

DNB Occasional Studies
Vol.12/No. 2 (2014)

Beyond Finance

Financial Supervision in the 21st Century

DNB
Occasional Studies

Malcolm Sparrow, Ceyla Pazarbasioglu, José María Roldán, Sheila Bair,
Joanne Kellermann, Frédéric Visnovsky and Jan Sijbrand

Central bank and prudential supervisor of financial institutions

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The aim of the Occasional Studies is to disseminate thinking on policy and analytical issues in areas relevant to the Bank. The articles in this Occasional Study are based on the contributions of the speakers at the seminar 'Financial Supervision in the 21st Century', held at De Nederlandsche Bank (DNB) in December 2013. Views expressed are those of the individual speakers and do not necessarily reflect official positions of De Nederlandsche Bank. The editor of this Occasional Study is Geert Dekker.

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P.O. Box 98
1000 AB Amsterdam
The Netherlands
Internet: www.dnb.nl

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Financial Supervision in the 21st Century

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I. Introduction

More rules and better rules. That was the initial response of politicians, policy makers and supervisors¹ to the financial crisis of 2008 and 2009. It fitted in perfectly with the prevailing view that improvements in legislation, rules and procedures would result in more effective supervision of the financial sector.

That paradigm has shifted. Thorough analysis of the circumstances in which the credit crunch could arise and of the way supervisors acted at the time, taught that it was not so much the quality of the rules as the way they were enforced that was unsatisfactory. Accordingly, attention has now shifted from supervisors' tasks to the methods they use in performing those tasks.

The articles in this compilation, coming from international academics and supervision experts, reflect this paradigm shift. They are based on the contributions of the speakers² at the seminar on 'Financial Supervision in the 21st Century', held at De Nederlandsche Bank (DNB) in December 2013. The seminar followed the publication of the eponymous book seven months earlier, edited by Joanne Kellermann, Jakob de Haan and Femke de Vries. It is a collection of essays from experts in the field, most of them affiliated to organisations responsible for financial supervision. It provides the first in-depth analysis of the new and innovative methods supervisors are applying today.

The reader will notice how much attention this compilation pays to the dilemmas facing the '21st century supervisors' in their efforts to exercise effective supervision. Building a new foundation for financial sector supervision is a task fraught with setbacks and challenges. This applies in particular to the work of the European supervisors who, at the time of writing, are collaborating to create the Single Supervisory Mechanism (SSM), one of the three pillars of the Banking Union. The dilemmas referred to above concern both the methodological approach to the SSM and the new mechanism's governance. Absolute independence from

¹ In this publication the terms supervisor(s) and supervision are used as synonyms of the terms regulator(s) and regulation as used in Anglo-Saxon countries, meaning officials who make rules as well as supervise for compliance with those rules.

² The speakers' full biographies are included at the end of this compilation.

national governments must be combined with smooth cooperation with national supervisors, including respect for each other's responsibilities.

Combining theoretical insights with practical experiences, the contributions in this text offer insight into everyday supervisory dilemmas and challenges. The floor will be opened by Professor Malcolm Sparrow (Harvard), who describes three dilemmas confronting supervisors as three 'mirrors in which you can view yourself'. He successively puts the mission, the daily practice and the responsibilities of regulators under the magnifying glass.

The contributions by Sheila Bair (former FDIC) and Joanne Kellermann (DNB) discuss the interaction between the risk culture in the sector and the supervisor's organisation culture. Bair observed that the work of supervisors has become more difficult in the face of political pressure to let short-term interests prevail. Kellermann shows that the supervisor who wants to promote a long-term perspective in the sector cannot rely on legislation alone. Forward-looking supervision requires the supervisor to influence the conduct and culture of financial firms.

Ceyla Pazarbasioglu (IMF) writes that the success of a supranational supervisory agency like the SSM will mainly hinge on its ability to operate independently and, at the same time, to co-operate smoothly with the national supervisors. According to José María Roldán (former Banco de España), success will crucially depend on a readiness to intervene decisively when necessary. Frédéric Visnovsky (ACPR) and Jan Sijbrand (DNB) also examine what circumstances can justify an intervention. In relation to analysing business models and the strategic decisions surrounding them, Sijbrand concludes: 'Saying 'no' is an art but it's an art that can be learned.'

2. Malcolm Sparrow: What does it mean to be a risk-based regulator?

Take a few steps back and look at where you are. Am I doing what's needed? Am I doing what I think a regulator ought to do? Malcolm Sparrow, Professor in the Practice of Public Management at Harvard, puts these questions (and many others) to regulators in the financial sector. He claims not to have a theory and he makes no recommendations; he 'simply sketches the landscape of choices with which regulators are faced. In this article, he does this in three sections. He successively puts the mission, daily practice and the responsibilities of regulators under the magnifying glass.

No regulator will argue with the fact that his job consists, at the very least, of combatting harmful and illegal practices. This is represented by the section in figure 1 in which the two circles overlap. The discussion about the extent of a regulator's mission becomes interesting outside that intersection: should regulators be expected to spend time on non-compliance issues that cause little or no harm? And should they tackle harms for which they have no rules and therefore may lack any formal authority?

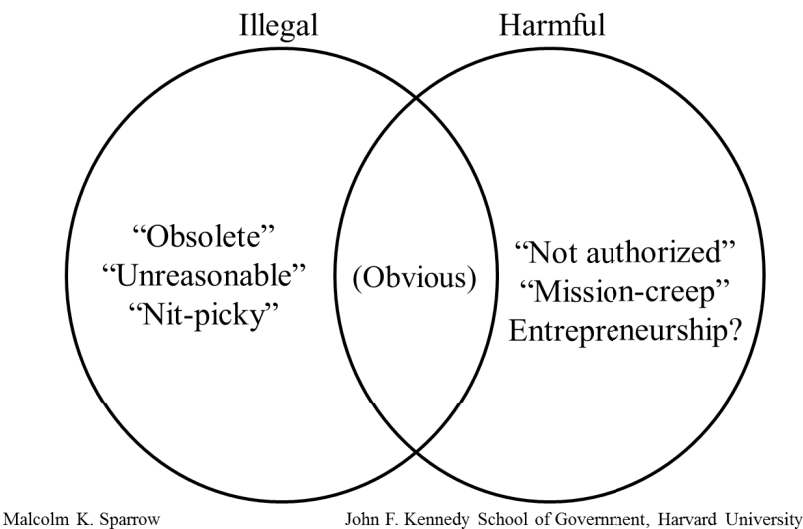
I regularly ask regulators which way would they lean if they had half a working day left over per week, after tackling all the issues that lie in the intersection. On what would they focus their regulatory work in these extra hours: more compliance work, or more harm-reduction? 95 per cent say that they would choose the circle on the right: harm reduction.

In my view, this is reflective of the times in which we live. What is the ordinary citizen concerned about? His attention is more focused on disasters, accidents, and other risk areas where citizens expect governments to provide some protection... These are events in which the first question to be asked is not whether rules have been infringed and, if so, which rules. The question is rather how the suffering caused by these events can be prevented, reduced, mitigated, or otherwise relieved. These are risk control issues first, and legal issues if and only if law turns out to be a useful tool in the business of controlling them.

Explicitly embracing the 'expert' model of regulation (i.e. choosing the frame provided by the right hand circle) means putting aside the notion that, for regulators,

Figure 1

Setting the Mission



‘the law is master’. Instead, the law becomes one tool amongst many, part of a larger toolkit incorporating a multiplicity of methods for influencing behaviors and reducing risks. Of course, adopting the expert frame brings with it the danger that regulators will be accused of acting outside their mandate or circumnavigating the democratic process. Quite commonly, regulators who have done excellent work in risk identification and control, when challenged, quickly resort back to the left hand circle – the legal model of regulation – to justify their actions and satisfy demands for accountability.

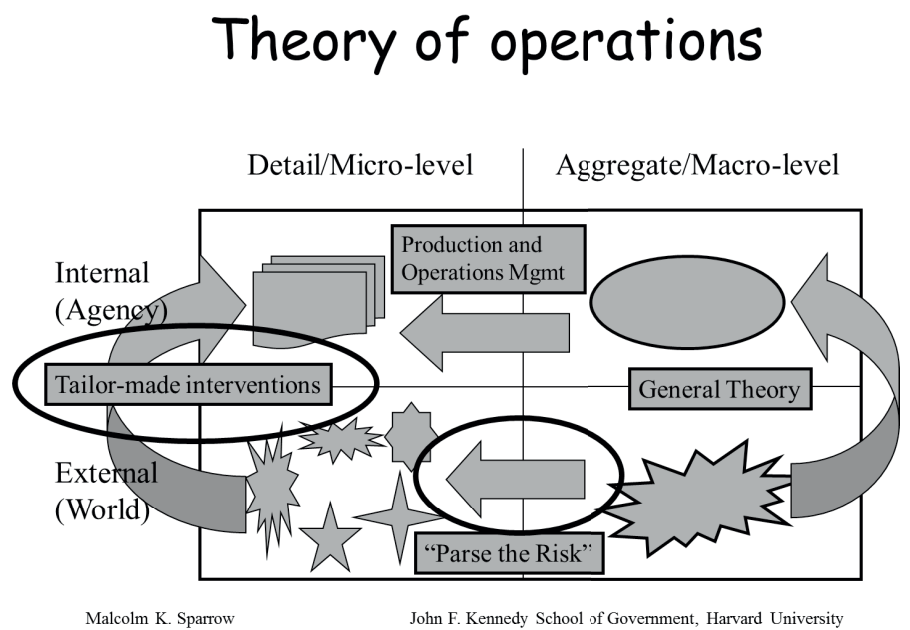
It would be good for regulators to be clear what position they occupy with respect to these two different frames; and to understand if they are moving in any particular direction, and why. One potential answer to the question ‘what does it mean to be a risk-based regulator’ might be ‘to explicitly embrace the expert model, and thus orient one’s efforts around the task of risk-control’. For a regulatory body traditionally focused on rules and compliance, that would constitute a profound change, with far-reaching implications.

The second dilemma that I want to discuss concerns the balance between program-centric work and problem-centric work. Figure 2 illustrates two rather different modes of organizational behavior. They both start in the bottom right hand quadrant, where some general class of harm – human trafficking, corruption, environmental pollution, financial instability, etc. – is deemed insufficiently controlled. It is a macro-level, general problem, and it exists in the outside world.

The program-centric route first establishes a general theory (‘what is our general approach?’), defining what government will do, and then it constructs major functional units (i.g. audit, investigations, education, etc.) and establishes core processes. These core programs and processes belong in the top right quadrant. Then, the work has to be split up and handed out, which is generally done using classic matrix style functional and geographic organizational structures.

The alternate route to action passes instead through the bottom left hand quadrant, where specific risk concentrations are spotted, studied, carefully described and then tackled one by one. This ‘problem-centric’ approach often bypasses the core programs and standard approaches, and produces innovative and tailor-made responses to specific issues.

Figure 2

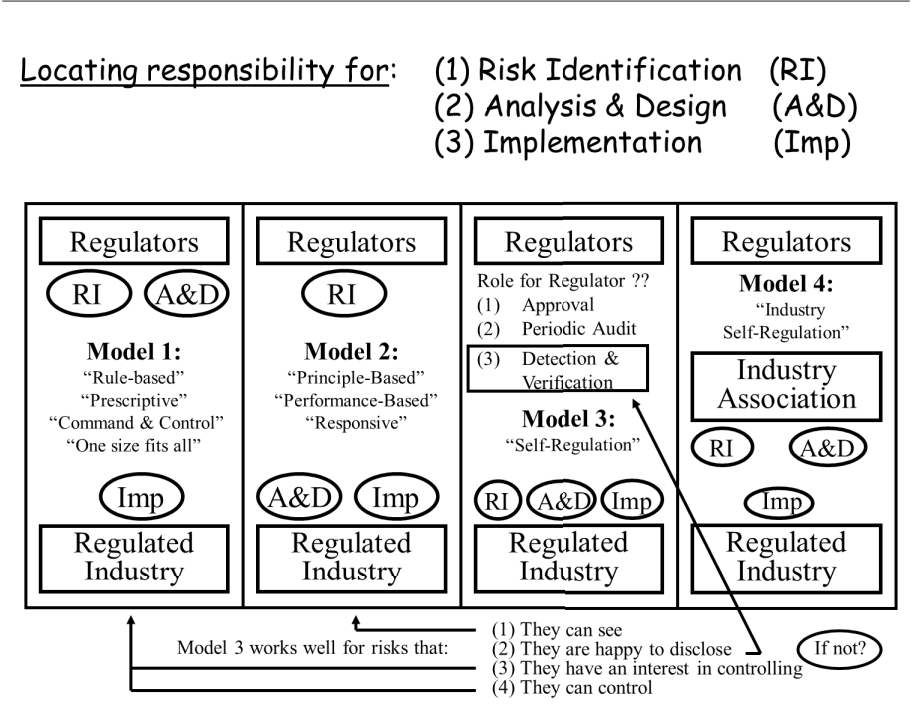


The state-of-the-art in terms of organizational theory for regulatory agencies involves figuring out the answers to three questions relating to these two quite different modes of conduct. First, how should problem-centric (or risk-based) work be formally organized and supported? Second, how much of the work of the agency should flow through the two different modes? Thirdly, how do the two different types of work interact with each other, both inside the agency and in the experience of the regulated community?

Thirdly, I'd like to raise the question of where one chooses to place responsibility for various aspects of the risk-control task. Which parts of the job should the regulator take on, and which should be delegated to the industry? Splitting the risk-control task into three crude phases – risk identification, risk analysis and design (of interventions) and finally implementation – and placing these firmly in the hands of either government or of industry, provides us with a range of different permutations. These permutations relate rather closely with different regulatory structures.

Figure 3 shows four different regulatory structures, which differ primarily in the ways in which these parts of the risk-control task have been allocated.

Figure 3



If risk-identification (RI) and risk-analysis and design (A&D) are the responsibility of the regulator and the institutions are responsible only for the implementation (Imp) of the measures designed by the regulator, this is referred to as rule-based or prescriptive regulation. Pressure to move away from this first model result from diversity within the industry (i.e. the realization that one size really does not fit all), and the need to accommodate technical innovation more readily (i.e. the realization that rules evolve too slowly and therefore do not keep up). As a result of these pressures, we see various types of performance-based regulation emerging, wherein the industry is trusted to conduct its own analysis of the risks the regulator is concerned about, and the regulator holds industry accountable for results (outcomes) rather than for compliance with prescriptive rules. This shift is also intended to give new emphasis to the spirit, rather than the letter, of the law.

High-tech industries push further, claiming they know their own risks better than government, and hence they should be trusted with the risk-identification piece as well. Under the third model, companies are expected to run their own risk-management systems, and regulators audit the risk-management program periodically to make sure it is operating effectively.

Finally, a fourth model emerges when companies band together, seeking economies of scale and negotiating power, and form an association that conducts various aspects of the risk-control task on their behalf. Such associations tend not to use enforcement (they generally lack any enforcement powers) and rely on promulgating guidelines and standards instead. They can act as a buffer between industry and government, and they are more kindly disposed towards the industry, being a creation of it.

There are variants of these four basic models, of course. Some parts of the risk-control task can be contracted out to third parties, as happened in the case of credit rating agencies, for example. Also, any of these tasks can be shared, done in collaboration between industry and government, rather than being unambiguously placed either up or down. Sharing one or more of these tasks produces several varieties of what some call 'co-regulation'. Finally, the jurisdictional structure (shown in the chart as a single layer) is often in fact multi-layered, making the question of where to place which aspects of the risk-control task all the more important, as well as more complex. Regulators need to be masters of all these different structures, understanding their strengths and weaknesses, and better able to pick the right model for various classes of risk.

Concluding remarks

In these very brief comments I have chosen three out of the multiplicity of dilemmas with which regulators are confronted. Regard these as diagnostic devices. Clamp these frames down on your organization and see what they show you.

Is your agency oriented primarily around law enforcement or around the task of identifying and controlling risks? Is the tension between these ideas discussed, and adequately understood?

What is the balance between program-centric and problem-centric work in your organization? Does it need to change? Are there important risks – particularly novel, unfamiliar, invisible, or emerging risks – that are simply not controlled through your agency's traditional programs and processes?

Which regulatory structures do you currently employ? Is the choice of regulatory structure well-tailored to specific risks and their properties, or is it based on ideological preferences or political pressures? The European 'Better Regulation' movement had appeared to espouse a preference for 'light-touch, trusting, self-regulatory approaches'. It would be dangerous to assume that this approach, or any other one, could be 'right' for all risks. Getting the systems of control matched properly to different classes of risk, understanding the incentives and capabilities of the different parties, is a much more complex business.

3. Ceyla Pazarbasioglu: Prevention in times of calm; intervention in times of turbulence

In the run-up to the credit crunch, and during the crisis itself, regulators hesitated too long before intervening in problem banks. According to Ceyla Pazarbasioglu, Deputy Director at the Monetary and Capital Markets Department of the IMF, a readiness to say 'no' is a deciding factor in the quality and effectiveness of supervision. She writes that developing that ability will also be the biggest challenge for the SSM.

Supervisors have a unique role. They are midwife, cop, judge and undertaker in one for the institutions under supervision. This is a big responsibility, a fact which is borne out in practice: an assessment of standards carried out by the IMF since 2000 shows that although most countries have appropriate laws, rules and guidelines for supervision, a large number of them do not perform quite as well when it comes to implementing these standards – particularly when it comes to enforcement and taking corrective action. This explains why, in the recent financial crisis, countries with good comparable standards still had wildly varying experiences.

As part of its Financial Sector Assessment Program (FSAP), the IMF regularly conducts research into the effectiveness of financial supervision. It's no surprise that in recent years the focus was on the response to the global financial crisis. The major shortcomings that became apparent from the results of the research were those concerning risk supervision (particularly system supervision), deficiencies in the supervision of multinationals and too high a degree of flexibility with regard to enforcement. Among the results of this was that risks could accumulate, both in the case of individual banks and the entire system. In many cases, supervisors had neither the opportunity nor the will to say 'no' to a sector that makes such a major contribution to prosperity in good times. So weak banks could continue to operate unhindered. By the time when their problems became visible in their financial performance, the supervisor was often powerless.

Supervision that fails prompts one to ask what good supervision is. What qualities does a good supervisor have? In our opinion, a good supervisor is both able and ready to impose 'supervisory discipline' on a sector in which the market discipline has been disrupted through implicit or explicit government support. That requires prevention in times of calm and intervention in times of turbulence.

In the IMF study *The Making of Good Supervision: Learning to Say 'No'* five elements of effective supervision are mentioned. I will explain them here briefly.

1. Effective supervision is intrusive. The supervisor has a detailed, thorough knowledge of the supervised institution's risks and risk management and intervenes as necessary. At the same time, there is no misunderstanding with regard to who has ultimate responsibility for the institution: the management.
2. Effective supervision is proactive. In theory, the supervisor adopts a sceptical attitude in this: he always calls into the question the way the sector behaves, even if, in good times, he is regarded as a party-pooper. Prudential supervision is most valuable when it is least valued: restraining reckless banks during a boom is seldom appreciated but is perhaps the best that a supervisor can do to prevent failures.
3. Effective supervision is comprehensive. Everything is studied, particularly the risks in the business and the risks at the limit of the supervision domain.
4. Effective supervision is adaptive. Supervisors keep their eyes on the ball; they keep in touch with new products, new markets, new services and new risks. They not only have a picture of the current position of the institution but they also have a view of how the banks can face changing circumstances.
5. Effective supervision is conclusive. It is not enough just to identify problems but you must also take adequate measures. This is difficult work that requires a lot of effort, and it's not very glamorous, but in the long term it's of essential importance to bringing about change. Every issue, however small it might be, needs a follow-up and there should be no finding that is not subject to appropriate measures.

Of course, these elements are very important with regard to structuring the SSM. The SSM provides Europe with the opportunity to build a robust supervisory institute that enjoys a high level of confidence and has an overview of the entire sector. National disruptions will occur less often while a moderating influence can be exerted on the development of risks that may undermine the stability of the system.

In good times, such a robust, supranational institution operating in an integrated market (and in a currency union), provides protection against excesses and imbalances at regional level that are not easily identifiable for national supervisors. In times that are less good, the supranational supervisor is a firm crisis manager: if financial institutions are allowed to operate across borders, national authorities cannot deal with problems individually. Robustness is also a requirement for agreements regarding possible cross-border measures. Otherwise the tendency towards (national) ring-fencing will remain, as we have seen since the outbreak of the crisis.

Would the crisis have been avoided if an SSM had existed back in 2005? I doubt it, particularly with regard to preventing the debt problem in which national governments were embroiled. However, it is likely that the negative spiral would have been broken earlier because there would have been no countries with a banking sector representing 800 per cent of the GDP. The confidence of savers would also have been damaged less. But a different organisation of supervision alone would not have prevented the development of system risks and the too-big-to-fail problem.

As I said, the SSM must be able and prepared to act. A supervisory regime that faces practical problems if banks have to be closed down is toothless. If responsibility for winding up failing banks is kept at national level, the risk will remain of mutual dependencies between the bank and the national government, with the chance – in the case of international banks – of conflicts between national supervisors. This is one of the reasons for the fragmentation in the Euro Area.

In this respect, it is very important that the SSM can show optimum transparency. The procedures regarding the way in which decisions are made will have to be completely clear. This lessens the risk of arbitrary action and restricts inappropriate interference on the part of governments or the sector.

Resuming

In striving for cross-border supervision of the highest quality, the European Union has taken on a daunting task. The ECB will need a complete supervisory mechanism and must attract the most talented people, both for the internal organisation – which must be unimpeachable – and for the leadership that must be shown. I am not especially concerned about this. Co-operation with national supervisors will be rather more exciting however. Is there full exchange of information? Will the SSM be able to intervene when necessary? What is the role and position of the national supervisor at such a time? Only an SSM that can operate independently, with transparency and accountability, and issues rules that are binding under all circumstances will be able to carry out its future task well.

4. José María Roldán: When facing problems, the passage of time seldom helps

Rules will never suffice. Risk management in the sector needs to change tack, and that can only be achieved if financial regulation embraces a new paradigm. Until October 2013, José María Roldán was Director General for Banking Regulation and Financial Stability of the Banco de España. Self-criticism is not new to him. He describes how the supervisors, including Spanish ones, missed the signal alarms before the crisis and, once the crisis started, were too cautious in their measures.

The experience gained in the credit crisis has, of course, altered my perspective on the role of financial regulation. Ceyla Pazarbasioglu really hits the right note when she emphasizes that the possibility of saying ‘no’ to financial institutions does not yet mean that there is a willingness to actually do so. Let me take the discussion one step further.

We all strive to learn the lessons from the crisis, usually under the heading of ‘things we did not see coming’. But the reality is that we saw quite a few things coming, and in some cases, contrary to popular opinion and memory, we had already tried to do something about them. The problem, therefore, was not so much a lack of identification. It was rather a lack of intensity in the reaction, or a lack of proper implementation. For instance:

- After the Enron and Parmalat scandals, we changed accounting to ensure a wider view of the balance sheet and the consolidation of close-linked Special Purpose Vehicles, yet we saw Structured Investment Vehicles outside consolidated accounts in many banks.
- After the demise of LTCM, we identified as early as 2000 the problems of winding down a large and complex financial institution³, yet we could not manage the demise of Lehman.
- In the derivatives world, the problems of backlogs in the booking of OTC derivatives indicated weaknesses well before the crisis, which were not sufficiently resolved.
- In some countries, dynamic provisions were introduced to both tame the credit bubble and limit the impact of its unwinding and proved helpful in both the

³ A task force of the then G7 was created.

upswing and the bubble burst, yet, in isolation, they were not strong enough to stop it or prevent the massive impact when the bubble burst. Even at the beginning of the crisis back in 2007, we were talking about the ‘turmoil’ and not about the ‘crisis’, although many of us, if not all, had the intuition that a very powerful storm was in the making. A financial storm we had not seen since 1929.

We could continue with a longer list, I am sure. My message is clear: the worst thing is not that we did not foresee problems, but rather that we did foresee problems and responded too weak to make a difference.

Another lesson coming from the crisis relates to crisis management, and not so much to crisis prevention. In many countries the response to the crisis was far too slow. Simply waiting, for instance for the economy to recover, does not help. That turned out to be a mistake. Actually, I exaggerate a little: we certainly did implement measures here and there, but with hindsight we are aware that they were insufficient. Prompt corrective action is the key, both in crisis prevention as in crisis management.

A second point that I believe to be important is the reaction to the crisis. The initial choice of the political powers and supervisors was that more and better rules would prevent subsequent system shocks. The result is an over-abundance of new rules and regulations in both the United States and Europe. However, the size and complexity of the regulatory system has now developed to such extent that maintaining an overview has become a serious issue. Once again, to exaggerate: we all used to know Basel I or II-rules off by heart; now they are defined in thousands of pages of text, and some specific parts are only truly comprehended by a few specialists.

I do not believe this to be a sensible route to follow. Rules will never suffice as they give a false sense of security. This is also apparent from the fact that financial institutions are spending an increasingly larger share of their resources on compliance, while we are still confronted with bankers who explore or overstep the limits of the permissible – as seen in the recent Libor scandal, for instance.

I would therefore advocate a new regulation paradigm. Risk management in the sector needs to change tack, and that has not yet proven possible on the basis of the current principles. Additional rules have not had the desired effect. Instead, I would like fewer rules, simpler rules and more forceful rules. Determination is a crucial component of this new paradigm. We need to be continually in dialogue with the sector, but if the result of this dialogue is unsatisfactory this should not be continued. This determination requires support via modifications to the governance of supervisors, which enable us to take a more independent approach.

Resuming

The credit crunch has taught us that supervisors must act from a broader perspective than simply their national interests. They have also taught us that the waiting game can never work. The only option is to intervene strongly and speedily when necessary. In order to facilitate this, the regulation process requires a new paradigm, based on determination. Spanish regulation had an excellent reputation in the pre-crisis era: adequate rules, good internal organisation, excellent information supply. It was not enough to prevent a serious banking crisis. Let that too be a lesson to us.

5. Sheila Bair: In the fight against short-termism, independence is essential

Reforms that are needed to ensure the stability of the financial system in the long term are being hindered by all sorts of short-term interests. This is the assumption underlying Sheila Bair's analysis. At the height of the credit crunch, she was chairman of the FDIC, which made her one of the most important financial advisers to the American government. In her contribution, Bair examines the question of what regulators can do in order to bring the governance of banks, the culture within these institutions and the behaviour of employees, more in line with long-term perspectives.

More than five years after the financial system almost collapsed under the pressure of the credit crunch, reform is only about half finished and we seem to lack the political will to get the job done. We need to decide what we want: fast profits or durable stability? What sort of financial sector do we want: a financial sector that creates short-term profits through leverage and excessive risk taking? Or one that strives to provide firm foundations for economic growth and prosperity?

This conflict between short-term interests and long-term objectives is raging on many fronts, and we can see it reflected in the progress made with reforming the financial system. Perhaps I should rather say 'the lack of progress made'. In the United States in particular, big steps must still be taken. Two good examples are capital requirements for banks and reform of securitization. Typical short-term considerations are being put forward to impede progress in these fields. Bank lobbyists and politicians are involved in this.

Some banks object that high capital requirements will hinder them in providing entrepreneurs with the credit needed for economic growth. And that these higher requirements harm their competitive position. Some banks also try to scare shareholders by saying that higher capital requirements will reduce returns. Too many politicians endorse these arguments out of short-term interest. This is what you get with a political cycle of a few years. If you wish to be re-elected, it is tricky to explain to your followers that measures must be taken now that may have transitional costs in the short term. Even if you know that these measures will provide the best solution in the long term. The result is political pressure on regulators.

Neither has there, as yet, been sufficient progress made in the field of securitization – a typical short-term phenomenon. We flinch from reform because of the mistaken belief that reforms to securitization will hurt the recovery of our housing market. But as we saw during the crisis, securitization placed the short-term profit incentives of loan originators and securitizers over the long-term interests of homeowners and investors in sustainable mortgages which borrowers could repay. The result was catastrophic. To allow securitization to start up again using the same basic model is indefensible.

I think it's quite clear that I'm concerned about the way in which the reform process is going at the moment. On the other hand, we should not be surprised. After all, it's only human to concern ourselves with our short-term interests. Certainly, if things go well, we are happy with our profits and we do not think about possible losses if things go wrong down the road. And if things do go wrong, the solutions that we choose focus initially on preventing further misery in the short term. This applies to the bail-outs, for example. These solved the short-term problems of the failing banks, but, at the same time, they increased the long-term problem of moral hazard. The result of this was that legislation was needed in order to tackle the problem, such as Dodd-Frank's ban on future bailouts and a new 'resolution' mechanism to deal with the failure of SIFIs. Please note that this is not about risks that lay at the root of the crisis but about risks that arose from the solutions that we chose during the crisis.

A predilection for the short term may be only human but that does not mean, of course, that – as regulators of the financial sector – we are supposed to accept it. It is our task to strive towards a healthy stable financial sector that handles its responsibilities to meet the credit needs of the economy over the long term, in good times and in bad.

I have already pointed out that carrying out this task has not been simpler. There is sometimes little acknowledgement for the perspective of the regulator either inside or outside the financial sector. Yet we are not faced with an impossible task. Below, I have used four points to outline the skills that a regulator needs in order to increase support for the long term benefits of reform. In other words, stability in the long term is fine but how do you actually achieve it?

Firstly, by maintaining your independence. This is the most important point. Independence is essential in the fight against short-termism: independence with regard to the political process and independence regarding special interest industry lobbying. For example, in the United States, at the moment, this is affecting the necessary reform of the money markets. Looking at the short-term interests of the money fund managers, politicians are exerting pressure on regulators to water down needed reforms. They are saying that reforms will hurt the competitive position

of American money funds, even though Europe is being much tougher than the US. Similar sentiments are being invoked in mortgage-lending. The Consumer Bureau has finally succeeded in introducing a minimum set of lending standards for mortgages, but at every attempt to tighten up these requirements, the regulators are accused of impeding the recovery of the housing market. The only correct answer to this is to ask ‘What do you want then? A safe passage to the next crisis?’ Regulators must always be led only by their own convictions regarding what is needed to make the financial sector future-proof.

Secondly, explain what you are doing and why you’re doing it. Seize every moment and every opportunity to make it clear to society what regulators do and what the public benefits are. Regulators who are unable to do this should not be surprised if they meet with little understanding. For example, in 2010, the financial industry produced a study which said that compliance with the capital requirements of Basel III would raise the cost of lending by 500 basis points. That was simply untrue. But the regulators fought back with independent studies showing that higher capital would only incrementally increase the cost of credit, and the benefits far outweighed those costs. Regulators must continually ask: ‘Do we want to have another severe recession?’ That is what happens when banks operate with capital levels that are too thin. They are in little position to refinance debts or make new loans. That is why the global economy suffered such a severe credit contraction in 2008 and 2009. The public must be reminded of this over and over again. This is a task for the regulator.

Thirdly, recognize the fact that some banks are managed better than others. This is not self-evident. Calling attention to regulatory issues and the need for reform should not and need not degenerate into bank-bashing. Regulators should recognize good management and prudent behavior. Not all banks are the same. And boards have a role in recruiting good people for key positions. For that matter, in my opinion, recruiting good people is always the best thing that bank boards can do. Boards cannot run the banks. They have to have good management, and have in place the right remuneration structure in which employees are rewarded for their contribution to the long-term objectives of the bank. I am less concerned about the amount of this reward as I am about the type of behaviour that is rewarded. Finally, bank boards must work with management to adopt the right tone at the top and provide good customer service that focuses firmly on building and maintaining long-term customer relationships.

Fourthly, and finally, regulators should not put their own short-term interests ahead of long term stability. If there are problems at banks you regulate, acknowledge them and deal with them, the earlier the better. Do not ignore the problems for fear that acknowledging them will make you look like a bad regulator. Similarly, regulators and central banks must acknowledge the long-term risks of accommodative monetary policy, and use macro-prudential tools to address them, even though this

requires acknowledging those risks in the near term. Macro-prudential tools must be more than a good sound bite.

Resuming

I would like to conclude by saying that the work of regulators of financial institutions has become more difficult in recent years and that this is particularly the result of increased political pressure to allow short-term interests to prevail over long-term objectives. Regulators have done a lot to reform the system, but so much more remains to be done. The longer we wait, the harder it will be to complete the reform agenda. As I said in an op-ed the day I stepped down from the FDIC: ‘Our financial system is still fragile and vulnerable to the same type of destructive behavior that led to the Great Recession. Unless all of us – households, financial leaders and politicians – are willing to make some short-term sacrifices for longer-term stability, we are at risk of another financial crisis that will be just as bad, if not worse, than the last one’.

6. Joanne Kellermann: Long-termism is an attitude

‘The rules are no good’. This was the initial reaction of many supervisors to the financial crisis of 2008: we need more and better rules. The tide was to turn in the following years, however, explains Joanne Kellermann, Executive Director at DNB. It became recognised that the culture and conduct of bank managers was one of the main reasons behind the credit crisis. Rules (and the resultant penalties) are not the best way to change that. So what can a supervisor do to encourage institutions to swap harmful short-termism for a focus on the long-term effects of their actions?

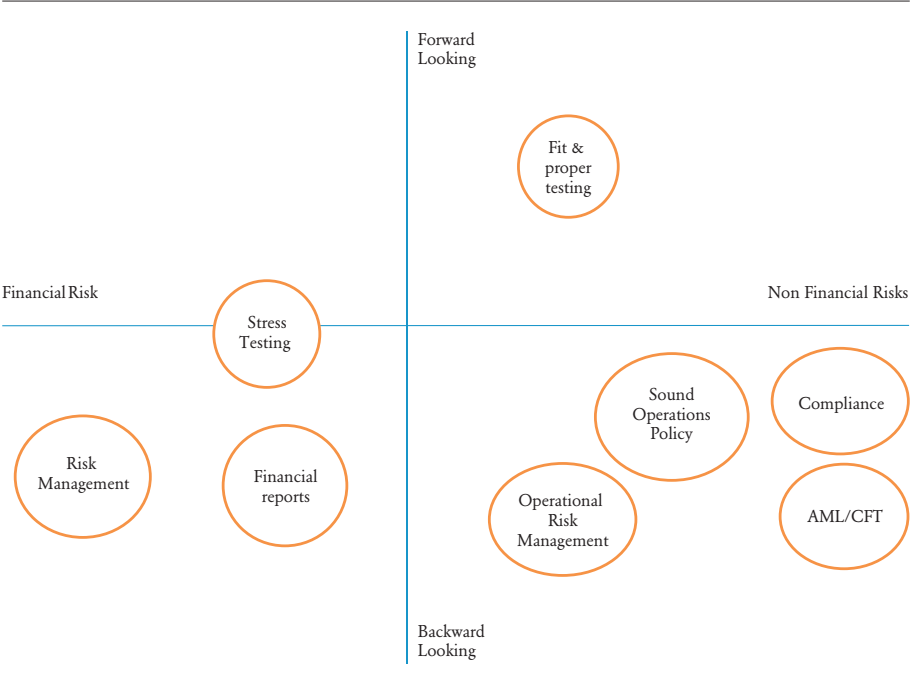
It took a while before there was awareness that many aspects of the credit crisis were a question of conduct rather than a lack of solvency or liquidity alone. This centres on the contradiction between short-termism and long-termism, as defined by Sheila Bair. Culture and conduct within firms have now gained a position on various platforms, and in new global supervisory rules. Basel III paid attention to the risk culture attached to risk management; Solvency II discusses in detail the filling of key positions, and the Dutch national legislation now includes a banker’s oath, for example.

What options are open to supervisors in terms of promoting long-termism in the financial sector? To begin with, our answer is: look differently. Look forward, to the financial but also the non-financial risks run by each firm. Also, spend more time looking inside the firms, at the strategy, the business models, the governance, the board effectiveness and the conduct of employees – see figures 4 and 5.

DNB uses very diverse methods ‘to look’, to map the culture and conduct of a firm and its employees. We make use of a small team of psychologists and anthropologists, for example. They conduct fieldwork: they sit in on board meetings. We also conduct desk research: we analyse the minutes of the risk committee of the board, for example. And we conduct surveys among the employees.

This investigation provides an image of the culture in a firm, which immediately shows whether or not there is a need for change. If so, we deploy the instruments available to us to initiate or encourage that change.

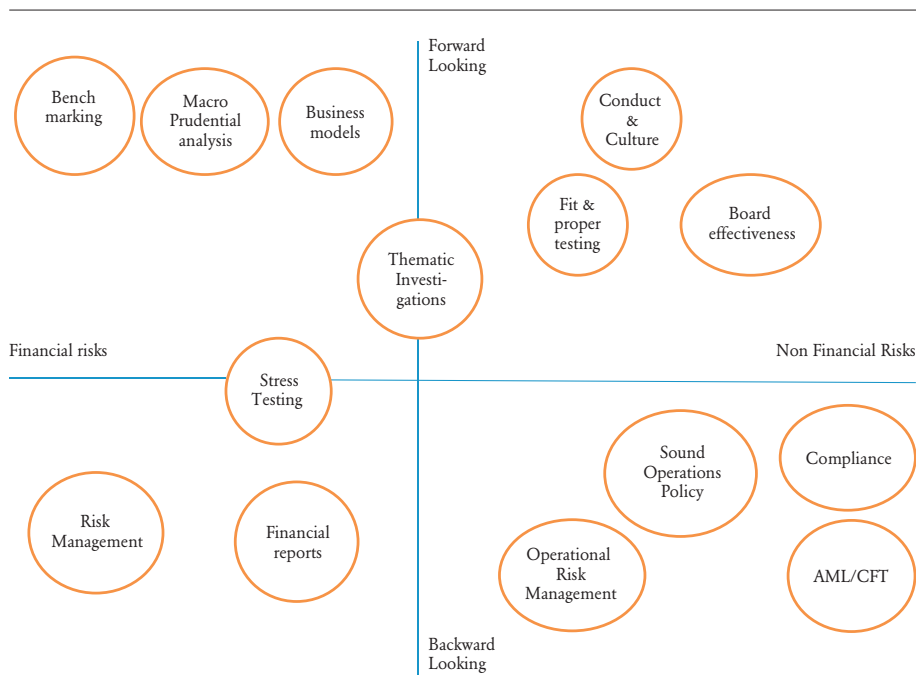
Figure 4 Supervision before the credit crises



These instruments are totally different to those used in the past. Formal rules and penalties have no effect on culture and conduct. We have therefore opted for persuasion as a tool. For example, rather than providing the board of directors with an official report of our findings, we present a number of slides showing our draft findings, and use these as the basis for a discussion with the directors. ‘We have noticed the following. What do you think?’ We aim to bring the subject to life within the board by showing them a mirror, which will not be achieved by sending them a report full of recommendations or by imposing formal sanctions.

Another tool used is that of communication. In speeches, interviews, publications and seminars, we give our view on cultural change in the financial sector.

DNB has a number of years’ experience with this methodology by now. Although we can see that the subject has risen on the agenda of boards of financial institutions, the results of our investigation are not entirely positive. There is generally not enough attention by boards for the culture within their organisation. This lack of attention is often paired with limited reflection of their own effectiveness: there is considerable risk of group think developing within boards of directors. We therefore also advocate increased diversity in the boards of financial institutions.

Figure 5 Supervision after the credit crises

In the organisations themselves, we regularly encounter an inappropriate risk culture: a life insurer managed as a hedge fund for example, or a pension fund that takes excessive investment risks.

Resuming

Short-termism was one of the main reasons behind the financial crisis. Converting the financial sector culture to long-termism is a major challenge for supervisors, especially due to the limited role that conventional supervisory tools can play in the process. DNB is convinced it is on the right track with the methods and instruments that it is using to initiate and encourage this cultural change. We base this partly on the results of the cultural change process undertaken and still on-going within our own organisation. DNB is developing a learning culture and a forward-looking culture, and the lessons learned along the way are extremely useful in our discussions with financial institutions regarding their culture. However, we are not there yet. Behavioural and cultural change is a long-term project, that requires stamina from all involved.

7. Frédéric Visnovsky: The story behind the balance sheet must be understood in detail

There is, by definition, no such thing as a bad business model, but rather bad strategic decisions. Frédéric Visnovsky, deputy secretary-general of the Autorité de contrôle prudentiel et de résolution (ACPR) of Banque de France, has his doubts about the popular view that the financial crisis was first and foremost the consequence of bad business models by the banks. The reality is more complex, in his opinion, and bad strategic decisions within the framework of any business model were more instrumental in failure. The fact that the global financial system requires a certain degree of diversity of business models does not make the supervisor's task any simpler.

More than five years on from the start of the financial crisis, the business models used by banks still give cause for concern. Financial institutions are continually needing to reconsider their strategies, often as a reaction to poor economic conditions: limited growth puts pressure on investments (asset pressure), the refinancing conditions are unfavourable (funding pressure), increasing government finance requirements result in an over-abundance of government bonds (financial repression) and the political uncertainty in the European Union leads to financial fragmentation. The strategic choices made by bank management under the pressure of such circumstances have led to adjustments in the business models. Supervisors are monitoring this process carefully. After all, they must at all times have insight into 'the story behind the balance sheet': what means and methods does this bank employ to generate profit and growth? And are such means and methods future-proof? That 'story' needs to be understood in detail.

The significance of business models was generally underestimated in the period prior to the financial crisis. Supervisors tended to focus on whether the banks complied with statutory requirements and whether the bank's management paid sufficient attention to the vulnerability of the institution regarding certain external risks. However, integral analysis of the business model was generally lacking.

The credit crunch has changed all that. The failure of a number of banks with unbalanced business models justifiably invoked the question of whether the major risks attached to such models should not have been addressed at an earlier stage. The examples are well known.... Lehman Brothers, Dexia, Northern Rock... Their common factor was that they relied overly on short-term financing in order to

cover long-term obligations, a model which is doomed to fail once the mutual trust is lost between banks.

Some analyses of the reasons for the credit crunch assume that a prohibition on ‘bad business models’ would have prevented much of the damage. I disagree. I do not believe in the existence of poor business models by definition. That is much too simple an approach, which fails to take account of the dynamic interaction between the various characteristics of a model. I do, however, believe that bad strategic decisions - within the framework of any business model - were more instrumental in failure than any of the models themselves.

This is also apparent from the work recently conducted by the EBA with regard to categorisation of business models: each model and model element has risks, and such risks can actually contribute to the strength of the bank. Take size for example: while a large bank is liable to have system risks, it also has more resilience than a smaller bank. Another example is the composition of income: if it mainly concerns interest income, there may be a major interest risk; if it mainly concerns trading income, volatility will be the Achilles heel. The quality of the strategic decisions regarding income determines whether such risk factors result in strength or weakness. See the enclosed table.

Business model elements	Main features of business model	Main business risks and vulnerabilities associated
1. <i>Activities</i>	Retail oriented	- Credit risk - Transformation risk
	Trading oriented	- Market risk - Counterparty risk (from derivatives)
	Universal bank	- Contagion risk - Complexity
	Specialized bank	- Concentration risk
2. <i>Resources (capital and structure of funding)</i>	Predominance of wholesale funding	- Freeze of market funding - Volatility of funding
	Predominance of retail deposit	- Deposit run-off
	High leverage	- Reliance on external funding
	Predominance of encumbered lending	- Difficulty in liquidation - Reduced resilience in times of crisis (less eligible collateral)
3. <i>Structure of income</i>	Predominance of interest income	- Interest rate risk
	Predominance of trading income	- Volatility of income
	Non-diversified source of funding	- Concentration of earning

4. <i>Geographic scope</i>	Large foreign exposure	<ul style="list-style-type: none"> - Currency risk - Ring fencing - Political risk - Country risk
	Domestic focus	<ul style="list-style-type: none"> - Concentration risk
5. <i>Size</i>	Large size	<ul style="list-style-type: none"> - Systemic risk - Excessive risk appetite ('too big to fail') - Complexity
	Small size	<ul style="list-style-type: none"> - Weaker resilience
6. <i>Originate to hold / to distribute</i>	High use of securitization	<ul style="list-style-type: none"> - Lack of credit standards and/or knowledge of borrowers' creditworthiness - Opacity - Increased risk appetite
	Limited use of securitization	<ul style="list-style-type: none"> - Increased credit risk - Transformation risk
7. <i>Risk appetite and performance</i>	High risk appetite	<ul style="list-style-type: none"> - Risk of unsustainable business model - Solvency risk - Profitability risk
8. <i>Liquidity profile</i>	Predominance of short term funding	<ul style="list-style-type: none"> - Increased risk of liquidity shortage - Combined with long term assets, increased risk of maturity mismatch
	Predominance of long term funding	<ul style="list-style-type: none"> - Pressure on cost
9. <i>Operational structure and governance</i>	Importance of off balance sheet commitments	<ul style="list-style-type: none"> - Risk of sudden pressure on liquidity
	Multiple subsidiaries and branches	<ul style="list-style-type: none"> - Operational risk - Risk management - Too complex to manage - Contagion risk
10. <i>Medium term plans</i>	Interdependent and centralized entities	
	Not linked with a specific business model	<ul style="list-style-type: none"> - Strategic risk - Business short-term view - Future risk to business model

So why do business models give cause for concern? Why do they deserve our attention? The crux of my answer is that the complexity of the financial system in combination with the flood of new rules and regulations to be implemented by banks can result in undesirable side effects with regard to the diversity of business models. They are undesirable, because a financial sector that wishes to stimulate economic growth and prosperity must have an optimally versatile range of financial products and services at its disposal. If rules and regulations force banks into a uniform straitjacket, that range will soon deteriorate. Banks will then lose their stimulative function and the economy will suffer. In other words, if we are not aware of the possible unintended side effects of the current supervisory reforms, we will be throwing the baby out with the bathwater.

Supervisors are therefore faced with two tasks. Firstly, they will need to broaden and deepen their supervision of business models applied by the banks. In order to do so, they must develop detailed knowledge of the intrinsic logic and of the incentives that steer bank management decisions. So far, this has mainly taken place via qualitative research, in interviews with management in particular. However, the aim is to also develop quantitative methods to identify sources of possible problems, before they manifest themselves and possibly form a threat to the health of the institution. In that sense, supervisors must also have the means with which to recommend or even impose changes to the bank's business model. However, it goes without saying that the supervisor should not meddle in the daily running of the bank, of course.

The second task facing supervisors is that they must visualise the consequences of reforms to the rules and regulations for the diversity of the business models. The financial sector is being confronted with an accumulation of new regulations without any form of global co-ordination. This creates the risk of unintended, negative side effects with regard to the financing of more risky market segments, for example. However, it is extremely difficult to determine whether and how such effects will materialise. Supervisors must be alert to such possibilities. The first initiatives have actually been taken, in the form of the Basel Committee's amendments to the LCR and in the form of assessments conducted by the EBA.

These two tasks are, of course, closely interwoven, as they share a common target: to comprehend the dependencies between banking operations, rules and regulations and economic circumstances. I believe that the implementation of the SSM offers a unique opportunity to make progress in this investigation; we must be able to develop common criteria and a harmonised methodology in order to map the business models of the large banks.

Resuming

I am convinced that the investigation of the banks' business models must not rely on the principle that any one business model is better than the next one. Instead, it should be based on economies being best served by a financial sector that can apply a wide range of business models. The success of these business models will mainly be determined by the quality of the strategic decisions taken by the bank's management rather than the objective model characteristics.

8. Jan Sijbrand: There's nothing wrong with risks as long as they are taken consciously

The analysis of a bank's business models belongs in the standard arsenal of instruments that a supervisor should have at his disposal. At DNB, business models are examined in almost every phase of the supervision cycle, as Jan Sijbrand, Executive Director at DNB, shows in this contribution. According to Sijbrand, it's crucial that a supervisor forms his own opinion and 'uses his own brain'. The management of the bank itself is sometimes too closely involved in daily operations to have the necessary distance.

Attention to the supervision of the business models and the strategy of banks has increased rapidly in recent years. The Financial Stability Board adopted the concept worldwide, while in Europe business models have acquired an important place in both the Capital Requirements Directive IV and in supervision by the EBA and the ECB. In the Netherlands, DNB and the Netherlands Authority For the Financial Markets (Autoriteit Financiële Markten, AFM) have both left room in their supervision for the issue of the way in which financial institutions earn their money. At DNB, business models are now examined in almost every phase of the supervision cycle: at licensing, in line supervision and in thematic assessments and benchmark sessions.

The way we work could be compared with peeling back an onion. The safe starting point is to assume that nothing is what it appears to be at first sight: always look at what's behind it. Organisations make all sorts of claims regarding the nature of their business model and the management can be completely convinced of the correctness of those claims. But that does not mean that they are actually correct. An example that we once came across concerned a bank that profiled itself as a savings bank, was known as such and also behaved as such. But the savings activities were not profitable: the money was actually earned by a small private equity division that was separate from the rest of the bank. An example at another level concerns the forecasts that banks make of their future assets growth. If we add all the forecasts together we arrive at impossible results: although every bank may be right individually, collectively they are totally wrong.

For this reason, talks with the management of the bank are not enough when analysing a business model. You might exaggerate this by saying that the management is not where you should go for this in the first place. Managers are so closely involved in

daily operations that they often lack the distance needed for an objective analysis. For example, what do you hear if you ask what makes the bank a success? ‘Our excellent employees’, replies the enthusiastic banker.

So the analysis has to be supplemented with quantitative data: look at allocation and transfer pricing, look at market data, look at the internal models and decide whether business-critical risks are taken consciously or unconsciously. There’s nothing wrong with risks as long as they are taken consciously. A savings bank that withdraws savings deposits repayable on demand and invests them in long-term government bonds at 4 per cent interest will see its profitability decline if the short-term interest rate rises. As long as this is no surprise, as long as this is a consciously taken risk and the management of the bank fully understands its size and possible impact, then there’s no problem. However, risks that are taken unconsciously are much more dangerous and it’s on these that our analyses focus.

Finally, tracking down shortcomings in business models is one thing but following this up with appropriate measures is quite another. In recent years, DNB has regularly had to propose corrections to the business models of banks. Saying ‘no’ is almost never easy but now, because of these experiences, we are well able to decide when that must happen and how it must happen.

Resuming

As Frédéric Visnovsky has already said in his contribution, the intention is not that the supervisor should meddle with management. On the other hand, the supervisor must be able to intervene if he identifies business models, or parts thereof, that do not belong in the financial sector in his opinion. This is why the supervisor must not hesitate to say ‘no’ when necessary. It’s an art, but it’s an art that can be learned.

9. Concluding remarks

European financial supervision is subject to major changes. The nature and the direction of these changes constituted the focal point of the presentations and discussions at the DNB-seminar ‘Financial Supervision in the 21st Century’, reflected in this collection of texts.

Naturally, attention was also paid to the construction of the Single Supervisory Mechanism (SSM), the common banking supervision system in the eurozone. During the presentations as well as the panel discussion – also joined by DNB-president Klaas Knot – it became clear how high the demands are regarding the SSM.

The SSM is one of the three pillars of the Banking Union, otherwise supported by the Single Resolution Mechanism (SRM) and a European deposit guarantee scheme. The Banking Union is set to restore trust in the financial industry, as well as within the industry.

‘A truly complicated task’, Knot said during the aforementioned discussion. He stressed the challenge to create a balance between the responsibilities of the ECB, leading within the framework of the SSM, and those of the national supervisors. Knot: ‘The occasional interrelation between banks and governments must be breached and that process can be a painful one.’

Several authors stressed the need for the ECB to show independence in its supervision. According to José María Roldán (former Banco de España) ‘there is no doubt that we need supervision in a broader perspective than the national interests alone’. Sheila Bair (former FDIC) adds that independence is not self-evident: ‘It looks like we are losing the political will to attack some of the structural features of financial markets and financial institutions that have been causing the financial crisis.’ Political pressure is risky: it can endanger the independent position of the ECB.

The art of creating a clear relationship between the ECB and national supervisors, thus excluding misunderstandings about each other’s responsibilities, will even be decisive for the success of the SSM, Ceyla Pazarbasioglu (IMF) states in her

contribution. ‘A supervisory regime encountering practical barriers at the moment closing of a bank is needed, will be all bark and no bite.’

However, the question how the ECB is going to be an effective supervisor in the framework of the SSM, is not only to be answered by governance alone. Also, changes arise in the nature of supervision. Joanne Kellermann (DNB) outlines how supervision of culture and conduct at financial institutions is capable of revealing risk factors that remained unnoticed before. ‘New methods and tools are developing so that supervision becomes more forward looking. We are making progress in developing them.’

Extending on that, Jan Sijbrand (DNB) is making a case for the study of business models of banks, raising the quality of supervision. In respect to this issue too, the development of new methods is required, according to Sijbrand: ‘Talking to the management will not suffice, the result will not be an objective assessment of business models. We need to look for quantitative data.’

Frédéric Visnovsky (ACPR), elaborating on the relationship between business models and strategy, is foreseeing ‘big steps in the comprehension of the interdependencies between business models, regulation and economic circumstances’. In that respect, he considers the advent of the SSM as extremely timely. ‘The implementation of the SSM is offering a unique opportunity to develop common criteria and a harmonised methodology for mapping out the business models of the big banks.’

Opportunities and risks: as mentioned, it is not a simple task the ECB is facing right now. Meanwhile, in cooperation with national supervisors the Comprehensive Assessment (CA) has been initiated. The CA incorporates a risk analysis, a stresstest and the Asset Quality Review. As a whole the CA will render supplementary insight into the risk profile of the big banks and the need for restructuring measures. ‘This way it can be determined which part of the distrust in the European banking industry is exaggerated and which part has solid grounds’, Knot stated. ‘Accordingly, the grounds for distrust will be removed by the restructuring measures taken, clearing the way for a new start.’

About the contributors



Malcolm K. Sparrow is Professor of the Practice of Public Management at Harvard's John F. Kennedy School of Government. He is Faculty Chair of the school's executive programs on regulation and enforcement, corruption control, policing, and counter-terrorism.

In March 2010 he was appointed by President Barack Obama to the Recovery Independent Advisory Panel, to advise the Recovery Board on protecting the integrity of the economic stimulus package.

Professor Sparrow's recent publications include: *The Character of Harms: Operational Challenges in Control* (Cambridge University Press, 2008), *The Regulatory Craft: Controlling Risks, Solving Problems, and Managing Compliance* (Brookings Press, 2000) and *License to Steal: How Fraud Bleeds America's Health Care System* (Westview Press, 2000).

He served 10 years with the British Police Service, rising to the rank of Detective Chief Inspector. He has conducted internal affairs investigations, commanded a tactical firearms unit, and has extensive experience with criminal investigation. His research interests include regulatory and enforcement strategy, fraud control, corruption control, and operational risk management. He is also a patent-holding inventor in the area of computerized fingerprint analysis and is dead serious at tennis. He holds an MA in mathematics from Cambridge University, an MPA from the Kennedy School, and a PhD in Applied Mathematics from Kent University at Canterbury.

Dr. Ceyla Pazarbasioglu is a Deputy Director at the Monetary and Capital Markets Department of the IMF. She is in charge of the work on financial sector regulation and supervision and crisis management.



Dr. Pazarbasioglu was appointed as the Vice President of the Banking Regulation and Supervision Agency of Turkey soon after the major banking crisis of February 2001. During 1998–2001, Dr. Pazarbasioglu worked as the Chief Economist of Emerging European Markets at ABN AMRO Investment Bank in London.

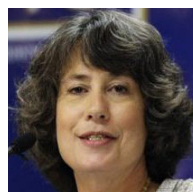
Prior to 1998, she worked at the IMF on financial sector issues and bank restructuring strategies for Czech Republic, Poland and Turkey and for Korea and Thailand after the Asian crisis. She holds a PhD in economics.



José María Roldán was Director General for Banking Regulation and Financial Stability since 2000 until October 2013.

During his tenure he has also taken a number of international assignments, chairing a variety of international groups and bodies, such as the FATF, the CEBS, the Joint Forum or the SIG of the Basel Committee. An Economist by training, he has also worked at the Research Department of the Bank of Spain, the European Monetary Institute, the Ministry of Finance and the Spanish SEC.

Sheila C. Bair served as Chairman of the Federal Deposit Insurance Corporation from June 2006 through June 2011. She presided over one of the most tumultuous periods in the history of the nation's banking system, working to bolster public confidence and financial system stability. She has been a leading advocate and innovator of policies to end the doctrine of too-big-to-fail and taxpayer bailouts.



She has been lauded in editorials ranging from the New York Times to the Wall Street Journal for her fierce advocacy of the public interest and, in the words of Time Magazine, being 'the little guy's protector in chief'.

She has received numerous honors, including the John F Kennedy Profiles in Courage Award, being twice named by Forbes Magazine as the second most powerful woman in the world, and appearing on the cover of Time Magazine. In 2011, she was named by Harvard University and the Washington Post Magazine as one of seven of America's Top Leaders.

Before joining the FDIC in 2006, Ms. Bair was the Dean's Professor of Financial Regulatory Policy for the Isenberg School of Management at the University of Massachusetts-Amherst since 2002. She also served as Assistant Secretary for Financial Institutions at the U.S. Department of the Treasury (2001 to 2002), Senior Vice President for Government Relations of the New York Stock Exchange (1995 to 2000), Commissioner and Acting Chairman of the Commodity Futures Trading Commission (1991 to 1995), and Research Director, Deputy Counsel and Counsel to Senate Majority Leader Robert Dole (1981 to 1988).

Chairman Bair received a bachelor's degree from the University of Kansas and a J.D. from the University of Kansas School of Law. She also holds honorary doctorates from Kansas University, Amherst College, and Drexel University.

Ms. Bair continues her work on financial policy issues as a Senior Advisor to the Pew Charitable Trusts, and as the Chairman of the Systemic Risk Council, a public interest group of prominent former government officials and financial experts which monitors progress on financial reform. She writes a regular column for Fortune Magazine and is the author of the New York Times Best Seller, *Bull by the Horns: Fighting to Save Main Street from Wall Street, and Wall Street from Itself*.

She serves on the Boards of Host Hotels, the Atlantic Council, and the Volcker Institute for Government Effectiveness, and is a member of the International Advisory Council to the China Bank Regulatory Commission.



Ms A. Joanne Kellermann (1960) is an Executive Director of De Nederlandsche Bank (DNB) since November 2007. Her responsibilities include Pension Supervision, Insurance Supervision and Expertise & Intervention. In 2005, Ms Kellermann joined DNB as its General Counsel and director of the Legal Services division. Ms Kellermann is a member of the Board of Supervisors of EIOPA.

From 1992 until 2005, Ms. Kellermann was a partner in the international law firm NautaDutilh. For four years, she headed the firm's financial practice in London. Ms Kellermann completed her study of Netherlands civil law at Leiden University in 1984 and was sworn in as a lawyer in Amsterdam that same year. Since 2008 she has chaired the Financial Expertise Center, in which all Netherlands agencies involved in fighting financial crime participate. She is a member of the Board the Van Gogh Museum in Amsterdam.

Frédéric Visnovsky has a long experience in banking supervision. After being successively in charge of accounting Department, he was Head of the international department during Basel 2 negotiation and then Deputy Director and Director for Supervision of Mutual Banks (2004 – July 2011) during the recent financial crisis.



Now Deputy Secretary General since July 2011, he is at the ACPR in charge of the departments dealing with the supervision of large banks (global Sifis), study, IT and budget.

Member of EBA Board of Supervisors and chairman of its Standing Committee on Accounting Reporting and Auditing (SCARA) and member of the French Accounting Committee (ANC). He is also currently Chair of the Comprehensive Assessment Steering Committee in charge in France of the Asset Quality Review to be done in the context of the new Single supervisory Mechanism.



Dr. Jan Sijbrand (1954) joined the Governing Board of De Nederlandsche Bank on 1 July 2011 as Executive Director responsible for banking supervision and supervisory policy. Jan Sijbrand is Chairman of Supervision.

Before joining the Governing Board of DNB, Sijbrand was Chief Risk Officer and a member of the Board of Management of NIBC Bank in The Hague (2008-2011). From 1996 to 2007, he worked with ABN AMRO, first as Executive Vice President responsible for all market risks (1996-1998), subsequently as Senior Executive Vice President in charge of all risks including

credit and operational risks (1998-2004) and, finally, from 2005, as holder of various positions within Global Markets.

From 1992 to 1996, Sijbrand was responsible for Fixed Income Trading and Sales at Rabobank, and from 1981 to 1992 he held various positions in trading, manufacturing and research with Shell Oil.

In 1981, Sijbrand obtained a doctorate in applied mathematics at the University of Utrecht.

Additional office: Sijbrand sits on the Board of Directors for the Treasury Management postgraduate programme at VU University Amsterdam.

About the book ‘Financial Supervision in the 21st Century’

The financial crisis prompted financial supervisors to take a critical look at their own performance. The toolkit available to supervisors is considerably more varied than it was a few years ago. Supervision has become more forward-looking, taking into account also soft controls, such as ‘conduct and culture’, corporate governance, and business models of financial institutions. In May 2013 the book ‘Financial Supervision in the 21st Century’ was published. It contains a collection of essays which discusses several significant changes in supervision methods and supervisory organisations and examines what methods contribute to ‘good supervision’ and what can reasonably be expected of supervisors. The authors are experts in the field and most of them are affiliated to organisations responsible for financial supervision.

ISBN 978-3-642-36733-5

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