

SAFE Finance Blog

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Bafin has the opportunity to recruit internationally

After Wirecard and Brexit, the realignment of Germany's Federal Financial Supervisory Authority can succeed if the authority is set up with the right leadership personality



After months of draining inquiry in the German Bundestag's Committee of Inquiry on the Wirecard case as well as a long public debate on the performance of financial supervision in Germany, it seems fair to conclude that Bafin's reputation has been severely damaged. This leaves us with a monumental task following the just-completed Brexit: the trust of international capital investors, public companies, and potential issuers must be rebuilt without delay to counter growing doubts about the integrity of the capital market in Germany and, even more challenging, to compete with an aggressive London capital market effectively and with confidence in the medium term. How can this be achieved?

The recently published [seven-point plan](#) to reform Bafin is certainly a step in the right direction, but it does not address the main problem: The authority must become independent and then decide on the basis of its own insight what the technical priorities are for effective supervision. This does not only include an improvement of the annual financial statement competence. Of great importance for effective supervision is also a deep understanding of the financial markets, which has been sorely lacking recently in dealing with short selling, for example.

The selection of the new Bafin president has a signal function that is perceived worldwide. It shows how serious the German Federal Ministry of Finance is about initiating a realignment of the previously subordinate authority. For this reason, a personality is sought who will make an immediate impression on the international financial community. Three qualities stand out in the job profile: International experience, analytical ability, and independent leadership personality.

Independent managers exist, they just need to be approached and convinced

First, he or she has many years of relevant experience at the forefront of capital market activity, gained in senior positions in international business, preferably with the world's leading regulatory authorities, in London or New York. These personalities exist – they just need to be approached and convinced that an application will be taken seriously.

Second, he or she is a financial economist with analytical training and relevant knowledge of the challenges of digitalization. In view of the rapidly changing financial markets due to new technologies (blockchain, artificial intelligence) and new market participants (fintechs, big techs, data cloud), the technological modernization of Bafin is an important factor in aligning the authority with the future. After all, operational supervision must keep pace with the digitalization of the supervised companies to ensure data-based supervision.

Third, he or she is a convincing leader who embodies the reform process credibly both internally and externally. The urgently needed cultural change at Bafin can only succeed if the new president is an independent personality who modernizes the agency without any political or institutional baggage. Therefore, they should not come from Bafin itself or from a ministry.

Transparent selection process for a selection of the best

Such an internationally recognized personality, who by no means must be a German citizen, would very quickly change the climate in the authority and its perception by the public. It would clearly signal that every effort is being made from a politically responsible position to catch up with a high world standard.

To achieve a selection of the best, the federal government should carry out a high-quality and transparent selection procedure consisting, for example, of a specialist selection by a panel and a public hearing in the German Bundestag. The job advertisement is international and specifies the requirements profile.

Why is a top international line-up so important for Europe's largest capital market? The answer to this question follows from the current upheaval on Europe's financial markets: The integrity of the capital market requires impartial safeguarding of investor interests, equal treatment of issuers and safeguarding of their interests, and enabling fair trading of financial instruments of all kinds. Managers should already have established a relevant reputation before taking on the supervisory task.

The question of confidence is closely linked to the question of the future competitiveness of Europe's financial centers: All signs indicate that Germany, together with its European neighbors, will have to prepare for a hard capital market Brexit. "Hard" here means that London will exploit its newfound regulatory freedom as a competitive advantage, and continental Europe would be well advised to make every effort to catch up with the UK in terms of market integrity and quality in the foreseeable future.

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