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Sustainable Architecture for Finance in Europe

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About SAFE

The Center of Excellence 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: 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.

Content

Editorial

Jan Pieter Krahnen
Director
Center of Excellence SAFE

"Where are the economists?" asked a major German weekly newspaper some weeks ago in one of its headlines. The author diagnosed a deep gulf between economists and politicians in Germany – in times when economic advice would seem to be of greatest importance. Without commenting on his findings in detail, I agree with the general view that a strict separation of academia from the political debate needs to be abolished.

Europe's financial markets and institutions face a sweeping restructuring of their common regulatory rule book. It is probably the most serious reform in decades – and it aims for a renaissance of a financial "Ordnungspolitik". Driven by the dynamics of a financial crisis of unknown dimension, and assisted by increasingly felt global imbalances, a backing of policy options by critical contributions from independent academic bodies is not only required for good policy making, but also for winning legitimacy for policy choices in the public eye.

The criteria for academic policy advice – independent, research-based, reachable – underlie the design of SAFE. Its Policy Center is SAFE's second main pillar – alongside the research program. The Policy Center caters to the needs of policy makers in Europe – providing background research, personal advice and professional staff development with an eye on practicality (common sense) and understandability.

In August, SAFE offered its first executive training seminar for policy makers, under its Summer Academy program, focusing on financial market regulation and its implications. Prominent speakers from the European Central Bank, the Bank for International Settlements, the International Monetary Fund as well as from academia presented a fact- and evidence-based assessment of the impact of recently implemented reforms on financial markets and their stability. The interest the SAFE Summer Academy met among institutions like the European Parliament, the Bundestag and the German Ministry of Finance speaks for itself (see also pp. 10-11).

Other activities of the SAFE Policy Center include small off-the-record policy workshops with high-ranking representatives from governments and parliaments in Wiesbaden, Berlin and Brussels and a breakfast talk series as well as a lecture series on topical regulation issues for a general public. The publications of the Policy Center are freely available on the SAFE website, and can be searched by author or keyword.

Looking back at the initially raised question, SAFE will stimulate research-backed policy debate, and is willing to do its part to facilitate better policy making.

Yours sincerely,
Jan Pieter Krahnen

Individual Investors' Trading Motives and Security Selling Behavior

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Goethe University & SAFE

Benjamin Loos
Goethe University

Steffen Meyer
Goethe University & SAFE

Andreas Hackethal
Goethe University & SAFE

We address the general question whether and to what extent trading motives of individual investors affect their trading behavior and their propensity to make trading mistakes. Specifically, we examine two major motives for selling securities from one's portfolio, namely liquidity needs and speculative intentions.

Using a unique dataset on individual investors' daily security and cash holdings, we first categorize all observed security sales into one out of three categories: sales that are motivated by liquidity needs, sales that are driven by speculation, and all other sales transactions with unspecified motives. We then compare investor behavior across these three categories and demonstrate systematic differences in trading behavior. When trading to satisfy liquidity needs, investors rely more on heuristics such as selling lower-cost mutual funds, selling more winners and fewer losers, and selling attention-grabbing stocks. When trading speculatively, they tend to make less use of heuristics.

Our findings are relevant in the light of recent research output which has shown that individual investors lose a substantial amount of money from poor trading decisions (e.g. Barber et al., 2009). Better insights into what drives these decisions are a precondition to help investors to enhance their decision quality.

Hypotheses and Research Design

We conjecture that investors who face liquidity needs are time pressured and as a consequence will seek to simplify their decision making and rely more on heuristics. We therefore expect liquidity-driven selling decisions to be more biased than other trades. For speculative security sales the reverse should hold true as speculative intentions are unlikely to be correlated with external constraints. Speculative sales would then be more strongly driven by controlled reasoning, relatively less biased and therefore of better quality.

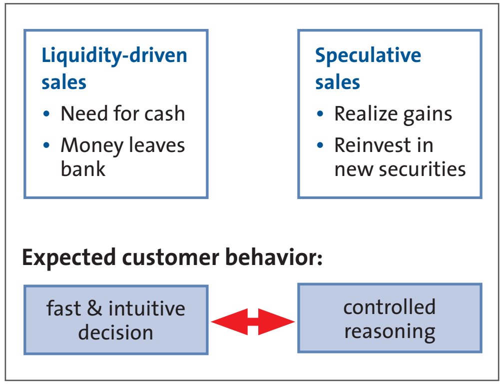

Figure 1: Trade Classification

To categorize sales based on trade motives we track how investors use the cash proceeds from the sale. We have daily transaction data on all security and cash accounts of over 5,000 customers of a German bank for the years 1999-2009. The data allows us to define a sale transaction as speculative if its proceeds are reinvested into other securities within a short period of time and to define a sell transaction as liquidity driven, if the proceeds leave the bank within the same short period of time. About 20% of the 70,514 sale transactions in our sample are categorized as speculative, whereas about 12% are categorized as liquidity driven. The remaining 68% transactions have no assigned trade motive and are used as reference group.

We measure decision quality in liquidity-driven and speculative sales as compared to the reference group along three dimensions: incurring higher-than-necessary trading costs, propensity to sell winners rather than losers ("disposition effect"), and tendency to sell attention-grabbing securities.

First, we analyze the role of security-specific transaction costs in selling decisions. Ideally, uninformed individual investors should sell securities with lower transaction costs to realize the best net return and have the lowest repurchase cost if liquidity needs are transitory. We find that investors only minimize transaction costs in liquidity-driven sales of mutual funds but not in liquidity-driven sales of stocks or in any speculative sale. A possible explanation for this difference between funds and stocks is that fund loads are much easier to observe than bid-ask spreads of stocks.

Second, we investigate the role of trade motives for the prevalence of the disposition effect (i.e. sell winners too early and hold losers for too long). If liquidity-driven sales are placed under time constraints, investors might be more prone to this behavior than under normal circumstances. We use hazard models to analyze selling decisions and we estimate separate models for the decision to sell stocks and funds, controlling for tax-motives, investment experience and limit orders. The models reveal that the disposition effect is substantially higher in the presence of liquidity needs and much lower for speculative sales.

Third, we analyze whether investors use general attention on some of their own stocks as a heuristic guideline for their selling decisions. Using Google search volume data, we demonstrate that selling decisions are on average prone to attention bias. Liquidity-driven sales are about as attention-driven as other sales but speculative sales appear to be less attention driven. Together with the finding that investors buy attention-grabbing stocks (Barber and Odean, 2008), speculative investors thus appear to be exchanging less popular for more popular "hot" stocks.

Finally, we measure the performance effects of liquidity-driven and speculative trading on portfolio returns. For each sale, we estimate portfolio alphas (i.e., abnormal returns) directly before and after the sale using different horizons and performance-adjustment models. Comparing these alphas while controlling for transaction size and mechanical effects of a sale on idiosyncratic volatility we show that liquidity-driven sales of mutual funds have a negative performance contribution while speculative sales make a positive contribution. The results for stocks are less clear-cut and depend on the performance metric.

Contributions and Implications

The paper adds new evidence that individual investor trading is systematically biased and that biases depend on the individual trading context (Coates, Gurnell and Sarnyai, 2010). Liquidity-driven sales appear more biased and speculative sales appear to be more rationally motivated. Trade motives therefore not only matter for professional investors (Alexander, Cici and Gibson, 2007) but also for their retail counterparts. We also contribute to the economics literature in the spirit of Baumol (1952) on how households manage their cash holdings. This literature usually describes cash holdings as dependent on the interest rate and transaction costs. We extend the analysis from cash to security holdings and thereby hope to inform future literature on household cash management in a multi-asset setting. Finally, the paper has implications for financial market models. Most models assume that the majority of trades by individuals are liquidity driven and occur randomly. We can show that, in reality, only a small fraction of trades qualifies as liquidity-driven and that these trades are not random but show patterns. In times of correlated liquidity shocks some securities will therefore experience higher selling pressure from individual investors than others.

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The full article is available at:
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2309382

Monetary Policy and Prudential Regulations with Bank Runs

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There is by now an established acceptance that monetary policy should be complemented by macroprudential policy and that expansionary policies entail trade-offs. While they help boost the stock market and recover banks' balance sheet values they may produce risk-taking over medium to long horizons. As policy rates are kept low for extended periods of time, banks tend to shift their liability from subordinated equities towards short-term senior (but uninsured) assets (such as asset-backed securities), which are a cheaper and easier form of bank financing: ex post this excessive bank leverage increases the probability that uninformed investors holding a bank's short-term liabilities will then run the bank.

Prior to the crisis, the monetary transmission mechanism had neglected entirely the possible adverse consequences of monetary policy on bank fragility: a reduction of the policy rate could boost aggregate demand in the presence of nominal rigidities and/or other liquidity channels; an expansion in liquidity could boost lending and foster asset price growth. But, effectively, no link was discussed between monetary policy actions and the endogenous formation of risk in either financial markets or the banking sector.

The authors present a model which does that. They build a macro model with optimizing banks and the endogenous formation of risk that stems from fundamental bank runs. Banks hold both bank capital and short-term liabilities which can be served first and sequentially. When uninformed investors observe bad signals on bank asset returns, they coordinate and run the bank concerned. Bank asset values depend upon asset prices, which in turn result from financial market equilibrium and are also affected by idiosyncratic shocks. As a result of these assumptions, the model features both a bank balance sheet channel, through which swings in asset prices affect bank net worth, as well as a risk-taking channel, by which reductions in the risk-free rate render short-term financing more desirable compared to bank capital (effectively entailing deviation from the Modigliani-Miller Theorem).

The Central Bank's Trade-Off

Monetary policy therefore faces a trade-off: on the one hand, a reduction of the policy rate facilitates lending and investment, and increases asset prices, which in turn boosts bank asset values (which are in fact valued at market prices). Through this channel, expansionary monetary policy can prevent large disruptions in the banking sector if an adverse financial shock hits asset prices or loan returns. On the other hand, a reduction in the policy rate triggers a reduction of the baseline rate for short-term liabilities: this induces the bank to shift funding from bank equity to short-term liabilities. By increasing the share of short-term debt, the bank increases the probability that a run will occur, namely the probability that the bank will be unable to repay a large platform of uninsured liabilities if and when bank assets are hit by adverse shocks. The latter mechanism entails a risk-taking channel on the liability side (evidence of the importance of this channel in macro time series analysis is found in Angeloni, Faia and Lo Duca 2010).

The model is shown to reproduce the main business cycle properties of both macro variables as

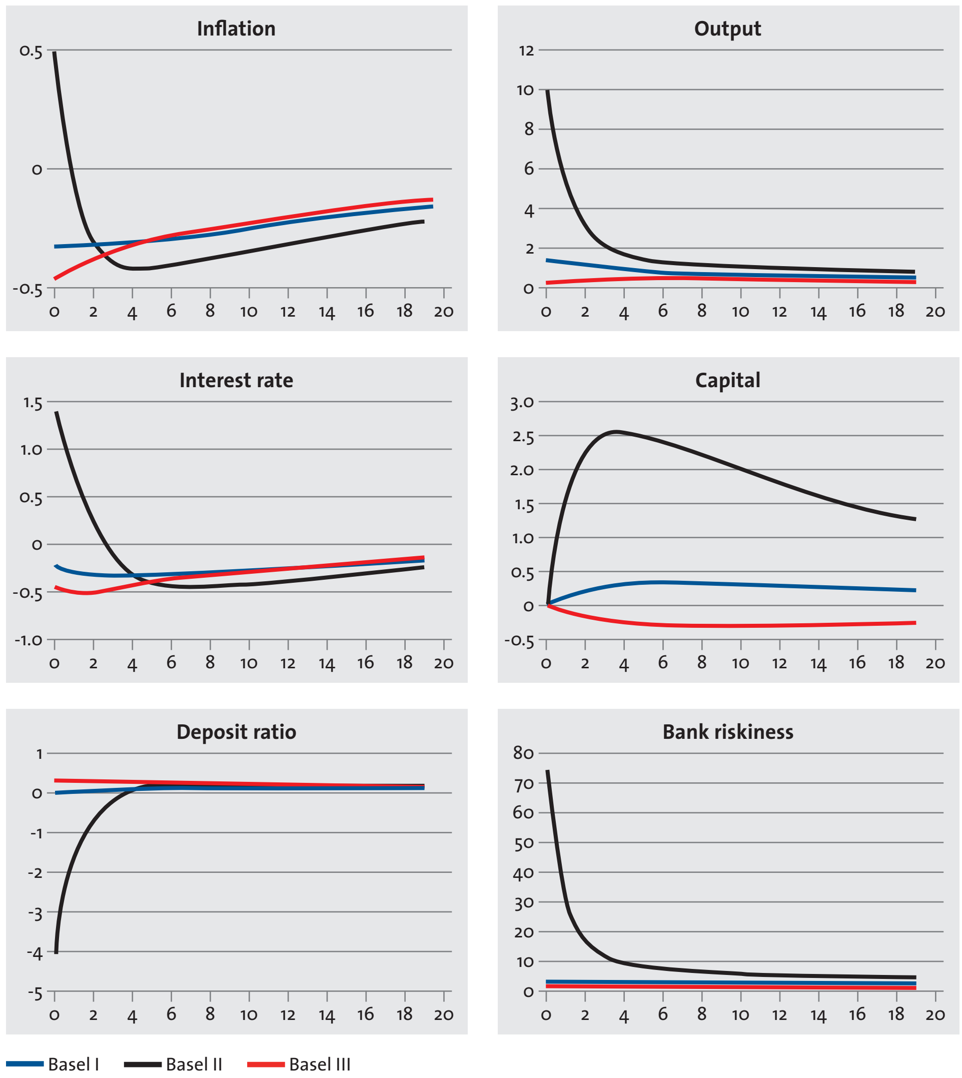

Figure 1: Impulse response functions of a 1% productivity increase under alternative Basel regimes

well as banking variables (it matches the procyclicality bank capital and the standard deviations and persistence of the main banking variables, including bank riskiness). For this reason, the model is particularly well suited for policy analysis.

Basel II is Most Destabilizing

Indeed, the authors use the model to analyze the optimal combination of monetary and macroprudential policy. The latter is modeled through a sector wide time-varying minimum capital ratio. In the presence of a capital requirement, bank optimization delivers an actual capital ratio that optimally maintains a safety buffer above the minimum. The bank capital requirement is introduced in three different formulations: fixed (Basel I), procyclical (Basel II), countercyclical (Basel III). The authors find that the Basel II regulations are the most destabilizing (see Figure 1): while they may be optimal from the point of view of a single optimizing bank, they amplify business cycle fluctuations, as, by forcing banks to raise equity capital in recessions (and release equity capital in booms), they exacerbate lending booms and busts. In contrast, the countercyclical bank capital buffers help to smooth the business cycle through the build-up of precautionary buffers.

The authors also find that the optimal combination (the one that maximizes agents' utility) between monetary policy and prudential regulation entails monetary policy rules that mildly respond to banks' leverage (and aggressively respond to inflation) and countercyclical bank capital ratios.

The above model can of course be used to analyze a number of questions related to the effects of policy on the endogenous formation of financial risk; an issue which is high on the agenda of both academics and policy makers.

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Legal Limits to Quantitative Easing

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In the course of the financial crisis, central banks of major currency areas have injected an unforeseen volume of money into the financial system by "outright" purchases of financial instruments or by generously granting credit to banks at almost no costs. In order to justify such programs in the Eurosystem, it has become common practice to point at the operations of the U.S. Federal Reserve System (Fed) and the Bank of England. These, however, are much more limited in scope than assumed and on a substantially different legal basis.

The downplaying designation "quantitative easing" has become famous since the vast purchase of debt instruments (at first: mortgage backed securities) by the Fed initiated in March 2009. Almost at the same time, the Bank of England inaugurated a similar program by acquiring "high-quality debt" issued by private institutions. The term "quantitative easing" – and perhaps the policy itself – was probably coined by the Bank of Japan as early as 2001 (Shirakawa, 2002).

The Eurosystem started a relatively moderate program to buy covered bonds in spring 2009. But eventually, in May 2010, the European Central Bank (ECB) implemented a number of "unconventional" measures to support ailing banks and credit-dependent sovereigns or to boost economic growth, mainly in the southern periphery of the eurozone. Step by step, it also changed fundamental rules for its operations, e.g. by substantially reducing the requirements for collateral or by shattering the time frame for its operations from a few days to up to three years (LTRO). In September 2012, the ECB even announced potentially unlimited future Outright Monetary Transactions (OMT).

The Eurosystem

The ECB justified its broadly criticized programs by the exceptionally high risk premia embodied in government bond prices for some euro area member countries which were allegedly hindering the transmission of monetary policy in that part of the monetary union. It considered risk premia as unacceptable that are related to fears of the reversibility of the euro as the currency of these countries.

In the judgment of the critics, the bond buying programs, especially the OMT, are a selective or even arbitrary subsidy of interest rates in favor of governments or banking systems in financial distress. In their view, safeguarding the present composition of the euro zone is not a task conferred on the ECB (Siekmann, 2013; Siekmann and Wieland, 2013, p. 3, 7). Also, the Bundesbank could not find any evidence for a disturbed transmission of monetary policy that would need to be counteracted by such interventions (Deutsche Bundesbank, 2013).

In essence, the European System of Central Banks (ESCB) has assumed debt which could no longer be traded on the market, at least not at any reasonable rate. At the time of purchase it could already have been foreseen that the operation might lead to a loss (Siekmann, 2013, pp. 140-142). However, operations that visibly embody a (potential) loss for a central bank cannot be considered as monetary policy.

Serious concerns exist that the OMT (and earlier the SMP) comply with the general prohibition of granting loans by the ECB or national central banks in favor of any type of government entity or public undertaking (Article 123 paragraph 1 TFEU). The readily used recourse to the language of Article 123 TFEU, which prohibits explicitly only the "direct" purchase of government debt instruments, is too superficial. The Federal Constitutional Court of Germany shut this backdoor on 12 September 2012 in its decision on a temporary injunction "as it would circumvent the prohibition of monetary financing" (Bundesverfassungsgericht, 2 BvR 1390/12 etc., at no. 278). Its final decision is still due.

Federal Reserve System

It is a widely spread misconception that the "quantitative easing" employed by the Fed is comparable to the – installed or announced – programs of the ESCB. The Fed does not buy or accept as collateral debt instruments issued by any state, its agencies, or municipalities, no matter whether directly or on the secondary market. It does not even provide liquidity assistance, not to speak of solvency support, or subsidy of allegedly too high interest rates for sub-central entities. In case of financial distress they have to help themselves.

In essence, the Federal Reserve Act follows the real bill doctrine in designing the instruments granted to the Fed. This can be demonstrated by the regulation of the discount window (12 USC § 343). It only allows to accept instruments with an underlying commercial transaction, similar to the former § 19 (1) no. 1 Bundesbank Act of 1957 ("gute Handelswechsel"). Notes, drafts, or bills covering merely financial operations are explicitly excluded from discount. The same holds for financial instruments of states, municipalities, or their agencies. Only obligations of the Federal Government and its agencies are exempted from this prohibition. The Dodd-Frank-Act has somewhat relaxed these limitations in "unusual and exigent circumstance", but only with strict safeguards.

Even more important are the strict legal rules for open market operations. In essence, only bonds of the Federal Government and the agencies it has assumed liability for may be purchased, provided that they are bought "in the open market". The purchase of obligations of any state, county, district, political subdivision, or municipality in the continental United States is only allowed if they are issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues, and only if they have maturities not exceeding six months from the date of purchase (12 USC § 355 (1)). This is comparable to the limited power of the Bundesbank to grant short term loans to public entities ("Kassenkredite", § 20 (1) no. 1 Bundesbank Act 1957). Even this very limited power had to be removed in establishing the European Monetary Union.

Noteworthy is also the clause requiring a purchase "only in the open market". This has to be taken literally. It requires that the instrument had been bought before by an investor. For this simple reason, maneuvers like the ELA handling in the case of Ireland and Cyprus would have been illegal in the U.S.

Bank of England

The situation in the UK is not comparable to the U.S. or the European Monetary Union. The Bank of England does not have to operate in a heterogeneous area of a federal type with several states. Technically, it executes its purchases by a wholly-owned subsidiary, the "Bank of England Asset Purchase Facility Fund Limited" ("the Company"). Although the purchases are financed by central bank money and could be used for monetary policy purposes, the economic risk is not borne by the Bank of England. The Company is fully indemnified by the Treasury. This procedure has to be judged as an attempt to comply with Article 123 TFEU, protocol no. 15, clause 10 that provides an exemption only for the "'ways and means' facilities of the Bank of England", which are also comparable to short term "Kassenkredite". In effect, the Bank of England has not acquired sub-national assets and holds as assets from the public sector only UK government bonds ("gilts"). Loans to local authorities are granted by the "United Kingdom Debt Management Office" and not by the Bank of England.

Conclusion

Quantitative easing has to follow strict legal rules in Europe and the U.S. It is not generally accepted to purchase debt instruments issued by government entities below the central level. Namely the Fed is clearly restrained to obligations of the Federal Government and its agencies. Also, the operations of the Bank of England are limited. The "unconventional" measures of the ESCB differ substantially from the quantitative easing operations of other central banks. They cannot be judged as accepted instruments of monetary policy.

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SAFE Summer Academy 2013 on „International Financial Stability“

On 30 August, the first SAFE Summer Academy, titled “International financial stability: Thought leadership and best practice in addressing European banking regulation”, was held in Berlin, at the representation of the State of Hessen. Günter Beck, the academic director of the Summer Academy, welcomed the more than 30 participants from several European countries, representing many of the institutions involved in the legislation and implementation of financial markets regulation: the European Parliament, national parliaments, European ministries of finance, the European Commission, the European Central Bank and national central banks.

The SAFE Summer Academy is designed as a one-day training seminar for European policymakers dealing with financial markets regulation. The topics covered in this year’s program ranged from a broader assessment of the characteristics of an efficient and stable financial market infrastructure to a particular focus on the recent and upcoming reform proposals of the European Commission, summarized under the term “banking union”.

Peter Praet, member of the Executive Board of the European Central Bank, opened the day with a keynote-address on the role of the ECB in the handling of the financial crisis. Praet asked the question whether central banks have gained too much power as a result of the crisis. He argued that in the creation of the European Monetary Union, a strong institutional design for monetary policy was a paramount objective. In his view, the ECB’s high credibility as an independent institution was a strong force leading to its current important role in crisis resolution. Praet contended that the European Commission’s reform proposals for a single supervisory mechanism and single resolution mechanism are also about making up for omissions in the creation of strong institutions in the area of financial policy.

Peter Praet, giving the keynote address.

In the first topical session of the day, on “International Banking and Financial Markets”, Patrick McGuire, Senior Economist at the Monetary and Economics Department at the Bank for International Settlements, discussed recent academic insights and empirical evidence on how financial market regulations impact the activities of financial intermediaries and capital markets. He focused on answering the question of which measures improve the ability of financial markets to more efficiently channel funds to the real economy and thereby enhance financial stability. The discussion in this session showed that policymakers are concerned with the fact that interbank credit in Europe is still contracting, showing the continuing lack of trust in the system. This observation, combined with the fact that the non-bank supply of credit is large and growing in many countries, leads policymakers to worry that banking regulation is shifting operations into the non-bank sector and that unintended consequences of regulation are not sufficiently recognized.

In the second session, Dirk Schoenmaker, Dean of the Duisenberg School of Finance, engaged participants in a discussion on “Open issues in financial market stability and efficiency”. Schoenmaker discussed the challenges the internationalization of the banking sector poses for (inter-)national regulators and supervisory agencies and what measures might be taken to deal with these challenges. The observed re-nationalization of banking markets begs the question, what the future of international banking will bring and whether the integrated banking model can persist. Schoenmaker argued that if cross-border banking is to remain an attractive business, then a strong supra-national regulatory framework is necessary to guarantee the stability of financial markets and, for this, European member states must give up on national financial policies.

The first afternoon session was led by Giovanni Dell'Ariccia, Head of the Macro-Financial Linkages Unit in the Research Department of the International Monetary Fund. Dell'Ariccia delivered the rationale for the elements that must be part of a European banking union. He argued that the vicious circle between bank risk and sovereign risk can be weakened only by a common safety net for the financial system. Because of moral hazard concerns, a common safety net needs to be strengthened by a common supervisory framework. Lastly, because banking supervision is only effective if combined with resolution powers, a single supervisory mechanism must be enhanced by resolution powers.

From left to right: Giovanni Dell'Ariccia, Tobias Tröger, Dirk Schoenmaker.

In the second afternoon session, open questions with respect to implementation of the banking union were looked into from a legal perspective. Tobias Tröger, Professor of Private Law, Trade and Business Law, Jurisprudence at Goethe-University Frankfurt, focused on issues resulting from the fact that not all European member states are part of the Eurosystem and therefore not automatically part of the common supervisory framework (SSM). While the European Commission has a proposal for member states to join the SSM on a voluntary basis, Tröger argued that the current institutional design for supervisory decision-making makes this unattractive. With no representation in the ultimate decision taken in the General Council, the "outs" will not want to give up national financial policies. Tröger views this as problematic, given that the issues with cross-border banking, commonly used as justification for the banking union, do not stop at the borders of the Euro Area. He predicts that the implementation of the banking union will be an ongoing process and will, in the mediumterm, also require a treaty change.

The day closed with a panel discussion on the topic: "What kind of European banking union?" with John Berrigan, Director for Financial Stability, Economic and Financial Affairs, in the Directorate General for Economic and Financial Affairs at the European Commission, Helmut Siekmann, Endowed Chair of Money, Currency and Central Bank Law at Goethe-University Frankfurt, and Ashoka Mody, Charles and Marie Robertson Visiting Professor in International Economic Policy at Prince-ton University. The panelists discussed controversially the question of whether the theoretical design of a European banking union, including a common supervisory framework and a single bank resolution fund, with clear burden sharing for a loss-absorbency fiscal back-stop, has the chance of practical implementation.

From left to right: Günter Beck, Ashoka Mody, Helmut Siekmann, John Berrigan.

The consensus reached throughout the day, that the best insurance for financial stability is given by an independent, best-practice supra-national supervisor, was challenged by the view that the political consensus to subscribe to the necessary common resolution fund will not be reached in all member states. The panelists agreed that the next steps depend on the ability of governments to convince their electorates that the banking union is a net-positive for their nation. In this context, the open question of how to deal with legacy assets in the banking system will be decisive. A clear answer as to how losses will be allocated is needed. Much hope is therefore placed in the ECB communication on the up-coming asset quality review, that is expected in the early fall of this year.

Margit Vanberg

Selected Policy Center Publications

Bülbül, D., Schmidt, R.H., Schüwer, U. (2013)
"Savings Banks and Cooperative Banks in Europe",
White Paper No. 5/2013, SAFE Policy Center

Gropp, R. (2013)
"Taxes, banks and financial stability",
White Paper No. 6/2013, SAFE Policy Center

Gründl, H., Gal, J. (2013)
"Own Risk and Solvency Assessment within the Solvency II Framework",
Policy Letter No. 11/2013, SAFE Policy Center

Krahnen, J. P., Weimer, T. (2013)
"Die Auswirkungen von Regulierung auf Bankverhalten und Wettbewerb",
Policy Letter No. 12/2013, SAFE Policy Center

New Endowed Visiting Professorship on Financial History

On the occasion of Goethe University's centennial, Edmond de Rothschild Group and Metzler Bank in cooperation with the Institut für bankhistorische Forschung, Frankfurt, donate a visiting professorship on "Financial History" to the House of Finance and the Center of Excellence SAFE. In the context of the visiting professorship, distinguished experts in banking and financial history from Germany and abroad will be invited to share their research output and methods with researchers, students and the interested public in Frankfurt. The professorship – the first of its kind within the economics faculty of a German university – reflects increasing awareness of the need for interdisciplinary work in finance.

Brigitte Haar becomes a Member of the Consumer Advisory Council of BaFin

Brigitte Haar, Professor for Private Law, German, European, and International Business Law, Law and Finance, and Comparative Law has been appointed to the Consumer Advisory Council of the BaFin (Federal Financial Supervisory Authority) by the Federal Ministry of Finance for a term of five years and elected Vice Chairperson thereof. The Council is tasked with providing the BaFin with advice and insights from a consumer perspective. It has 12 members, consisting of representatives from academia, consumer and investor protection organizations as well as ombudsmen of extrajudicial dispute resolution schemes and an employee of the Federal Ministry of Food, Agriculture and Consumer Protection.

Eleven New Assistant Professors Join SAFE Research Team

After a short but extensive search on the international job market, the SAFE faculty has succeeded in winning 11 new assistant professors; each with an impressive international background that will certainly enrich and inspire the respective SAFE research team:

- Martin R. Goetz, formerly Financial Economist in the Risk and Policy Analysis Unit of the Federal Reserve Bank of Boston, will focus on regulation and the stability of financial institutions; he will be joined by Thomas Mosk from Tilburg University in the SAFE research area on financial institutions.

- Sascha Baghestanian, coming from Indiana University, Bloomington, will conduct work on microeconomics and experimental economics, and will be joined by Steffen Juranek, who is already based at Goethe University Frankfurt, in the SAFE research area on corporate governance.

- Mariya Melnychuk, previously at the University of Alicante, Eirini Tatsi, from Goethe University, and Nathanael Vellekoop from Tilburg University will all strengthen the SAFE research area on household finance.

- Giuliano Curatola, previously at the Swiss Finance Institute at the École Polytechnique Fédérale de Lausanne, will dedicate himself to asset pricing and trading, as will Satchit Sagade from the Henley Business School at the University of Reading.

- Baptiste Massenot, previously a postdoctoral researcher at the University of Lausanne will join the SAFE research area on macro finance, as will Alessandro Gioffré from the University of Basel.

SAFE Policy Discussion on Banking Supervision

On 16 July, Elke König, President of the BaFin, gave a lecture on the implementation of private liability in the resolution of financial institutions and the future role of banking supervision in Europe. In particular, she discussed how to implement new bail-in instruments in the process of a bank restructuring. In order to solve the prevailing "too complex to fail" problem, König demanded an internationally uniform resolution mechanism for banks. One key component of this mechanism should be the implementation of a broad bail-in which obliges both owners and creditors of banks to bear the costs of restructuring. In this context, the BaFin and the European Commission have argued against the use of a new type of contractual bail-in instrument in order to allow for more flexibility for banks, König said. Her lecture was part of the SAFE Policy Center discussion series on structural reforms in the European banking sector.

Positive Evaluation for Doctorate/Ph.D. Program in Law and Economics

The Doctorate/Ph.D. Program in Law and Economics of Money and Finance (LEMF) has received a positive interim evaluation for its further funding for two more years until 2014. This was decided by the Board of Trustees of Stiftung Geld und Währung, the foundation which has financed the program since its inception in 2009. Its decision was preceded by a positive evaluation of the program by some independent evaluators. These stressed the interdisciplinary approach, the study concept, the high scientific quality of the program, its institutional anchoring in the law school as well as the provision of "convincing and innovative" academic training. Also, the internationally outstanding researchers attracted as guest lecturers, who taught during the academic year or at the annual summer school and gave doctoral students an opportunity to discuss their research projects, were considered very valuable. According to the evaluators, the LEMF has "contributed significantly to the German research landscape in law and economics". The interdisciplinary program, directed by Brigitte Haar and Uwe Walz, currently includes 29 doctoral students with a first degree in law or economics.

LEMF Summer School 2013

The LEMF Doctorate/Ph.D. Program had the pleasure of hosting its 5th Annual Summer School on Law and Economics of Banking from 12 to 16 August 2013. The internationally recognized experts on financial institutions Gerard Hertig (Professor of Law, ETH Zurich) and Geoffrey Parsons Miller (Stuyvesant P. Comfort Professor of Law, New York University) presented a wide range of current issues from an economic as well as a legal perspective. Participants from all over the world gained valuable insights into the special role banks play in the economic system, their function as payment specialists and their ability to create liquidity. Furthermore, on the regulatory side, the lectures addressed the struggles supervisors and regulators are now facing, as well as developments in cross-border supervisory agencies, capital requirement rules and the implementation thereof.

Selected Publications

Behr, P., Norden, L., Noth, F. (2013)
"Financial Constraints of Private Firms and Bank Lending Behavior",
Journal of Banking and Finance, Vol. 37, Issue 9, pp. 3472-3485.

Boissay, F., Gropp, R. (2013)
"Payment Defaults and Interfirm Liquidity Provision",
forthcoming in Review of Finance.

Entorf, H., Gross, A., Steiner, C. (2012)
"Business Cycle Forecasts and their Implications for High-Frequency Stock Market Returns",
Journal of Forecasting, Vol. 31, Issue 1, pp. 1-14.

Fischer, M., Kraft, H., Munk, C. (2013)
"Asset allocation over the life cycle: How much do taxes matter?",
forthcoming in Journal of Economic Dynamics and Control.

Gensler, S., Leeflang, P., Skiera, B. (2013)
"A Comparison of Methods to Separate Treatment from Self-Selection Effects in an Online Banking Setting",
Journal of Business Research, Vol. 66, Issue 9, pp. 1272–1278.

Haar, B., Grechenig, K. (2013)
"Minderheitenquorum und Mehrheitsmacht bei der Aktionärsklage – Bessere Corporate Governance durch Abschaffung der Beteiligungsschwelle gem. § 148 Abs. 1 S. 1 AktG",
forthcoming in Die Aktiengesellschaft (AG).

Johann, T., Theissen, E. (2013)
"Liquidity Measures",
in Bell, A., Brooks, C., Prokopczuk, M. (Eds.): Handbook of Research Methods and Applications in Empirical Finance, Edward Elgar.

Langenbucher, K. (2013)
"Aufsichtsratsmitglieder in Kreditinstituten: Rechte, Pflichten und Haftungsregeln",
in Hölscher, R., Altenhain, T. (Eds.), Handbuch Aufsichts- und Verwaltungsräte in Kreditinstituten, pp. 3-25.

Siering, M. (2013)
"All Pump, No Dump? The Impact of Internet Deception on Stock Markets",
Proceedings of the 21st European Conference on Information Systems, Utrecht, Netherlands.

Tröger, T. (2013)
"Konzernverantwortung in der aufsichtsunterworfenen Finanzbranche",
Zeitschrift für das gesamte Handels- und Wirtschaftsrecht (ZHR), Vol. 177, pp. 475-517.

Wandt, M. (2013)
"Zulässigkeit eines rückwirkend vereinbarten Leistungsausschlusses in einer Gruppenversicherung – Anmerkung zu BGH, 8.5.2013, IV ZR 2 33/11",
Zeitschrift für Versicherungsrecht, Haftungs- und Schadensrecht (VersR), Vol. 20, pp. 853-859.

Recent SAFE Working Papers

No. 29 **Aldasoro, I., Angeloni, I.**
"Input-Output-based measures of systemic importance"

No. 28 **Branger, N., Kraft, H., Meinerding, C.**
"Partial Information about Contagion Risk, Self-Exciting Processes and Portfolio Optimization"

No. 27 **Tröger, T.**
"The Single Supervisory Mechanism – Panacea or Quack Banking Regulation?"

No. 26 **Brennan, M. J., Kraft, H.**
"Financing Asset Growth"

No. 25 **Kraft, H., Schmidt, A.**
"Systemic Risk in the Financial Sector: What Can We Learn from Option Markets?"

No. 24 **Gill, A., Visnjic, N.**
"Performance Benefits of Tight Control"

No. 23 **Gill, A., Visnjic, N.**
"Insight Private Equity"

No. 22 **Bursian, D., Weichenrieder, A. J., Zimmer, J.**
"Trust in Government and Fiscal Adjustments"

Cooperation between the ECB and Academia

Peter Praet
Member of the Executive
Board of the ECB

Research plays a vital role at the ECB and in central banks in general. Central banks draw on research input for formulating their monetary policy strategy, designing their operational framework and communicating their policy response to exceptional events such as the recent financial crisis. For instance, research can provide valuable insights into the dynamics of the economy in different phases of the business cycle, and particularly in times of financial turbulence. Understanding how the functioning of specific goods and financial market segments affects the transmission of monetary policy can help policy makers devise the appropriate response. Further areas of research relevant for the ECB's tasks and functions are monetary policy implementation and payments systems, as well as international and European cooperation. Intense research efforts are currently (and will be for some time in the future) devoted to the interaction between the macroeconomy and financial instabilities. Other important areas of research highlighted by the crisis include the identification of systemic risk, as well as measures to preempt its build-up and contain its consequences.

Policy decisions benefit from model-based analyses and up-to-date information on the state of the economy, and require sound judgement. Research from the central banking research community and from academics is key to interpret and bring together this information in a coherent framework. In the pursuit of its responsibilities, the ECB is fostering an intense exchange of information, discussion and cooperation with the academic world at all levels. Research at the ECB has an important role in facilitating this interaction. It contributes to the ECB's monetary policy and its other tasks and functions including via research-based policy advice and analytical tools. Besides research in monetary economics, macroeconomics and finance, the ECB develops, maintains and uses theoretical as well as econometric models for forecasting and policy analyses.

A number of research networks of the European System of Central Banks (ESCB) have been established, focusing on a wide range of topics. Currently the following networks address questions and research topics that are of key relevance to the monetary policy and financial stability policies in particular in the light of the recent financial crisis and the subsequent sovereign debt crisis: The Macro-prudential Research Network (MaRs), the Household Finance and Consumption Network (HFCN), the Competitiveness Research Network (CompNet) and the Euro Area Business Cycle Network (EABCN). These networks provide another platform for researchers from ESCB National Central Banks and the ECB to interact with academics as collaborators and consultants that is mutually beneficial.

The two-way interaction between academia and the ECB is also ensured by a very active visitor program. Leading experts in economics and finance regularly come to the ECB to discuss their most recent findings at seminars, conferences or workshops, often co-hosted with other major central banks and research institutions, as well as to provide consultancy. The result is that research at the ECB is making an increasing contribution to the academic debate, and academic research enriches the ECB policy debate, as recently illustrated by academic papers providing various perspectives on the role of forward guidance for the way monetary policy is conducted.

The members of the Governing Council and the Executive Board of the ECB play an active part themselves in this regular exchange of views between the theory and practice of monetary policy. I can only encourage this dialogue to continue, to the greater benefit of all parties involved.

Events

October

Monday, 7th 5.00 pm	**EFL Jour Fixe** **Improving Sensing Capabilities of a Firm by Measuring Corporate Reputation** Speaker: Janek Benthaus, E-Finance Lab
Monday, 7th 4.00 – 6.00 pm	**CFS Workshop** **Increasing the Impact of Risk Management on Senior Management's Decision-Making** Organization: Sebastian Fritz-Morgenthal, FIRM; Thomas Kaiser, Goethe University and KPMG
Tuesday, 8th 7.00 pm	**ILF Conference** **Compliance – Befragungstechnik und Befragungs-psychologie** Speaker: Ole Mückenberger, Wirtschaftsstrafrechtliche Vereinigung
Wednesday, 9th 5.00 pm	**ILF Conference: Frankfurter Börsenforum** Speaker: Andreas Cahn, Goethe University
Thursday, 10th 9.00 am	**ILF Conference** Organization: Andreas Cahn, Goethe University; Souza; Hengeler Mueller
Thursday, 10th 6.30 pm	**ILF Lecture** **Debt Funds** Speaker: Mathias Hanten, DLP Piper
Monday, 21st 12.00 – 1.30 pm	**CFS Lecture** Speaker: Martin Hellwig, Max Planck Institute for Research on Collective Goods
Monday, 21st – Tuesday, 22nd 9.00 am – 6.00 pm	**Deutsche Bundesbank/SAFE Conference** **Supervising Banks in Complex Financial Systems**
Wednesday, 23rd 2.15 – 3.45 pm	**Frankfurt Seminar in Macroeconomics – joint with SAFE** Speaker: Marianne Bertrand, University of Chicago Booth School of Business
Thursday, 24th – Friday, 25th	**GBS Executive Forum** **Karel's Club – The Future of Life Insurance**
Tuesday, 29th 2.15 – 3.45 pm	**Frankfurt Seminar in Macroeconomics – joint with SAFE** Speaker: Lutz Kilian, University of Michigan
Tuesday, 29th 4.15 – 5.30 pm	**Finance Seminar – joint with SAFE** Speaker: Andres Almazan, University of Texas

November

Monday, 4th 5.00 pm	**EFL Jour Fixe** **Impact of Information Disclosure on Prices in Real-Time Advertising** Speaker: Marc Heise, E-Finance Lab
Thursday, 7th	**SAFE Policy Center Lecture** **Die Europäische Einlagensicherung aus Sicht der Sparkassen- und Finanzgruppe** Speaker: Karl-Peter Schackmann-Fallis, Deutscher Sparkassen- und Giroverband
Monday, 11th 6.00 pm	**Frankfurter Vorträge zum Versicherungswesen** **Umsetzung und Prüfung des GDV-Verhaltenskodex aus Sicht des Wirtschaftsprüfers** Speaker: Gunter Lescher, PricewaterhouseCoopers
Tuesday, 12th 12.00 am – 1.30 pm	**CFS Lecture** **Sovereign Money** Speaker: Joseph Huber, Martin Luther University of Halle-Wittenberg
Tuesday, 12th 2.15 – 3.45 pm	**Frankfurt Seminar in Macroeconomics – joint with SAFE** Speaker: Jim Nason, Federal Reserve Bank of Philadelphia
Wednesday, 13th 5.30 pm	**SME-Network Initiation Event** **Erfolg ist machbar! Potenziale erkennen und nutzen** Organisation: GBS, Offensive Mittelstand Rhein-Main
Thursday, 14th 9.00 am	**ILF Pari Passu Conference** Speaker: Andreas Cahn, Goethe University; Patrick S. Kenadjian, Davis Polk & Wardwell LLP; Klaus-Albert Bauer, Freshfields Bruckhaus Deringer LLP
Tuesday, 19th 4.15 – 5.30 pm	**Finance Seminar – joint with SAFE** Speaker: Norman Schürhoff, University of Lausanne
Thursday, 21st 10.00 am	**Corporate Finance Summit** Speaker: Andreas Cahn, Goethe University & ILF
Thursday, 21st 6.30 pm	**GBS Broaden Your Horizon** **Self-Control as a Key Strength for Successful Leadership and how our Brain exerts Self-Control – Insights from Recent Neuroscience Studies** Speaker: Karolien Notebaert, Goethe University
Friday, 22nd – Saturday, 23rd 10.00 am	**6. ECLE Symposion** Speaker: Andreas Cahn, Goethe University & ILF; Klaus Lüderssen, Goethe University
Monday, 25th 5.30 – 7.00 pm	**CFS Lecture** **Primat der Politik? Die Entstehung der Europäischen Währungsunion (tbc)** Speaker: Andreas Rödder, University of Mainz
Tuesday, 26th 8.45 am – 6.00 pm	**IMFS Conference on Monetary and Financial Stability 2013** **Economic and Legal Limits of Central Banking**
Tuesday, 26th 2.15 – 3.45 pm	**Frankfurt Seminar in Macroeconomics – joint with SAFE** **Why do Europeans steal so much more than Americans?** Speaker: Marek Kapicka, University of California Santa Barbara
Tuesday, 26th 4.15 – 5.30 pm	**Finance Seminar – joint with SAFE** Speaker: Pascal St-Amour, University of Lausanne
Tuesday, 26th 6.00 pm	**ICIR Seminar on Insurance and Regulation** Speaker: Felix Hufeld, BaFin

December

Monday, 2nd 5.00 pm	**EFL Jour Fixe** **Optimized Cloud Data Center Selection of QoS – Aware Service Provision** Speaker: Ronny Haas, E-Finance Lab
Tuesday, 3rd 4.15 – 5.30 pm	**Finance Seminar – joint with SAFE** Speaker: Alan Brav, Duke University
Wednesday, 4th 5.30 – 7.00 pm	**CFS Colloquium** **Is the Euro at Risk?** Speaker: Jean-Claude Trichet, Banque de France
Tuesday, 10th 2.15 – 3.45 pm	**Frankfurt Seminar in Macroeconomics – joint with SAFE** Speaker: Vincenzo Quadrini, University of Southern California – Marshall School of Business
Thursday, 19th 2.15 – 3.45 pm	**Frankfurt Seminar in Macroeconomics – joint with SAFE** Speaker: Antoinette Schoar, Sloan School of Manage-ment – Massachusetts Institute of Technology

Please note that for some events registration is compulsory.

CFS Center for Financial Studies
EFL E-Finance Lab
GBS Goethe Business School
ICIR International Center for Insurance Regulation
ILF Institute for Law and Finance
IMFS Institute for Monetary and Financial Stability

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