

## DIIS CONFERENCE

29-30 January 2013

Venue: Axelborgsalen, Axelborg, Vesterbrogade 4A, 1620 Copenhagen

# Central Banking at a Crossroads: Europe and beyond

### Workshops

Bank resolution in comparative perspective. What lessons for Europe?

Central banking in an age of collateral-based finance. Where next for the ECB?

### Keynote speakers

#### **ANAT ADMATI**

*Professor, Stanford University*

#### **CHARLES GOODHART**

*Professor, London School of Economics*

#### **ERKKI LIIKANEN**

*Governor, Bank of Finland*

#### **PERRY MEHLING**

*Professor, Columbia University*

#### **MANMOHAN SINGH**

*Senior Economist, IMF*



*Organizing committee: Martin Carstensen (Copenhagen Business School), Daniela Gabor (University of West England), Grahame Thompson (Copenhagen Business School) and Jakob Vestergaard (DIIS)*

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## **CENTRAL BANKING AT A CROSSROADS: EUROPE AND BEYOND**

This conference takes on two of the most central questions in the post-crisis debate on how to restore stability in financial systems.

On a macro level, the conference examines the changing role of central banking. The global financial crisis made apparent that the models central banks had relied on could no longer meaningfully capture the changing nature of financial intermediation.

Furthermore, in dealing with the crisis, central banks have had to abandon their standard tool-kit and adopt unconventional approaches such as Quantitative Easing or Outright Monetary Transactions in the Eurozone. These, however, have undermined the traditional boundaries of central banking activity: neutrality from both markets and governments. For the past five years, central banks have intervened in both public and private debt markets, taking on functions of market makers or dealers of last resort.

On a micro level, the potential role of special bank resolution regimes in handling this and future crises has come to the fore of attention. A number of countries have already implemented new laws seeking to enable a more effective resolution of financial institutions in crisis. In the EU, a European resolution regime is likely to play a central role in any future 'banking union'. Is a more dynamic and proactive approach to resolving ailing financial institutions enough to avoid resolutions that spill-over to the rest of the national and international financial system? What are the national experiences so far, and what do they tell us about the potential of special bank resolution regimes?

The two workshops of the conference will explore these developments, and then set them in the context of the European crisis:

Workshop 1: Bank resolution in comparative perspective. What lessons for Europe?

Workshop 2: Central banking in the age of collateral-based finance. Where next for the ECB?



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## **WORKSHOP I : BANK RESOLUTION IN COMPARATIVE PERSPECTIVE. WHAT LESSONS FOR EUROPE?**

The financial crisis clearly demonstrated the need to build an effective regime for resolving ailing banks. Too often authorities lacked the necessary tools to intervene effectively and quickly enough, resulting in resolutions that were both messy and costly – and where tax payers were often left to foot the bill for resolution. Since then – following international initiatives taken by the G20 – academics and policy-makers alike have discussed how best to build resolution regimes that can answer to these deficiencies of pre-crisis financial regulation. Some nations have moved fast and have already implemented new resolution models, notably the United Kingdom, Germany, the Netherlands, Denmark, the United States, among others. Moreover, in a European context the debate on special bank resolution regimes is as topical as ever following the European Commission's announcement that an effective and efficient bank resolution regime will play an important part in the future 'banking union'.

Structured around a mix of paper presentations and panel debates, the conference aims to bring together policymakers and academics to learn about and compare different national approaches to bank resolution, share experiences with the new models and discuss the possibilities for building international resolution regimes.

### SESSIONS

- 08.00 - 09.00     **Registration and Coffee**
- 09.00 - 10.00     **Welcome**  
Nils Bernstein, Director of the Danish Central Bank  
Nanna Hvidt, Director, Danish Institute for International Studies  
**Keynote**  
Charles Goodhart, London School of Economics and Political Science
- 10.00 - 10.30     **Coffee break**
- 10.30 - 12.00     **Session 1: National experiences**  
Jens Lundager, on Denmark  
Dag Detter, on Sweden  
Richard Herring, on US  
Eiji Maeda, on Japan
- 12.00 - 13.00     **Lunch**
- 13.00 - 15.00     **Session 2: Comparative and international perspectives**  
Barbara J. Attinger, European Central Bank  
Martin Cihak, World Bank and IMF  
Eva Hüpkes, Swiss FSA and Bank of International Settlements  
David G. Mayes, University of Auckland, New Zealand
- 15.00-15.30     **Coffee break**
- 15.30-17.00     **Panel: What role for special resolution regimes in post-crisis  
financial regulation?**  
Barbara J. Attinger; Charles Goodhart; Eva Hüpkes; Fabian Valencia.
- 17.00-18.00     **Keynote**  
Anat Admati, Stanford University



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## **WORKSHOP II: CENTRAL BANKING IN THE AGE OF COLLATERAL-BASED FINANCE. WHERE NEXT FOR THE ECB?**

A particularly salient challenge to present-day central banking is the increasing importance of collateral-based finance. The two sessions of this workshop will develop two interconnected themes. The first focuses on re-thinking the role of central banks in relationship to collateral-based financial innovation, both in terms of stabilization during crisis and broader principles of macroeconomic governance during periods of stability. Should collateral managers/dealers be identified as a distinct and systemically important actor for central banks? How do practices of collateral management affect financial stability and systemic risk? Are these practices different across jurisdictions, and how relevant are these differences for central banks?

The second session invites reflections on the relationship between central banks and governments in light of the importance that government bond markets have as sources of collateral. Can the traditional principles of central bank independence survive such functional changes? And if not, what form should the relationship take? Can these changes be addressed without departing from the pre-crisis wisdom that monetary and fiscal policy should not be coordinated? Is 'exit' from unconventional measures possible or indeed desirable?

### SESSIONS

- 09.00-10.15      **Welcome**  
Daniela Gabor, University of West England
- Keynotes: The Challenges of Central Banking**  
Perry Mehrling, Barnard College, Columbia University  
Manmohan Singh, IMF
- 10.15-10.45      **Coffee break**
- 10.45-12.00      **Session 1: Central Banks and Collateral-based Financial Innovation**  
Daniela Gabor, University of West England  
Richard Comotto, ICMA Centre, University of Reading  
Annelise Riles, Cornell University
- 12.00-13.00      **Lunch**
- 13.00-14.30      **Session 2: Central Banks and Governments: A New Relationship?**  
Sheila Dow, University of Stirling  
Ismail Ertürk, Manchester Business School  
Iain Hardie, University of Edinburgh
- 14.30-15.00      **Coffee break**
- 15.00-17.00      **Panel: Where Next for the European Central Bank?**  
Peter Bofinger; Per Callesen; Perry Mehrling; Manmohan Singh;  
Dominique Plihon
- 17.00-18.00      **Keynote**  
Erkki Liikanen, Bank of Finland
- 18.00-19.00      **Wine reception**



## **SPEAKERS' BIO NOTES**

### **Anat R. Admati**

George G.C. Parker Professor of Finance and Economics at the Graduate School of Business, Stanford University. She has written extensively on information dissemination in financial markets, trading mechanisms, portfolio management, financial contracting, and, most recently, on corporate governance and banking. Since 2010, she has been active in the policy debate on financial regulation, particularly capital regulation, writing research and policy papers and commentary. She is a co-author of the book, *The Bankers' New Clothes: What's Wrong with Banking and What to Do about It*, forthcoming in early 2013.

### **Barbara Jeanne Attinger**

PhD, Directorate General Financial Stability, European Central Bank. Author of the paper "Crisis Management and Bank Resolution: Quo Vadis, Europe?" ECB Legal Working Paper Series no. 13, December 2011; and of a binational doctoral thesis (thèse en cotutelle) on the European Insolvency Regulation.

### **Nils Bernstein**

Governor by Royal Appointment, Chairman of the Board of Governors of the Danish Central Bank. Governor for Denmark to the International Monetary Fund.

### **Peter Bofinger**

Professor of Economics, Money and International Economic Relations at the University of Würzburg, since August 1992. Since March 2004, he has also been a Member of the German Government's Council of Economic Advisors. His main fields of research are monetary and exchange rate economics, financial markets and economic reforms in developed and emerging market economies.

### **Per Callesen**

Governor of the Danish Central Bank since February 2011. Per Callesen has also served as Head of division and Deputy Permanent Secretary at the Danish Ministry of Finance and as Executive director at the IMF in 2010-2011.

### **Martin Cihak**

PhD, Lead Economist for Financial and Private Sector Development in the World Bank Group. He was previously employed as a Deputy Division Chief at the International Monetary Fund. He is the lead author of the World Bank's Global Financial Development Report 2013 on "Rethinking the Role of the State in Finance". Cihak has written broadly on matters of financial regulation, and specifically contributed to the debate on special bank resolution regimes with the 2009 IMF Working Paper "The Need for Special Resolution Regimes for Financial Institutions – The Case of the European Union" published in *Harvard Business Law Review*, 2012 (w/ Erlend Nier).

### **Richard Comotto**

Senior Visiting Fellow at the ICMA Centre, he specialises in short-term markets, in particular, the repo and securities lending markets. He is the Director of the ICMA's semi-annual European repo market survey, its annual Professional Repo Market course and its GMRA-GMSLA Workshops. He is also closely involved in current regulatory discussions on repo markets. He served for 10 years in the Bank of England (1979-89), including the Bank's International and



Foreign Exchange Divisions and on secondment to the UK Delegation to the International Monetary Fund in Washington DC (1987-89).

## **Dag Detter**

Co-founder of Whetstone Solutions. Previously the Director at the Swedish Ministry of Industry and the President of Statum, the Swedish government holding company, and a key initiator of the OECD Guidelines on Corporate Governance of State-Owned Enterprises. He currently acts as an advisor for governments, corporations, banks and National Wealth Funds in Europe and Asia. Has written on the strengths of the Swedish model for bank resolution in *Financial Times*.

## **Sheila Dow**

Emeritus Professor of Economics, University of Stirling, co-Convener of the Scottish Centre for Economic Methodology and former special adviser on monetary policy to the UK Treasury Select Committee. Her latest publication on money and banking, co-authored with Victoria Chick, is *Financial Institutions and the State: A Re-examination*.

## **Ismail Ertürk**

Senior Lecturer, Manchester Business School. Co-author of *Central bank-led Capitalism? Problematizing post-crisis central banks as holders of long position on no-growth capitalism* (2012).

## **Daniela Gabor**

Senior Lecturer, University of West England. Daniela Gabor is interested in critical finance. Her research focuses on three connected themes – the rise and regulation of shadow banking (new forms of money); new discourses and practices of central banking in market-based financial systems and the financialization of European sovereign bond markets – approached through various theoretical lenses, including financialization, varieties of capitalism and heterodox macroeconomics. She is the author of *The political economy of exiting unconventional monetary policies: redrawing the Great Moderation boundaries for central banks* (2012) and *The Power of Collateral: the ECB and Bank Funding Strategies in Crisis* (2012).

## **Charles Goodhart**

Emeritus Professor of Banking and Finance, Director of the Financial Regulation Research Programme, London School of Economics and Political Science. Besides having published widely on monetary theory and history, Professor Goodhart is a prolific researcher and a central figure in the post-crisis debate on crafting effective resolution regimes. See for example Emiliios Avgouleas, Charles Goodhart, and Dirk Schoenmaker (2011) “Bank resolution plans as a catalyst for global financial reform”, *Journal of financial stability*.

## **Iain Hardie**

Lecturer in International Relations, University of Edinburgh. His research interests include issues surrounding financial globalization, especially financialization and varieties of financial capitalism, focusing on the implications for both developed and developing countries. He is the author of *How much can governments borrow? Financialization and emerging markets government borrowing capacity* (2011).

## **Richard J. Herring**

PhD, Jacob Safra Professor of International Banking and Professor of Finance, the Wharton School, University of Pennsylvania. Professor Herring is the author of more than 100 articles, monographs and books on various topics in financial regulation and international finance.



Together with Stijn Claessens and Dirk Schoenmaker he has written “A Safer World Financial System: Improving the Resolution of Systemic Institutions”, the 12th Geneva Report on the World Economy (2010).

## **Nanna Hvidt**

Director of the Danish Institute for International Studies (DIIS). She has worked at the Danish Ministry of Foreign Affairs as Director of the Department for the UN and the World Bank and Director of the Department for East, West and Central Africa. Earlier, she served as Embassy Counsellor at the Danish Permanent Representation in Brussels and at the Directorate General for Development of the European Commission.

## **Eva Hüpkes**

Adviser on Regulatory Policy and Cooperation at the Financial Stability Board and Co-Chair of the Basel Committee Working Group on Cross-Border Bank Resolution, which developed recommendations for the effective resolution of cross-border crises called for by the FSF and the G20. She is a recognized authority on legal and financial regulatory matters and is frequently consulted on legislative reform relating to financial crisis management and resolution.

## **Erkki Liikanen**

Governor of the Bank of Finland, chairman of the High-level Expert Group on reforming the structure of the EU banking sector, member of the Governing Council of the European Central Bank and Governor of the International Monetary Fund for Finland.

## **Jens Lundager**

Assistant Governor and Head of Financial Markets, the National Bank of Denmark. He is responsible for monitoring financial stability and risk management of the central bank's reserves, and managing central-government debt. Previously a chief financial officer at Denmark's Ministry of Economic and Business Affairs and a central figure in the Danish response to the recent financial crisis.

## **Eiji Maeda**

Director-General, Research and Statistics Department, Bank of Japan, author of *Japan's open market operations under the quantitative easing policy* (2005).

## **David Mayes**

PhD, BNZ Professor of Finance, University of Auckland. He has previously held positions as chief economist and Chief Manager at the Reserve Bank of New Zealand and advisor to the Board of the Bank of Finland. He has conducted a number of comparative studies of national bank resolution regimes, notably “Banking Crisis Resolution Policy – Different Country Experiences”, Norges Bank Staff Memo no. 10 (2009).

## **Perry Mehrling**

Senior Advisor, Institute for New Economic Thinking and Professor of economics at Barnard College in Columbia University. His research focuses on the foundations of monetary economics and the history and applications of monetary economics and finance. Professor Mehrling is currently a member of the Board of Directors of the Eastern Economics Association, and a member of the Economists Forum at the Financial Times. He is the author of *Three principles for market-based credit regulation* (2012).

**Dominique Plihon**

Professor of Economics, Paris-Nord University. He manages the group specializing on Finance at the Centre of Economics. His research revolves around the topics of new forms of financial intermediation, instability and financial regulation, financial capitalism in the context of the knowledge economy, risk analysis and spreads in the financial markets, and more recently, central banking. He is the co-author of a report (in French) on “Central Banking and Financial Stability” (2011) for the Conseil d’Analyse Economique, a body close to the French Prime minister.

**Annelise Riles**

Jack G. Clarke Professor of Law and Professor of Anthropology at Cornell University. Her work focuses on the transnational dimensions of laws, markets and culture across the fields of comparative law, conflict of laws, the anthropology of law, public international law and international financial regulation. Her most recent book, *Collateral Knowledge: Legal Reasoning in the Global Financial Markets* (Chicago Press 2011), is based on ten years of fieldwork among regulators and lawyers in the global derivatives markets.

**Manmohan Singh**

Senior Economist at the IMF in Washington DC. He writes extensively on topical issues including deleveraging in financial markets, rehypothecation of collateral, money and collateral, and counterparty risk in OTC derivatives. He was the first to identify the role of cheapest-to-deliver bonds as a proxy for recovery value in CDS instruments. Manmohan has led workshops for the IMF on strategic asset allocation and regulatory proposals to official sector policy makers.

**Fabian Valencia**

Economist, IMF Research Department. He has written extensively on financial intermediation and the real economy, in particular on the economic costs of banking crises, effectiveness of financial sector interventions, and welfare gains from bank recapitalizations. He is co-editor of the book *Financial Crises: Causes, Consequences, and Policy Responses* (IMF press, forthcoming).

