BASEL COMMITTEE ON BANKING SUPERVISION

BANK FOR INTERNATIONAL SETTLEMENTS

Centre for Economic Policy Research

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# Announcement / Second Call for Papers

## Banks – how big is big enough?

A joint workshop by the Research Task Force of the Basel Committee on Banking Supervision,[1]
the Centre for Economic Policy Research (London),
and the Journal of Financial Intermediation

Bank for International Settlements, Basel, Switzerland,
24–25 May 2012

One outcome of the recent crisis has been further consolidation of the global banking system. There are economic reasons for anticipating economies of scale in banking. Size and scope can be used to diversify risks. Aside from diversification, there may be technical and relationship lending scale economies for some bank business lines. Some may also argue that the growth of large global banks has economic growth externalities.

Theory suggests that there are likely to be limits in the ability to diversify risks through expanded size, geography, and lines of business as bank idiosyncratic risks dissipate and portfolios increasingly reflect global market risk factors. Offsetting diversification benefits are systemic risks including contagion risks that likely grow as banks become larger and more interconnected. The evidence suggests that technical scale economies are achieved at modest scale and it is unclear where these economies continue to accrue for the largest institutions. In addition, as banks become larger and more complex, managerial diseconomies, agency problems and less competitive pricing almost certainly impose countervailing inefficiencies.

All of these issues raise the question: How big is big enough? Following the financial crisis, public policy has recognised the need to treat the largest banks differently with enhanced supervision and additional capital requirements for large systemically important institutions. Some argue that these regulatory measures fall short, and public policy should aim at limiting the size of financial institutions.

[1] The Basel Committee on Banking Supervision consists of senior representatives of bank supervisory authorities and central banks from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. It usually meets at the Bank for International Settlements (BIS) in Basel, Switzerland, where its permanent Secretariat is located.

Does size, complexity or both need to be limited or can supervision, risk-based deposit insurance premia and regulatory capital policies adequately address these issues? The design of either policy response would benefit from definitive answers to a number of basic questions. What size and level of complexity are needed to achieve diversification benefits? Do these size and complexity benchmarks vary for institutions specialising in certain types of lending activities (ie commercial, commercial or residential real estate, consumer, small business or other)? When are technical scale economies exhausted? What are the social benefits and costs of complex cross border financial institutions? When do contagion, systemic risk, and managerial issues offset scale benefits? Is it necessary to limit size and or complexity to have a credible resolution scheme and prevent the moral hazard of "too big to fail"? If so, what are the practical allowable limits for scale and scope? Are regulatory "bail in" capital requirements a substitute for a credible resolution scheme?

The organisers of the workshop solicit theoretical and empirical papers on these and related topics. Submissions in other areas of risk management, banking supervision and financial stability are also welcome.

## Keynote speaker

- Stefan Ingves (Governor of Sveriges Riksbank and Chairman of the Basel Committee on Banking Supervision)

Interested parties should submit their draft papers and any queries to Martin Birn of the Basel Committee's Secretariat at Martin.Birn@bis.org. The submission deadline is **31 December 2011**. Contributors will be notified by early **March 2012**.

The workshop aims to bring together leading academics, representatives of the Basel Committee member organisations and other central bankers and bank supervisors as well as market participants. The Basel Committee will contribute toward the cost of academic speakers' travel and accommodation expenses.

The Programme Committee for the workshop consists of Fabrizio López Gallo Dey (Bank of Mexico), Paul Kupiec (Federal Deposit Insurance Corporation), Iman van Lelyveld (The Netherlands Bank), Bent Vale (Central Bank of Norway), Viral Acharya (New York University Stern School of Business and JFI), Markus Brunnermeier (Princeton University), Xavier Freixas (University Pompeu Fabra and JFI), George Pennacchi (University of Illinois and JFI), Dimitri Vayanos (London School of Economics and JFI), S Viswanathan (Duke University and JFI), and Ernst-Ludwig von Thadden (University of Mannheim and JFI).

## Submissions to the Journal of Financial Intermediation

A special issue of the *Journal of Financial Intermediation* will be devoted to the workshop. Papers accepted to the conference program will have their *JFI* submission fees waived. The same reviewing standards will be used for papers submitted this way as for regular submissions to the *JFI*. Along with your submission, please indicate whether you plan to have your paper considered for publication in the *JFI*.