



Milan, 10 May 2017

Comments on Proposed Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reform - Consultation document on main elements

Thank you for including me in the consultation process of this interesting initiative. I read the consultation document with great interest. I was quite impressed by the quality of the piece in terms of breadth, exposition and structure of the arguments. There is a lot to be praised in the attempt to construct a methodological and coherent approach for policy evaluation.

The document raises a number of discussion questions, some of which I would like to pick up in the following paragraphs. Let me start with some general remarks before going into some more specifics.

As I said above, the document is very well structured in terms of flows of arguments and approach followed. I like the main elements of the framework and the way they are presented. The evaluation objectives are well defined and are comprehensive, including both the analysis of individual reforms, the interaction between the reforms and the overall effects.

At the current stage, however, the proposed framework appears quite abstract and generic. This makes it somewhat difficult to evaluate the final outcome of the overall project and also the more specific details of the framework. In this respect, it would be helpful to provide some concrete examples of evaluation exercises so to better grasp the concrete implementation of the proposed conceptual framework and/or go a bit deeper on the specific questions to be pursued in the evaluation process and the relative employed methodology.

The same holds for the methodology to be used in the evaluation of the various policies. At page 12 there is a short description of the possible tools to be used in the evaluation process. These are only described at the surface without giving any more specific reference. This makes it difficult to judge whether the methodologies proposed will be appropriate for the intended evaluation exercise. For example, the description of the partial equilibrium analyses is quite generic, including simple and broad terms such as “regression techniques”. Again some more specific examples would be of great help to better evaluate the framework.

One of the typical problems in the process of policy evaluation is the lack of benchmark or counterfactual. This makes it hard to assess the effect of the policy(ies) and their desirability. One possibility to try and at least capture some “differential effect” is the construction of “treated” and “control” groups and the measurement of the differential behaviour of the agents/variables in the two groups. In other words, it is important to identify a “natural or quasi natural experiment” and disentangle its effect on the treated group. In this respect, while it may be true that, as claimed on page 9, “evaluations only become feasible when a critical mass of jurisdictions have implemented the reform and a sufficient amount of data has become available”, it can also be useful to exploit the different implementation times across countries.

Related to this, the document seems to be silent on identification issues, which are instead important when evaluating the effects of reforms.

In terms of cross country assessment, I believe it would be useful to apply the same methodology for each given evaluation exercise across countries, to the extent this is feasible given data availability. To

give an example, when evaluating the introduction of the new capital regulation, it would be useful to conduct the evaluation using the same methodology in the different jurisdictions. Otherwise, it will become difficult to reach an overall assessment of the policy and understand to which extent potential different outcomes may be due to the use of different methodologies rather than different or “non-robust” consequences of the examined reform.

Concerning engagement with stakeholders, I believe there would be quite some interest among academics in being involved in the process. There are various possibilities to engage academics. One possibility is to form an advisory board and invite the members to your meetings and/or engage them throughout directly in the specification of some specific questions and the related methodologies to use. This can be done via consultation, but it would be more helpful and effective to do so through dedicated and targeted workshops. This is the approach that is somehow followed at the BIS.

Another approach, which I particularly appreciate, is the one of the ESRB, where a scientific committee is formed every three years on the basis of a public process. Members of the scientific committee meet regularly four times a year to discuss topics of relevance to the ESRB and/or to write notes on specific notes. But mostly importantly, members of the scientific committee are *directly* involved in the policy work through the participation to the various policy task forces as regular members or chairs. This allows academics to play a prominent (and in my view very useful) role in the policy work of the institutions involved.

To sum up, in my opinion the best way to engage academics would be through the creation of an advisory board and targeted workshops or a structure similar to the ESRB scientific committee. Based on my experience as a member of such scientific committee, I believe this would contribute to the work of the FSB and would help the evaluation process.

Please do not hesitate to contact me for any additional information or request.

Sincerely,



Elena Carletti