

## Financial Regulation-Keynote Public Lectures

One of the FMG's research programmes is that of Regulation and Financial Stability Directed by Professors Charles Goodhart and Hyun Shin, which conducts primary research on current regulatory developments internationally as well as in the UK. The objective of the programme is to provide an integrated approach to financial regulation in which financial risk management, its interaction with regulatory policymaking and its effects on international financial stability are all considered. Under the aegis of this programme, the FMG jointly organises, together with a number of other institutions, the 'London Financial Regulation Seminar Series' within an inter-disciplinary and multi-institution group. As part of this series, two public lectures were recently given at the LSE by leading players in this field; Howard Davies, Director of the London School of Economics and Political Science and until recently the director of the Financial Services Authority, and Sir Andrew Large, Deputy Governor of the Bank of England.



Sir Howard Davies, Director, LSE



Sir Andrew Large, Deputy Governor, Bank of England

# Creating a single financial market in Europe – what do we mean?

Lecture by Sir Howard Davies  
3 February 2004

*On 3 February 2004, Howard Davies, Director of the London School of Economics and Political Science gave a lecture on the issue of the process of creating a single financial market in Europe. European heads of government had committed themselves at the Lisbon Summit in March 2000 to the objective of making the European Union the most competitive economy in the world by 2010, and one aspect of that was the need to bring about a unified, liberalised and efficient European financial market. Davies spoke on this subject as part of the London Financial Regulation Seminar Series at LSE, and the event was chaired by Professor Charles Goodhart.*

One crucial policy measure, which should help the European Union achieve superior competitiveness, is the creation of a capital market in Europe, which can rival that of North America in terms of its depth, liquidity and flexibility. The aim is to develop a market which allows European companies to raise finance on competitive terms, to promote investment and growth, and which provides investment opportunities across the continent, which better match the needs of all European investors.

In this regard, Davies pointed out that, in general, progress towards the headline objective of making Europe the world's most competitive economy has been slower than desired. Productivity growth in Europe has continued to lag that of the US. Rates of business formation are still slower and unemployment remains stubbornly high. However, Davies pointed out that the Lisbon agenda itself has not stalled. In fact, in the case of the building blocks of the single financial market, many of them have been put in place.

He suspected, however, that the Lisbon heads of government would be somewhat surprised by the manner in which their initiative had been taken forward. It was initially intended to remove barriers to financial market activity across the continent. Then it became the responsibility of the European Commission to define what was meant by the single financial market, and this was set out in its Financial Services Action Plan. The FSAP consists of 42 intensely detailed directives, or regulations; as a result of the

process of bringing forward this detailed proposed legislation, the line-up of support for the FSAP has shifted; it is now quite common for the UK government to find itself in a small minority of states resisting the terms of new financial market directives, despite it originally being a flagship project for the UK. That is currently true, for example, in relation to the investment service directive where the UK was voted down last October on some crucial points.

So the first major question Davies addressed was: How has an initially liberalising initiative become bogged down in detailed negotiations, and how is it that the country that was most supportive of the initiative at the outset is now far less enthusiastic?

Part of the reason derives from a lack of clarity about the objectives of the single financial market programme, right at the outset. There was also a lack of understanding of the different positions of the various member states. The UK's financial system is particularly strong, and so is a natural exporter of financial services to the rest of the Union. It, therefore, has an understandable interest in lowering barriers to exports of such services, and indeed in lowering barriers to takeovers. Britain is used to hostile takeovers, and to the creation of large multinational conglomerates. It also tends to believe that, if genuinely free trade in financial services across the Union is allowed, the City of London will be a major beneficiary. Those countries which are sizeable importers of financial services, and which fear that their financial sectors might be largely taken over by foreign companies, have a different set of interests. They are likely to look for rules which, in practice, make it difficult for foreign institutions to establish a dominant position in their market.

These naturally different positions were little appreciated at the beginning of the programme. But, beyond that, there was also a crucial lack of clarity about the objectives. UK policy makers typically thought of the programme as one designed to facilitate capital raising across the Union in (wholesale) markets as part of the competitiveness and liberalisation agenda of Lisbon. Elsewhere in the Union the programme was seen as one which focused just as much on retail investor protection. At the same time there was no clear understanding about the nature of the regulatory regime that would be necessary in a single financial market.



It is perhaps not surprising then that, as these uncertainties were left unresolved, the process of articulating a single financial market has been fraught with difficulty. Versions of these arguments have arisen on many of the individual directives, and ad hoc solutions have been reached in each case, leaving a complicated patchwork of rules and regulations, which lack clarity and consistency. Nevertheless, the Commission has made considerable progress with the FSAP. Many of the 42 measures have now been enacted, or are close to completion. They have overcome inertia and some political obstacles, so that it will be possible for the Commission to declare a victory of sorts in 2005, which was the target end date for the completion of the market.

In order to evaluate what has been done thus far, Davies suggested considering five linked tests:

- (i) the first test is whether adequate progress has been made with the legal and regulatory framework.
- (ii) The second is whether that framework is actually being implemented and enforced evenly across the EU.
- (iii) A linked question is whether adequate and compatible regulatory structures across the Union have been introduced to promote enforcement and application of the rules.
- (iv) The fourth test is whether financial markets and financial institutions are operating in a way that will mean that the opportunities created by the single financial market are indeed taken up.
- (v) The final test is, in a sense, the overall assessment. Are there signs that the programme is delivering more cross-border financial activity and more competition?

This last question is, perhaps, the ultimate test – whether the market is responding in terms of cross-border activity, and whether that is producing the supposed benefits of a deeper and more liquid financial market, both for investors and capital-raisers. It is frustrating that there is relatively little evidence on this question, which one might reasonably think was the most significant issue. Some attempts have been made to assess the potential impact of a single financial market, but Davies did not find them wholly persuasive or adequate.

Davies explained that there are very different answers for the wholesale and retail markets. In the wholesale markets there is evidence of growing consolidation of activity in a small number of centres, notably in London. Most of the investment banks operating in the European Union have centred their activities here, and that applies both to American-owned and continental European-owned institutions. Most sizeable cross-border M & A activity in the EU is handled in London, one way or another, as are most major capital-raising. The potential investor base which can be accessed here is very large. But there is also some evidence of consolidation of business elsewhere in the community; German and Eastern European business has tended to move towards Frankfurt, for example.

Davies pointed out that if we look at cross-border banking, the picture is very patchy. One interesting measure is the total assets of branches of banks from European Economic Area countries in each individual European country. So, for example, in the UK, the total assets of European, non-UK banks in London in 2001 was around 1.4 trillion Euros, some 25 per cent of the assets of the UK banking system as a whole. That seems to show quite a highly developed degree of European integration. However, the total assets of all other European banks in all other European countries (excluding their own) in which they operate, was only 650 billion Euros. So two-thirds of the cross-border activity in bank branches is taking place in the UK.

In the retail market, the amount of genuine cross-border business is relatively small, in spite of the introduction of the Euro. It remains the case that retail markets are very different across the Union. In some countries almost all retail transactions are handled by the customers' 'home bank'. The UK's dual system of tied and independent advice is not widely operated elsewhere in the Union; the coverage of private sector pension products differs hugely from place to place.

So Europe remains a long way from having a single financial market for European consumers, and Davies was suspicious that regulatory harmonisation in itself is unlikely to deliver that single market. There will be a need for more pan-European firms, and for changes in tax and social security systems, which are significant obstacles to such harmonisation.

This may seem a somewhat downbeat assessment of progress, and in a sense it is. He believed that some of the aspirations of politicians in this area will take a considerable time to be achieved. Furthermore, a lot of effort is under way to reconcile the details of regulatory regimes, particularly in the retail markets. He also believed that in some cases the wholesale market initiatives have been misconceived.

But what his assessment shows most strongly, is that the next phase of activity in Europe needs to have a different focus. It needs less new legislation, and more effort on practical implementation. The Commission needs to spend more time on enforcement, crucially with the help of the industry itself. There needs to be more analysis of what the barriers to cross-border mergers and acquisitions really are. Many of them are nothing to do with the conduct of business regulation. Some of them are barriers imposed simply for protectionist reasons in some member states.

# Financial Stability Oversight, Past and Present

Lecture by Sir Andrew Large  
22 January 2004

*On Thursday 22nd January, Sir Andrew Large gave a lecture at LSE entitled 'Financial Stability Oversight, Past and Present.' The financial system has seen huge changes in the last 30 years and Sir Andrew, Deputy Governor of the Bank of England, examined the implications of these changes to financial stability oversight. The event formed part of the London Financial Regulation Seminar Series and was chaired by Professor Charles Goodhart.*

The last 30 years has seen a huge transformation of the financial system. There are more interconnected networks between firms and across national borders. Naturally, the challenges faced by those overseeing financial stability have also grown. Sir Andrew began by explaining what financial stability oversight (FSO) was and how the financial system had changed. He suggested that any definition must make reference to liquidity and confidence; these aspects essentially define financial stability and can disappear during crises. For example, following the events of 9/11, attempts were made to replenish the liquidity that had all but disappeared. FSO was essential, Large argued, in order to maintain confidence in the financial system. This could come from effective supervision in order to prevent financial instability, but FSO also involved analysing the inter-dependencies and channels of risk transfer, which enables an appropriate policy response following a shock.

The importance of financial stability is paramount. There are huge costs to society if there are crises and periods of instability. Estimates suggest that banking crises cost up to 14 per cent of GDP in emerging economies and 25 per cent of GDP in developed nations. Since stability is a public good, the business of overseeing financial stability falls to the public authorities. Firstly, they have to identify the threats that could cause crises and instability, and also to take actions to mitigate these threats. Secondly, the public authorities will be responsible for intervening once crises take hold. However, Large explained that the aim of intervention was not to create a zero risk environment, since this will induce the obvious problems of moral hazard. The authorities therefore have to decide when and how to act.

This new environment, characterised by a larger number of risk transfer processes and by new concentrations of risk, was argued to be a result of two main drivers; liberalisation and technological advances. International capital markets had become much more liberalised in recent years and provided the preconditions to develop new risk transfer techniques. When describing the recent technological advances, Large pointed out that risk could now be dispersed very quickly. Assets could now be broken down, repackaged and sold with ease and efficiency, and therefore so too could risk. As a result, however, concentrations of risk have emerged elsewhere. Not only this, risks have become more opaque. The technological advances had also brought a reliance on modelling techniques. However, Large warned that these recent models are only as good as the assumptions on which they are based. Practitioners and policy makers should then be wary of possibly false reassurances from mis-specified models.

The technological advances have also raised questions over the measurement and accounting of risks. Indeed the existence of risk standards could lead to unintended consequences resulting in negative outcomes and exacerbating any instability. If banks all reacted in the same way after a shock for example, then it is quite possible that the risk standards could lead to greater illiquidity and further instability. The new derivatised risk transfer processes can also create uncertainty when one, or many, firm(s) experience trouble. In the case of LTCM for example, the exposures were considerable and the 1998 LTCM crisis was partly due to the legal uncertainty over the 'closing-out' of contracts.

Sir Andrew then went on to discuss the implications of this new environment. Not only were there issues regarding supervisory changes and consolidated supervision, and changes in attitudes towards risk, but there are also new or increasingly prominent players in financial markets. These include large complex financial institutions (LCFIs), hedge funds, non-financial institutions and ratings agencies. LCFIs cannot be pigeonholed as either banks, securities firms or insurers for example, and represent challenges to regulators. Since such firms tend to be multinational, if a failure occurs, which set of taxpayers in which countries should be used

to pay for the possibly costly intervention? Hedge funds have also become increasingly active players in recent years. Evidence suggests that in the last eight years, the value of their assets has increased by 450 per cent. One could argue that some are essentially unregulated but provide a beneficial service of reducing pricing errors. However, Large asked whether those lending to hedge funds truly understand the risks that are undertaken when they lend to these institutions.

Regarding the ratings agencies, Large pointed out that changes to ratings are announced at the same time and therefore could lead to large movements of funds as a result of portfolio rebalancing. This raises the question of whether the ratings agencies should be regulated. However, if mistakes are made, he asked on whose shoulders should the blame be laid? The ratings agency or the regulator?

When considering the implications of the new financial environment on FSO, Sir Andrew noted two opposing views. The bullish view, taken by Alan Greenspan, suggests that markets disperse risk well. Banks and other market participants have been able to weather the shocks, including the Asian crisis, 9/11 and Enron. On the other hand, the bearish view, taken by Warren Buffett, suggests that not only is it difficult to recognise shocks and risks, but it is difficult to judge how behavioural expectations are affected in the face of shocks. Large, however, believed that both schools of thought are correct; banks have been able to weather many shocks but the vulnerabilities too are real, necessitating some form of public policy response.

When examining this public policy response and FSO in the UK, Large explained that each of the three authorities; Bank of England, Financial Services Authority (FSA) and the Treasury, each have specific roles. The Bank of England considers the overall stability of the financial system as a whole, examining causes of possible disruption and assessing the inter-connected areas of 'hard infrastructure' such as settlements systems and of 'soft infrastructure' such as legal and accounting standards. The FSA is responsible for the supervision of firms, markets and clearing systems, and the Treasury reflects government policy as a whole. In particular, it considers issues surrounding the use of taxpayers' money.

Large later went on to discuss the international aspects of FSO, noting that despite there being a case for the introduction of a global body for FSO, such a development was very unlikely. The next best alternative then, was for cooperation between national bodies and institutions such as the IMF, World Bank, BIS, etc. As an example of this cooperation, the Financial Stability Forum had brought together central banks, regulators and finance ministries from a number of countries to promote global standards and stability.

Sir Andrew explained that when considering the role of the Bank as a lender of last resort (LOLR) it should indeed be just that; a last resort. Every other option should have been considered before this kind of support should be granted. He also stressed the potential benefits of some ambiguity over the LOLR stance of central banks in order to reduce the problems of moral hazard but noted that too ambiguous a position could create unwanted and excessive uncertainty.

When concluding, Sir Andrew pointed out that financial stability starts with the market participants themselves and that international cooperation is paramount, so people know who does what especially when things go wrong. He argued that the central bank's role should be made clear in particular its concern for the maintenance of liquidity and the injection of liquidity when needed. Finally, Large stressed that we should not aim for a zero risk environment since fear of failure is the antidote for instability.



# Discussion papers

DP 441

## Predatory Trading

Markus K Brunnermeier and  
Lasse Heje Pederson

This paper studies *predatory trading*: trading that induces and/or exploits the need of other investors to reduce their positions. The authors show that if one trader needs to sell, others also sell and subsequently buy back the asset. This leads to price overshooting, and a reduced liquidation value for the distressed trader. Hence, the market is illiquid when liquidity is most needed. Further, a trader profits from triggering another trader's crisis, and the crisis can spill over across traders and across assets.

DP 442 (UBS Pensions series 6)

## Pensionmetrics 2: Stochastic pension plan design during the distribution phase

David Blake

The authors consider the choices available to a defined contribution (DC) pension plan member at the time of retirement for conversion of his/her pension fund into a stream of retirement income. In particular, the paper compares the purchase at retirement age of a conventional life annuity (ie, a bond-based investment) with distribution programmes involving differing exposures to equities during retirement. The residual fund at the time of the plan member's death can either

be bequeathed to his/her estate or revert to the life office in exchange for the payment of survival credits while alive. The most important decision, in terms of cost to the plan member, is the level of equity investment. The authors also find that the optimal age to annuitise depends on the bequest utility and the investment performance of the fund during retirement.

DP 443 (UBS Pensions series 7)

## Stochastic Lifestyling: Optimal Dynamic Asset Allocation for Defined Contribution Pension Plans

David Blake

Deterministic lifestyling (the gradual switch from equities to bonds according to preset rules) is a popular asset allocation strategy during the accumulation phase of defined contribution pension plans and is designed to protect the pension fund from a catastrophic fall in the stock market just prior to retirement. The authors show that this strategy, although easy to understand and implement, can be highly suboptimal, since it does not take into account either the degree of risk aversion or the correlation over time between the plan member's salary and the stock market. It is dominated by a dynamic asset allocation strategy, which the authors call stochastic lifestyling, and also by a static asset allocation strategy that do take these factors into account.



DP 444 (UBS Pensions series 8)

## UK Annuity Rates and Pension Replacement Ratios 1957 – 2002

Ian Tonks

This paper constructs a time series of annuity rates in the UK for 1957-2002, and examines the pricing of UK annuities. It also examines the relationship between the accumulation and decumulation phases of a defined contribution pension scheme by focusing on the properties of the pension replacement ratio. Using data on annuity returns and the returns on other financial assets, the paper simulates replacement ratios, to build up a frequency distribution of the pension replacement ratio for a UK individual. These frequency distributions illustrate the risk in the pension replacement ratio faced by an individual who saves in a typical defined contribution pension scheme.

DP 445 (UBS Pensions series 9)

## UK Pension Fund Management After Myners: The Hunt for Correlation Begins

David Blake

The Myners Report will have a number of significant consequences for pension fund management and performance measurement in the UK since it will change the way in which

assets are selected. This paper summarises this report and presents an illustrative statement of investment principles. Under the new framework asset classes will be selected on the basis of their match with liabilities in terms of correlation and volatility, rather than on the basis of expected return. Every pension scheme will therefore have a scheme-specific funding standard that reflects the maturity structure of the liabilities of the scheme. As a result of the report, a hierarchical structure will develop between the investment advisor, actuary and fund manager, whereby the investment advisory function assumes a primacy over the actuarial and fund management functions. Liability-driven performance measurement and attribution will replace the existing performance measurement framework in the UK and the passively managed components of the pension fund will be judged on the costs of implementation. Only the performance of the surplus assets will be measured on a conventional basis.

DP 446 (UBS Pensions series 10)

## Take (Smoothed) Risks When You Are Young, Not When You Are Old: How To Get The Best From Your Stakeholder Pension Plan

David Blake

Using stochastic modelling, the author demonstrates that the best investment strategy for the accumulation phase of a defined contribution pension plan is one that limits the range of returns that are credited to the plan member's account. In particular, the paper shows that with-profit accumulation programmes, which make use of a smoothing fund to smooth out returns over time, dominate unit-linked accumulation programmes. However, for the decumulation phase, the author shows

that it is hard in practice for an investment-linked decumulation programme to beat the income and security provided by a standard annuity, although he again finds that with-profit decumulation programmes dominate those characterised by unit-linked decumulation. Return smoothing is therefore a valuable feature of any long-term investment programme both during the accumulation and decumulation phases and this has important implications for the design of Sandler 'stakeholder' products.

DP 447

## Does Reinsurance Need Reinsurers?

Gillaume Plantin

The reinsurance market is the secondary market for insurance risks and it has a very specific organization. Direct insurers rarely trade risks with each other. Instead, they relinquish part of their primary risks to specialized professional reinsurers with no primary business. This paper offers a model of equilibrium in reinsurance and capital markets where professional reinsurers arise naturally to monitor primary insurers. The interplay of financing and reinsurance decisions facing primary insurers is also explicitly modelled. The predictions are broadly in line with empirical evidence from the reinsurance market.

DP 448

## Self-Fulfilling Liquidity

Gillaume Plantin

Liquidity, defined as the ease with which an asset may be marketed, has a self-fulfilling dimension. If investors in the primary market for a new asset fear an illiquid secondary market, the issuance does not take off thereby vindicating the initial concern about an illiquid secondary market. The fear of future illiquidity suffices to trigger current

illiquidity. The purpose of this paper is to outline a simple model of self-fulfilling liquidity. It develops an issuance model where (i) investors are not financially constrained and (ii) have no market power, (iii) there are no transaction costs and (iv) no-one withholds private information. Interestingly, assets are illiquid in this frictionless world because of coordination failure among investors. There is room for coordination failure only because investors fear a future adverse selection discount if the issuance does not take off but there is no informational concern, neither when the issuance takes place, nor in the secondary market in equilibrium. Illiquidity as a coordination failure is sufficient to predict stylized facts regarding the design and diffusion of financial innovations, without invoking the much stronger informational imperfections required in the existing literature.

DP 449

## Tranching

Gillaume Plantin

The structure of securitization deals, referred to as tranching, is standard. In those transactions, claims on cash flows generated by the collateral are split into several classes of notes, at least three and possibly more than five. Each class is called a tranche and has absolute priority in the cash flows over the more junior ones. Typically, investors with increasing sophistication acquire tranches with decreasing seniority. This paper offers a model where such a slicing of claims into a stack of several debt like contracts arises endogenously as a value maximizing arrangement. It also predicts the relationship between the seniority of tranches and the sophistication of their acquirers. It considers the situation of an issuer of asset-backed securities facing heterogeneous financial institutions. The institutions differ in their abilities to screen the collateral and retail the securities. Tranching

## Discussion Papers

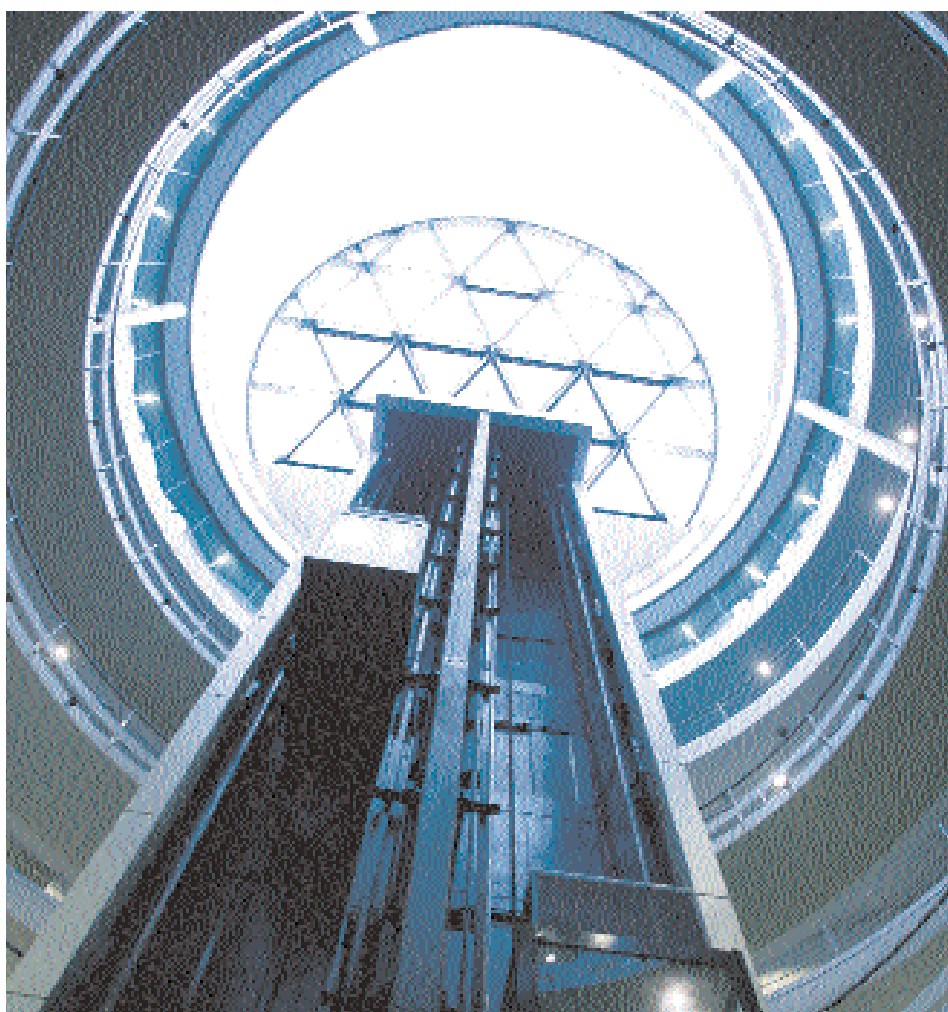
therefore induces good screeners to specialize on junior tranches to save retail costs, leaving senior tranches to good retailers. This may boost the price of junior tranches by increasing information collection, and improve the liquidity of senior tranches by mitigating the Winner's Curse. The number of tranches, driven by the structure of the buy side, is arbitrary, and whether the sell side has private information or not about the collateral is irrelevant.

DP 450

### Equilibrium analysis, banking, contagion and financial fragility

Dimitrios Tsomocos

This paper develops a general equilibrium model of an economy with incomplete markets (GEI) with money and default. The model is a simplified version of the real world consisting of a non-bank private sector, banks, a central bank, a government and a regulator. The model is used to analyse actions by policy-makers and to identify policy relevant empirical work. Key analytical results are: a financially fragile system need not collapse; efficiency can be improved with policy intervention; and a system with heterogeneous banks is more stable than one with homogeneous ones. Existence of monetary equilibria allows for positive default levels in equilibrium. It also characterises contagion and financial fragility as an equilibrium phenomenon. The paper also proposes a new definition of financial fragility; financial fragility occurs when aggregate profitability of the banking sector declines and defaults in the non-bank and banking sectors increase. Thus, equilibria with financial fragility require financial vulnerability in the banking sector and liquidity shortages in the non-bank private sector.





# Special papers

SP 149

## The Governance Structure for Financial Regulation and Supervision in Europe

Rosa Lastra

This paper examines the unfinished agenda of the governance structure for financial regulation and supervision in Europe. In this unfinished agenda, there are two opposite forces at play: one that fosters greater centralisation and another that promotes decentralisation with co-operation. The author tries to cast some light on this debate, by arguing that a single market with a single currency does need some common rules, but does not require a single supervisor. The paper also argues that the possible centralisation of one function (lender of last resort) does not imply nor require the centralisation of other supervisory functions.

SP 150

## The IS Curve and the Transmission of Monetary Policy: Is there a Puzzle?

Charles Goodhart and Boris Hofmann

In this paper the authors assess the performance of the New Keynesian IS Curve for the G7 countries. They find that there is an IS puzzle for both the purely backward looking as well as for the forward-looking IS curve. The real interest rate is found not to have a significantly negative effect on the output gap. Based on an extended specification of the IS curve, also including asset prices and monetary aggregates, the paper is able to restore a significantly negative interest rate effect on aggregate demand in all countries. This finding suggests that a richer specification of the IS curve in empirical work may be necessary in order to obtain an unbiased estimate of the effect of monetary policy on aggregate demand.

# Forthcoming Discussion and Special Papers

## Discussion Papers

### DP 451

**'The Role of Money in The Transmission Mechanism of Monetary Policy: Evidence from Thailand'**

Pojanart Sunirand

### DP 452 (UBS Pensions series 11)

**'The United Kingdom Pension System: Key Issues'**

David Blake

### DP 453

**'Likelihood-based estimation of latent generalised ARCH structures'**

Neil Shephard, Gabriele Fiorentini and Enrique Sentana

### DP 454 (UBS Pensions series 12)

**'Pension Fund Governance and the Choice Between Defined Benefit and Defined Contribution Plans'**

Andrea Prat and Tim Besley

### DP 455

**'Common factors in conditional distributions for Bivariate time series'**

Timo Terasvirta, Clive WJ Granger and Andrew Patton

### DP 456

**'Anatomy of a Market Crash: A Market Microstructure Analysis of the Turkish Overnight Liquidity Crisis'**

Burak Saltoglu and Jon Danielsson

### DP 457 (UBS Pensions series 13)

**'What is a Promise from the Government Worth? Measuring and Assessing the Implications of Political Risk in State and Personal Pension Schemes in the United Kingdom'**

David Blake

### DP 458

**'Evaluation of Joint Density Forecasts of Stock and Bond Returns: Predictability and Parameter Uncertainty'**

Francisco Penaranda

### DP 459

**'The Near Impossibility of Credit Rationing'**

David De Meza and David C Webb

### DP 460

**'The Cross-Section of European IPO Returns'**

Josef Schuster

### DP 461

**'IPOs: Insights from Seven European Countries'**

Josef Schuster

### DP 462

**'Management Behaviour and Market Response'**

Josef Schuster

### DP 463 (UBS Pensions series 14)

**'Financial System Requirements for Successful Pension Reform'**

David Blake

### DP 464

**'Procyclicality and the new Basel Accord—banks' choice of loan rating system'**

Dimitrios Tsomocos, Eva Catarineu-Rabell and Patricia Jackson

### DP 465 (UBS Pensions series 15)

**'Is Immigration the Answer to the UK's Pension Crisis?'**

David Blake

### DP 466 (UBS Pensions series 16)

**'Modelling the Composition of Personal Sector Wealth in the United Kingdom'**

David Blake

### DP 468 (UBS Pensions series 17)

**'Long-Term Value at Risk'**

Andrew Cairns, David Blake and Kevin Dowd

### DP 469 (UBS Pensions series 18)

**'Aggregate Implications of Defined Benefit and Defined Contribution Systems'**

Alex Michaelides and Francisco Gomes

### DP 470

**'Credit Card Debt and Default over the Life-Cycle'**

Paula Lopes



# Second RICAfe Conference

## 'Risk Capital and the Financing of European Innovative Firms'

### Center for Financial Studies

Frankfurt

**15-16 October 2004**

*Call For Papers*

The research network 'Risk Capital and the Financing of European Innovative Firms' (RICAfe), formed by the London School of Economics and Political Science (FMG), the Center for Financial Studies (Frankfurt), HEC School of Management (Paris), and the Department of Economics and Finance of Turin University will hold its second conference on 15-16 October at the Center for Financial Studies in Frankfurt. The network is sponsored by the European Commission, and details of the first conference can be found at [www.lse.ac.uk/ricafe](http://www.lse.ac.uk/ricafe)

The organizers invite submission of empirical and theoretical papers on the ability of financial systems to channel risk capital to innovative entrepreneurial firms and on the influence of risk capital (particularly venture capital) on firms' ability to translate scientific and technological advances into successful products. Suitable topics include (but are not limited to):

- The choice between alternative sources of financing for innovative firms and their impact on innovation activities in entrepreneurial firms;
- Venture capital, its contribution to innovative activities and the determinants of its performance;
- The interaction between the protection of intellectual property rights, the legal and institutional framework, and entrepreneurial risk-taking;
- The role and design of financial contracts and of the choice of organizational form in fostering innovation;
- The links between entrepreneurship and the stock market and the regulation of stock markets for innovative companies;
- Public incentives for venture capital and the financing of innovation.

No conference proceedings will be published, as we aim to attract papers on their way to publication in high quality journals.

**Expenses:** Travel (economy class round-trip) and accommodation expenses will be covered for presenters and discussants.

**Submissions:** papers can be submitted until 31 May through the RICAfe dedicated website: [www.lse.ac.uk/ricafe](http://www.lse.ac.uk/ricafe). The website also provides further information about the network. The authors of selected papers will be informed by the end of July.

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The new FMG website launched last year is a significant part of the Groups' research communication programme and has taken on increasing importance in helping our published work reach a much wider audience both in UK and internationally. During the months of January, February and March 2004 we recorded an average of 186,000 visits to the FMG website per month and 120,800 Discussion Paper downloads.

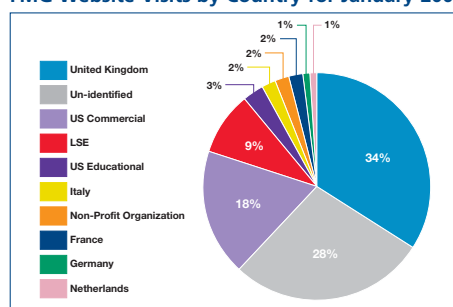
The top five FMG Discussion Papers downloaded are:

- **DP477, Intro into Hedge Funds**  
*Gregory Connor and Mason Woo,*  
 January 2004
- **DP482, A Model to analyse Financial Fragility Applications**  
*Charles Goodhart and Dimitrios Tsomocos,*  
 February 2004
- **DP439, On time-scaling of risk and the square-root-of-time rule**  
*Jon Danielsson and Jean-Pierre Zigrand,*  
 March 2003
- **DP438, Corporate Bond Prices and Co-ordination Failure,** *Max Bruche,*  
 January 2003
- **DP419 Skewness and Kurtosis Implied by Option Prices: A Second Comment**  
*Bogdan Negrea, Bertrand Maillet and Emmanuel Jurczenko,* July 2002



<http://fmg.lse.ac.uk/>

**FMG Website Visits by Country for January 2004**



## FMG Review

**Edited by:** Professor Bob Nobay  
**Prepared by:** Nicola Gambrell, Ryan Love  
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[www.lse.ac.uk/designunit](http://www.lse.ac.uk/designunit)