Call for Proposals

Have national and international reforms on governance and transparency reduced incentives for excessive risk-taking in the financial sector?

Excessive risk-taking in the financial sector contributed to the Global Financial Crisis of 2007-2008 and triggered a debate on the incentives for such behavior. Policy recommendations by national and international bodies and institutions aimed at reducing such incentives, either by rewarding risk-sensitive behavior or by making excessive risk-taking more costly. A prominent example is the Financial Stability Board (FSB) framework for reducing the moral hazard of Systemically Important Financial Institutions. However, there are further important aspects beyond too-big-to-fail that affect incentives for excessive risk-taking: governance and transparency.

To address governance issues, national and international bodies and institutions developed principles and implementation standards to reduce incentives for excessive risk-taking that arise from the structure of compensation schemes. These principles and standards address the governance of compensation within financial firms (e.g., dedicated board committees to govern compensation; systems to monitor and review policies and practices), risk alignment (e.g., identification of material risk takers; mix of cash, equity and other forms of compensation), as well as external stakeholder engagement (e.g., public disclosure of compensation policies).

To improve transparency with respect to the disclosure of risks by financial firms, national and international bodies and institutions suggested standards and practices that improve the quality of information available to investors and depositors as well as to prudential authorities and regulators. Transparency about the health of financial firms as well as their actions may allow for a better risk evaluation of external stakeholders, hence providing an incentive for firms to reduce excessive risk-taking.

Key questions for an evaluation of national and international reforms on governance and transparency are, first, whether objectives have been met and reforms effectively reduced incentives for excessive risk-taking. For example, measured by adequate changes in compensation practices and organizational structures or by improved transparency about short-selling positions and trading. Second, whether reforms have positive or negative unintended consequences, such as increased regulatory arbitrage.

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1 In March 2021, the FSB published a report on its own evaluation of these reforms: FSB report on too-big-to-fail evaluation
We invite research proposals that address key questions with empirical methods. Possible deliverables include, but are not limited to:

- Descriptive statistics on the implementation of governance and transparency standards
- Variation in the timing and extent of changes in practices across financial firms
- Changes in practices across jurisdictions and at the sectoral and aggregate level
- Impact of changes in practices on business models and risk-taking behavior
- Possible spillovers of changes in practices across financial sectors (e.g. banks vs. non-banks)
- Interaction of changes in practices with other measures in this reform area

Please send your proposal (not more than 6 pages) to FinancialCycles@bundesbank.de including:

- Description of research project and main deliverables (2 pages)
- Description of data, data sources, and data access (1 page)
- Proposed timeline with major milestones (1 page)
- Presentation of research team members and qualifications (1 page)
- Presentation of related own research and policy work (1 page)

The duration of the research project is not more than 12 months. Remuneration will depend on deliverables, but will not exceed 40,000€. Please indicate any possible conflict of interest in your proposal.

Please contact FinancialCycles@bundesbank.de for any related questions.

We look forward to receiving your research proposal by September 15, 2022!