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By Esa Jokivuolle, Bank of Finland and SUERF

On 3 July 2015, SUERF organized its sixth joint conference with the Bank of Finland in Helsinki. The theme was liquidity and market efficiency. The one-day program consisted of six presentations (including three keynotes) and a lunchtime address.

As Governor Liikanen pointed out in his opening speech, the recent financial crisis has given a serious blow to the doctrine of market efficiency. At the same time the need has arisen to better understand liquidity which evaporated in the midst of the crisis. When planning the conference, the organizers had been inspired by the thoughts of Bengt Holmström (MIT) on how liquidity and market efficiency may be linked. In his lunchtime talk, Professor Holmström laid out his argument that liquidity in stock and debt markets, especially in short-term money markets, are maximized under very different conditions regarding the information content of market prices.
We are used to the fact that in the stock market, transparency of information promotes market efficiency and symmetry of information is good for liquidity. Liquidity in debt markets also requires symmetry of information, but in this case it is a different kind of symmetry. Liquidity in debt markets arises from sufficient overcollateralization of debt so that no one has an incentive to become informed of the exact value of the collateral securing the debt. As a result, liquidity in debt markets flourishes during symmetric ignorance. The downside of this is that debt market crises may take us by surprise. Professor Holmström said that in a sufficiently severe macro level crisis there is always a role for the government to step in to provide liquidity. Only the government can provide for the ultimate risk sharing in such situations.

In the first keynote, Hyun Song Shin (BIS) talked about global liquidity in terms of cross-border bank and non-bank financing. Using the BIS statistics he showed the central role of US dollar-denominated financing which is not confined to originate from within the US borders. For example, prior to the financial crisis European banks were major intermediaries of US dollar funds. After the crisis, non-banks are providing more of the dollar-denominated funding. The high dependence on the dollar in international financing creates a channel whereby dollar-local currency exchange rate fluctuations affect the strength of borrower balance sheets and hence potentially risk-taking, investment, and growth. He suggested that the dollar-exchange rate mechanism and the increased role of non-bank financing may pose a new way in which future market disruptions may take place. This would be in addition to the standard leverage channel which was central in the most recent crisis.

Tuomas Välimäki (Bank of Finland) took the audience through the changes in monetary policy operations in the Eurozone from its start until recently. One of his key points was to explain how the full allotment central bank lending policy was adopted during the financial crisis. His own research has been instrumental in this regard.

Petri Jylhä (Imperial College Business School) provided direct evidence on the causal link from funding liquidity to market liquidity by studying market price reactions to a US regulatory change in options' margin requirements. By utilizing this quasi-experiment he was able to support the theories developed in the context of the recent financial crisis that funding conditions partly drive market liquidity, also in normal times.

The second keynote was provided by George G. Pennacchi (University of Illinois) who argued that developments in corporate taxation, by favoring debt relative to equity, can help explain how the historical share of banks and non-banks in liquidity provision has varied in the US. Another important driver of banks’
liquidity provision has been development in banks’ public safety net such as central bank liquidity provision to solvent banks which may suffer from bank runs, and, eventually, deposit insurance. His model helps understand how growth in money market mutual funds and securitization of loans have coincided in the US over the past forty years. As policy responses to tackle the tax-induced distortions in liquidity provision, he favors Belgian style tax deductions for equity or appropriately-designed contingent convertible (CoCo) securities to be accepted as part of banks’ regulatory capital.

The effects of regulation on risks and liquidity were also discussed in the presentation by Jussi Keppo (NUS). Regulation should always be justified by that it corrects for a certain market failure. In practice, it will also have side effects, and it may be circumvented. Designing good regulation is about being effective, and striking a balance between solving the market failure and limiting side effects.

In this spirit, Professor Keppo had studied the announcement effects of the US Volcker rule on banks’ risk taking and liquidity position. The results indicated that the rule may not become very effective: although the US banks have reduced activities banned by the rule, banks have also reduced their hedging, leaving their original risk positions largely unaffected.

The day was completed with the third keynote by Peter Fisher (Dartmouth College and BlackRock Investment Institute) who discussed the role of central banks, addressing the present policies against historical background. He was concerned about risks stemming from the low interest rates environment and the quantitative easing policies. He thought it was possible that low, even negative yields of central bank liabilities may have induced hoarding of other high-quality assets among private agents. According to him, this does not constitute a normal state of liquidity and market efficiency. When asked what central banks should generally do, he suggested more weight should be given to financial stability issues. He said their focus has been too much on solely finding a good macroeconomic equilibrium.

End of Report

SUERF would like to thank Bank of Finland for the generous hospitality and the successful organization of the event.

Esa Jokivuolle and Jouko Vilmunen (Bank of Finland), Urs W. Birchler (SUERF)

www.suerf.org/helsinki2015
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?

**Preliminary Programme**

**Wednesday, 4 November 2015**

Venue: University of Zurich  
This pre-conference evening event will be held in German

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<tr>
<th>Time</th>
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<tr>
<td>18:00</td>
<td>Registration</td>
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| 18:30 | **Opening and welcome**  
**Pierre Bessard**, Liberales Institut  
**Urs W. Birchler**, SUERF President and University of Zurich |
| 18:45 | **Panel: Bargeld und Freiheit**  
Chair: N.N.  
**Friedrich Schneider**, Professor of Economics, University of Linz  
**Peter Bernholz**, Professor Emeritus, University of Basel |
| 19:45 | Apéro Riche at Restaurant Uniturm |

**www.suerf.org/zurich2015**
Thursday, 5 November 2015
Venue: Miller’s Studio, Seefeldstrasse 225, 8008 Zurich

08:30    Registration
08:45    Opening and welcome
         Urs W. Birchler, SUERF President and University of Zurich
         N.N., Liberales Institut

09:00    Keynote Session I: A Historical Perspective
         Chair: Urs W. Birchler, SUERF President and University of Zurich
         Do central banks need cash?
         Jürgen Stark (tbc)
         The case for cash: Can we learn from history?
         Peter Bernholz, Professor Emeritus, University of Basel

10:00    Coffee
10:30    Keynote Session II: Where do we go?
         Chair: N.N., SUERF Council
         Who pays cash and why?
         Nicole Jonker, De Nederlandsche Bank
         Bits versus coins?
         Aleksander Berentsen, Professor of Economic Theory, University of Basel
         Cash: Half allowed or half forbidden?
         An international overview
         Helmut Siekmann (tbc), Professor of Monetary Law and Deputy Director, IMFS, Goethe-Universität Frankfurt

12:00    Lunch
13:00    Keynote Session III: Cash, electronic money and crime
         Chair: N.N.
         Cash or non-cash: Which is more prone to crime?
         Nikos Passas (tbc), Professor of Criminology and Criminal Justice, Northeastern University
         Cash and crime
         Friedrich Schneider, Professor of Economics, University of Linz

14:30    Coffee
15:00    Policy Panel: Is Cash Coined Freedom?
         Chair: N.N.
         Jean-Charles Rochet, Professor of Banking, University of Zurich
         Berry Schoenmakers (tbc), Associate Professor, Technische Universiteit Eindhoven

16:00    Keynote Session IV: The philosopher’s view
         The philosopher’s view
         Peter Sloterdijk, German philosopher and writer

16:30    End of Conference
Thursday, 3 December 2015

08:00 Registration

08:30 Opening and welcome
Andy Baldwin, Regional Managing Partner, Financial Services, EY

09:00 Keynote Speech and SUERF Annual Lecture 2015
Sir Howard Davis (tbc), Chairman, The Royal Bank of Scotland Group (RBS)

09:30 Session I - Banking Business Models
Panel: Banking Business Models
Andrew Bailey (tbc), Deputy Governor for Prudential Regulation and Chief Executive Officer of the Prudential Regulation Authority, Bank of England
Anthony Thompson (tbc), Chairman and Founder, Atom Bank

11:30 Coffee

11:45 Proportionate Regulation
David Llewellyn, Professor of Money and Banking, Loughborough University and SUERF

Complexity vs. Simplicity
Thorsten Beck (tbc), Professor of Banking and Finance, Cass Business School in London

13:30 Lunch

14:30 Session II - Risk Cultures, Ethical Banking
Keynote Speech
Dame Colette Bowe (tbc), Chairman of the Banking Standards Review Council

Panel
Michael Power (tbc), Professor of Accounting, London School of Economics
N.N.

16:00 Coffee

16:20 Session III - Cost of Capital for Banks
Harald Benink, Professor, Tilburg University
Koos Timmermans (tbc), ING

17:15 Concluding Remarks
Urs W. Birchler, SUERF President and University of Zurich

17:30 End of Conference

www.suerf.org/london2015
The Future of Retail Banking

10 December 2015
Vienna University of Economics and Business, Austria

Call for Papers

Deadline for Submissions 30 September 2015

Motivation:

The banking industry currently faces powerful forces which are reshaping it fundamentally. The economic and financial crisis has triggered far-reaching new regulation which forces banks to select and price their business more rigorously. Low interest rates put revenues under pressure and may also change saving and borrowing behaviour. Higher banking fees as an alternative to shrinking interest margins may in some cases be hard to implement in the face of competitive pressure. A number of banks were resolved, nationalised, taken over or merged as a result of the crisis. Cost pressures and a strategic rethinking of bank business models trigger further mergers and takeovers. Electronic and mobile banking are progressively being used and are fundamentally changing customer behaviour and banks’ relations with customers. Demographic change alters the relative weight and the profile of banks’ 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. Against this environment, banks will have to rethink their 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 banks’ retail business in the years to come. Some examples for fields of research are:

- Implications for banks’ retail business from changing demographics, including ageing, wealth distribution, immigration
- Implications for banks’ retail business from electronic and mobile banking – how to shape future customer relations
- Innovation in banking: how can it shape the future of retail banking?
- The future of physical bank branches
- How might the quest for productivity affect retail banking, e.g. by weakening “relationship banking” and customer loyalty?
- Implications for banks’ retail business from new regulatory constraints, including equity standards, liquidity ratios, the separation between traditional and investment banking etc.
- How might evolving banking standards and culture change retail banking?
- Retail banking, financial education and consumer protection – prospects and challenges
- How will the growing importance of shadow banks affect banks’ retail business?
- Is P2P lending a threat to the traditional banking model?
- How will new entrants in the payments business (such as Google, Apple, …) alter traditional retail banking as banks lose their monopoly in the payments area?
- Implications for banks’ retail business from mergers and acquisitions in banking
• Implications for banks’ retail business from competitive and cost pressures
• The future of banks’ retail credit business
• The future of banks’ retail savings business
• The future of banks’ securities and wealth management
• Profitability of retail banking in an environment of ultra-low interest rates and low interest margins
• Should banks focus on banking business in a narrow sense or cross-sell other products such as insurance, real estate?

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

**Formal requirements and procedure for submissions:**
Applications should be submitted through the online submission form on the UniCredit & Universities Foundation website at www.unicreditanduniversities.eu in PDF format by 30 September 2015, in English. Applications should be accompanied by brief curriculum vitae including the candidate’s date of birth and a copy of current identity documents that confirm the author’s/authors’ date of birth(s) and eligibility. The prize is open to papers that have been finalised within the last 12 months prior to the deadline for submissions. Full terms and conditions of entry can be downloaded from the SUERF and UniCredit & Universities Foundation websites.

**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 1980. Prizes of EUR 5,000 gross will be awarded to up to two outstanding papers on topics related to The future of retail banking. The winning papers will be presented at the SUERF/UniCredit & Universities Foundation Workshop to be held at Vienna University of Economics and Business on Thursday, 10 December, 2015. Subject to agreement by the authors, SUERF and the UniCredit & Universities Foundation the papers may be published on the organisers’ respective websites.

**www.suerf.org/uuf2015**

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**New Date!**

32nd SUERF Colloquium and Deutsche Bundesbank/IMFS Conference

*The SSM at 1*

3-4 February 2016
Regional Office of the Deutsche Bundesbank in Hesse
Taunusanlage 5, 60329 Frankfurt/Main

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 macroeconomy will be discussed. The Colloquium will bring together policy makers and supervisors, academics and financial industry practitioners to exchange their views.

The updated programme together with further information about the Colloquium and how to register will be available online at:

**www.suerf.org/ssmat1**
BOOK REVIEWS – BOOK REVIEWS – BOOK REVIEWS

The Encyclopedia of Central Banking

Edited by Louis-Philippe Rochon and Sergio Rossi
ISBN 978 1 78254 743 3 (cased) GBP 155.00
ISBN 978 1 78254 744 0 (eBook) GBP 139.50

Reviewed by Morten Balling
Chairman of the SUERF Editorial Board

The editors of this impressive 510 pages volume have asked more than 150 contributors to explain topics related to monetary macroeconomics, central bank theory and policy, and to include important events in the history of monetary thought. Besides, the volume contains biographies of individuals who have played a decisive role in the development of monetary theory or in the construction and implementation of national and international institutional arrangements. The nearly 250 entries are organized in alphabetical order to facilitate reference. Authors have been asked to comply with narrow space constraints and to write in a clear and comprehensive way. This is a very positive feature from the point of view of busy readers.

No reader will start the reading of this volume on page 1 and continue to page 510. The book is intended to be and will be used by students and researchers as a reference book. Users may be looking for an introduction to a topic or may feel that they need to refresh their memory and update their knowledge about a theoretical concept, an outstanding economist, a central bank or an institutional arrangement. Probably most readers will start their search with a key word or the name of a famous economist, central banker or politician. In an electronic world, encyclopedias on monetary and financial topics must compete with Google, SSRN, RePEc, and other internet search facilities. The value added provided by an encyclopedia focused on money and finance in comparison with more general reference volumes and search engines depends on scientific quality and focus. By using a quality encyclopedia, users avoid wasting time on reading texts with low relevance or low quality. Most of the articles in the encyclopedia presented here, have a quality that provides value added in this respect.

The selection of topics involves difficult priority issues. That applies also to the editors’ selection of authors. Louis-Philippe Rochon is affiliated with Laurentian University in Canada and Sergio Rossi with University of Fribourg in Switzerland. In the procurement of contributions for this encyclopedia, they have exploited their extensive international network of monetary and financial experts. Most authors are located in Europe, in the United States and Canada. A problem in all encyclopedias is that the individual authors do not know in detail what authors of other entries are writing. Thus, some overlapping is unavoidable. The editors have done a serious effort to rectify this by cross-references (“see also”) at the end of each entry. The usefulness of the volume could, however, have been improved further by adding a subject index and an author index on the last pages.

In a short book review, it is not possible to do justice to all contributions. In order to give SUERF readers an impression of the choices made by the editors, the
reviewer has divided a sample of the entries into conceptually related groups.

One important group consists of entries dealing with central banks’ legal foundation and organization, objectives, monetary policy targets and instruments. Examples from this group are in alphabetical order: Central bank independence, exchange-rate targeting, Friedman rule, inflation targeting, interest rate rules – post-Keynesian, lender of last resort, long-term refinancing operations, operation twist, outright monetary transactions, quantitative easing, repurchase agreement, reserve requirements, rules versus discretion, sterilization and Taylor rule.

Another important group is composed of entries concerning financial regulation and supervision. A sample of examples is: Asset-based reserve requirements, bank deposit insurance, banking supervision, Basel Agreements, capital requirements, financial deregulation, financial supervision, macro-prudential tools, narrow banking, shadow banking and systemically important financial institutions.

Entries covering important theoretical models include: Efficient market theory, Gresham’s Law, liquidity trap, Modigliani-Miller theorem, monetarism, money illusion, optimum currency area, Phillips curve, quantity theory of money, random walk and real-balance effect.

The volume also includes biographies of famous central bankers like Ben Shalom Bernanke, Arthur Frank Burns, Mario Draghi, Alan Greenspan, Mervyn King, Alexandre Lamfalussy, Montagu Norman, and Tommaso Padoa-Schiopppa. Biographical information about Paul Adolph Volcker is given in the entry “Volcker experiment”. Readers from Germany and France will maybe miss the names of a few Deutsche Bundesbank and Banque de France governors.

Central banks have always operated in an international environment. In the encyclopedia this is for example reflected in entries on the Bretton Woods regime, European Central Bank, European Monetary Union, exchange-rate interventions, fear of floating, International Monetary Fund, international reserves, international settlement institution, Keynes Plan, sovereign lending, and the Triffin dilemma. There is also an excellent biography on Harry Dexter White, who as a member of the American delegation played an essential role at the Bretton Woods conference in 1944, and (whose White Plan) exerted a strong influence on the international monetary architecture after the Second World War. The Bank for International Settlements could, however, have deserved its own entry.

Rochon and Rossi’s encyclopedia of central banking is an expensive book. It is, however, also a good reference volume. The editors and authors know what they are writing about, and they pass on their knowledge to the readers cogently. Potential buyers of the book should of course compare it with alternative ways of procuring up-to-date information about topics related to central banking. Thus, SUERF readers should not overlook what can be found on the many central bank websites that have been upgraded considerably in recent years.
A public servant shaped by crises
By Esa Jokivuolle, Bank of Finland and SUERF


Timothy (‘Tim’) Geithner, Secretary of the Treasury during President Barack Obama’s first term of office, has written excellent memoirs on the US financial and economic crisis in 2007–2009.

At the onset of the crisis, Geithner was President of the Federal Reserve Bank of New York, prior to his transfer to the Treasury at the beginning of 2009.

Geithner was regarded as a Wall Street ‘henchman’, a former banker, but in reality he had pursued his entire career preceding the ministerial portfolio in the public sector, largely in the Treasury. However, the bailouts of large banks during the crisis sustained the impression of a Wall Street background.

His key employers and supporters were, in the early stages of his career, Henry Kissinger and, subsequently, the former Secretaries of the Treasury Robert Rubin and Larry Summers. Of these, the latter was also a vital collaborator during the crisis.

Prior to becoming President of the New York Fed¹, he had been moulded in the Japanese and Asian financial crises.

This career orientation was influenced by the reputation, due to his family background, of being ‘an Asia expert’. Mervyn King, former Governor of the Bank of England, later characterised Geithner by noting that he was present at all the crises, but did not cause them; they caused him.

Geithner has no background in research or economics, being an expert on international relations. He stresses his inexperience in politics before taking over the post of Secretary of the Treasury.

Wall of money
Drawing on his previous experience of crises, Geithner adopted a theory of wall of money as a means of halting financial crises. He describes this as an application of Colin Powell’s strategic doctrine under which the use of military force must be postponed as long as possible, but, when it is time to take action, it should occur with overwhelming force at one go, rather than gradually.

Geithner’s guiding principle in the 2007–2009 crisis was avoidance, in every possible way, of a situation similar to the Great Depression of the 1930s. The large wave of bank defaults could have easily led to such circumstances in the light of experiences from the 1930s. He likes to use a comparison with a fire. When the town is in flames, it is not advisable to focus on punishing the arsonists. All action must be subordinated to containment of the fire and the prevention of its spreading. Only after this has been done, should attention be concentrated on reforms aimed at preventing fires. This enables minimisation of the costs to society.

¹ He was recommended as Fed President particularly by Summers, who regarded Geithner as one of those few who could intellectually challenge him, a comment that, according to Geithner, also tells much of Summers himself.
In managing the financial crisis, Geithner was constantly coming up against the view that bank rescues with taxpayers’ money only increase moral hazard among banks. He referred to representatives of this school of thought as Old Testament fundamentalists who preferred to punish instigators rather than prevent crises from spilling over. A considerably more reserved bailout policy was advocated by the Chair of the US Federal Deposit Insurance Corporation (FDIC), Sheila Bair, who also had a key role to play in the management of the crisis.

Washington Mutual
The financial crisis deepened dramatically, as no buyer could be found for Lehman Brothers investment bank and it was allowed to go bankrupt in September 2008 without government intervention. Geithner deems this a giant mistake, but describes a situation in which the authorities’ insufficient powers and a lack of political will rendered a rescue operation impossible. In a way, the final nail in the coffin was driven by the UK supervisor with its decision to reject the takeover bid for Lehman mounted by Barclays Bank.

According to Geithner, the failure of the Washington Mutual (WaMu) savings bank was eclipsed by Lehman. In connection with the WaMu reorganisation, the FDIC wrote down assets of creditors other than depositors. It was not until this measure had been taken that the panic of debt investors expanded to commercial banks. Until the reorganisation of Washington Mutual, the financial crisis was seen as a problem of large Wall Street banks and investment banks. This was then followed by the collapse of Wachovia Bank. These incidents showed once and for all that the entire US banking sector was at risk.

The authorities had to broaden the scope of their publicly announced guarantees in order to keep the most significant banks afloat, but doubts about the risks inherent in banks remained simmering on the markets.

Nationalisation of banks?
At the time Geithner took on his responsibilities as Secretary of the Treasury, the bank rescue package (Troubled Assets Relief Program – TARP) and fiscal stimulus measures had already been decided in autumn 2008 with Hank Paulson as Secretary of the Treasury. It had originally been thought that TARP assets would be used for purchasing banks’ problem assets. However, by the beginning of 2009, some of these funds had been used for individual bailout operations, and Geithner saw the determination of proper purchase prices as a nearly insurmountable problem.

Using the remaining assets for bank recapitalisation began to surface as a much more effective solution. In support of this, Geithner developed the idea of a stress test to assess banks’ potential losses, in a scenario reminiscent of the 1930s Great Depression. Disclosure of the stress test results and, if necessary, further capital injections by the government could restore investor confidence in banks.

In early 2009, the markets did not believe in the plan. Geithner was widely criticised for his presentation of the idea. Of the Obama administration advisors, Summers and Jeremy Stein supported the banking sector’s immediate reorganisation via temporary nationalisation, if necessary. They, however, backed Geithner’s plan, as Rahm Emanuel, White House Chief of Staff, made it clear that no new TARP application was to be submitted to Congress.

The huge criticism from the public towards the bank support was heightened by the fact that AIG, an insurance company bailed out by government funds, paid out bonuses while the rescue programme was still in operation and the authorities had no possibility of reversing them.

Nevertheless, given the severity of the scenario employed, the markets believed in the stress test results released in May 2009. Bank balance sheets turned out to be better than feared and TARP assets were sufficient for necessary recapitalisations in addition to the capital raised by banks themselves. Investor confidence in banks began to be restored. Taxpayers’ investments in the banks finally yielded profits.

Even so, critics of Geithner would have preferred allocation of support to mortgage debtors in difficulties rather than to banks. Geithner deplores the failure to do more for mortgage debtors, but absolutely considers the bank support and fiscal stimulus provided as being the most effective means of deploying taxpayer money. He

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2 Her views are compiled in a book: Bair, S. (2012), Bull by the Horns: Fighting to Save Main Street from Wall Street and Wall Street from Itself, Simon and Schuster.
argues that fiscal stimulus to the economy and, through that channel, job creation were the best way of also helping mortgage debtors to service their debts.

**Capital, capital, capital**

Geithner ascribes the causes of the financial crisis to banks’ lean capital buffers and very short-term debt finance. These constituted a dangerous business model, permitted by the authorities. The crisis deepened upon investors’ realisation that a significant proportion of capital instruments eligible for fulfilling bank capital requirements did not provide safeguards against losses.

Behind the crisis, he sees a typical Minsky-style mania, dominated by a belief in the stabilisation of macroeconomic risks, as a consequence of which recessions would remain mild. This refers to the period of Great Moderation, well-known to macroeconomists.

Geithner also points to the statement made already pre-crisis by Vikram Pandit, who took over as chief executive at Citigroup during the crisis, that the corporate culture of Wall Street investment banks ‘went sour’ after their conversion into public corporations.

Instead, contrary to popular belief, he does not consider securitisation of bank loans and their sale to investors as being the root cause of the crisis, since this type of activity had long traditions in the United States.

Geithner also downplays the problem that is generally thought to emerge from large banks being incentivised to take big risks and increase their leverage because they enjoy implicit government support and, by extension, cheaper finance than other banks do. He points out that, in the absence of examples of government aid to big investment banks in US history, the high leverage and risks of Lehman Brothers, for instance, could not derive from such market expectations.

As President of the New York Fed in the run-up to the crisis, Geithner says he was continuously worried but, in retrospect, not nearly worried enough, about the adequacy of banks’ capital buffers. Following the crisis, much higher requirements for holding better-quality capital and quite new liquidity requirements have taken centre-stage in the reforms of banking regulation. According to Geithner, the United States was the strongest promoter of these reforms internationally. This led to the quick adoption of the Basel III accord.

Despite deeming Basel III the most important regulatory reform, Geithner devotes a lot of pages to describing the process of creating the Dodd-Frank Act implemented in the United States. He regrets that the Act failed to combine the different US organisations for financial supervision. In addition, faithful to his policy line, he is very critical of the rules concerning debt write-downs in a crisis situation, on account of their tendency to worsen the panic. He views the restrictions on the Fed’s crisis management powers as an error and believes it will be rectified going forward. He ended up supporting the limitations on proprietary trading by banks incorporated into the Dodd-Frank Act, the so-called Volcker Rule, as it eased the passage of the law. He finds logical the rationale for the Rule, under which banks should not use insured deposits for the riskiest securities trading.

**Alternative events in history**

Although Geithner could be challenged to debate the weights attached to the various causes of the crisis and the adequacy of the regulatory reforms undertaken, his thinking is admirably clear.

Geithner explains the political distaste for the successful US crisis management by the difficulty of popularising alternative courses of events in history and using them to reassure the public. With many citizens in distress and many bankers taken for apparent instigators of the crisis escaping unscathed, it is hard for people to accept an explanation that, had the measures not been taken, the economic catastrophe would have been much worse still for everybody. The paradox of crisis management is, in Geithner’s view, that the most unpleasant actions are the only right ones.

The title of the book (Stress Test) also refers to how personal resilience to stress can be stretched to the limit. Geithner turns out to be a sports freak, deriving pleasure from adrenalin, but not from being in the public eye. Without doubt, this book is likely to be one of the most important reviews and analyses of the global financial crisis.
News from the Council of Management

At its meeting in Helsinki on 2 July 2015, SUERF’s Council of Management decided to change SUERF’s publication policy. As a result, the remaining SUERF Studies of the year 2015 as well as all forthcoming publications will be issued in digital form. However, printed volumes may still be produced on special occasions and in cooperation with partner institutions.

In the future, SUERF will produce three categories of regular, electronic publications:

1) **SUERF Newsletters** (3 issues per year)
2) **SUERF Conference Proceedings**, comprising papers based on contributions to SUERF events (2-3 issues per year).
   Starting from 2016, the SUERF Conference Proceedings will replace the SUERF Studies volume series.
3) **SUERF Policy Notes** on topical issues (intending to start with 6 issues per year)

In addition to these regular publications, SUERF may occasionally produce other publications. Authors are welcome to contribute to any of these categories by submitting papers for consideration by the SUERF Editorial Board, who is responsible for the topicality and quality of all SUERF publications.

Guidelines for SUERF authors can be found on our website, and submissions should be sent to the SUERF Secretariat (suerf@oenb.at). Ideas for relevant and emerging topics for SUERF Policy Notes and contributions by prospective authors are highly welcome.

With effect from 1 January 2016, Natacha Valla will replace Morten Balling as the Editorial Board’s chairperson.

Conference registration fee for Non-Members

We would also like to take this opportunity to announce that SUERF’s Council of Management made a decision to introduce a moderate conference registration fee for non-members, starting with the Zurich conference in November 2015. SUERF Members will continue to benefit from free conference participation and reduced rates for the Colloquium.

SUERF Member Announcements

We invite SUERF Members to submit announcements for call for papers and information about conferences or other events that are of interest to the SUERF Membership.

**Latest Member Announcement**

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<tr>
<td>Foundation Banque de France</td>
<td>Call for applications</td>
<td>Visiting scholars at Banque de France (1-3 weeks) in 2016 <a href="http://www.foundationbdf.fr">www.foundationbdf.fr</a></td>
<td>Application deadline: 20 Nov 2015</td>
</tr>
</tbody>
</table>

For further information and details please visit:

[www.suerf.org/member-announcements](http://www.suerf.org/member-announcements)
SUERF Studies

The following SUERF Study is currently in preparation: 2015/2 “Asset-liability management with ultra-low interest rates”. The volume will be edited by Ernest Gnan and Christian Beer. ISBN: 978-3-902109-77-4

Forthcoming Events

<table>
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<tr>
<th>Date</th>
<th>Event</th>
<th>Location</th>
<th>Website</th>
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<tr>
<td>Wed-Thur</td>
<td>SUERF/Liberales Institut/University of Zurich “Cash on Trial”</td>
<td>in Zurich</td>
<td><a href="http://www.suerf.org/zurich2015">www.suerf.org/zurich2015</a></td>
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<tr>
<td>4-5 Nov 2015</td>
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<tr>
<td>Thursday</td>
<td>SUERF/EY Conference “Banking Reform”</td>
<td>in London</td>
<td><a href="http://www.suerf.org/london2015">www.suerf.org/london2015</a></td>
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<tr>
<td>3 Dec 2015</td>
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<td>10 Dec 2015</td>
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<tr>
<td>Wed-Thur</td>
<td>32nd SUERF Colloquium in co-operation with the Deutsche Bundesbank “The SSM at 1”</td>
<td>in Frankfurt</td>
<td><a href="http://www.suerf.org/SSMat1">www.suerf.org/SSMat1</a></td>
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<tr>
<td>3-4 Feb 2016</td>
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Further information about SUERF membership, events and publications can be found on the SUERF Website at www.suerf.org or by contacting the SUERF Secretariat (suerf@oenb.at).

SUERF Council of Management

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
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<tbody>
<tr>
<td>Urs W. Birchler, President</td>
<td>Frank Lierman, Vice-President</td>
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<tr>
<td>Donato Masciandaro, Honorary Treasurer</td>
<td>Morten Balling, Managing Editor</td>
</tr>
<tr>
<td>Roberto Blanco</td>
<td>Allard Bruinshoofd</td>
</tr>
<tr>
<td>Alain Duchâteau</td>
<td>Carl-Christoph Hedrich</td>
</tr>
<tr>
<td>Esa Jokivuolle</td>
<td>Ryszard Kokoszwczynski</td>
</tr>
<tr>
<td>Michala Marcussen</td>
<td>Robert N. McCauley</td>
</tr>
<tr>
<td>Jens Ulbrich</td>
<td>Natacha Valla</td>
</tr>
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www.suerf.org
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