



Sustainable Architecture for Finance in Europe

SAFE
SUMMER
ACADEMY
2014

Shadow Banking:
Evolution, Background,
Perspectives

3 SEPTEMBER 2014
BRUSSELS

IMPRINT

Research Center SAFE
Goethe University Frankfurt
House of Finance
Grüneburgplatz 1
60323 Frankfurt
Germany
www.safe-frankfurt.de

ORGANIZATION

Research Center SAFE
Center for Financial Studies and
Goethe University Frankfurt

ACADEMIC DIRECTOR

Prof. Dr. Günter W. Beck
(Chair for European Macroeconomic Studies, University of Siegen)

PROGRAM ADVISORY COMMITTEE

Prof. Dr. Christian de Boissieu
(Professor of Monetary and Financial Economics, University of Paris I (Panthéon – Sorbonne))

Per Callesen
(Governor, National Bank of Denmark)

Dr. Christian Kastrop
(Director, Policies Studies Branch, Economics Department of the OECD)

Dr. Michael Meister
(Parliamentary Secretary of State at the German Federal Ministry for Finance, Christian Democratic Union Party)

Carsten Schneider
(Deputy parliamentary chairman of the Social Democratic Party parliamentary group in the German Bundestag)

Dr. Gerhard Schick
(Finance spokesman for the Green Party parliamentary group in the German Bundestag)

Dr. Axel Troost
(Finance spokesman for the Left Party parliamentary group in the German Bundestag)

DESIGN

www.staehlingdesign.de

EXECUTIVE SUMMARY

The goal of the SAFE Summer Academy, organized by the Research Center SAFE, is to provide a research-based training for European policymakers dealing with financial markets regulation. The major focus of this year's program is on giving its participants an analytically disciplined, fact- and evidence-based assessment of the size and the economic role and functioning of the (European) shadow banking system. Moreover, the event will be concerned with the economic mechanisms by which shadow banking activities do impact financial stability, and will discuss how regulation can address these problems. Finally, a detailed analysis of the functioning and appropriate regulation of money market funds and the process of securitization will be conducted.

The faculty and panel participants of the Summer Academy comprise leading scholars in the field, together with expert practitioners from the International Monetary Fund, the Euro-system, and the European Securities and Markets Authority. The syllabus combines academic research and thinking with presentation and discussion of best practice amongst policy makers and financial supervisory agencies.

The Summer Academy is primarily aimed at senior officials from European ministries of general governmental affairs, finance and economic affairs as well as high-level staff of European parliaments. To allow for extensive interaction and engagement with faculty, the number of participants in the Summer Academy will be strictly limited.

TOPICS AND OBJECTIVES

The aim of this year's SAFE Summer Academy is to provide a comprehensive, research-based and interactive analysis and discussion of the functioning and appropriate supervision and regulation of the (European) shadow banking system. Topics that will be addressed include the measurement of the shadow banking system, the functioning of its major segments and their role for and interaction with the macroeconomy and monetary policy. Moreover, the economic mechanisms which can give rise to undesired and potentially harmful outcomes for financial stability and the appropriate regulatory measures to attend to these problems will be discussed.

To offer a comprehensive treatment of the event's theme, three different formats will be employed. In a keynote session, Thomas Wieser, President of the Economic and Financial Committee of the European Union, will present his views on the operation and most appropriate regulation of the European shadow banking system. Four topical sessions, each directed by one or two leading academic and/or practitioner experts, will cover, in some detail, the topics outlined above, employing an analytically disciplined approach. In a concluding panel discussion, representatives of national and international policy institutions as well as academia will exchange views and perspectives.

A major aim of the Summer Academy is to foster an active interexchange between its participants and its faculty. To this end, the number of participants is strictly limited. Moreover, in each unit of the event, there is time reserved for an explicit exchange between the faculty and the participants. In the four topical sessions, an interactive approach will be followed. The Summer Academy's dinner and the breaks are furthermore intended to allow for interaction between participants and faculty.

PROGRAM

The program has been structured to engage participants as fully as possible with the frontiers of both theory and practice as well as empirical evidence on the topic of shadow banking and its regulation. The event starts with a keynote address by Thomas Wieser, President of the Economic and Financial Committee of the European Union, which is followed by a discussion with the participants.

The first topical session will focus on the definition of the shadow banking system and the still not settled question of its most appropriate measurement. Moreover empirical evidence for the euro area and the U.S. will be presented. The second session will concentrate on the economic role and the functioning of the various segments of the shadow banking system. In this context, the role of securitization and collateral intermediation will be discussed. Finally, a closer inspection of the interaction of major shadow banking activities with monetary policy and the importance of shadow banking for the real economy will be conducted.

The two topical sessions of the afternoon will be dedicated to the economics and policy of shadow banking regulation. In the first of these sessions, economic mechanisms such as agency problems, neglected tail risks or regulatory arbitrage will be discussed in detail. Furthermore, the threat that these mechanisms can have for financial stability will be addressed. Based on this analysis, desired policy options will then be derived. The final topical session will focus on two major shadow banking institutions, money market funds and securitization and will discuss, in detail, appropriate policy solutions for them.



All topical sessions will be based on a structured analytical framework for thinking about financial stability issues related to activities in the shadow-banking system, and will acquaint participants with the latest relevant theoretical and empirical research. All presentations in the sessions will be interactive, allowing full opportunities for exchange of views between participants and presenters.

The panel discussion will provide a complementary and more policy-oriented view on the topics covered in the preceding sessions. To this end, experts and policy makers from the Eurosystem and the European Commission will discuss how their institutions address issues of efficiency and stability in the shadow banking system. These contributions will be augmented and critically assessed by two academics from the fields of economics and law.

FACULTY AND PANELISTS

The faculty and panel participants comprise leading scholars in the field of financial economics together with expert practitioners from the International Monetary Fund, the Eurosystem, the European Commission and the European Securities and Markets Authority.

TUESDAY, 02 SEPTEMBER 2014

Location: Representation of the State of Hessen to the EU
21, Rue Montoyer – 1000 Brussels

6.30 – 7.00 pm Registration and welcome
Jan Pieter Krahn (*SAFE and Goethe University Frankfurt*)

7.00 pm Dinner

WEDNESDAY, 03 SEPTEMBER 2014

Location: Representation of the State of Hessen to the EU
21, Rue Montoyer – 1000 Brussels
Conference room

7.50 – 8.20 am Registration and welcome coffee

8.20 – 8.30 am Welcome

8.30 – 9.00 am Keynote Session:
Thomas Wieser (*President of the Economic and Financial Committee of the European Union*)

Keynote address and discussion

9.00 – 10.15 am Defining and measuring the shadow banking system in the euro area (also in comparison to the U.S.)
Steffen Kern (*ESMA*)
Bernhard Winkler (*ECB*)

10.15 – 10.45 am Coffee break

- 10.45 – 12.00 pm Functions and functioning of the shadow banking system
Hans-Helmut Kotz (*SAFE and Harvard University*)
Günter W. Beck (*SAFE and University of Siegen*)
- 12.00 – 1.00 pm Lunch
- 1.00 – 2.15 pm The economics and policy of shadow banking regulation
Manmohan Singh (*IMF*)
- 2.15 – 2.45 pm Coffee break
- 2.45 – 4.00 pm The economics and policy of the regulation of selected shadow banking entities/processes:
(i) Money market funds
(ii) Securitization
Morgan Després (*Banque de France*)
Jürgen Schaaf (*ECB*)
- 4.00 – 5.00 pm Panel discussion: What kind of regulation for the (European) shadow banking system?
Moderator:
Jan Pieter Krahen (*SAFE and Goethe University Frankfurt*)
Participants:
Pentti Hakkarainen (*Deputy Governor, Bank of Finland*)
Jean-Pierre Landau (*Sciences Po, formerly Banque de France*)

FACULTY AND PANELISTS

The faculty and panel participants comprise leading scholars in the field of financial economics together with expert practitioners from the International Monetary Fund, the Eurosystem, the European Commission and the European Securities and Markets Authority.

KEYNOTE SPEAKER



THOMAS WIESER

Chairman of the Euro Working Group and President of the Economic and Financial Committee

Thomas Wieser was Director General for Economic Policy and Financial Markets in the Ministry of Finance, Vienna, in charge of macro-economic policy, international and EU affairs, financial market legislation, and export credits and guarantees. He taught at the University of Colorado, Boulder (Fulbright scholarship), and at the Institute of Advanced Studies, Vienna. He spent 4 years as an economist in EFTA in Geneva, where he was in charge of negotiations with the EU on state aid affairs. Prior to that, he worked in banking in Vienna, and as a research economist. He chaired the OECD Committee on Financial Markets from 2005-2009, served as the President of the Economic and Financial Committee of the EU from March 2009 to March 2011 and was re-elected in January 2012.

SPEAKERS



MORGAN DESPRÉS

Banque de France, Financial Stability Department

Morgan Després joined the Banque de France in 2005 in the Payment and Settlement Systems Department and now in the Financial Stability Department, as Head of Financial Regulation Policy and Coordination Division. Other experiences include assignments in the French Treasury as deputy head of the Financial Stability Office, the Trade Section of the French Embassy in Germany and consultancy for the International Monetary Fund. He holds degrees from Sciences Po Paris and an MBA from ESSEC Business School.



STEFFEN KERN (ESMA)

Chief Economist and Head of Financial Stability of the EU's financial market supervisory authority ESMA

Before joining the EU's public service, he had worked for Deutsche Bank, including positions as Director for International Financial Market Policy, as Senior Economist at Deutsche Bank Research, and at the Group Board offices.

Kern is a Professor at the University of Mainz (Germany) teaching international financial market development, regulation, and supervision, and has been appointed advisor to the World Economic Forum on Global Financial System reform. He served as a Senior Fellow of the Transatlantic Academy in Washington (US), and was appointed the 2011 Helmut Schmidt Fellow of the ZEIT-Foundation and the German Marshall Fund.



JÜRGEN SCHAAF

Counsellor to the Executive Board of the ECB

Jürgen Schaaf is Counsellor to the Executive Board of the ECB and Secretary of the Single Supervisory Mechanism (SSM) Project Team. Before he joined the ECB, he was Personal Adviser to the Governor of Banque centrale du Luxembourg. In previous occupations he worked as ECB watcher at Börsen-Zeitung and Senior Economist at Deutsche Bank. Dr. Schaaf studied economics in Marburg and Canterbury and holds a Ph.D. in Economics from Phillips University Marburg.



MANMOHAN SINGH

Senior Economist at the International Monetary Fund (IMF), Washington

Manmohan Singh is a senior economist at the IMF. He writes extensively on topical issues including collateral and monetary policy, rehypothecation and velocity of collateral, deleveraging in financial markets, shadow banking, and counterparty risk in OTC derivatives. Singh has led the IMF's workshops for official policymakers on strategic asset-allocation issues and the new financial regulatory framework. He has recently written a book 'Collateral and Financial Plumbing' that succinctly covers his research over the past 5 years.



BERNHARD WINKLER

Senior Adviser in the Directorate General Economics at the European Central Bank (ECB)

Bernhard Winkler has worked at the Deutsche Bundesbank before joining the ECB in July 1998. Subsequently he held positions as Senior Economist in the Monetary Policy Strategy Division, in the Counsel to the Executive Board as adviser to Prof. Otmar Issing, and since May 2005 as Senior Adviser in the Directorate Monetary Policy responsible, inter alia, for flow-of-funds analysis at the ECB and the co-ordination of financial projections as part of the quarterly macroeconomic projections exercises. He currently serves as deputy secretary to the Governing Council of the ECB.

PANELISTS

PENTTI HAKKARAINEN



Deputy Governor, Bank of Finland

Pentti Hakkarainen is Board Member since 2002 and Deputy Governor of the Bank of Finland since 1 January 2008. Mr. Hakkarainen bears responsibility for financial market stability, currency supply, accounting, financial reporting and risk management. Mr. Hakkarainen is Chairman of the Board of the Financial Supervisory Authority (the FSA in Finland), alternate of the ECB Governing Council, member of the Supervisory Board of the Single Supervisory Mechanism (SSM), Chairman of the ESCB Committee on Controlling (COMCO) as well as member of the Economic and Financial Committee of the European Union (EFC) and alternate of the IMF Board of Governors. Before joining the Bank he worked in the finance management of an international industrial corporation and as chief executive in commercial banking in the years 1985–2001.



JAN PIETER KRAHNEN

Program Director, SAFE Policy Center and Professor of Corporate Finance, Goethe-University Frankfurt

Jan Krahnén is a Director of the Center for Financial Studies and the Center of Excellence SAFE, a CEPR-Fellow, and the 2011 President of the European Finance Association. Krahnén has been involved in policy advisory on issues of financial market regulation, most recently as a member of the Issing-Commission, advising the German government on the G-20 meetings 2008-2011. He is also a member of the Academic Advisory Board, German Federal Ministry of Finance, a member of the Group of Economic Advisors at the European Securities and Markets Agency and a member of the High Level Expert Group on Structural Reform of the EU Banking Sector (Liikanen Commission).



JEAN-PIERRE LANDAU

Professor of economics at SciencesPo and former deputy governor of the Banque de France

Jean-Pierre Landau has worked in the French Government and Central Bank for most of his career. He has served as Executive Director of the International Monetary Fund (IMF) and the World Bank from 1989 to 1993 and was then appointed Undersecretary for External Economic Relations (1993-1996) at the Ministry of Finance in Paris. From 2000 to 2006, he was Treasury Representative in London and Executive Director at the EBRD. Subsequently, he served as Deputy Governor of the Banque de France from 2006 to 2011. He is currently at the Economic Department of Sciences Po. He has been Visiting Lecturer at Princeton University (Woodrow Wilson School) in 2012 and Visiting professor at SAIS (John Hopkins – Washington DC) in 1992-93. His main fields of interest include monetary policy, financial regulation and international macroeconomics.

ACADEMIC DIRECTORS



GÜNTER W. BECK

Professor for European Macroeconomics at the University of Siegen

Günter W. Beck is Professor for European Macroeconomics at the University of Siegen and Research Fellow at the Center for Financial Studies. His research focuses on macroeconomics, monetary economics, and international economics. Before his appointment in Siegen, Mr. Beck was Professor at the University of Mainz. After gaining a Ph.D. from Goethe University Frankfurt in 2004, he worked as an Assistant Professor in Frankfurt.



HANS-HELMUT KOTZ

Program Director, SAFE Policy Center and Senior Fellow, Center for Financial Studies, Goethe University Frankfurt

Hans-Helmut Kotz is a Resident Fellow, Center for European Studies, Harvard University and on the Economics Faculty at Freiburg University. Prior to that, Prof. Kotz was a Member of the Executive Board of Deutsche Bundesbank as well as a member of committees of the BIS, the FSB and the OECD, where he was chair of the Financial Markets Committee. He was also the German Central Bank Deputy for the G7 and the G20 process.

ORGANIZATION

Research Center SAFE
A cooperation of Goethe University
Frankfurt and the Center for
Financial Studies funded by the
LOEWE program of the State of
Hessen.

CONTACT FOR REGISTRATION

Daniela Dimitrova, M.Sc.
Manager Conferences and Events
Research Center SAFE
Goethe University Frankfurt
House of Finance
Grüneburgplatz 1
60323 Frankfurt
Germany
dimitrova@safe.uni-frankfurt.de
Tel. +49 (0)69 798 30093
www.safe-frankfurt.de

*In cooperation with the
Representation of the State
of Hessen to the EU*

HESSEN



Exzellente Forschung für
Hessens Zukunft