INSTITUT EUROPLACE
DE FINANCE
Louis Bachelier

# EIF Scientific Morning Conference
## Wednesday, October 8, 2014
## 8:15 am
## Palais Brongniart
## PARIS

## "Incentives and Regulation" Session

**Sébastien POUGET**

**Bio :**

Sebastien Pouget is Professor of Finance at IAE Toulouse and member of the Toulouse School of Economics (Université Toulouse 1 Capitole). In 2010-2011, he was a visiting Professor of Economics at Princeton University where he taught asset management and behavioral finance. Prof. Pouget' research studies financial markets with a multidisciplinary approach combining insights from economics, psychology and history. His research has been published in international academic journals such as the Journal of Finance, Econometrica and the Review of Economic Studies. Prof. Pouget is co-director of a research center on responsible finance, the « Chaire Finance Durable et Investissement Responsable ».

**Abstract :**

**"Incentives and Regulation for Long-Term Investments"**

This paper considers the problem faced by long term investors who have to delegate the management of their money to professional fund managers. Investors can earn profits if fund managers collect long term information. We investigate to what extent the delegation of fund management prevents long term information acquisition, inducing short-termism in financial markets. We also study the design of long term fund managers' compensation contracts. Under

moral hazard, fund managers' compensation optimally depends on both short term and long term fund performance. Short term performance depends on price efficiency, and thus on subsequent fund managers' information acquisition decisions. These managers are less likely to be active on the market if information has already been acquired initially, giving rise to a negative feedback effect. A a result, short-termism emerges: because of delegation, long term information is not acquired. Second, short term compensation for fund managers depends in a non-monotonic way on long term information precision. We derive predictions regarding fund managers' contracts and financial markets efficiency.

**Wolf WAGNER**

**Bio :**

Wolf Wagner is a Professor of Economics at the University of Tilburg and the Chairman of the European Banking Center. He is also a research faculty of the Duisenberg School of Finance, a Senior Research Fellow at the Judge Business School at Cambridge University and a Senior Member of TILEC. His work has been published in various academic journals, such as the *Journal of Finance*, the *Review of Finance*, *Management Science*, the *Journal of Money, Credit, and Banking*, the *Journal of International Economics* or the *Journal of Financial Intermediation*. Wolf Wagner frequently gives talks at central banks and international conferences.

Wolf Wagner's work focuses on banking and financial markets. Key themes in his research are the wider implications of financial innovation for the efficiency and stability of the financial system, as well as the role of diversity in creating a more resilient economy. Recent interests include the impact of systemic liquidation risk on asset prices, macroprudential policies, and the joint banking and sovereign debt crisis in the Eurozone.

**Abstract :**

**"Heterogeneous Regulation of Financial Institutions"**

We consider a model of a financial sector in which two types of projects can be undertaken: standard projects that have low returns, and advanced projects that have potentially higher returns but are subject to an agency problem. Intermediaries specialize in projects but there is a common market where they can trade liquidity to deal with shocks. Optimal regulation is sector-interdependent in that tighter regulation in one sector allows for looser regulation in the other sector. In addition, regulation that is optimally set in both sectors is heterogeneous and implements higher leverage ratios in the sector carrying out standard projects. Regulatory arbitrage, where projects are sold from the highly to the less regulated sector, are part of the optimal outcome. The results have various implications for the current discussion on regulation of the non-bank financial system.

**Mark FLANNERY**

**Bio : A venir**

**Abstract : A venir**

**"Maintaining Adequate Bank Capital"**