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A Three-Step Path to Financial Regulation Impact Assessment

An input to the FSB consultation – suggested by the Research Center SAFE

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In the aftermath of the 2008 financial crisis, the G20 implemented a wide range of financial regulatory reforms to assure financial resilience and limit the severity of future financial crises. Examples of such reforms include among others stricter capital requirements for banks via Basel III, central clearing of over-the-counter (OTC) derivatives and the Bank Recovery and Resolution Directive (BRRD) of the EU. To assess whether these reforms have been effective in achieving their goals, the Financial Stability Board (FSB) currently consults on a *framework for post implementation evaluation of the effects of the G20 financial regulatory reforms*.

To clarify the consultation process and discuss comments and suggestions on the framework, the FSB was hosting a conference call for scholars from academia and policy institutions on Tuesday May 2nd. In the course of the discussion it became clear that a holistic approach to evaluating the G20 financial reforms is probably way too complex to be conceived, let alone carried out by any single institution, or even by any single framework.

The participants were encouraged to submit a procedural proposal how to move forward with the pending impact assessment process. We suggest a simple, but effective research process that proceeds in three steps. In the next paragraphs, we present a sketch of a possible process, and if it is found acceptable, we can provide further suggestions how to implement it.

Time-wise, we think that steps 1 and 2 can be accomplished within 3 months from today, while the ensuing step 3 will need another year. The final workshop (mentioned under step 3, below) could be scheduled for late summer 2018.

Step 1 CONCEPT: Collection (invention) of possible questions to be analyzed (--> hypotheses).

Step 2 STRATEGY: Selection and prioritization of hypotheses (--> agenda)

Step 3 ANALYSIS: Data collection and hypothesis testing (--> implementation).

Step 1, the CONCEPT phase, is vital in the sense of identifying the truly relevant questions for the planned impact assessment. The CONCEPT task is difficult, and it needs the brightest minds, possibly discussing during a single workshop over a full day (or more) in order to bring different approaches, views and methods to interact with each other. The CONCEPT phase is a brainstorming-type of

exercise that may be structured somewhat along the model of a TOPP¹, or a similar project planning tool. The process, or workshop, starts by defining the target of the exercise, i.e. the impact assessment. Although seemingly trivial, upon attempting to find a common understanding of the target one will find out quickly that profound theorizing is required. Once a hierarchy of objectives is agreed upon, a set of feasible analytical questions can be suggested that require empirical work to be tested. Once a set of possible (and meaningful) test hypotheses has been set up, one can move to Step 2.

Step 2, the task in the STRATEGY part of the workshop is to prioritize the listed questions according to analytical importance, taking data availability into consideration. Subsequently, an agreed upon research agenda can be defined and the tasks can be allocated to institutions, plus it can be posted on the web, asking for “analytical crowd funding” and empirical contributions to a future workshop.

Step 3, finally, is the actual work process, which is undertaken in a decentralized manner. Data issues are dealt with centrally, ideally at the FSB level. The ultimate objective is a set of research outcomes, or papers, that are subjected to a quasi-academic debate. The discussion of results of some of the test results can happen during a semi-open, conference-type setting. Again, the direct interaction of researchers from academia and central banks with experts in banking and capital markets is essential to gauge the value of the analyses carried out, the quality of the data used, and the relevance of the findings and conclusions.

¹ TOPP stands for target oriented project planning. It is a workshop based, structured approach to a designing a common project plan in a number of distinct steps.