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Finance between Liquidity and Insolvency

Organizers: Dan Awrey, Brigitte Haar and Katharina Pistor

Location: House of Finance at Goethe University Frankfurt

Cosponsors: SAFE, Stiftung Geld und Währung & MPG/Humboldt Foundation

11-12 December, 2015

There is a tendency in finance to view *(il)liquidity and (in)solvency* as conceptually distinct problems, capable of being described, analyzed, and regulated independently of one another. Nowhere is this more clearly the case than in banking regulation, where central bankers have long cited – even if they have not always followed – Bagehot’s dictum to lend freely to illiquid, but not insolvent, banks. In reality, however, liquidity and solvency are inextricably linked. The solvency of the banking system requires the relaxation of banks’ liquidity constraints by central banks as a matter of day-to-day practice. Central banks also play a critical role as liquidity backstops during periods of institutional or broader financial instability. The effect of these and other interventions is to insulate banks from the application of general insolvency rules.

Whether banks should be exempt from the application of general insolvency rules is of course an interesting and important question. On one level, the post crisis answer to this question has been a resounding “no”. On another level, the answer has been to develop more tailored substitutes for general insolvency laws, reflective of the particular challenges of resolving failing banks. Neither of these answers, however, speaks directly to the question of where to draw the line, much less whether such line-drawing exercises go to the core of governing inherently unstable financial systems.

To complicate matters even further, finance is no longer all about banks. With the rise of shadow banking systems, many of the challenges of bank governance faced over the centuries are now replicated at the level of non-bank financial intermediaries and at the intersection between financial institutions and markets. Whether institutions or markets are more or less deserving of protection from binding liquidity constraints has been a recurring theme in debates about bail-in, closeout netting protocols, and access to central bank lending. However, they have rarely been addressed as a unifying theme for governing finance in all its manifestations. This conference seeks to fill this gap.

The conference will be organized around three main themes: Markets v. Institutions, Safety Nets, and “Liquolvency” with specific institutional arrangements scrutinized that revolve around these themes. The fourth and final theme is an invitation to rethink the relation between *(il)liquidity and (in)solvency* at a conceptual level.

The conference will be held at the House of Finance at Goethe University Frankfurt on 11 December (1.30 pm – 6.00 pm) and 12 December (9.00 am – 5.00 pm), 2015.

The conference is open to the public. Please register by Dec. 7, 2015 using this [link](#).

Please, note that **Chatham House rules will apply**.

Friday, 11 December, 2015

From 12.30 pm: ARRIVAL. Welcome of participants and snacks.

1.30 pm: WELCOME

Brigitte Haar, SAFE, Faculty of Law, House of Finance, and Vice President, Goethe University

Safety Nets

- *Central Bank Lending: Collateral and other Contingencies (1.45 – 3.00 pm)*

Presenter: **Ulrich Bindseil**, European Central Bank

Commentators: François Koulischer, Banque de France
Francesco Papadia, Bruegel Institute

Liquolvency

- *Payment Systems with and without official Backstops (3.00 – 4.15 pm)*

Presenters: **Dan Awrey & Kristen van Zwieten**, Oxford Law Faculty

Commentators: Andrew Campbell, University of Leeds
David DeRosa, Columbia University (written notes read by Katharina Pistor, Columbia Law School)
Beat Weber, Austrian Central Bank

Coffee Break (4.15 – 4.30 pm)

- *Price Discovery and Accounting under Stress (4.30 – 5.45 pm)*

Presenter: **Amir Amel-Zadeh**, Cambridge Judge Business School

Commentators: Christian Laux, Vienna University of Economics and Business
Asgeir B. Torfason, University of Iceland

FRIDAY EVENING: SPEAKERS' DINNER (7.30 pm)

Saturday, 12 December, 2015

Markets and Institutions

- *Liquidity and Competition (9.00 – 10.15 am)*

Presenter: **Rainer Haselmann**, SAFE and Goethe University Frankfurt

Commentators: Brigitte Haar, SAFE and Goethe University Frankfurt
Alessio M. Paces, Rotterdam Institute of Law and Economics
Christine Zulehner, SAFE and Goethe University Frankfurt

- *Bail-ins (10.15 – 11.30 am)*

Presenter: **Georg Ringe**, Copenhagen Business School

Commentators: Jeffrey N. Gordon, Columbia Law School
Martin Oehmke, Columbia Business School

Coffee Break (11.30 am – 11.45 am)

- *Bankruptcy Safe Harbors (11.45 am – 1.15 pm)*

Presenters: **Stephen J. Lubben**, Seton Hall University School of Law
 Philipp Paech, London School of Economics
Commentator: Jodie Kirshner, Bank for International Settlements

LUNCH 1.15 – 2.00 pm

- *Bridge-Finance for Bank Resolutions 2.00 – 3.15 pm)*

Presenter: **Sarah Paterson**, London School of Economics
Commentators: Emilios Avgouleas, University of Edinburgh
 Jens-Hinrich Binder, University of Tübingen

Coffee Break (3.15 – 3.30 pm)

Liquidity v. Insolvency: False or Real Dichotomy?

- *Panel Discussion (3.30 – 4.55 pm)*

Martin Hellwig, Max Plank Institute for Research on Collective Goods
Katharina Pistor, Columbia Law School
Robert Steigerwald, Federal Reserve Bank of Chicago

4.55 pm: CLOSURE

Brigitte Haar, SAFE, Faculty of Law, House of Finance, and Vice President, Goethe University,