House of Finance
SAFE
Sustainable Architecture for Finance in Europe

Newsletter

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What managers should do when shareholders file complaints_4
Jaakko Aspara • Arvid O. I. Hoffmann • Joost M. E. Pennings • Simone Wies

The supervisory framework is still in a learning phase_8
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Powerful and alienating central banks: principles for a delegation of power to unelected institutions_14
Paul Tucker

Imprint

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About SAFE

The Research Center SAFE – "Sustainable Architecture for Finance in Europe" – is a cooperation of the Center for Financial Studies and Goethe University Frankfurt. It is funded by the LOEWE initiative of the State of Hessen (Landes-Offensive zur Entwicklung wissenschaftlich-ökonomischer Exzellenz). SAFE brings together more than 40 professors and just as many junior researchers who are all dedicated to conducting research in support of a sustainable financial architecture. The Center has two main pillars: the striving for excellent research on all important topics related to finance; and policy advice, including the dissemination of relevant research findings to European decision makers from the realms of politics, regulation and administration.

In order to promote a fruitful exchange with interested parties from politics, academia, business and the media, SAFE issues a newsletter on a quarterly basis. This aims to provide an overview of the Center's ongoing research and policy activities. The SAFE Newsletter succeeds the House of Finance Newsletter, which was published between 2009 and 2012.

SAFE is based at Goethe University's House of Finance, however extends beyond by drawing on scholars from other parts of Goethe University as well as from fellow research institutions. The Center builds on the reputation of the House of Finance institutions, serving as an interdisciplinary think tank on the issue of finance.

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SAFE will become a Leibniz Institute in 2020

Jan Pieter Krahnen
Director, SAFE

Speaking to a distinguished academic, former central banker and policy expert in 2012, just after the Greek financial crisis, a leading politician asked: "Why do you want to build a finance research center with government money? Have investors and taxpayers not lost enough money already, with all the billions of euros written off over the past four to five years – to say nothing of the millions of Europeans who've lost their jobs?"

Quick-wittedly, said expert responded: "But this is exactly the reason: precisely because we have lost so much money, precisely because we have been through such a deep recession with huge welfare costs, it is now crucial that we find out why this happened – and how it may be avoided in the future. We need to understand our financial system much better than we do today, and how it relates to policy making. We want to be better prepared."

This conversation is part of the founding myth of SAFE, a research program devoted to a sustainable architecture for finance in Europe. The Institute was set up in 2013 under the State of Hessen's start-up program for research centers, LOEWE. SAFE did not start from zero, however, as there had been trailblazers on the Frankfurt campus since the mid-1990s. Small research groups sprang up around endowed chairs, and thematic clusters in the field of finance began to develop at quite an early stage; yet, initially, the field did not enjoy much status at a university which prides itself of a critical approach to society, in particular to economics and finance.

An early attempt to develop a Ph.D. program in money and finance, followed by a fully-fledged graduate school, greatly helped to convince critical minds of the serious academic aspirations in finance. In 2008, the House of Finance on the breath-taking new Campus Westend opened its doors – and from then on, the question was not whether we wanted to build a research cluster in finance and economics, but rather which of the many institutions in the House of Finance would be willing to take the lead. It was the Center for Financial Studies, cooperating with the University, which drove the formation of SAFE.

During its six years of operation, SAFE has expanded its program in an innovative and exciting way. It now covers "deep" finance topics such as asset pricing, corporate finance and regulation, banking, household finance, and monetary macroeconomics, but academics at SAFE also work at the edges of "wide" finance, with active interdisciplinary links into legal studies, sociology, history, and information science.

This "deep and wide" development mirrors a growing awareness in the public sphere that finance – its institutions and its architecture – really has become a key concern of politics in Europe, and the current debate on the pros and cons of furthering European integration is evidence of this hypothesis.

We firmly believe that financial and monetary economics, together with its links in neighboring fields, will occupy center-stage in the debate in Europe for many years to come – with obvious implications for our research agenda. As such, we will aim high in contributing ideas and critical debate with respect to a better financial architecture in Europe.

The new Leibniz Institute for Financial Studies SAFE, Theodor-W.-Adorno Platz 3 at Goethe University's House of Finance, will open its doors on January 1, 2020. Please mark the date in your calendar and stay tuned.

Kind regards,
Jan Pieter Krahnen

What managers should do when shareholders file complaints

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Simone Wies
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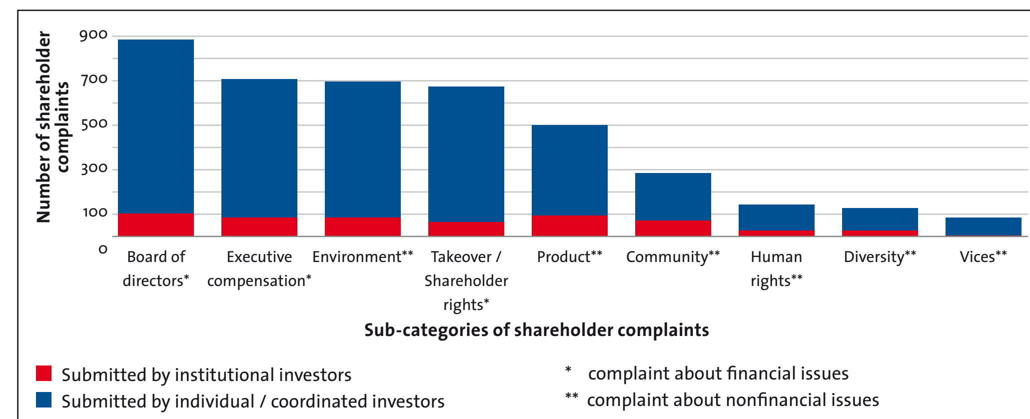
When shareholders are dissatisfied with a firm's strategy, they can file complaints, also called shareholder proposals, which are then discussed at the next annual general meeting (AGM). Regardless of their content, such complaints typically inflict financial damage because they tarnish a firm's reputation, undermine investor confidence, and impose administrative costs. Academic literature on the topic suggests that managers typically do not implement the changes that shareholders request in their complaints. In a new study, we examine whether managers react in alternative ways. We find that firms increase advertising investments as a response, and that these investments mitigate the negative effects of complaints on corporate value.

If shareholders believe that managers' decisions are detrimental, they can file formal complaints with a firm. Such complaints can pertain to a broad range of perceived deficiencies, including poor financial performance and governance, insufficient new product introductions, incoherent strategy, or turnover in leadership (see figure). Once a complaint is submitted, the firm is legally required to put it up for a vote at the next AGM. Complaints are generally confrontational and negative in tone, but voting results are non-binding, which means they are indeed only intended as a complaint mechanism.

While the nature and management of customer complaints are well understood in marketing literature (e.g. Fornell and Westbrook, 1984), much less is known about the management of complaints of shareholders. This is even more interesting considering the possible impact of these complaints. Two types of adverse effects emanate from them. First, complaints can threaten a firm's stock market performance because shareholders motivated to file complaints may also be inclined to sell their shares and thus depress the stock price. This might persuade others to sell their stocks and dissuade prospective investors from buying the firm's stock.



A broad range of perceived firm deficiencies: Sub-categories of shareholder complaint type, in a sample covering shareholder complaints submitted to S&P 1500 firms from 2001 until 2016.

Second, complaints can compromise firm value if they spill over to non-financial stakeholders. The implications can be severe given that non-financial stakeholders make consumption and employment decisions which directly affect firm performance. Complaints also attract significant attention from consumer advocacy groups and media outlets, especially with the rise of social media. These adversities illustrate that shareholder complaints place substantial burdens on firms affected and reduce investors' expectations about the size and stability of its future cash flows.

Alternative ways

Despite these stakes, managers seem unprepared regarding how to respond to shareholder complaints. Firms rarely respond directly to the issues raised in shareholder complaints by improving on the issues criticized (e.g. Gillan and Starks, 2007).

In a new study, we therefore examine whether firms respond in alternative ways: specifically, whether they alter advertising investments as a response to shareholder complaints. We also study how shareholder complaint salience (i.e. the importance the firm attaches to the complaint) moderates a firm's advertising investment response. Furthermore, we aim to answer the question of whether such a strategy is effective in protecting firm value. In specifying our hypotheses, we rely on theoretical arguments and eight in-depth interviews with area experts (i.e. executives of publicly-listed firms). We investigate these questions using a data set covering shareholder complaints submitted to S&P 1500 firms from 2001 until 2016. The sampled firms belong to a range of industries including both services and manufacturing.

We find that firms do indeed increase advertising investments subsequent to receiving shareholder complaints. Firms are also more likely to increase advertising investments when complaints are more salient; that is, when they are submitted by institutional investors, pertain to non-financial concerns, and when media attention in their topics is high.

Finally, we find that increased advertising investments mitigate the negative effects of complaints on firm value. Firms which increased their advertising investments achieved an incremental gain of 3.5 percent in corporate value compared to if they had not increased these investments. By contrast, firms which did not increase their investments in response to shareholder complaints gave up an incremental lift in corporate value of 1.3 percent compared to if they had increased their investments.

Cutting advertising investments is unlikely to be effective

Our results lead to the conclusion that adverse stock market pressures do not always result in advertising investment cuts, as often claimed in academic and practitioner literature. We expect two drivers to explain this phenomenon. First, shareholder complaints often pertain to non-financial issues, so soothing investors financially by cutting advertising investments is unlikely to be effective because these complaints are not financially motivated in the first place. Considering that the general quest to maximize profits is often at odds with consumer welfare and corporate social responsibility (e.g. Kotchen and Moon, 2012), cutting advertising investments as a response to non-financial concerns may even be considered counter-productive by investors.

Second, firms which encounter shareholder complaints tend to display mediocre-to-bad earnings performance, either because of poor past strategic choices which caused complaints or as a result of processing complaints in the current period. We show that marketing actions which decrease profits may not always decrease firm value. However, the majority of firms still underinvest in advertising when facing shareholder complaints, which highlights the need for corrective action by managers. This conclusion is striking because firms jeopardize substantial corporate value by underutilizing an advertising investment response.

In light of our findings from both the qualitative interviews and econometric analyses, we suggest a three-step action plan for managers facing shareholder complaints. When confronted with complaints, managers should:

(1) assess the content of the complaint and determine whether or not to implement the shareholder's suggestion;
(2) evaluate the impact the complaint has on firm value and inherent firm responsiveness; and
(3) devise actions to alleviate the potential harm of the complaint to firm value.

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The paper "Can Advertising Investments Counter the Negative Impact of Shareholder Complaints on Firm Value?" is forthcoming in the Journal of Marketing.

“The banking union has not yet passed an endurance test”

Rainer Haselmann
Goethe University
& SAFE

In this interview, Rainer Haselmann, Professor at Goethe University Frankfurt and SAFE Program Director for Financial Institutions – Stability and Regulation, talks about reforms to European financial market regulation since the financial crisis. Working with Mark Wahrenburg and Jan Krahnen, he examined the macroeconomic and financial effects of the regulatory reforms for the Federal Ministry of Finance.

Is the German banking system more stable today than it was ten years ago?

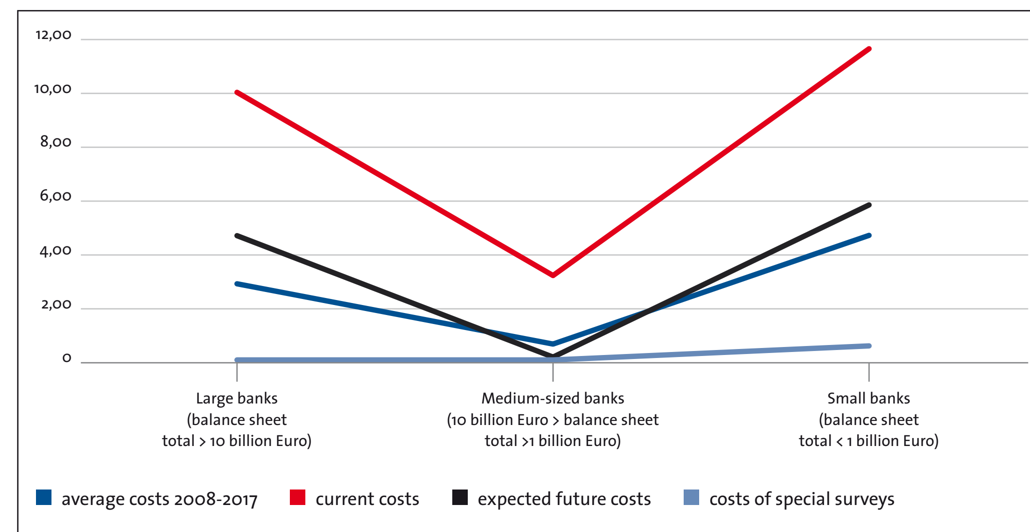
There has been an enormous number of measures during this period and banking supervision has changed dramatically. With the new European banking supervision, large banks are now being overseen much more intensively. At the same time, the capital equity requirements have increased and as a result, it can be said that the financial system in Germany is more stable today. Yet, at the same time, regulation has become much more complex.

There are complaints from the financial sector because of the complexity and the burden of regulation. Are they justified?

For very small banks and for very large banks, the costs of regulation are indeed disproportionately high (see figure). The financial industry is probably the one with the highest regulatory costs in Germany. Yet there are also other reasons for the weak profitability of German banks, such as the low interest rate environment, digitization, and automation, which have all changed the branch business. These factors often get mixed up in the discussion. Surprisingly, the regional savings and cooperative banks have proven better able to deal with costs through their association structures. However, the core problem is that there are simply too many banks in Germany; this is one reason why banks are not as profitable as they could be. The German banking sector has to consolidate further.

How do you assess the stricter equity capital requirements?

In principle, it is a good thing that capital requirements have become both higher and more stringent in the definition of what really can be considered as capital. For me, it is the complexity of capital regulations which constitutes a problem. It has two negative effects: the first is



Regulatory costs of various types of banks: Average internal costs for regulation per year. Costs are normalized by number of employees (in man-days) , broken down by balance sheet size categories.

that high costs occur in order to meet all the requirements; secondly, high complexity leads to less transparency. This can create leeway that is more difficult for the supervisor to grasp.

You propose to increase incentives for optional capital buffers. What measures could be suitable?

Banks should have a choice: If they voluntarily hold a certain amount of equity capital beyond minimum capital requirements, then other regulatory measures should not apply. Banks could thus be more stable – which is in the interest of supervision – while, at the same time, reducing the high costs of regulation. It would also be conceivable to dispense with certain regulatory measures if, for example, banks were to separate investment banking from their lending business. That could be a step into the future to further reduce systemic risk in the financial sector.

Is there progress towards a credible resolution regime for large banks due to reforms?

We have examined whether market discipline has improved. Investors no longer expect that only the taxpayer would finance a resolution of a medium-sized bank. This is a positive result, but it hardly applies to very large banks. There are also mixed experiences with the SRM, the European Single Resolution Mechanism. Resolution has worked for smaller banks. However, there are also loopholes which have already been exploited. In this respect, there is a clear need to make improvements. It is also unclear to what extent bail-in would work. There is the concept of 'total loss-absorbing capacity' (TLAC): to put it simply, banks write their wills and have to define which parts of their liabilities would be available in the case of difficulties. What we do not yet know, however, is whether this works in practice.

Non-performing loans on many banks' books are considered problematic. What should supervision do about it?

At the European level, rules have been laid down that banks need to, at certain intervals, write off loans becoming non-performing. The problem is with the classification: when does a loan become non-performing? That depends, for example, on accounting standards. Banks have leeway and so the classification can be interpreted differently depending on the states. Nevertheless, the ECB initiative to harmonize rules for non-performing loan write-offs is a step in the right direction. Banks, however, are supposed to provide insurance functions to their clients and thus accompany firms through recessions, which is different from market-based capitalization. If the rules are too strict and banks have to write off loans immediately, the institutions would have to give up part of their insurance function. That is why this is a double-edged sword: the room for maneuver must not become too large, if a loan will obviously not recover, then the bank needs to write it off.

In the study, you suggest reviewing the European stress test. Where do you see a need for improvement?

The stress test was introduced as a temporary measure to restore confidence in financial markets. It is now established, and this shows a general problem with regulation: it is relatively easy to introduce measures, but extremely difficult to give up existing measures. From our point of view, the test is very complex and relatively non-transparent. On the other hand, the significance of the test is very low and the market hardly shows any reactions. Given the high costs, the effort involved, and the not particularly informative result, I believe that European stress tests should be reviewed; European supervision has now taken over most of the tasks that the stress test was supposed to do in any case.

Many of the national measures were introduced on the basis of European directives. How well is this harmonization of financial market regulation working?

In all member countries today, single European banking supervision regulates the majority of banking assets: The European banking union is a great achievement. In banking supervision, care must be taken not to get into conflict with the interests of the member states (vis à vis public debt, for example). If there were to be another crisis, there could be problems here, similar to those with the euro. The banking union has not yet passed an endurance test, but the system is now established and accepted by the member states.

The paper "Evaluierung gesamt- und finanzwirtschaftlicher Effekte der Reformen europäischer Finanzmarktregulierung im deutschen Finanzsektor seit der Finanzkrise" was published as SAFE Policy Report No. 1 and is available at: https://safe-frankfurt.de/policy-report-1

The supervisory framework is still in a learning phase

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Following the financial crisis and the European sovereign debt crisis, banking supervision was bundled in the Single Supervisory Mechanism (SSM) to harmonize standards across the European Union (EU). In a new paper, we give advice for the next set of supervisory challenges ahead by examining entities which entered direct supervision in 2014, classifying banks according to their level of capitalization. We focus on banks with initially weaker capital buffers and find that their stability does not seem to have increased under direct European Central Bank (ECB) supervision. These banks neither significantly reduced their share of non-performing loans nor improved their cost efficiency. In our view, the establishment of an ongoing improvement process is one of the most important tasks for the future development of the SSM.

The financial crisis and the European sovereign debt crisis exposed structural deficiencies in the regulatory framework of the European banking sector. As a reaction, the EU took various initiatives which culminated in the banking union: this development represented an unprecedented supranationalization of banking regulation in the participating member states.

The new regulatory architecture consists of a set of harmonised prudential rules for banks, direct supervision of significant banks by the ECB within the SSM, a homogenous framework for the resolution of failing banks within the Single Resolution Mechanism (SRM), and the impending establishment of a European Deposit Insurance Scheme (EDIS). The far-reaching supranationalization of supervisory powers in the SSM came into force on November 4, 2014. Since this date, the ECB has been directly supervising more than 100 large European banks. In a paper for the European Parliament, we take stock of supranational banking supervision and identify challenges that should be addressed.

Banks with initially weaker capital buffers still have problems

We start by examining how banks which entered direct supervision by the ECB in 2014 have evolved over the last years. To this end, we use the information on reported adjusted capital ratios by the Asset Quality Review, as doing so ensures that capital ratios at directly supervised institutions are computed using a homogenous approach. In our analysis, we group banks into three categories depending on Common Equity Tier 1 (CET1) ratios and focus specifically on banks which were more fragile in 2014. As levels of capital varied at the start of direct ECB supervision, we investigate whether the development of banks with initially weaker capital buffers differed from that of banks with a higher level of capital at that time. Examining publicly available data on balance sheet items, we find heterogeneous developments in our sample. Banks with an initially weaker capital buffer seem not to have increased their resilience under direct ECB supervision. Considering banks' share of non-performing loans (NPLs), for instance, we find that, on average, banks reduced their share of bad loans over the period 2014 to 2017. However, there is considerable heterogeneity across banks here (see figure). Banks which came under direct supervision by the SSM with relatively low levels of capitalization had a large share of bad

loans in 2014 (35 percent) and still have a relatively high level of NPLs in their portfolio in 2017 (32 percent).

High levels of NPLs tend to have negative ramifications for the real economy and empirical work finds that a reduction of bad loans in the banking sector benefits the economy in the medium term (Balgova, Nies and Plekhanov, 2016). Although recent discussions raise doubts regarding the detrimental link between NPLs and bank credit (Angelini, 2018), the elevated level of NPLs nevertheless presents a threat to bank stability. Aside from examining asset quality, we also find that fragile banks tend to be less cost-efficient than other banks, and thus are still less resilient.

Furthermore, we find that, on average, banks have reduced their reliance on subordinated debt financing since 2014. This development is worrisome since the SRM, in order to provide a framework for resolving failing banks, strives to strengthen the role of subordinated debt as a disciplining device due to the threat of a bail-in in times of bank distress.

Opportunities for improvements in two areas

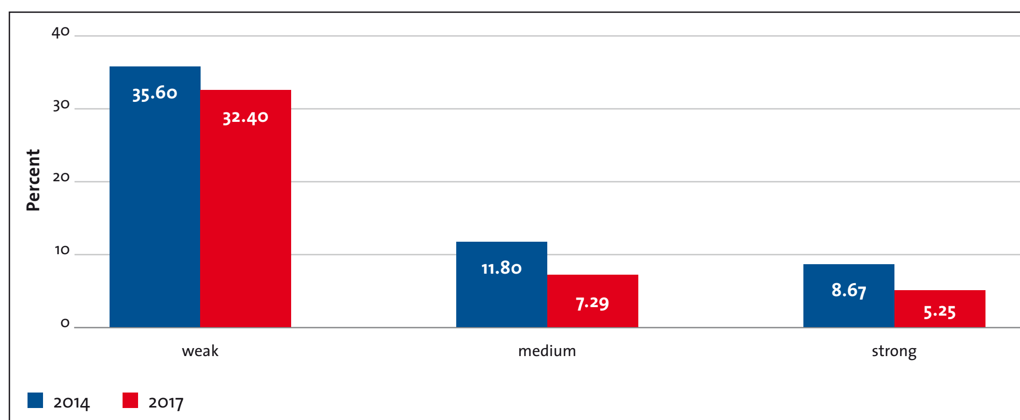
What measures could improve supervisory outcomes? In particular, we support the establishment of a continuous and ongoing improvement process of supervisory practices as an integral part of the future development of the SSM. Compared to the pre-crisis period, banking supervision today requires and absorbs much more resources and both – the SSM and the National Competent Authorities (NCAs) – have enlarged the scale and scope of supervisory activities. It has become more important to monitor the costs and benefits of associated activities particularly since many newly introduced supervisory practices may have been implemented under time pressure and without a thorough cost-benefit analysis. While the implementation of new regulations and supervisory practices may have slowed, the supervisory framework is still in a learning phase where continuous adjustments may be necessary to improve the whole system.

We expect opportunities for improvements in primarily two areas:

(1) improving the use of (huge) amounts of information collected by supervisory authorities and
(2) streamlining the administrative processes, thereby enhancing the cost efficiency of banking supervision.

Moreover, we highlight the necessity to constantly improve interfaces to other parts of the still incomplete banking union of which the SSM is the first pillar. We believe that the effective functioning of the SSM hinges critically on making continues efforts towards smooth functioning of the interfaces within the SSM. In particular, we stress

(1) the importance of the interplay of the ECB with NCAs and
(2) the need for a constant exchange of information and cooperation between the ECB and resolution authorities (SRB and national resolution authorities) to ensure financial stability.



Share of non-performing loans: On average, banks reduced their share of bad loans over the period 2014 to 2017. Banks with relatively low levels of capitalization had a large share of bad loans in 2014 and still have a relatively high level of NPLs in their portfolio in 2017.

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The paper "The Next SSM Term: Supervisory Challenges Ahead" was published as SAFE White Paper No. 59 and is available at: https://safe-frankfurt.de/supervisory-framework

On the death of Brigitte Haar

Klaus J. Hopt
Director (1995–2008) and
Emeritus Scientific Member
of the Max Planck Institute
for Comparative and
International Private Law

Brigitte Haar
(1965 – 2019)

Brigitte Haar was Professor at the Goethe University Frankfurt for Civil Law, German, European and International Business Law, Law and Finance and Comparative Law. She was appointed to the Goethe University in 2004. Brigitte Haar was a highly distinguished lawyer at the interface between law and economics, both nationally and internationally: Guest professorships took her to the University of Pennsylvania and Columbia Law School. At Goethe University, she initiated and led the graduate program Law and Economics of Money and Finance. She was a board member of the House of Finance and a member of SAFE's Scientific Board. In this obituary, Klaus J. Hopt honors Brigitte Haar, who died in March 2019 at the age of 54.

On March 27, 2019, Brigitte Haar, Professor of Law at the Goethe University in Frankfurt, died. With her parting, we all lose an internationally renowned scholar, an enthusiastic academic teacher, and an open-minded, helpful, and kind colleague who was always fully committed to her work.

I first met Brigitte Haar in 1995. She had written a doctoral thesis under the supervision of Ernst-Joachim Mestmäcker, whom she greatly admired throughout her life, on opening up telecommunications markets to competition; her work was awarded the Max Planck Society's Otto Hahn Medal in 1996. She had returned to Hamburg from the University of Chicago Law School, where she had obtained a "Master of Laws (LL.M.)" as a Fulbright Scholar, and I had just succeeded Mestmäcker, thus taking over the supervision of her major work on business partnerships in corporate groups. This work took her to Yale Law School as a visiting scholar, going on to become her doctoral thesis in 2004, and was then published by Mohr Siebeck in Tübingen in 2006.

The fact that several other professor theses had already appeared on this topic did not seem to bother her. Quite the contrary, in fact, and she took the material in completely new directions and in a way that was characteristic for all her later academic work: her approach was legal-economic and functional-legal-comparative; her interest was not so much in dogmatic refinements (even though she mastered them), but rather in the partnership within the corporate group as a test case for the tension between the limits of legal separation and the private autonomy of the partners.

Her lines of argument were stringent, sometimes merciless, but she remained open to discourse from all corners, especially interdisciplinary exchanges, a characteristic which predestined her for a chair in Civil law, German, European and International Business Law, Law and Finance and Comparative Law at the Goethe University in Frankfurt. She received an offer from the university almost simultaneously with her habilitation.

In all these areas, Brigitte Haar quickly gained a great degree of appreciation, both nationally and internationally, with academic contributions which purposefully addressed the most interesting and difficult problems and problematic areas.

A strict and yet enthusiastic academic teacher

Examples of this include "Law and Finance – Kapitalmarktentwicklung in interdisziplinärer

Perspektive" (*Juristen-Zeitung* 2008); "Normanerkennung, -befolgung und Economic Behavior – eine Studie zu Verbindlichkeitsstrukturen im Wirtschaftsrecht am Beispiel der Corporate Governance" (*Archiv für Rechts- und Sozialphilosophie* 2014); "Civil Liability of Credit Rating Agencies" (*European Business Law Review* 2014b), developed from a lecture she gave in Oslo, but with a much more fundamental interest, as the subtitle shows: "Regulatory All-or-nothing Approaches between Immunity and Overdeterrence". Then there were various articles in the *Journal of Banking Law and Banking* (JBB), of whose editorial council she was a member from 2014, as well as in various corporate and commercial law journals and in books and commemorative publications which were widely read; the *European Business Organization Law Review* (EBOR) was particularly close to her heart. As a founding member of EBOR, she remained a member of the editorial board, together with Katharina Pistor, her close friend from Max Planck's time, later a professor at the Columbia Law School in New York.

An international and interdisciplinary scholar, she was also a strict and yet enthusiastic academic teacher. In her case, it all went together without saying.

In Frankfurt, she established a Graduate School / Ph.D. Program named "Law and Economics of Money and Finance", which, among other things, gave foreign students the opportunity to earn a doctorate at the Goethe University with an English-language thesis. From 2009 to 2014, as part of this program, she offered summer courses to which scholars from all over the world, both lawyers and economists, were regularly invited. In the US, Brigitte Haar taught at the law schools of Columbia and the University of Pennsylvania as a visiting professor. From 2013 to 2017, she was one of three principal investigators of the "Global Law in Finance Network". Together with Katharina Pistor and Dan Awrey (Oxford), she supervised doctoral students who were earning their doctorates at various universities, but who were connected by their research topics; this resulted in a lively exchange which led Brigitte Haar and her doctoral students to New York and Katharina Pistor repeatedly to Frankfurt. Supporting of young researchers was a matter close to Brigitte Haar's heart, and she supervised dozens of master's and doctoraltheses, often postponing her own publications to do so. She was both a role model and mentor for her students, and she herself found the exchange with students and co-workers an enriching, even necessary element of her own academic career. This also shaped her work as a trusted lecturer at the German Academic Scholarship Foundation (Studienstiftung des Deutschen Volkes), to which she herself had belonged as a stipendiary when she still was a student.

A role model for entire generations of female students

Brigitte Haar was not someone who, consumed by her own academic self-interest, refused to take on general university tasks which were time-consuming and, sometimes, utterly exhausting. She had been a member of the Presidium of the House of Finance at Frankfurt University since 2006 and was involved in the conception and development of the LOEWE Center SAFE (Sustainable Architecture for Finance in Europe) right from the start. From 2015 to 2018, she was Vice President for Internationalization at Goethe University. During this time, she was involved in establishing strategic partnerships with leading universities around the world.

Birgitta Wolff, President of Goethe University, highlighted Brigitte Haar's "combination of determination and modesty" as characteristic. Her interest in regulatory practice was reflected in her membership of the Administrative Board and the Consumer Advisory Board of the Federal Financial Supervisory Authority (BaFin). The obituary written by the faculty and Goethe University says, aptly, that, "in a field in which women are still a minority, Brigitte Haar became a role model for entire generations of female students – students whom she went on to actively support in their careers."

Without complaining, but with a great deal of humor and courage, Brigitte Haar struggled with a serious illness for many years; as a passionate hiker with a circle of close friends, she was always able to replenish her energies. And when these energies came to an end, she was, as she told Katharina Pistor and myself, able to look back with satisfaction on her work with the people who meant a lot to her – many of whom visited her at the bedside right through to very end. Now she has left us at the age of 54. We will not forget her.

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News

SAFE becomes a new Leibniz institute

As of January 1, 2020, SAFE will become a Leibniz Institute and be included in joint funding by the Federal Government and the State Governments (Länder); the Joint Science Conference (Gemeinsame Wissenschaftskonferenz, GWK) passed a resolution to this effect in May. The Institute will continue to be dedicated to interdisciplinary research on an optimal regulatory framework for the financial markets and its economic and societal impact in Europe, as well as to science-based, independent policy advice. "The admission of SAFE to the Leibniz Association is a milestone for financial market research in Frankfurt and underlines the exceptional research quality that Jan Pieter Krahnen and his team at the Goethe University have achieved in recent years," says the President of the Goethe University, Birgitta Wolff. In September 2017, the State of Hessen had applied to the GWK for SAFE to become a member of the Leibniz Association. Last year, the Institute was evaluated by the Leibniz Association and the German Council of Science and Humanities (Wissenschaftsrat), receiving the best possible rating.

Fruitful discussions on the impact of quantitative easing and financial (in)stability

In April, two conferences took place at the House of Finance where academics, practitioners, and policymakers discussed questions around quantitative easing (QE). On April 1, the team of the international project named "Quantitative Easing and Financial (In)Stability", funded by Volkswagen Foundation, presented and discussed their project results of the last three years with each other as well as with representatives from other well-known institutions, with Loriana Pelizzon, SAFE Professor of Law and Finance, heading the conference. Pelizzon is also a member of the Scientific Committee of the 6th International Conference on Sovereign Bond Markets, whose participants met on April 2 and 3 to discuss the global impact of QE in industrialized countries and emerging markets.

The European Central Bank needs to review its monetary policy

At a SAFE Policy Lecture in April, Lex Hoogduin, Professor for Complexity and Uncertainty on Financial Markets at the University of Groningen, assessed the 20-year history of the European Central Bank (ECB). In his view, its greatest achievements to date are that, first, the ECB was able to maintain price stability until the financial crisis – and to restore it by 2012. Even more importantly, the euro has survived the "biggest financial crisis since the Great Depression". However, Hoogduin is convinced that the ECB needs to undertake a formal review of its monetary policy strategy and instruments, as well as their theoretical basis. Moreover, as it has not been able to achieve its self-set target of price stability in the last five years, he sees the ECB today in a critical situation.

Lithuanian Finance Minister Vilius Šapoka calls for a European FinTech Union

Vilius Šapoka wants European policymakers to concentrate more on the opportunities of financial innovation than on its risks. At a SAFE Policy Lecture in April, he spoke in favor of a European FinTech Union with harmonized standards and centralized market supervision: Šapoka expects disruptive innovations in finance to happen in FinTech, not in the traditional banking sector. In the past, he argued, European reforms neglected global competitiveness with China and the US, and if the European Union (EU) wanted to take on a leading role in the financial world, he continued, it must be willing to take a few risks. Šapoka also explained how Lithuania aspires to become a high-tech country, and expanded on his vision for the country as "Litechnica", with FinTech as his chosen path to success.

Selected Publications

Acharya V., Eisert, T., Eufinger, C. and C. Hirsch (2019)
"Whatever it Takes: The Real Effects of Unconventional Monetary Policy",
forthcoming in Review of Financial Studies.

Caporin, M. and M. Costola (2019)
"Asymmetry and Leverage in GARCH Models: A News Impact Curve Perspective",
forthcoming in Applied Economics.

Casarin, R. and M. Costola (2019)
"Structural Changes in Large Economic Datasets: A Nonparametric Homogeneity Test",
Economics Letters, Vol. 176, pp. 55-59.

Fuchs-Schündeln, N., Masella, P. and H. Paule-Paludkiewicz (2019)
"Cultural Determinants of Household Saving Behavior",
forthcoming in Journal of Money, Credit and Banking.

Goldmann, M. (2018)
"Foreign Investment, Sovereign Debt, and Human Rights",
in: Bantekas, I., Lumina, C. (eds), Sovereign Debt and Human Rights, Oxford University Press, pp. 129-145.

Gomber, P., Clapham, B., Lausen, J. and S. Panz (2019)
"The MiFIR Trading Obligation: Impact on Trading Volume and Liquidity in Electronic Trading",
forthcoming in: Mehandjiev, N. and B. Saadouni (eds.), Lecture Notes in Business Information Processing, Vol. 345.

Petkova, K. and A. Weichenrieder (2019)
"The Relevance of Depreciation Allowances as a Fiscal Policy Instrument: A Hybrid Approach to CCCTB?",
Empirica – Journal of European Economics, online first article, pp. 1-32.

Tröger, T. and U. Walz (2019)
"Does Say on Pay Matter? Evidence from Germany",
forthcoming in European Company and Financial Law Review.

Recent SAFE Working Papers

Vellekoop, N. and M. Wiederholt (2019)
„Inflation Expectations and Choices of Households",
SAFE Working Paper No. 250.

Pettinicchi, Y. and N. Vellekoop (2019)
"Job Loss Expectations, Durable Consumption and Household Finances: Evidence from Linked Survey Data",
SAFE Working Paper No. 249.

Gider, J., Schmickler, S. N. M. and C. Westheide (2019)
"High-Frequency Trading and Price Informativeness",
SAFE Working Paper No. 248.

Bellia, M., Pelizzon, L., Subrahmanyam, M., Uno, J. and D. Yuferova (2019)
"Paying for Market Liquidity: Competition and Incentives",
SAFE Working Paper No. 247.

Gropp, R., Noth, F. and U. Schüwer (2019)
"What Drives Banks' Geographic Expansion? The Role of Locally Non-Diversifiable Risk",
SAFE Working Paper No. 246.

Hackethal, A., Meyer, S. and C. Uhr (2019)
"Smoking Hot Portfolios? Self-Control and Investor Decisions",
SAFE Working Paper No. 245.

Bernardi, M. and M. Costola (2019)
"High-Dimensional Sparse Financial Networks through a Regularised Regression Model",
SAFE Working Paper No. 244.

Berardi, N., Lalanne, M. and P. Seabright (2019)
"Professional Networks and their Coevolution with Executive Careers: Evidence from Europe and North America",
SAFE Working Paper No. 243.

The SAFE Working Papers can be downloaded at
http://safe-frankfurt.de/working-papers

Powerful and alienating central banks: principles for a delegation of power to unelected institutions

Sir Paul Tucker
Chair of the Systemic Risk Council and Research Fellow at the Harvard Kennedy School, formerly Deputy Governor of the Bank of England

Central banks have become controversial – despite, after the 2008 crisis, helping to avoid a repeat of the Great Depression, and despite the European Central Bank (ECB) subsequently keeping the euro area project alive. Or maybe the unease arises precisely because of those decisive interventions in bond and credit markets: a world in which elected politicians seemed to retreat to the sidelines as central banks became the only game in town. Whatever the causes, somehow the institution of central banking is at once necessary but profoundly alienating. For some on the political left, independent monetary authorities create a "democratic deficit"; for parts of the right, their exercise of discretionary power violates the values of the "rule of law". For a growing number of younger people, if central banks are so powerful, then surely they could and should do more to steer credit to the less well-off and privileged parts of society.

There is more going on here than a rash of complaints from prominent politicians in, most recently, the US, Italy, India, and Britain; it would be imprudent to regard this as just some passing populist spasm. In the corridors of power, the Swedish parliament and the New Zealand finance ministry are formally reviewing their central bank laws; and profound challenges to the legality of the ECB's quantitative easing and prudential powers continue to work their way through the German Constitutional Court. Meanwhile, in academia, central banking is no longer the preserve of economics: political theorists, sociologists, anthropologists, and legal scholars are all engaging with it.

I address how powerful monetary authorities can find an enduring place in our system of government in Tucker (2018). Drawing on our deep political values, it sets out principles for a delegation which emphasize the pursuit of a widely supported and monitorable objective by a committee of equal policymakers who are dedicated to transparency and accountability. It also argues that since central banks are the lender of last resort to the private part of the monetary system (banking), they are inevitably involved in prudential supervision. That makes them even more powerful: regulators are, after all, lawmakers. Our democratic and constitutionalist values demand that this role is recognized, formalized, and carefully constrained, through law.

Where do my delegation principles leave the ECB? Well, its existence is much more deeply entrenched than that of regular central banks, and the European Parliament's ECON committee is too big to conduct effective oversight of the ECB's stewardship of the monetary regime. Also, without a counterpart euro area fiscal authority of some kind, the ECB is exposed to much more pressure to deploy a monetary authority's latent fiscal capabilities, with its policymakers seeming to vote according to perceptions of national interest. The ECB is left as both more and less than a normal central bank.

On the other side of the ledger, the advent of the Single Supervisory Mechanism (SSM) under the umbrella of the ECB is, in democratic terms, preferable to the Bundesbank's non-formalised (and so deniable) involvement in banking supervision, prudential standards, and crisis management. But the SSM needs a clear objective for system resilience, which should be seen as the missing component of a two-part mission for maintaining monetary system stability.

References

Tucker, P. (2018),
"Unelected Power. The Quest for Legitimacy in Central Banking and the Regulatory State", Princeton University Press.

Events

June

3 June
5.00 pm
EFL Jour Fixe
Is there a Magnet Effect of Rule-Based Circuit Breakers in Times of High-Frequency Trading?
Speaker: Benjamin Clapham, E-Finance Lab

4 June
2.15 – 3.45 pm
Frankfurt Macro Seminar – Joint with SAFE
Monetary Independence and Rollover Crises
Speaker: Javier Bianchi, Minneapolis Fed

4 June
4.15 – 5.30 pm
Finance Seminar – Joint with SAFE
Speaker: Alan Morrison, Saïd Business School, Oxford

7 June – 6 July
GBS Open Program
International Finance
Speaker: Loriana Pelizzon, Goethe University

7 – 8 June
CFS Conference
Global Corporate Governance Colloquia (GCGC) 2019
Co-organized by SAFE

11 June
2.15 – 3.45 pm
Frankfurt Macro Seminar – Joint with SAFE
Reference Points in the Housing Market
Speaker: Tarun Ramadorai, Imperial College, London

11 June
4.15 – 5.30 pm
Finance Seminar – Joint with SAFE
Speaker: Michael Kirchler, University of Innsbruck

12 June
7.30 pm
ILF Guest Lecture
Speaker: Philipp Paech, London School of Economics

13 – 14 June
Third Research Conference of the CEPR Network on Macroeconomic Modelling and Model Comparison (MMCN)
Organized by IMFS

13 June
6.00 – 7.30 pm
CFS Lecture with IBF
Monetary and Fiscal Policy in Interwar Germany. A Narrative Approach
Speaker: Albrecht Ritschl, London School of Economics

14 June
9.00 am
ILF Conference
Risk Sharing, Risk Reduction and Deposit Insurance in the European Banking Union

18 June
2.15 – 3.45 pm
Frankfurt Macro Seminar – Joint with SAFE
Varieties of Cycles: Analysis and Use
Speaker: Adrian Pagan, University of Sydney and Australian National University

18 June
4.15 – 5.30 pm
Finance Seminar – Joint with SAFE
Speaker: Wolf Wagner, Rotterdam School of Management, Erasmus University

21 June – 19 July
GBS Open Program
Bank Management
Speaker: Axel Wieandt

25 June
4.15 – 5.30 pm
Finance Seminar – Joint with SAFE
Speaker: Philippe Mueller, Warwick Business School

26 June
5.30 – 7.00 pm
CFS Colloquium
Speaker: John Maijoor, European Securities and Markets Authority

26 June
SAFE Policy Lecture
Speaker: Francesco Caselli, London School of Economics

July

2 July
2.15 – 3.45 pm
Frankfurt Macro Seminar – Joint with SAFE
Sentimental Business Cycles
Speaker: Evi Pappa, Universidad Carlos III Madrid

2 July
4.15 – 5.30 pm
Finance Seminar – Joint with SAFE
Speaker: David Schreindorfer, W. P. Carey School of Business, Arizona State University

4 July
SAFE Policy Lecture
Speaker: Ludger Schuknecht, OECD

6 – 27 July
GBS Open Program
Financial Stability & Regulation
Speaker: Norbert Metiu, Deutsche Bundesbank

9 July
2.15 – 3.45 pm
Frankfurt Macro Seminar – Joint with SAFE
The Job Ladder: Inflation vs. Reallocation
Speaker: Giuseppe Moscarini, Yale University

12 – 26 July
GBS Open Program
Digital Assets, Blockchain Technology & the Future of Finance
Speaker: Axel Wieandt

16 July
2.15 – 3.45 pm
Frankfurt Macro Seminar – Joint with SAFE
Monetary Policy obeying the Taylor Principle Turns Prices into Strategic Substitutes
Speaker: Frank Heinemann, TU Berlin

16 July
4.15 – 5.30 pm
Finance Seminar – Joint with SAFE
Speaker: Joao Gomes, Wharton School, University of Pennsylvania

18 – 20 July
CEBRA Conference
2019 Annual Meeting of the Central Bank Research Association in New York, USA
Co-organized by SAFE

20 July
ILF Graduation Ceremony
Graduation ILF Class of 2019

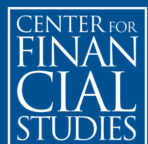
August

16 – 24 August
GBS Open Program
Mergers and Acquisitions
Speaker: Volker Brühl, CFS

19 – 20 August
SAFE Conference
3rd SAFE Market Microstructure Conference

CEPR	Centre for Economic Policy Research	EFL	E-Finance Lab Frankfurt am Main	IBF	Institut für Bank- und Finanzgeschichte
CFS	Center for Financial Studies	GBS	Goethe Business School	ILF	Institute for Law and Finance
ECGI	European Corporate Governance Institute	GCGC	Global Corporate Governance Colloquia	IMFS	Institute for Monetary and Financial Stability

Please note that for some events registration is compulsory.



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