



# International conference “Improving financial institutions: The proper balance between regulation and governance”

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*REPORT*

Helsinki, 19 April 2012

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Hanken School of Economics

## IMPROVING FINANCIAL INSTITUTIONS: THE PROPER BALANCE BETWEEN REGULATION AND GOVERNANCE

Helsinki, April 19, 2012



Conference venue “Hanasaari” - the Swedish-Finnish Cultural Centre

The international conference “Improving Financial Institutions: the Proper Balance Between Regulation and Governance” was organized on the 19th of April, 2012 as a joint initiative of Hanken Center for Corporate Governance at Hanken School of Economics, and International Center for Banking and Corporate Governance. The idea of the conference has been developed by Professor Tom Berglund and Professor Alex Kostyuk in 2011 as part of ongoing cooperation in teaching and research on corporate governance.

The main purpose of the conference was to seek new perspectives on how to reform regulation and corporate governance nationally and globally to reduce systemic risks and improve financial institutions in fulfilling their task of channeling funding to worthwhile projects. The goal was to attract known experts in corporate governance and regulation worldwide as contributors and participants to the conference.



Conference participants

The Swedish-Finnish Cultural Centre “Hanasaari” was chosen as venue of the conference to give a pleasant environment to the discussions. The Centre is situated on a beautiful island not far from Helsinki city center. The Foundation for the Promotion of Securities Markets in Finland, KPMG Finland and Publishing house Virtus Interpress supported this conference as sponsors coming not only with funds as well as with clear understanding of importance of such events both for academics and practitioners in Finland and worldwide.

The conference started with the welcome and opening remarks of the conference co-organizer Professor Tom Berglund who mentioned in his speech that this conference is a timely event to focus attention of the academic and business communities on the intricate balance between corporate governance and regulation in financial companies. The conference also marks the beginning of a new Centre – Hanken Centre for Corporate Governance. The Centre has been established at Hanken School of Economics to promote corporate governance teaching and research in Finland and Scandinavia.



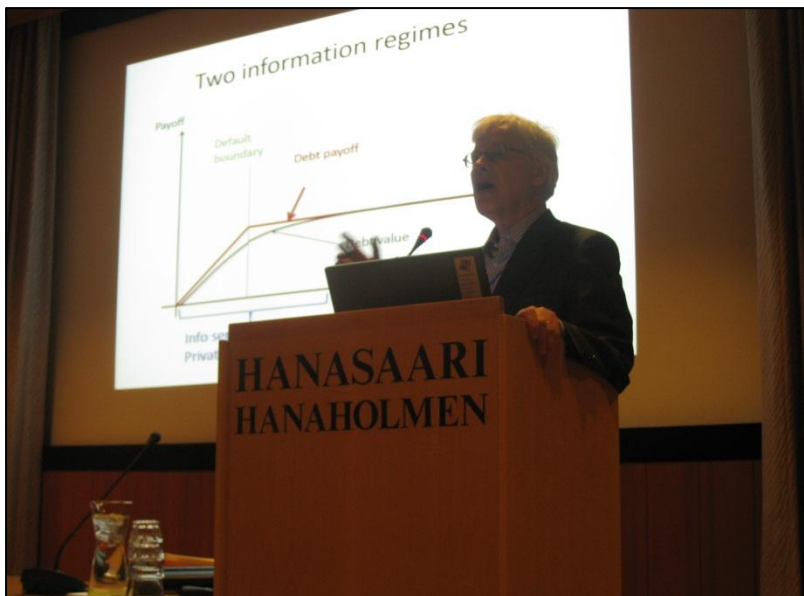
Conference co-organizer, Professor Tom Berglund

The conference owes special thanks to the organizing team: Wiktor Wilson, secretary at Hanken Center for Corporate Governance, Olga Neselevska representing student community of MSc programme in corporate governance at Hanken, and Yaroslav Mozgiovij representing International Center for Banking and Corporate Governance at the Ukrainian Academy of Banking, chaired by Professor Alexander Kostyuk.

The conference co-organizer Professor Alexander Kostyuk also greeted participants and expressed his hope that the conference will help to find the proper compromise between regulation and governance in the process of cooperation between regulative bodies and financial institutions and will act as a catalyst in seeking a harmonic development strategy for the financial sector and more advanced, effective governance models in the banking business.



Conference co-organizer, Professor Alexander Kostyuk



Keynote speaker, Professor Bengt Holmström

Next the floor was given over to the first key-note speaker Mr. Bengt Holmström, Paul A. Samuelson Professor of Economics, M.I.T. (USA). In addition to his influential academic activity he has been a consultant to many international corporations and board member in several huge companies and NGOs. His experience as an independent director on the boards of large companies has given him the opportunity to look at essential governance issues from the inside.

In his presentation Professor Holmström covered questions related to the post crisis stabilization of the financial sector, highlighted the role of transparency in banking industry, and provided his own view on the liquidity management process. According to him more transparency is not always the best remedy in a crisis situation. Some assets are not “information sensitive” by design. They are liquid because investors trust that they will get their money back as promised. In a crisis situation when the trust falters, what is required is some kind of a guarantee that restores the trust, rather than more information that investors have to process and interpret in light of recent events. The art of delivering a speech to the conference audience is a personal professional feature of Professor Holmström. This has been underlined by all conference participants.



Keynote speaker, Professor Renée Adams

The next keynote speaker was Renee Adams, Professor at the University of New South Wales (Australia). Professor Adams is also a research associate at the European Corporate Governance Institute (ECGI) and Financial Integrity Research Network (FIRN). In her presentations she covered the much discussed issue of whether more female directors on bank boards would have reduced the problems in the banking sector under the recent financial crisis. What she showed was that even if female persons on an average are less aggressive than male persons, this doesn't hold for

female board directors. Apparently the selection process that picks up female board members tends to favor candidates that are closer to or even surpasses those of the male colleagues on the board, that to the average female person in the total population.

The third keynote speaker was Clas Wihlborg, Professor, Chapman University, the USA and a member of the European Shadow Financial Regulatory Committee. In his presentation he paid special attention to the regulatory aspects of the financial markets activity in crisis and post crisis periods and proposed an “Informativeness principles for regulation” that highlighted the need for appropriate incentives for bankers to promote truthful reporting.



Keynote speaker, Professor Clas Wihlborg

The keynote speeches were followed a plenary session. The papers in the plenary session focused on important questions of corporate governance in European and Nordic countries and international financial regulation.

The conference was then divided into two parallel sessions: “Corporate Governance in Financial Companies», with Rémi Jardat, Professor, ISTECH, Paris, France as session chair; and “Financial Regulation” chaired by Ken Spong, Assistant Vice President and Economist at Federal Reserve Bank of Kansas City. Relevant questions of corporate governance in banks and financial

regulation issues with focus on all the way from regional markets to a global perspective. For each of the presented papers an expert discussant provided a structured discussion as well as remarks and recommendations. Conference participants also had an opportunity to communicate with each other during the coffee/tea breaks, or during the next day informal meetings that were organized in Hanken School of Economics, to provide participants with the chance to discuss interesting issues concerning presentations made on the conference.



Key paper presenter, Professor Eric Pichet



Paper presenter, Professor Ania Zalewska

Many interesting and recently demanded issues have been presented by participants. Example given, Ania Zalewska from CGR, School of Management, University of Bath, UK underlined the need for localization of executive compensation practices. Anna observed 640 UK firms over the period 2000-2008. Her surprising finding was "The higher remuneration dispersion of an executive board, the lower firm performance".

Barbara Chizzolini from Department of Economics, Bocconi University (Italy)

addressed the question of how to measure the impact of mergers on competition in the banking sector. Professor Chizzolini noted that the retail banking industry in France is more competitive than in Italy. Her econometric tests revealed that mergers in France had increased competition while those in Italy had had the opposite impact.

Seppo Ikäheimo from Aalto University School of Economics suggested that the large relative



Paper presenter, Professor Seppo Ikäheimo

amount of stock may lead to myopic behavior in organizations, but the subjectively perceived time horizon of stock based systems could counter its influence. Longer perceived time horizon of variable compensation significantly extends the perceived time horizon of organization-specific variables, payback period and the time horizon of ongoing R&D investments. Attention should be directed towards making executives recognize stock-based compensation as long-term compensation.

Kim Trottier from Beedie School of Business at Simon Fraser University (Canada) presented research results on the share price reaction to recent news announcements that Canadian banks were adopting say-on-pay, a policy that gives shareholders an annual non-binding vote on executive compensation and getting the public debate in crisis. Using event study methodology, the effect of adopting this new policy was explored and found to be associated with a significant increase in share price. Giving shareholders a voice on executive compensation is thus expected to generate economic benefits.

Matti Keloharju from Aalto Business School (Finland) presented the results of research on IQ’s influence on mutual fund choice. Matti found that high- IQ investors are less likely to own balanced funds, actively managed funds, and funds promoted through a retail network. Since future performance differences are really difficult to predict high-IQ investors rightly focus on the costs, and pick alternatives where these costs are low.



Paper presenter, Professor Kim Trottier

The fruitful and interesting conference day was concluded by the pleasant dinner at the restaurant of the “Hanasaari” center. Thanks to support from KPMG a classy dinner could be held with a minimum of practical fuzz.

On the 20th of April at the Hanken Centre for Corporate Governance made facilities available at Hanken for informal meetings for the conference participants. These meetings gave an opportunity to discuss presentations of the previous day and to negotiate some future projects and opportunities for cooperation. In addition open lectures on corporate governance, regulation, risk- management and accountability in banks were organized at Hanken on that Day. Kenneth Spong, Assistant Vice President and Economist, Federal Reserve Bank of Kansas City, talked about the role of corporate governance in banking business; Eric Pichet, Professor, Bordeaux School of Management, discussed causes and consequences of the financial crisis and regulative measures with the audience and talked about instruments for reaching stability in the financial sector; Jackie Young, Professor, University of South Africa, gave a detailed overview of risk management in financial institutions, and the determination of main roles and responsibilities of this process; and finally Miriam Garnier, Chairperson of Finance and Governance in France, presented a new accounting method for banks that would be likely to enhance trust in the interbank market and promote intelligent regulation.



Paper presenter, Professor Matti Keloharju

Organizers of the conference would like to express special gratitude to all participants, sponsors, and supporters who attended conference, provided funds and made their deposit by high quality presentations, well-structured discussions and unique atmosphere of the great scientific meeting!

After the conference organizers received many positive remarks concerning conference procedure, level of organization, fundamentality of the presentations and importance of the conference outcome. Some of them are below.

*“I really enjoyed participating in the extremely well organised and interesting Helsinki conference and I thank you again for inviting me”*

Barbara Chizzolini, Bocconi University, Italy

*“I want to convey to you that the Helsinki conference was very enjoyable and professionally organized in every aspect. Please relay my compliments to your team. The presentations and discussions were informative, relevant, and of very high caliber. It is exciting to participate in the shaping of regulation and governance in the finance industry.”*

Kim Trottier, Simon Fraser University, Canada

*“Thank you for your invitation to the Conference in Helsinki. I enjoyed it a lot as there were plenty of very interesting papers and people to listen and to talk to.”*

Isabel Argimon, Bank of Spain, Spain

*“The conference you organized was very good. Thank you. The comments we received were of high quality, and in both papers we are currently working on them. You can really organize these kind of high level events!”*

Seppo Ikäheimo, Aalto Business School, Finland

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