

## Nordic Finance and the Good Society Newsletter, September 2016

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### **Does equity play a role?**

*by Lars Ohnemus, Director Center for Corporate Governance*

Why is the value of equity so badly understood in Denmark and should we be concerned about this? The short answer is: Yes!

Equity is essential for all start-ups, long-term infrastructure projects and even for farmers. American start-ups have enjoyed a much stronger equity base than their European peers, as highlighted in the latest research by among others prof. Marc Rapp. The current Danish system possesses major structural weakness in terms of societal growth, taxation, product offerings and with regards to developing a digital economy. Equity is essential in the creation of new workplaces, in developing material and immaterial products, and especially in an environment where new regulatory requirements are restricting the ability of banks to provide risk-willing capital.

Historically, Danish retail investors have enjoyed the fruits from one of the largest bond markets in Europe, which is still highly liquid, transparent, and efficient. Nonetheless, in an environment where the 10-year bond yield is less than one percent, a shift must take place. Further compounding the issue, Denmark has a tax system that does not incentivize any kind of risk-taking. On top of this, if one then adds the consequences of an aging population that is living dramatically longer, the general picture becomes very glum, if one can't invest in financial products which give an acceptable return like equity.

Our neighboring countries have already established equity saving systems, which benefit all stakeholders and should serve as a relevant benchmark for forward looking systems. One can only hope for Danish entrepreneurs and investors that similar models are soon launched. Our event on the 7th of September will focus on this essential discussion and will be backed up by the latest research, including leading international guest speakers and a lively roundtable discussion.

### **Upcoming Events**

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In the fall 2016, we will host a number of events and seminars. The focus will be on the future of the financial sector, in particular in the light of the activity pursued by the European Central Bank, the Capital Market Union project, and the general framework of funds. As usual, we will combine a number of leading Nordic and international scholars and researchers with the insights from principal players in the market.

## Business Seminar: The Future of the Financial Sector: How to Promote an Equity Culture in Denmark?

**Time:** Wednesday, September 7th, 2016 – from 15:30- 18:00

**Location:** CBS, Porcelænshaven 22, 2000 Frederiksberg, Råvarebygningen, PHR.s.20

The seminar is organized by CCG and the Danish Shareholders Association and present a line-up of prominent speakers at the seminar ; Bjørn Sibbern (CEO Nasdaq, Copenhagen), Jella Benner-Heinacher (Chief Managing Director Deputy, DSW), Lars Milberg (Lawyer, Vice-President Aktiespararna), Marc Steffen Rapp (Professor, Philips University), and Peter Loft (former Permanent Secretary the Danish Ministry of Taxation)



Please remember to sign up at by sending an e-mail to [ccg@cbs.dk](mailto:ccg@cbs.dk) before **5 September, 2016**

**15.30 Welcome speech** Lars Ohnemus – (Director, Center for Corporate Governance, CBS)

**15.40 The stock market and the economy – is it creating value?**

Marc Steffen Rapp (Professor, Philipps University-Marburg and Center for Corporate Governance, CBS)

**16.10 Has the Danish tax system destroyed an equity culture in Denmark?**

Peter Loft (Adjunct Professor, CBS & former Permanent Secretary the Danish Ministry of Taxation)

**16.30** Coffee Break

**16.40 Why Nasdaq lists Large Caps in Denmark and Micro and Small Caps in Sweden**

Bjørn Sibbern (CEO Nasdaq, Copenhagen)

**17.10 How to promote and secure an equity culture in Denmark?**

Niels Mengel (Chairman, the Danish Shareholders Association) - Introduction

Lars Milberg (Lawyer, Vice-President Aktiespararna) “Why has Sweden such a successful equity culture and what can Denmark learn from it?”

Jella Benner-Heinacher (Chief Managing Director, Deputy, Deutsche Schutzvereinigung für Wertpapierbesitze.e.V) “Learnings from the German market”

**Panel discussion:** Marc Steffen Rapp, Peter Loft, Bjørn Sibbern, Lars Milberg and Jella Benner-Heinacher

**18.00 Reception & Networking**

## Financial Regulation Seminar: “Other People’s Money” with Professor John Kay



Wednesday, **September 29th, 2016, 16.30- 18.00**, CCG will host the Financial Regulation Seminar: “Other People’s Money” with Professor John Kay. John Kay is one of Britain’s leading economists. He is a visiting Professor of Economics at the London School of Economics and has been a fellow of St. John’s College, Oxford, since 1970. He is a distinguished academic, a successful businessman, an adviser to companies and governments around the world, and an acclaimed columnist. His work has been mostly concerned with the application of economics to the analysis of changes in industrial structure and the competitive advantage of individual firms. His interests encompass both business strategy and public policy. John Kay is a Fellow of the British Academy and the Royal Society of Edinburgh.

Over the last half century, the evolution of the finance sector has led to the substitution of transactions for relationships. The outcome has been a sector which largely talks to itself, trades with itself, and has increasingly lost touch with the needs of the real economy for financial services. In this talk, John Kay will describe how financialisation came about, identify how finance can improve the efficiency of business and the lives of households, and propose a programme of reform. Regulation, he will argue, has been as much the problem as the solution: what is needed is a new philosophy focused on industry structure and personal and corporate incentives rather than the elaboration of prescriptive rule books.

Sign up by sending an e-mail to at [ccg@cbs.dk](mailto:ccg@cbs.dk)

## Seminar: “The Foreign Relations Power of the Federal Reserve” David Zaring



Monday, **October 10th, 2016 16.30- 18.00**, David Zaring, Associate Professor at Wharton, University of Pennsylvania will visit CCG. He will talk about how the Federal Reserve interacts with, disrupts, and contributes to the struggle for foreign relations power between the U.S. President and Congress. His scholarship addresses financial and regulatory law from an international perspective. He graduated from Harvard Law School, J.D. with the distinction magna cum laude.

David Zaring will present a paper that explores how the Federal Reserve interacts with, disrupts, and contributes to the struggle for foreign relations power between the U.S. President and Congress. In doing so, the Fed shapes the positions on questions of international economic law and relations taken by the country in ways poorly understood by both lawyers and academics. The Fed’s approach – cosmopolitan when it comes to financial regulation and economic crises, but unilateralist when it comes to monetary policy – varies between contributing to the overall stock of international engagement made by the United States, and withdrawing from it.

## **Business seminar: Asset Management: Creating Value in a low interest rate environment**

**November 10th, 2016**, we will host the seminar: “Asset Management: Creating Value in a low interest rate environment” from 15.00- 18:00. Topics that we be discussed at the seminar will be.

- The Future of the Danish asset management industry cluster
- Does Denmark offer a competitive, regulatory framework that supports the industry cluster within Danish asset management?
- Negative investment returns – what is the future?
- What is the experience from other countries with low or negative yields such as Switzerland and Japan?
- What business models will be emerging in this macroeconomic environment and how should the industry respond?

A more detailed program will be distributed when we get closer but please mark your calendars and save the date. We promise a lineup of prominent guest speakers and interesting roundtable discussions.

## **New Partner**

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We are very happy to announce that CPH Business Academy has become a partner for this project. CPH Business Academy is the leading academy in Denmark in educating financial advisors. They would like to become a part of a dynamic research environment which will permit us to share our findings and indirectly have an impact on the next generation of financial advisors.

## **New Publications**

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### ***“Financial Sector Structure and Economic Growth: A Fresh Look with a Focus on Denmark”***

*By Professor Marc Steffen Rapp*

The report starts from the presumption that the “provision of finance to the private sector” is an important channel through which the financial sector adds value to society. It then proceeds in three steps - First, it explores changes in the structure of financing of the corporate sector and highlights the increasing importance of equity finance. Second, it documents that economic growth is significantly correlated with financial sector structure, and the evidence suggests that capital markets and in particular stock markets foster economic development. Finally, it carefully examines the Danish financial sector and closes with a discussion of challenges for the future direction of the Danish financial sector.

[The report is available on the NFGS projects webpage.](#)

***“What Matters in the Finance-Growth Nexus of Developed Economies? Evidence from OECD Countries”*** By Professor Marc Steffen Rapp and Luliia Udoieva

Marc Steffen Rapp and Luliia Udoieva (Universität Marburg, Germany) have worked on an academic paper which examines the role of the stock market in the finance-growth. The paper is titled “What Matters in the Finance-Growth Nexus of Developed Economies? Evidence from OECD Countries”

[The paper is available on the NFGS projects webpage.](#)

## Research Status

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**Caren Nielsen** recently joined the research team and began two new projects:

1. A project on the return on equities (ROE) targets set by financial institutions, especially banks. Financial institutions are criticized for leveraging up to compete for ROEs and setting meaningless short-term ROE targets. This project aims to study how financial institutions set ROE targets and the impact of this management strategy.
2. An interdisciplinary research project with Professor Georg Ringe. This project is about the impact of different legal environments on financial products and banking investments, with a special focus on regulation.

Beside these new projects, Caren is working with Professor Jens Forssbaeck at Lund University on an ongoing research on market discipline of global banks. Together they study how the market disciplines banks, which is an important pillar of Basel Accords, and the linkage of market discipline with business cyclicity.

Furthermore, Caren Nielsen is updating two finished working papers - one on the pricing of credit risk in equity returns and another on the moral hazard effects of government bailing out banks.

**Other research areas our researchers currently are focusing on are:**

- Does the financial sector create any value seen from a societal perspective?
- The impact of financial regulation on growth
- What is the impact of RoE target in the financial industry?
- Is there any value created from financial advice?
- EU & Financial regulation

## New Appointments

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**Lisa Schellhorn** is joining us in a Ph.D. position, in the area of financial disruptions which have been established in collaboration with the department of IT-Management at CBS. Lisa has a Master’s degree in Business Administration and Information Systems from Copenhagen Business School and the University of Mannheim (Germany). Lisa has lived, studied and worked in Brazil in several years. There, she got hooked on the IT side of business and the endless innovation possibilities enabled by new technology.

**Kirstine Dinesen** is hired as a new communications assistant. Kirstine has a bachelor degree from Copenhagen Business School in Intercultural Market Communication which she finished in July 2016. In August 2016, Kirstine began the master Cand.Merc.(Kom) at Copenhagen Business School, which she will study in parallel with her job at Center for Corporate Governance.

We are currently recruiting for a **Professorship in Governance, Regulation, Risk and Compliance at the Center for Corporate Governance (CCG)**, which is a part of Department of International Economics and Management (INT). Deadline November 1 2016. <http://www.cbs.dk/en/about-cbs/jobs-cbs/vacant-positions/professorship-in-governance-regulation-risk-and-compliance>

If you know anyone who might be interested in this position, please feel free to forward the job advert.