



International Centre for  
Financial Regulation



1<sup>st</sup> February 2011

## **Professor Hyun Song Shin wins 2010 International Centre for Financial Regulation/Financial Times Research Prize**

**Winning entry stresses under-analysed growth in non-core liabilities in increasing macroprudential risk in booms, and outlines policy options for regulators such as a levy on these bank liabilities**

The International Centre for Financial Regulation (ICFR) announces that Professor Hyun Song Shin of Princeton has been awarded the ICFR/Financial Times Research Prize 2010.

The essay prize is awarded annually with the aims of stimulating thinking in financial regulation internationally, and of highlighting this work to policymakers and a wider global audience.

The theme of the 2010 prize was the "*The Future of the G20 and Financial Regulation*", and Professor Shin's paper was entitled "*Macroprudential Policies Beyond Basel III*".

In a blind judging process, the judging panel picked Professor Shin's entry, noting its strong analysis of the need for effective macroprudential progress by the G20 to bolster a Basel III accord that is almost entirely microprudential in character. In particular, the essay underlines that pure focus on loss absorbency diverts attention from the liabilities side of the balance sheet, and that keeping track of the growth of fragile, non-core liabilities is vital to macroprudential early warnings in booms. Professor Shin outlines the limited monetary policy options in the Eurozone and many developing economies, and examines the effectiveness of macroprudential tools such as loan-to-value ratio, debt-service-to-income and leverage caps, emphasising the potential attractiveness of a levy on non-core liabilities to align incentives more powerfully.

Looking at data from examples such as Northern Rock, US repos/financial CP and the Korean banking sector, the paper also analyses the way in which a growth in non-core liabilities is accompanied by a maturity shortening of liabilities, as a consequence of longer intermediation chains and the need to maintain a lending spread for each link in the chain.

Hyun Song Shin is the Hughes-Rogers Professor of Economics at Princeton University. He has been a senior adviser to Korean President Lee Myung-bak on the international economy, and played a key role in the Seoul G20 meeting in November. Before coming to Princeton in 2006, he was Professor of Finance at the London School of Economics. His current research interests are in financial economics with particular reference to financial institutions, disclosures, risk and financial stability issues, topics on which he has published widely both in academic and practitioner outlets. He has served in an advisory capacity to central banks and policy organizations on financial stability issues.

Two other impressive essays, both on compensation practices among financial firms, submitted jointly by Joel Shapiro, Patrick Bolton, and Hamid Mehran, and by Guido Ferrarini and Maria Cristina Ungureanu, will be awarded runner-up prizes. All three winning essays can be found at: <http://www.icfr.org/Research/Research-Prizes/Research-Prize-2010/ICFR-Research-Prize-2010---Winning-Essay.aspx>.

The judging panel was led by Lord Currie, Chairman of the ICFR, and also included Brooke Masters, Chief Regulatory Correspondent of the Financial Times, Dr Richard Reid, Director of Research of the ICFR, and Dr Philipp Hartmann.

Lord Currie commented: "Contributing to the G20 financial regulatory debate is a central objective of the ICFR, and we're delighted that this year's winner has raised important issues – especially around non-core liabilities - that are central to the most challenging macroprudential and countercyclical aspects of the G20 agenda. Increasing academic attention is being focused on the liability side of bank balance sheets, and the impact of leverage and increasingly short-term borrowing on the depth of the financial crisis. Professor Shin's paper is a key contribution to this work, and will ultimately have significant implications for financial institutions.

"The ICFR/Financial Times prize has now become well established on the financial regulatory scene, and we were impressed at the strength of entries from around the world".

Lionel Barber, editor of the Financial Times, said: "How best to tax financial services is one of the most pressing public policy challenges after the financial crisis. The winning entry offers a stimulating answer which should attract interest among policymakers worldwide."

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### **About the ICFR:**

The International Centre for Financial Regulation (ICFR), a product of cooperation between 19 leading financial institutions and government, provides training, scholarship and thought leadership on financial regulation. The Centre, while based in the City of London, serves constituencies well beyond the borders of the UK. Internationally, the ICFR engages in dialogue across borders on effective regulatory cooperation and regulatory best practice; acts as a clearing centre for those seeking training on regulation and produces research on regulatory frameworks fit for the 21st Century. [www.icffr.org](http://www.icffr.org)

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