ethical banking and cost of capital, and combined keynote speeches, presentations, panel discussions and vivid debates.

The Annual Lecture was delivered by Professor David Miles, Imperial College London, and former Member of Monetary Policy Committee Bank of England, on “Capital and Banks”.

SUERF Publications

SUERF’s dedication to constantly improve and adjust its publication portfolio to the needs of its membership and readers resulted in a number of innovations this year. In September 2015, SUERF launched its new SUERF Policy Notes series. With effect from 1 January 2016, SUERF Conference Proceedings will replace SUERF Studies. The first edition of SUERF Conference Proceedings is currently being in preparation on the basis of contributions from the Zurich conference on “Cash on Trial”.

SUERF’s homepage was completely redesigned and modernised in terms of structure, content and user-friendliness. New features include online event registration and secure online payment for non-members. We invite our members to frequently visit www.suerf.org to check for latest news and announcements.
SUERF Studies
2015/3 Liquidity and Market Efficiency – Alive and Well?, edited by Esa Jokivuolle and Jouko Vilmunen

2015/2 Asset-liability Management with Ultra-low Interest Rates, edited by Ernest Gnan and Christian Beer

2015/1 Challenges in Securities Markets Regulation: Investor Protection and Corporate Governance, edited by Pablo Gasós, Ernest Gnan and Morten Balling

SUERF Policy Notes

SPN Issue No 2 / Oct 2015 Modigliani–Miller, Basel 3 and CRD 4 by Morten Balling

SPN Issue No 1 / Sep 2015 What is money and who says so? by Peter R. Fisher

SUERF’s Membership

Total Institutional Membership at end-2015 stands at 88 members, including 25 Central Bank and Supervisors, 38 Corporate Members and 25 Academic Institutions. Personal membership remained similar to the previous year.

Central Banks and Supervisors

Corporate Members

Academic Institutions
Austrian Society for Bank Research (BWG), CEPS, CEPII, Charles University Prague, EABH, HEC Canada, ITCB, KU Leuven, Loughborough University, Poznan University of Economics, Rijksuniversiteit Gent, SWU "Neofit Rilski", Technical University of Lisbon, ESRI, Università Bocconi, Université du Sud Toulon-Var, University LUISS Guido Carli, University of Birmingham, University of Luxembourg, University of Namur, University of St Gallen, University of Zürich, Vienna University of Economics & Business, Warsaw School of Economics, WIIW.
SUERF’s Finances

In 2015, cash-flow receipts from membership stood at € 127,954.46. Our finances are regularly controlled by SUERF’s Honorary Treasurer and reviewed by SUERF’s Council of Management. Regular and detailed monitoring ensures good governance, transparency and confidence in what we do. The accounts of SUERF are audited annually by the Accountancy D’hooghe, Belgium.

We would like to take this opportunity to extend our gratitude to all members – Corporate, Academic and Personal - who support SUERF’s activities financially with their membership fees.

SUERF’s Council of Management would also like to extend special thanks to our co-operation partners and sponsors in 2015 for their continued support and interest in providing jointly with SUERF high-quality and topical events, publications and interdisciplinary dialogue between practitioners, policy makers and academics.

SUERF also thanks Liberales Institut, Migros-Genossenschafts-Bund and Miller’s Studio for their generous support.

SUERF’s Council of Management

In 2015, SUERF’s Council of Management met on four occasions in conjunction with SUERF events, to plan upcoming SUERF activities, publications and to monitor SUERF’s finances and the work of the SUERF Secretariat. SUERF’s Council of Management is always keen to receive views and suggestions from members about future events and publications. Information about the members of SUERF’s Council of Management can be found at: www.suerf.org/council-of-management

Robert N. McCauley, Senior Advisor, Monetary and Economic Department, Bank for International Settlements, stepped down from the Council of Management at the end of his second term. SUERF thanks Robert for his numerous and far-reaching contribution to the Association. We are delighted to welcome Christian Upper, Head of Emerging markets, Monetary and Economic Department, Bank for International Settlements, as an observer.

SUERF’s Secretariat

SUERF’s Secretariat is reliably and pro-actively run by Dragana Popovic, Executive Secretary, and Heidrun Kolb, Secretary.
New SUERF Members

A warm welcome to all new SUERF Members!

CORPORATE MEMBERS

DZ BANK AG
Frankfurt, Germany

German Insurance Association (GDV)
Berlin, Germany

European Banking Federation (EBF) – aisbl
Brussels, Belgium

ACADEMIC INSTITUTIONS

KU Leuven
Department of Economics & Department of Accounting,
Finance and Insurance

PERSONAL MEMBERS

Prof. Dr. Hermann Elendner
The Finance Group @ Humboldt
Humboldt-Universität zu Berlin, Germany

Prof. Dr. Malte Krüger
Department of Economics and Law
University of Aschaffenburg, Germany

Dr. Aleksandra Maslowska-Jokinen
Department of Economics
University of Turku, Finland

Dr. Ivan Todorov
Department of Finance and Auditing
Southwest University “Neofit Rilski”
Blagoevgrad, Bulgaria

News from the Council of Management

The SUERF Council of Management was very sorry to learn of Robert N. McCauley’s decision to stand down after seven years on Council. On behalf of all members of Council, we would like to take this opportunity of thanking Robert for his numerous and far-reaching contributions to the Association. We hope that SUERF will have the pleasure of continuing to welcome him at future events!

We are delighted to welcome Christian Upper, head of the Emerging Markets section of the Monetary and Economic Department at BIS, as an Observer to the Council of Management. Christian Upper joined the BIS as a senior economist in the Financial Markets Section in August 2005. He became head of Monetary Policy and Exchange Rates in 2008, head of Financial Markets the following year, and moved to his current position in August 2015. Prior to coming to Basel, he spent seven years at the Deutsche Bundesbank. Christian holds a doctorate in economics from the European University Institute in Florence and a Master of Science in Economics from the University of Warwick. His research focuses on the interactions of finance and the macroeconomy. His work has been published in the European Economic Review and The Journal of Futures Markets as well as in publications by the Bundesbank, the ECB and the BIS.
We are delighted to welcome Natacha Valla, who joined the SUERF Council of Management in 2013, as the new chair of the Editorial Board. Natacha Valla is the deputy director of CEPII, the Paris-based research centre on international economics, in charge of the macroeconomics and international finance areas. She also works on European issues with the CGSP (formerly known as “Commissariat au Plan”, a cross-ministerial body for strategic policy research), and is a member of the Commission Economique de la Nation.

Morten Balling has stepped down from his position as chairman of the Editorial Board. He joined the SUERF Council of Management in 1994 and was elected chairman of the Publication Committee (later renamed Editorial Board) in 1997. Since then he has guided the work of the Editorial Board with skill and dedication and has contributed to SUERF’s publications significantly with a great number of contributions himself. More than 80 SUERF Studies have been published under Morten’s chair. Most recently, he took also an active role in revising SUERF’s publication policy by introducing two new publication categories, the SUERF Conference Proceedings and the SUERF Policy Notes. On behalf of all members of the Council, we would like to thank Morten for his outstanding efforts and dedication. As Council member and former SUERF President David T. Llewellyn already stated ‘As an extremely efficient and effective Chairman of the Editorial Board Morten Balling has contributed immensely to the high academic standards of SUERF publications. The way that the Association has evolved is due in no small part to his enthusiasm and dedication. We owe him a great vote of thanks.’ We are happy and grateful that Morten Balling has agreed to remain with us as an active member of the Editorial Board.

We would like to congratulate Ryszard Kokoszczyński, member of the SUERF Council of Management since 2001, on his recent appointment as Member of the Board at National Bank of Poland. Ryszard Kokoszczyński studied econometrics and statistics at Warsaw University Institute of Economic Science, where he gained his master's degree. Since 1977, he has been on the staff of the Department of Statistics and Econometrics at the Faculty of Economic Sciences holding a professorship since 2005. In 2015, he became the head of a newly established Division of Quantitative Finance. His research interests have focussed on questions of macroeconomic and financial modelling, monetary economics and the banking system. In 1987, Ryszard Kokoszczyński began to work in the team of Research Experts at the National Bank of Poland. He has served in various capacities in the bank (i.a. Head of Research and Deputy Governor), where he is currently Member of the Board (since August 2015). He is also a member of the Economic and Financial Committee of the Council of the European Union. His professional experience includes chairing the Supervisory Board of Powszechny Bank Gospodarczy, Lodz (1991-97), membership in the Supervisory Board of the Warsaw Stock Exchange (1992-97) and of the PKO BP bank (2002 - 2005), courses and training at the World Bank and the Banque Nationale Suisse, and secondment to the head office of Dresdner Bank in Frankfurt. Ryszard Kokoszczyński is the author of some 100 academic publications, Polish and foreign, on macroeconomics, monetary policy, banking and financial econometrics, member of a few editorial boards of economic journals and an editor of the book series “Polish Studies in Economics” (published by Peter Lang).