‘Multinational banking’: capturing the benefits and avoiding the pitfalls

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The fourth Banking Law Symposium was held at Queen Mary University of London on the 9–10 September 2015. The symposium explored a wide range of issues post the global financial crisis from macroprudential to microprudential issues. On the first day, Charles Goodhart (London School of Economics), in a keynote speech, discussed the linkages between macroprudential and microprudential supervision, and Rosa M. Lastra (Queen Mary University of London) addressed about the difficulties in identifying and containing systemic risk. This was followed by Chiara Zilioli (European Central Bank) analysing the legal institutional structure of the Single Supervision Mechanism and David Walker (Canada Deposit Insurance Corporation) discussing key policy initiatives and implications regarding cross-border cooperation and crisis preparedness. On the second day, a keynote speech by Charles Randell (Prudential Regulation Authority, Bank of England) explored the role of directors of financial institutions while, Iain MacNeil (University of Glasgow) and Costanza Russo (Queen Mary University of London), examined codes of conduct in the banking sector. This was followed by a keynote speech by Jean Pierre Sabourin (Malaysia Deposit Insurance Corporation) discussing the role of deposit

insurers in bank resolutions, and Simon Gleeson (Clifford Chance) and Emiliano Tornese (European Commission) delivering speeches on the more technical aspects of capital requirements. Bob Penn (Allen & Overy LLP) then explored bank resolution and Jens-Hinrich Binder (Tubingen University) analysed the problems in cross-border coordination of bank resolution. This was followed by remarks from Marco Bodellini (University of Bologna), Laura Kodres (International Monetary Fund) and John Raymond LaBrosse on the concerns of shadow banking. Finally, the Hon. Mr Justice Blair (High Court Judge, Queen’s Bench Division) analysed issues associated with international financial dispute resolution. It should be noted that some of the papers were included in this special issue of the Journal of Banking Regulation.

Maria J. Nieto and Larry D. Wall explore in their paper entitled, ‘*Cross-border banking on the two sides of the Atlantic: Does it have an impact on bank crisis management?*’, the different responses adopted by the EU and the USA to the Global Financial Crisis and analyses banking integration in the USA and the EU and how it has impacted the response to the crisis. It concludes that although both the USA and the EU have taken steps which should at the margin discourage cross-border operations, the barriers to cross-border banking are likely to fall. Therefore, the EU should consider what sort of banking structure would provide the best combination of an integrated financial system and a financial system in which the banks are neither too large to supervise nor too large to safely fail. Giannoula Karamichailidou, David G. Mayes and Hanno Stremmel in their paper, ‘*Achieving a balance between the avoidance of banking problems and their resolution—can financial cycle dynamics predict bank distress?*’ consider how far it is possible to anticipate problems in banks by using early warning indicators available from published

This special issue is dedicated to David G. Mayes and James F. McCollum.

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information on the financial cycle in the economy. They use a traditional z-score model to test an unbalanced panel of 2239 European banks over the period 1999–2014. The results indicate that financial cycles add noticeably to the ability to predict bank distress up to 2 years into the future. David Bholat, Rosa M. Lastra, Sheri M. Markose, Andrea Miglionico and Kallol Sen analyse in their paper entitled, *'Non-performing loans at the dawn of IFRS 9: regulatory and accounting treatment of asset quality'*, non-performing loans (NPLs) and considers variations in the treatment of NPLs across countries, accounting regimes and firms. They argue that the introduction of IFRS9, the new accounting standard on loan loss provisioning, changes the relationship between NPLs and provisions, by relying on greater judgement to determine provisions. The paper, therefore, concludes that a harmonised approach to NPL recognition is particularly desirable in standardising definitions and developing further criteria around how asset quality in banks is understood in order to promote better understanding of loan loss provisions given the change in accounting standards. Imad A. Moosa explores in his paper entitled *'Good regulation versus bad regulation'*, on the significance of the quality of regulation as opposed to the popular debate on the quantity of regulation. The article analyses several areas of regulations, such as insider trading and short selling, to illustrate what good and bad regulation entails. Leone Leonida and Dr. Eleonora Muzzupappa in their paper entitled, *'Do Basel Accords influence competition in the banking industry? A comparative analysis of Germany and the UK'* compare the impact of Basel Accords (I and II) on the degree of competition in the German and UK banking industries. They argue that stricter capital requirements were introduced to foster financial stability but are also likely to affect the competitive environment and shape the incentives of banks. The comparative analysis indicates that the implementation of Basel aligns the incentives of banks and regulators in a risk-oriented system such as that of Germany, but fails to do so for a profit-oriented system such as the UK one. This results in less competitive dynamics that benefit large UK banks, gives them incentives to favour regulation, exploits the barriers of entry, and creates a dominant position in the market which allows them to reinvest their rents in technology to escape regulation. As a result, they conclude that competition should be used to enhance regulation, especially in the banking system of a profit-oriented market. Rodrigo Olivares-Caminal and Marco Bodellini in their paper entitled, *'The UK regulation on alternative investment fund managers: a difficult compromise between two different legislative approaches'*, discusses the UK regulation on alternative investment fund managers and alternative investment funds. The purpose is to evaluate whether the UK has succeeded in finding a legislative

compromise between its liberal approach and the tendency of the EU Legislature to overregulate after the transposition of the Alternative Investment Fund Managers Directive. Their analysis concludes that, in transposing the Directive, the UK Legislature and Regulator succeeded in maintaining internal regulation some elements that could be able to attract financial players and investors from other jurisdictions.

Remembering David G. Mayes and James F. McCollum

Long before the Banking Law Symposium was launched, two of our long-time colleagues and close friends were instrumental in its success. Both of these gentlemen were internationally recognised thinkers, advisors and authors in the area of monetary economics and financial sector regulatory matters. This issue of the Journal of Banking Regulation is dedicated to their memory.

David G. Mayes had a long distinguished career in academia notably in the area of monetary economics and he was a trusted adviser to central bankers around the world. Most recently, David was the BNZ Professor of Finance at the University of Auckland; Director, Europe Institute University of Auckland, Adjunct Professor University of Canterbury, Visiting Professor University of Buckingham, and co-director NZ Governance Centre, University of Auckland. Prior to those positions, Dr. Mayes was Advisor to the Board, Bank of Finland (1997–2008), Professor of Economics, London South Bank University, and held numerous other positions including the equivalent of Assistant Governor of the Reserve Bank of New Zealand.

David's list of publications includes over 100 scholarly articles, chapters, and books and he was in high demand as a keynote speaker, presenter and discussant at international conferences. With Andrew Campbell, John Raymond LaBrosse and Dalvinder Singh, David co-authored an important book entitled *Deposit Insurance* published in 2007 by Palgrave Macmillan. That book launched the creation of the Banking Law Symposium first held at Warwick University and David was an enthusiastic writer and active participant at many of the succeeding conferences and workshops.

James F. McCollum was a dedicated public servant. He began his career at the Economic Council of Canada after he graduated with a PhD. from Rice University. Jim always sought out intellectual challenges. He was intrigued by the idea of constructing the first financial flow accounts for Canada and he took on that assignment at Statistics Canada in the mid-1970s. In the mid-1980s Jim joined the Canadian Federal Department of Finance where he headed up a

team working on a variety of issues including regulatory measures to address the problems arising from financial crimes such as money laundering. Jim provided advice on Canada's official international reserves, national and international payments system issues, and financial sector regulatory policies including depositor protection measures.

Several articles included in publications flowing from many of the Banking Law Symposia benefited from Jim's perceptive and expert editing skills. Jim often sweated small details such as the proper placement of commas and when to use capital letters correctly in a sentence. He possessed a unique sense of humour combined with an intellectual curiosity and common sense that was welcomed by the many people who worked with him. While Jim was a mentor with a critical mind, many of his writings formed the basis for Ministerial speeches and

publications of the Government of Canada and he co-authored papers with several colleagues including a Spanish article in an academic journal.

David is survived by his wife Janet who accompanied him on many of his long trips from New Zealand and Jim will be forever missed by his wife Beth who enjoyed soaring with him in his glider. It was our pleasure to have known David and Jim throughout their outstanding careers. They will be greatly missed.

John Raymond LaBrosse, Rodrigo Olivares-Caminal and Dalvinder Singh

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