Financial Advisory Roundtable (FAR)
October 17, 2014

Agenda

Topic 1: Private Safe Asset Creation and Financial Stability

The creation of money-like safe assets accelerated in the run-up to the financial crisis, and then collapsed sharply during the crisis of 2007-2009. The safe asset creation was supported by innovations in securitization technologies, and satisfied an apparently increasing demand for such assets.

1. What are the determinants for the demand and supply of safe assets?
    a. What is the evidence that the supply of safe or money-like assets was insufficient?
    b. What are the drivers of an increase in the demand for safe or money-like assets?
    c. Do we currently see evidence that an imbalance between the demand and the supply of safe or money-like assets?
    d. What are market indicators for the degree of safe asset shortage?
    e. Does increased safe asset creation generate financial vulnerabilities?
    f. What are the specific features of safe or money-like assets that make them particularly desirable?
    g. Are there features of these assets that cannot be well compensated by a higher return?

2. What are the optimal policies to address safe asset shortages?
    a. Should liquidity regulations take the shortage of safe assets into account?
    b. What are the comparative advantages of the private sector and the official sector in providing safe or money-like assets?
    c. Within the official sector, what institutions are best placed to provide safe or money-like assets and what are the best tools at their disposal (e.g. maintaining a large supply of reserves, expanding the ON RRP facility, adjust the maturity profile of government debt)?
    d. Should the amount of excess reserves in the economy be used to regulate the total amount of safe assets?

3. What can be done to ensure that the private provision of private money-like assets does not destabilize the financial system?
    a. Should bankruptcy laws be changed? How?
    b. Do we need a more robust safety net for institution that issue liabilities that are used as safe or money-like assets?
    c. Has the reform of money market funds and the repo market sufficiently addressed run risks in wholesale funding markets?
    d. Should private creation and provision of money-like safe assets be supported or discouraged by the official sector?

Topic 2: The Role of Governance and Culture in Risk Management

1. Is culture different in the financial services industry than in other industries? Is there a higher incidence of abuse, fraud, and inadequate risk management in financial firms?
    a. If so, what are contributing factors? Asset structure? Asset opacity? Labor market and self-selection? Reward structure? Other?
    b. Compared to other industries, should there be a larger punishment (monetary and/or legal) for financial firm employees and for financial firms in cases of abuse due to the potential effect on financial stability?

2. How do we define a good culture and how do we know when we see it? What are its attributes?
    a. Is culture quantifiable or measureable?

3. How can culture be changed?
    a. Governance/culture at a firm is the outcome of market forces as well as regulatory forces. What should supervisors do to improve bank culture? How do we know when we are going too far?
    b. Could heavier reliance on debt-like compensation (e.g., deferred cash) for material risk takers induce conservatism and a culture of partnership?
    c. Can a higher level of disclosure and transparency improve culture?

4. According to the law, the boards of banking firms are shareholders' first line of defense. Is this expectation realistic for financial firms? How can board oversight be improved?
    a. An important channel in governance is shareholder activism. Why is there so little activism in the banking industry? Is activism desirable even if it produces asset volatility and instability in management? If so, how might it be encouraged?
    b. If activism is weak, should the punishments for abuse be imposed on management rather than the firm (stockholders)? If so, should we worry about the labor market for management?
    c. Is there a role for creditor activism in the banking sector? For example, with the introduction of bail-in-able debt? Should it be encouraged?
    d. How can regulators improve the flow of information within banking firms? For example, from management to the board?

5. It has been suggested that corporations' focus is on short-termism in response to exogenous forces such as pressure by institutional investors. How should banks respond to these kinds of external demands as their governance is shaped by market forces (as well as supervisory guidelines)?
    a. Some observers argue that banks should focus on long-term value rather than generating return in the short-term. What is long-term value in the banking context given the maturity terms of bank assets and liabilities?
    b. If long-term objectives and value can be defined, then what employee compensation structure design could support those objectives?

6. Is culture priced?