

NORDIC FINANCE AND THE GOOD SOCIETY

Lars Christian Ohnemus, Direktør for Center for
Corporate Governance, CBS

26. April, 2023
Center for Corporate Governance



It is all about the future of Finance

- Challenging the public and its leaders to rethink finance and its role in society, Shiller argues that finance should be defined not merely as the manipulation of money or the management of risk but as **the stewardship of society's assets**.
- He explains how people in financial careers — from CEO, investment manager, and banker to insurer, lawyer, and regulator — can and do manage, protect, and increase these assets. **He describes how finance has historically contributed to the good of society through inventions such as insurance, mortgages, savings accounts, and pensions**

Robert J.
Shiller

Finance
and the
Good
Society

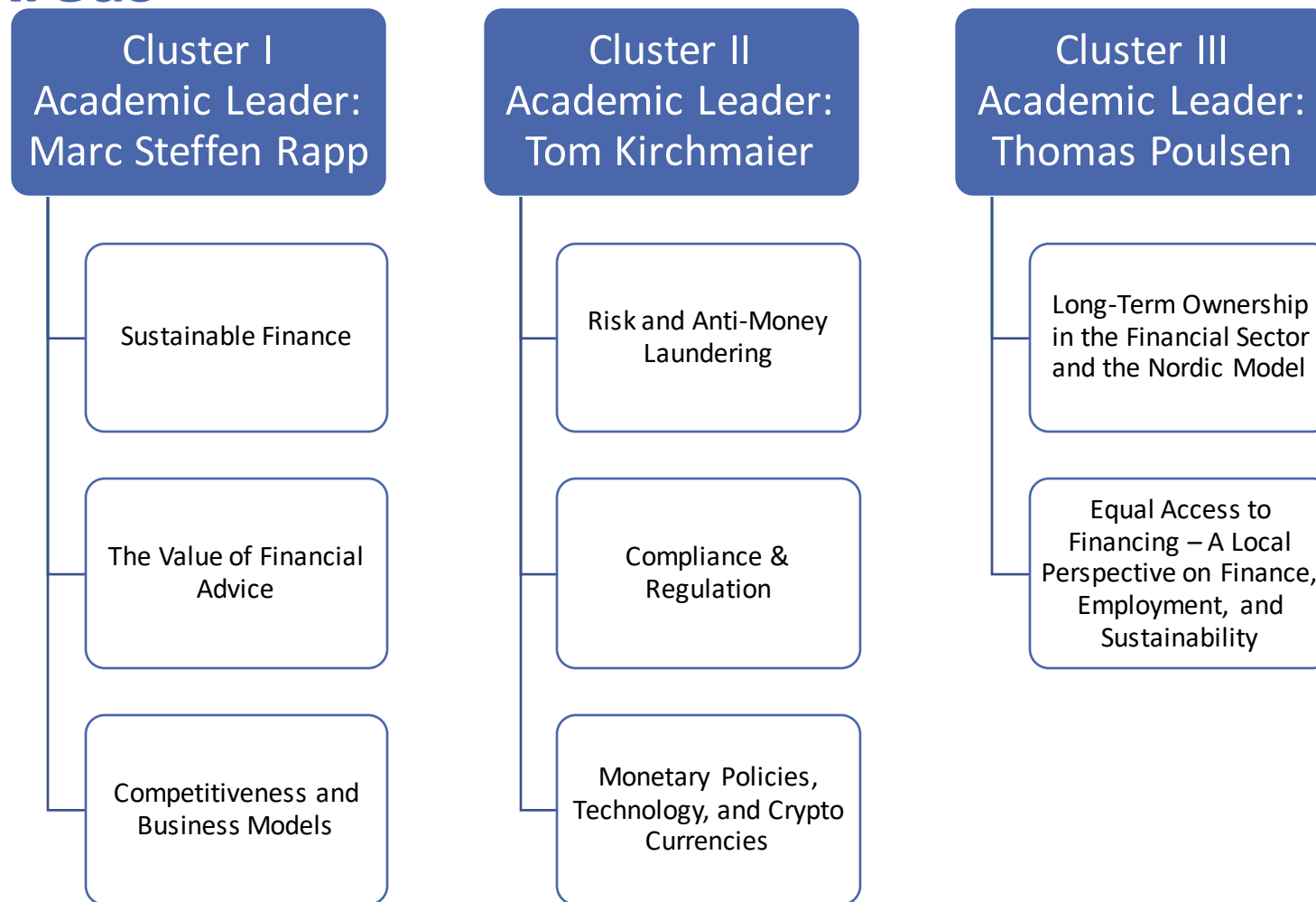
WITH A NEW
FOREWORD BY
THE AUTHOR

Introduction – Nordic Finance and the Good Society (NFGS)

- **First part** of the research project was a four-year project with the core goal of analyzing strategic perspectives and trends within the financial sector, bringing to light opportunities and challenges the industry may experience in the coming future.
- The **second part** was launched in fall 2019 and is running on a 4 year period with a research budget of DKK 10.7 mil. It has around 30 researchers involved originating from at least seven different universities in Europe with an even stronger Nordic focus on sustainable finance and will contribute to existing literature with 8 new research areas on the topic.



Introduction – Three Clusters, 8 Research Areas



Sustainable corporate governance and finance in the Nordic countries

An increasing number of firms integrate ESG or CSR objectives into the traditional pursuit of corporate profits as a long-term goal. This raises several important issues. *How should companies solve trade-offs between profit maximization and social value creation? Does long-term ownership promote and support the pursuit of sustainable value creation?* How do companies finance their sustainability activities? Which important factors serve as contributors to the Nordic companies' strong sustainability performance (e.g., the company's board structure, long-term ownership)?

In this theme, we examine how corporate governance mechanisms, as well as companies' capital structures, can facilitate sustainable value creation. The objective will be to contribute to a scientifically sound basis for policy discussions on "Sustainable Corporate Governance and Finance" in the Nordic countries and Europe.

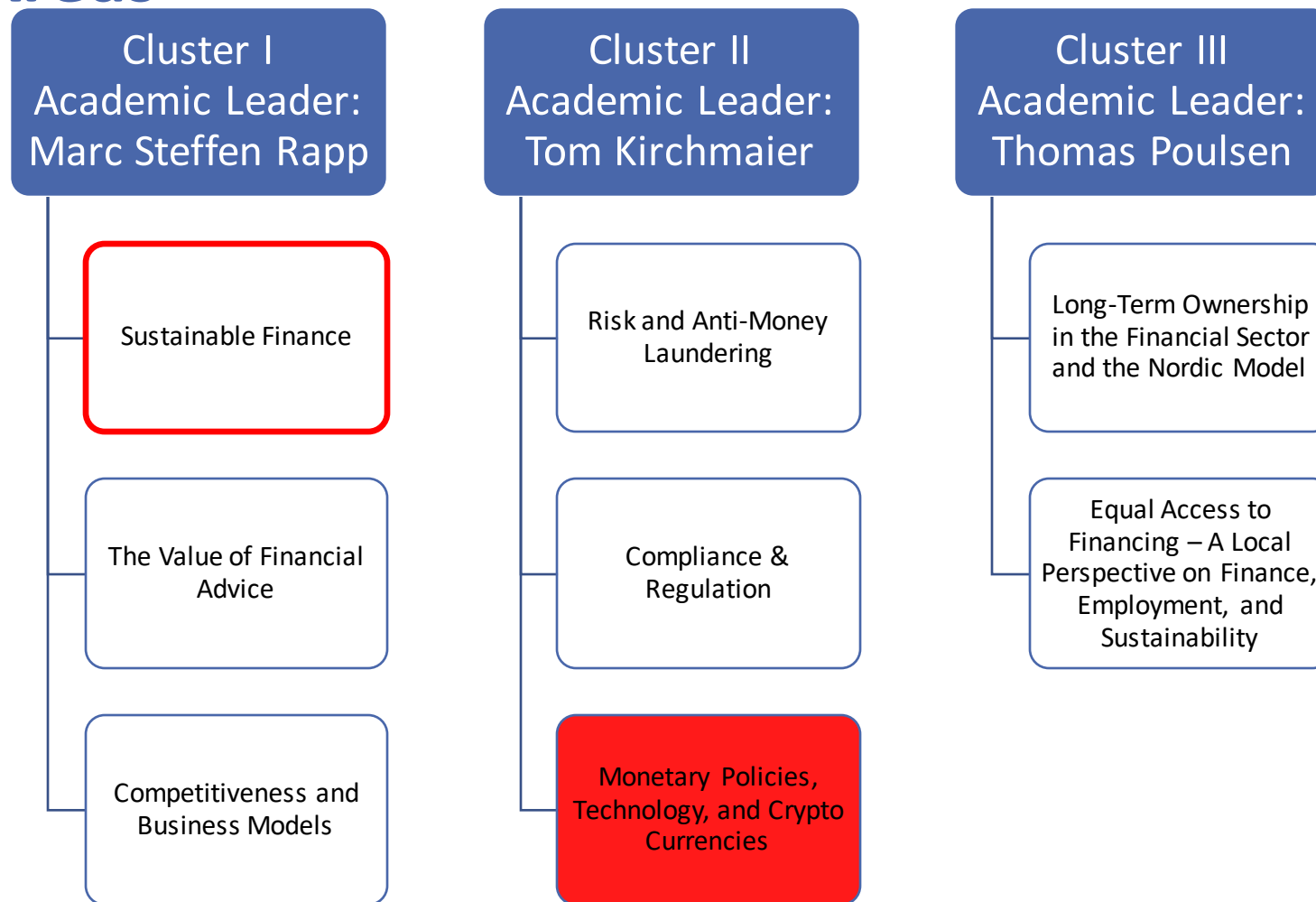
ESG Ratings and Carbon Emissions – Does it help?

Sirimon Treepongkaruna Sasin School of Management, Chulalongkorn University & UWA Business School, The University of Western Australia
Steen Thomsen Centre for Corporate Governance, Copenhagen Business School
First Draft: 5 Feb 2023

- Despite severe academic criticism ESG has become a buzz-word for investors and companies around the world. Trillions of dollars are invested based on environmental, social and governance (ESG) ratings. In this paper we examine whether ESG investment is associated with desired social outcomes (CO2 emissions) or attractive financial returns using ESG scores from a leading data provider (Refinitiv) for the US sample 2005-2018. **We find that investments in portfolios of firms with high ESG or high Environmental scores does not provide higher returns nor lower carbon emissions.**



Introduction – Three Clusters, 8 Research Areas



Monetary Policies, Technology and Crypto Currencies

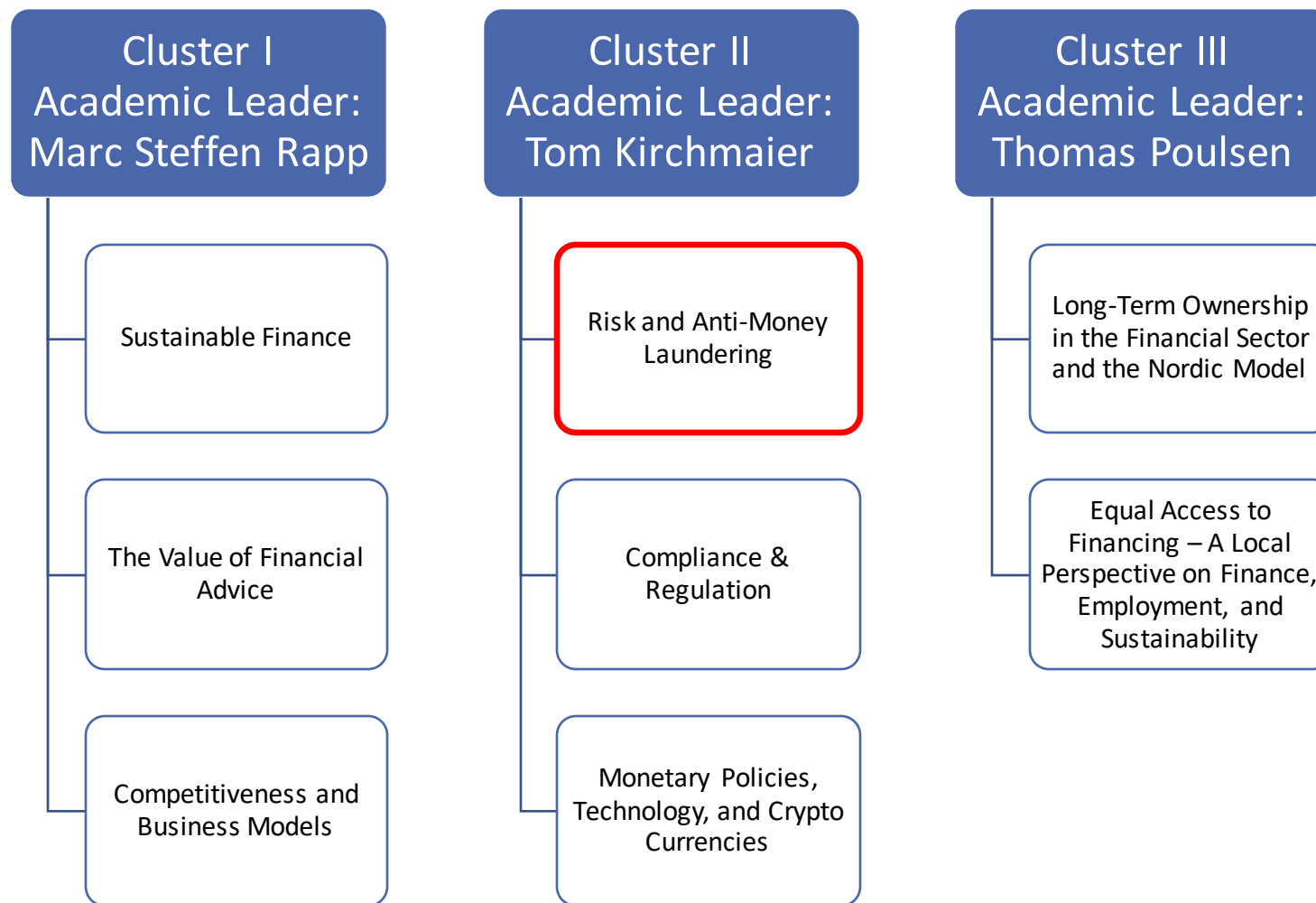
This research tracks has among highlighted;

We have gone through the largest monetary experiment ever conducted by mankind and it will have a long term price stability, asset pricing, etc (Lars Christensen)

Payment systems are in front of a revolution (Hedman)

We are at a cross road : Crypto currencies (no future except for AML)
CBDC (Yes, they have a future and please inform
Nationalbanken)

Risk and Anti-Money Laundering



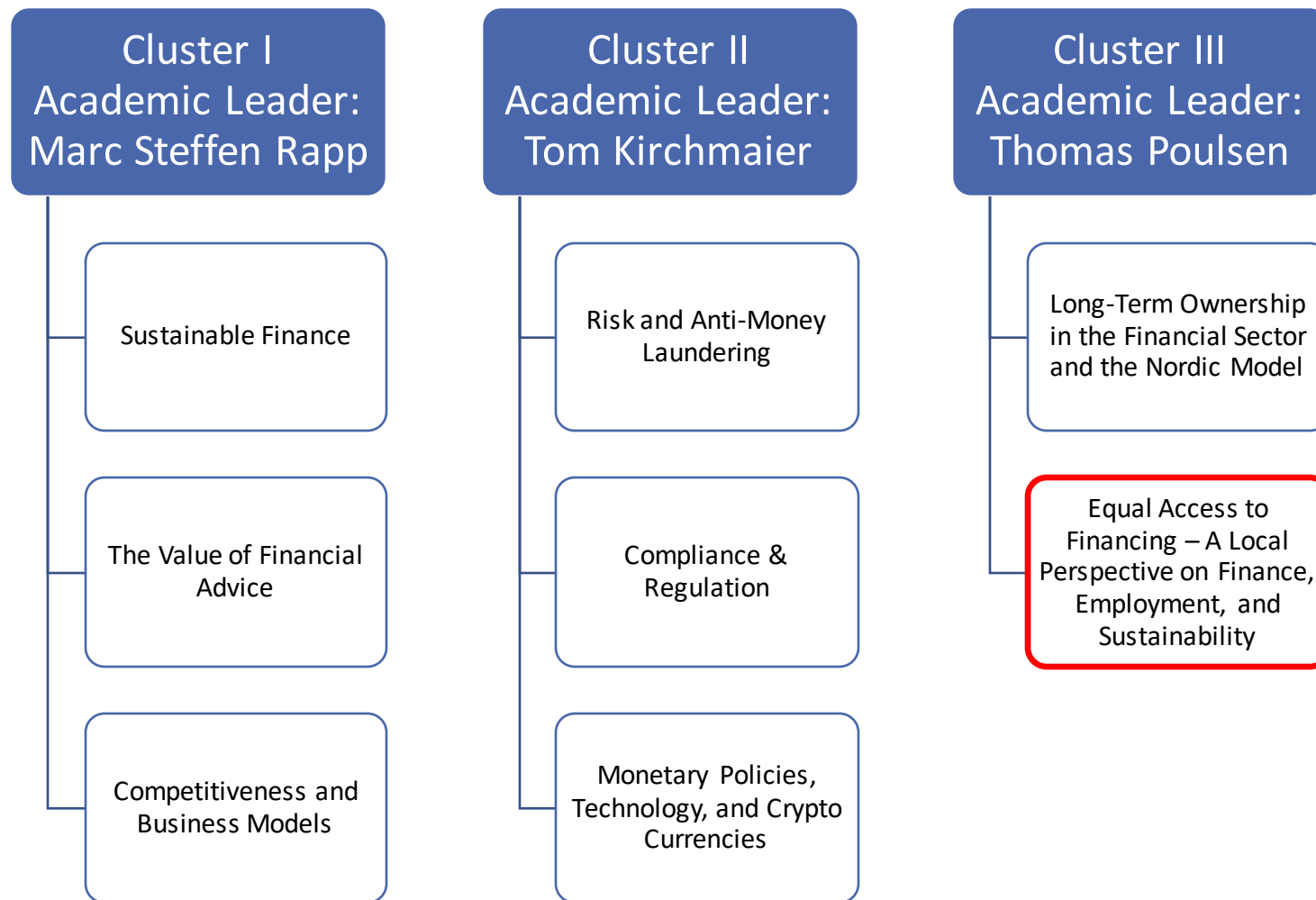
RISK AND ANTI-MONEY LAUNDERING - AML WHITE PAPER

An opinion piece (Tom Kirchmaier)

- Denmark caught up to the global AML 'standards'.
- Issue is that the standards are not good enough, as on the one hand they are ineffective, on the other far too expensive. In DK, we are spending USD1bn annually on trying to mitigate it.
- We probably only find the unsophisticated and small.
- ML can only be mitigated, and not solved (as it is such a big issue globally).
- Some of the monies that the banks spent might be better invested through the police service.
- We need to fundamentally improve the detection algorithms, and move away from scenarios.
- Space based detection might be the way forward.

We are moving from a compliance to risk based approach = revolution

Equal Access to Financing – A Local Perspective on Finance, Employment, and Sustainability





(In)equal access to finance The role of firm-bank director over

* Work in progress *

Thomas Poulsen and Niels Westergaard-Nielsen

Tpo.ccg@cbs.dk

Motivation

(Thomas Poulsen)



- Under perfect market conditions, we would expect equal access to finance for all positive NPV projects.
- One can think of many imperfections that disrupt this otherwise welfare-enhancing matching between finance and projects.
- Some of these are related to firms (overconfidence) and some are related to banks (pessimism or asymmetric information).
- In this project, we want to look at the mediating role of firm-bank director overlap and test whether such overlaps correlates with access and loan terms.

Idea

(Thomas Poulsen)

- Overlaps provide more financial knowledge (on the side of the firm) and better information (on the side of the bank) but also open up for favoritism (inequalities).
- In the last two decades, we have witnessed a remarkable restructuring of the banking infrastructure. In our data, the total number of banks is down from 194 in 2003 to 71 in 2019.
- Fewer banks means fewer boards and thus fewer directors and overlaps, all else equal.
- These dynamics mean that some firms lose their firm-bank director overlap. We want to use this to say something about the implications for access and loan terms.





<https://www.nfgs.dk/research-papers-nfgs-ii/>

Financial Board Work in Denmark

Background for the Questionnaire

We decided, as a part of our project to research the relations between the diverse actors in the financial sector.

There were series of principal corporate governance problems to be discussed;

-What is the role of the board

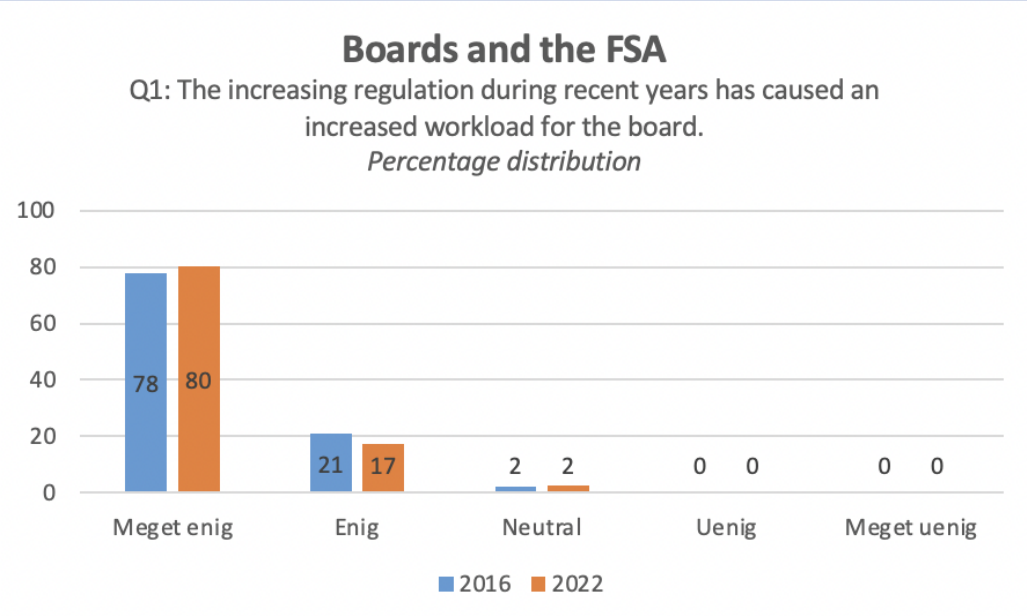
-Asymmetric information between the diverse actors (Board, executives and employee representatives on the board)

-Which role should the diverse actors play? (can the FSA both be a controlling actor and a consulting entity?)

-Will there be possibilities for boards to ask for advice from the FSA?

The questionnaire was sent to all Danish banks in October 2015 (in total 80 banks with more than 400 recipients) with help from Finans Danmark and LOPI. The response rate was 49 %

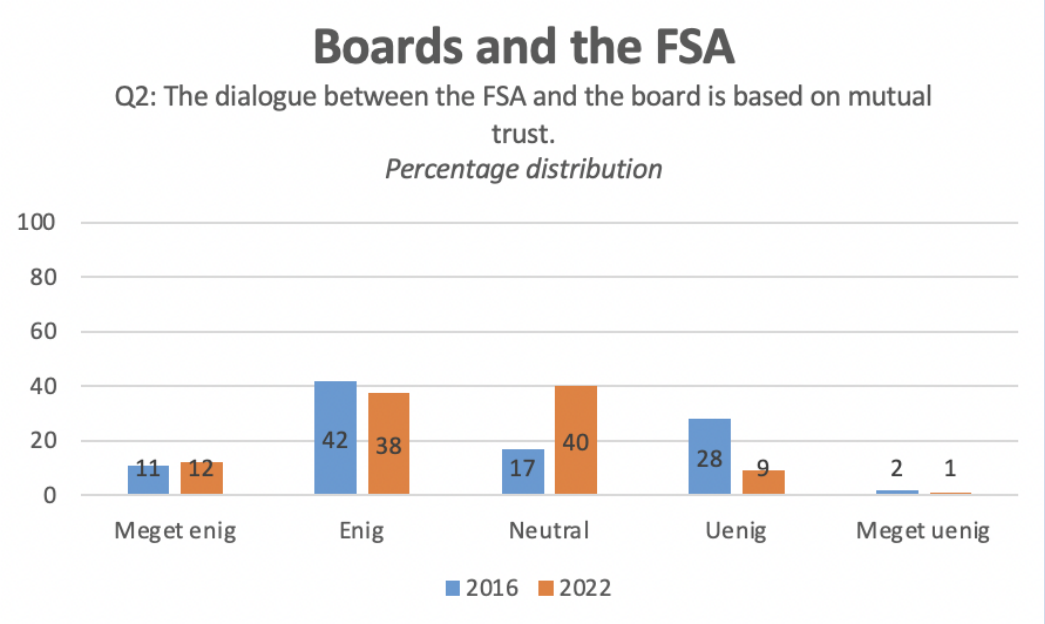
Boards and the FSA



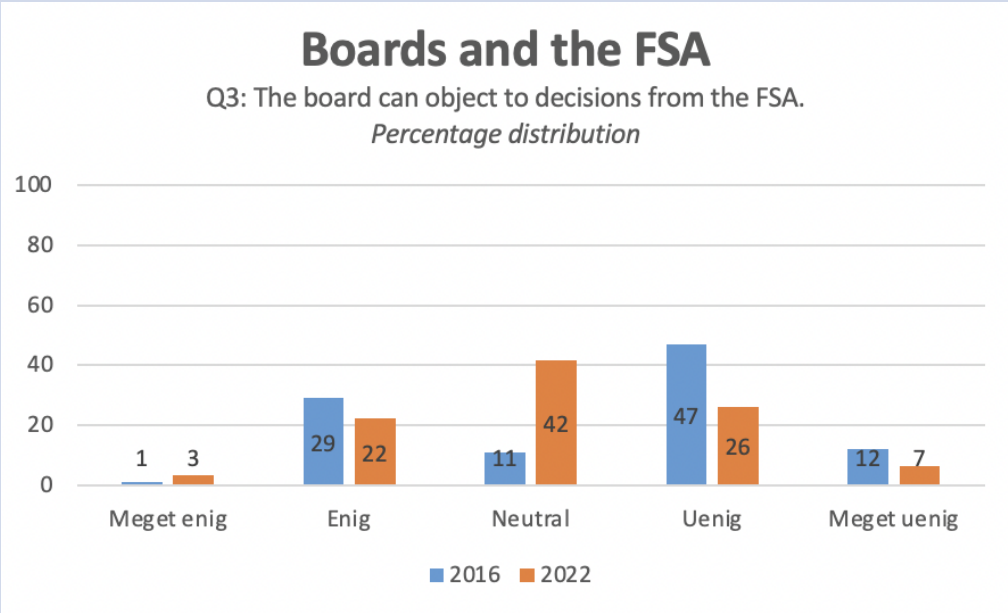
Weighted Average	
2016	1,77
2022	1,78

Boards and the FSA

Weighted Average	
2016	0,32
2022	0,52



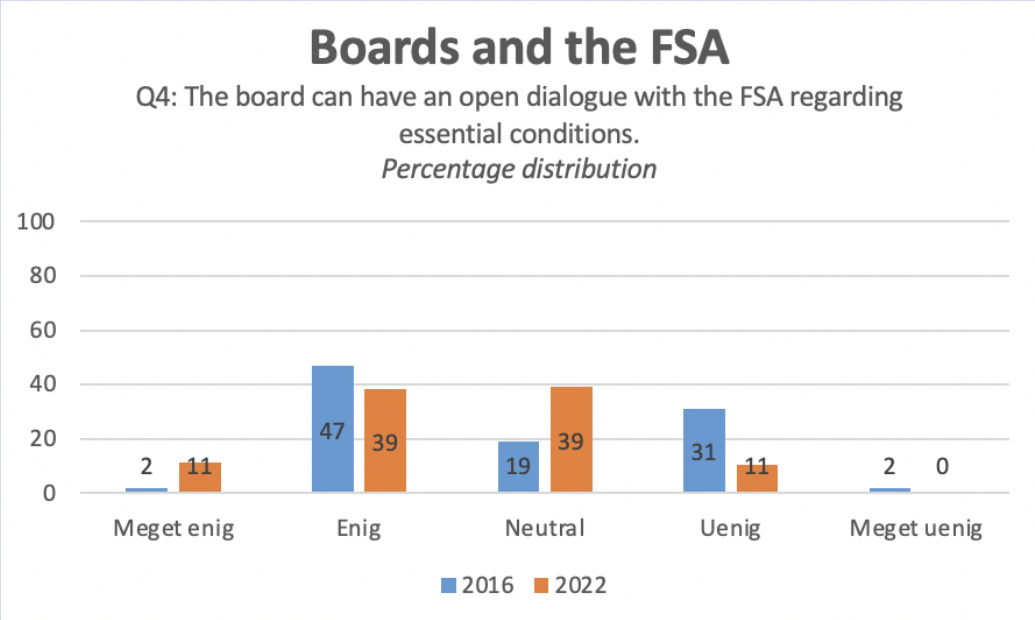
Boards and the FSA



Weighted Average	
2016	-0,40
2022	-0,11

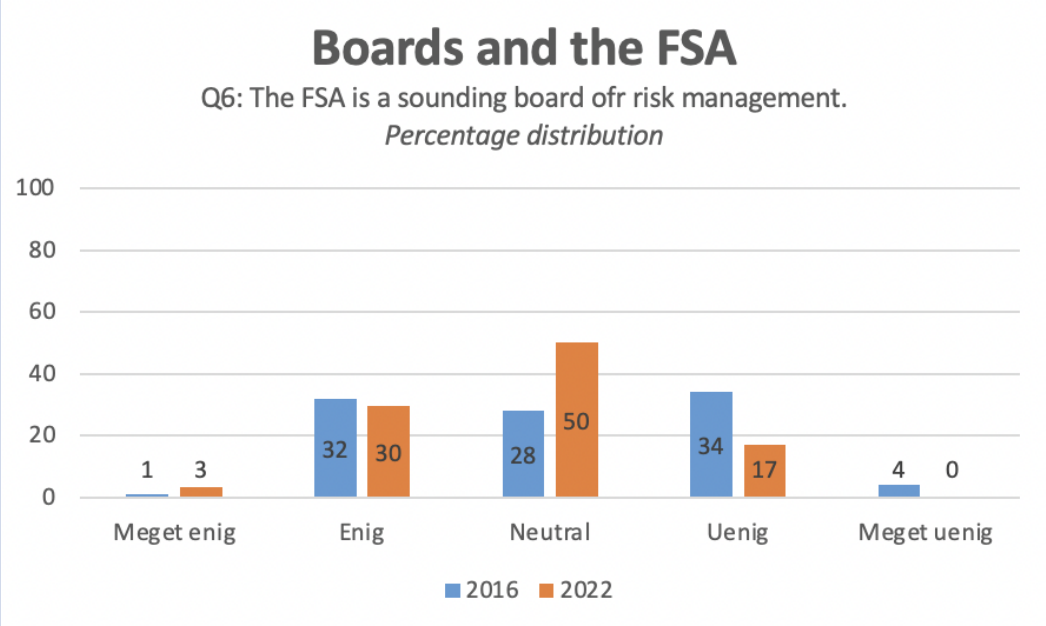
Boards and the FSA

Weighted Average	
2016	0,16
2022	0,51

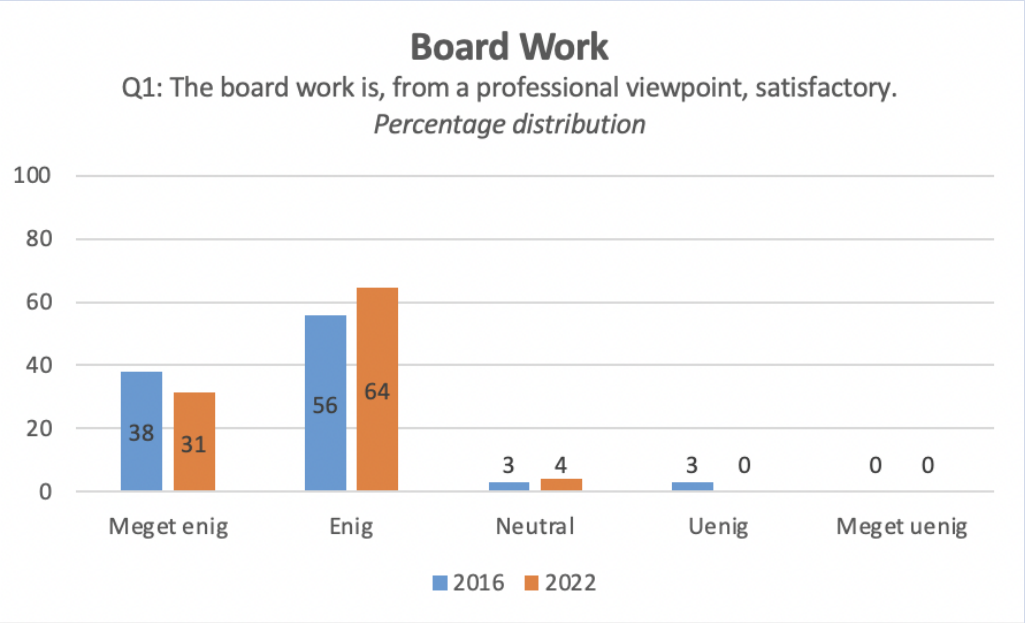


Boards and the FSA

Weighted Average	
2016	-0,08
2022	0,19



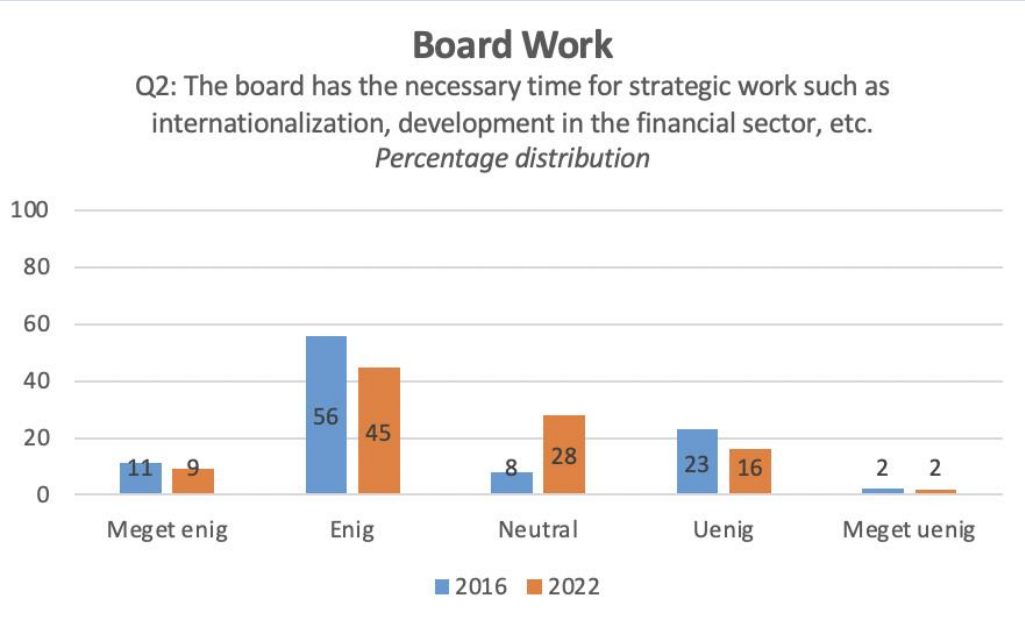
Board Work



Weighted Average	
2016	1,29
2022	1,27

Board Work

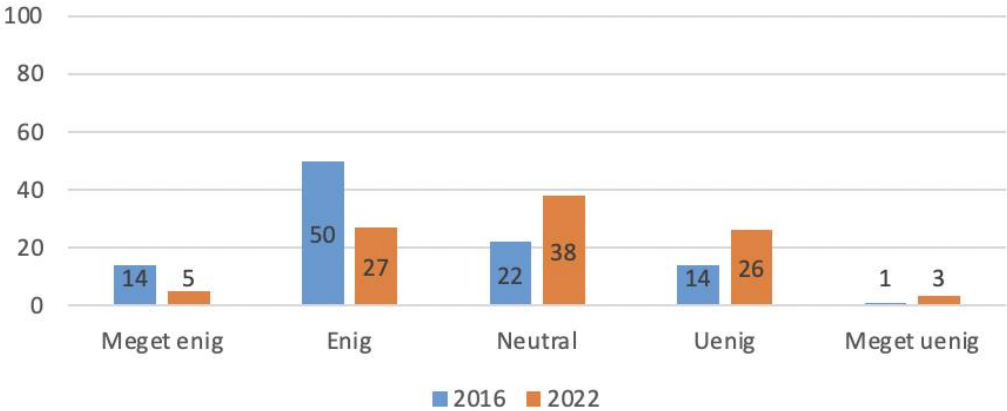
Weighted Average	
2016	0,51
2022	0,44



Board Work

Board Work

Q3: The board work in a financial institution is recommended regarding risk and pay.
Percentage distribution

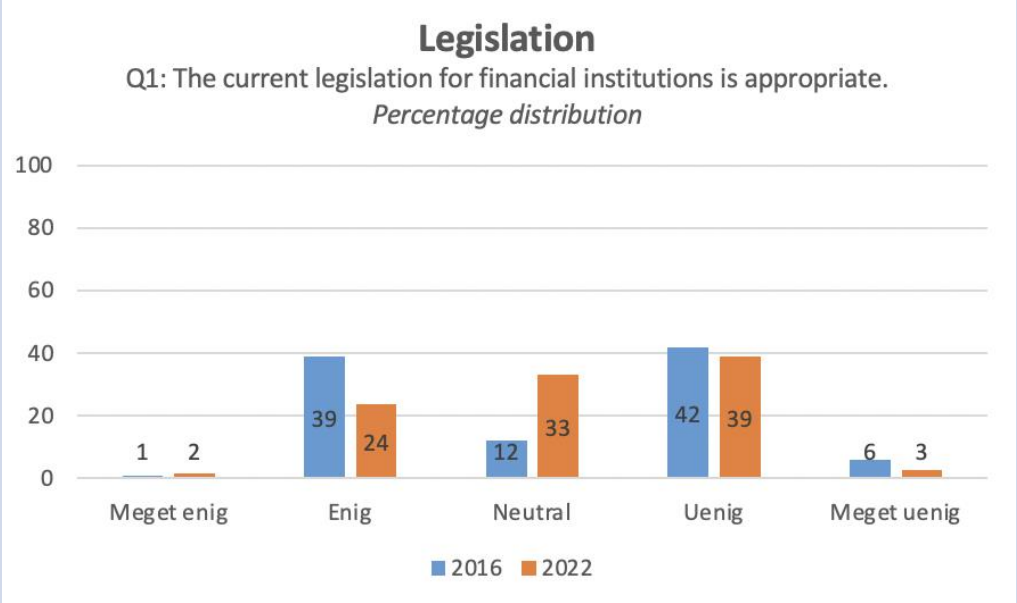


Weighted Average

2016	0,62
2022	0,04

Legislation

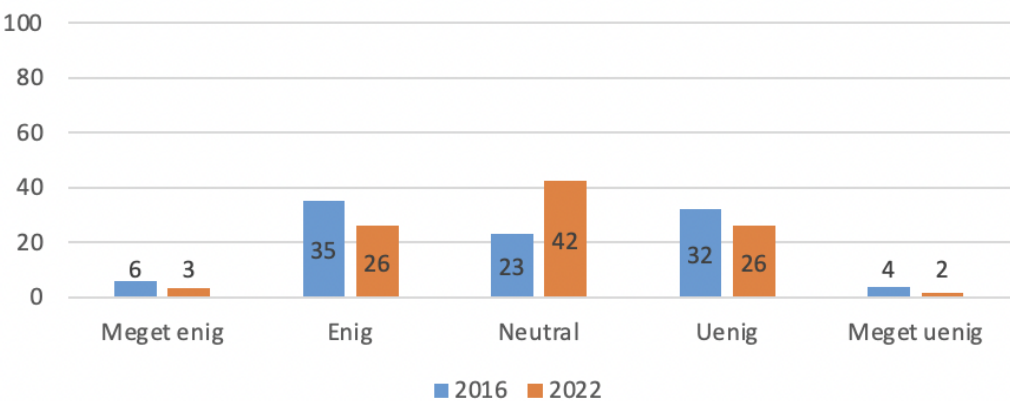
Weighted Average	
2016	-0,13
2022	-0,17



Credit Facilities and Risks

Credit Facilities and Risks

Q2: There is increasing competition from alternative funding channels (such as crowdfunding and loans from pension funds).
Percentage distribution

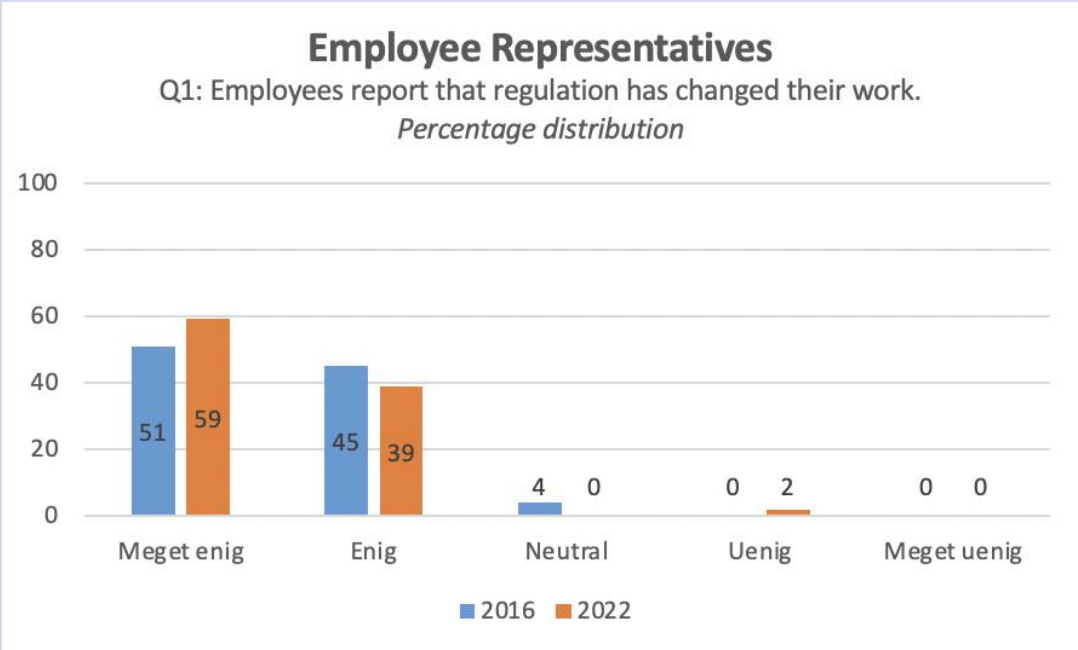


Weighted Average

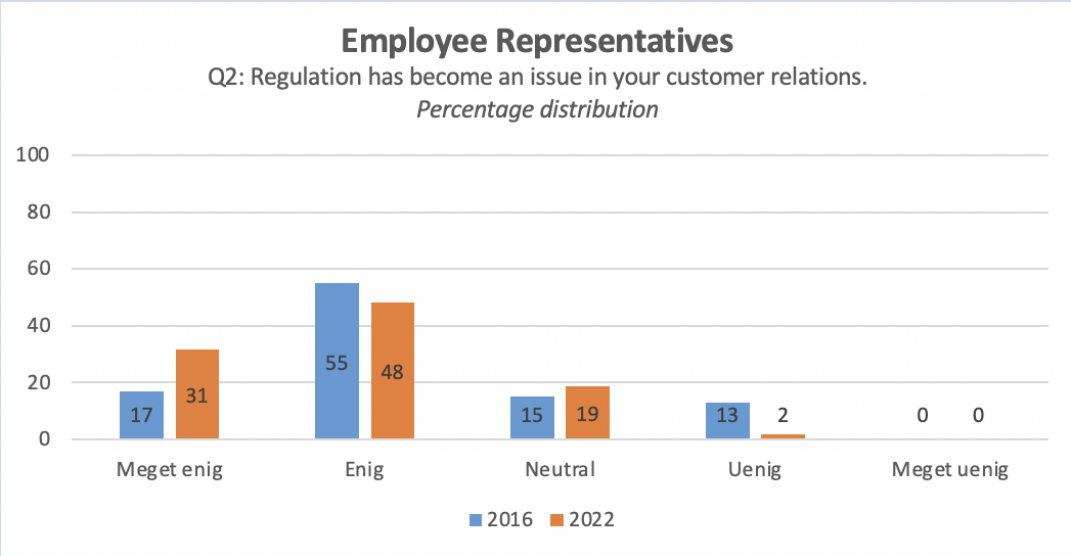
2016	0,07
2022	0,03

Employee Representatives

Weighted Average	
2016	1,47
2022	1,56



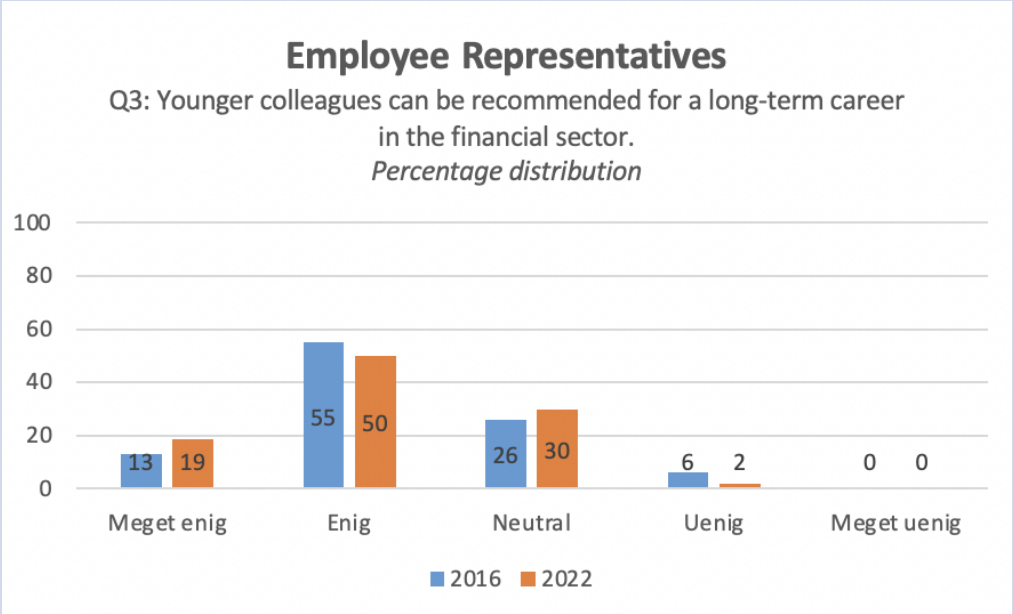
Employee Representatives



Weighted Average	
2016	0,76
2022	1,09

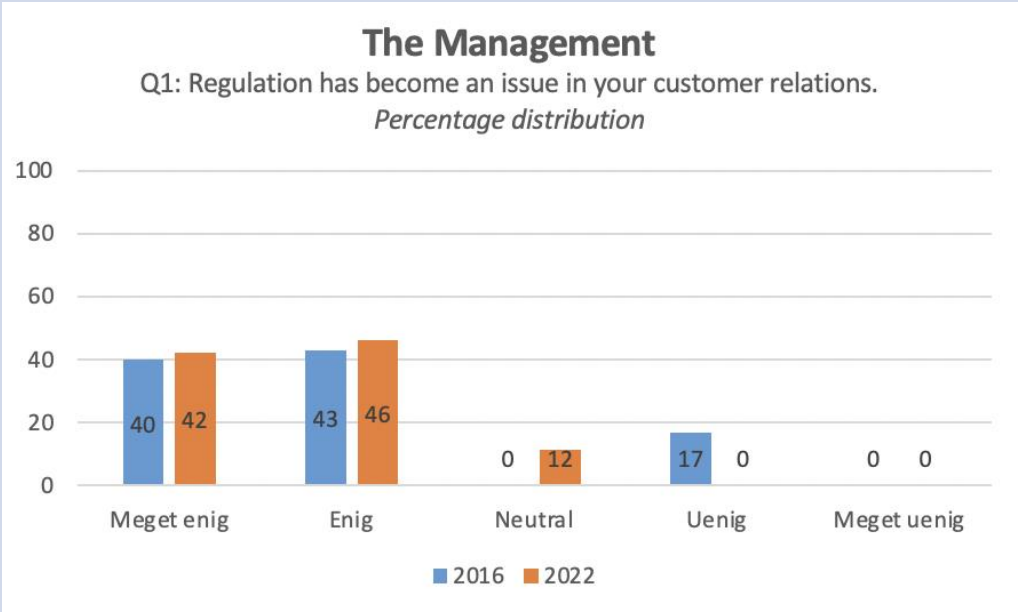
Employee Representatives

Weighted Average	
2016	0,75
2022	0,85

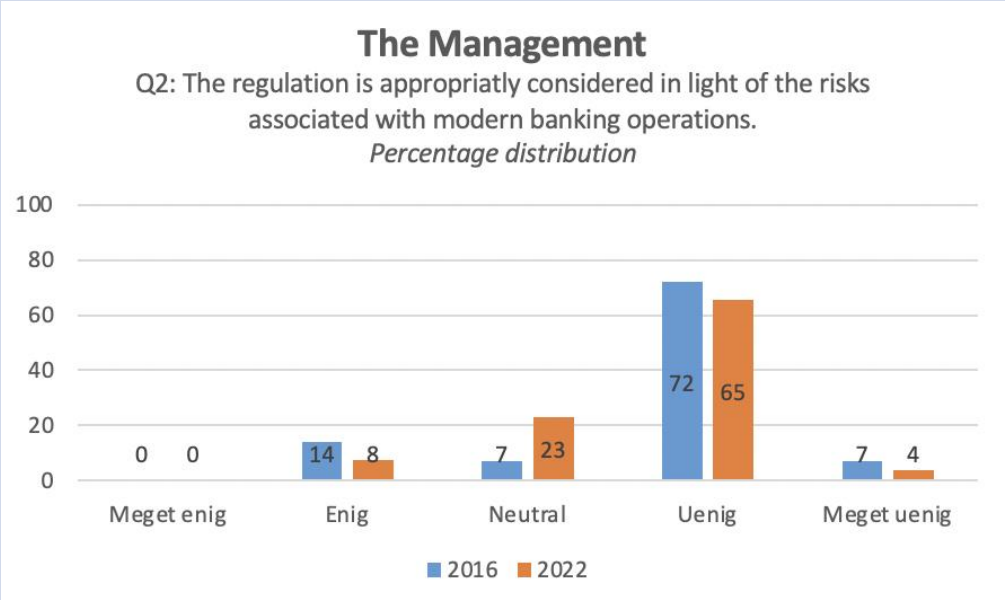


The Management

Weighted Average	
2016	1,06
2022	1,31



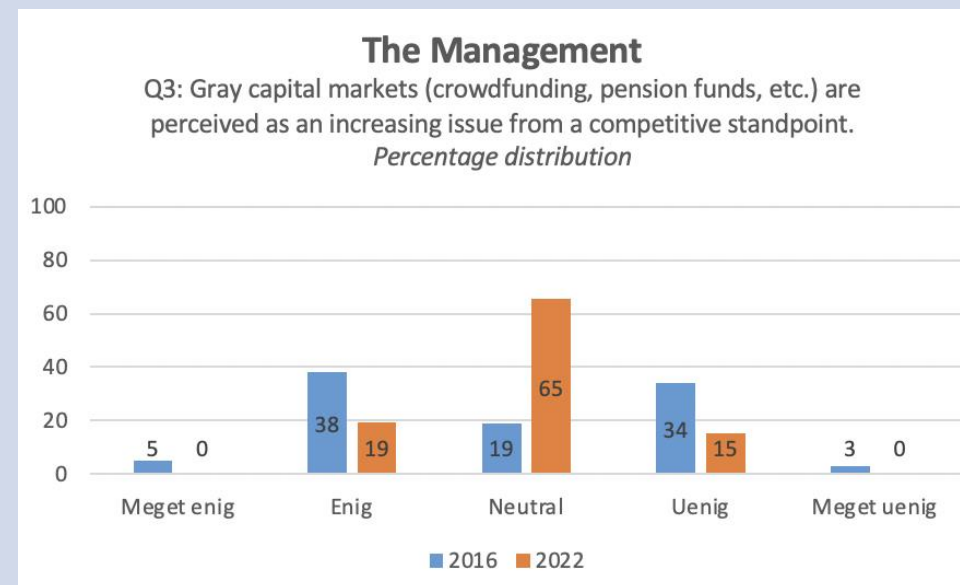
The Management



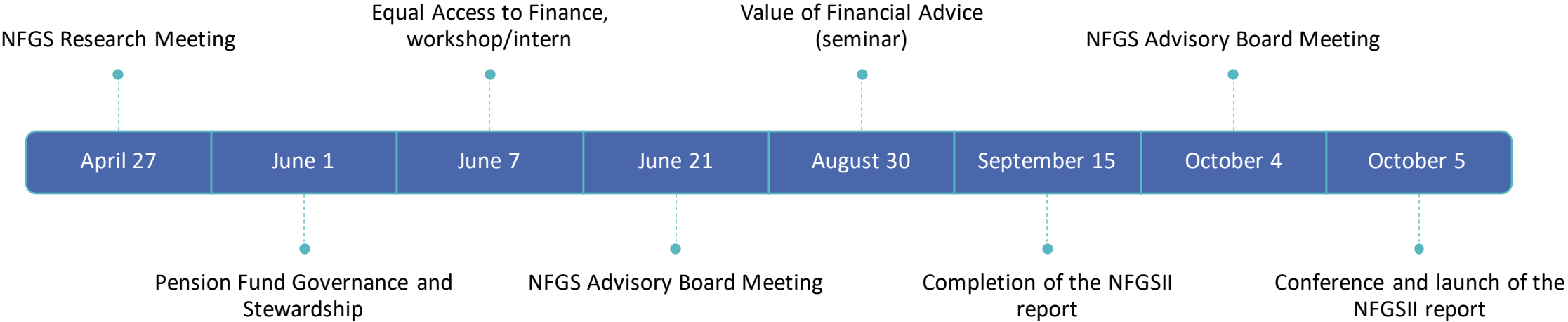
Weighted Average	
2016	-0,72
2022	-0,65

The Management

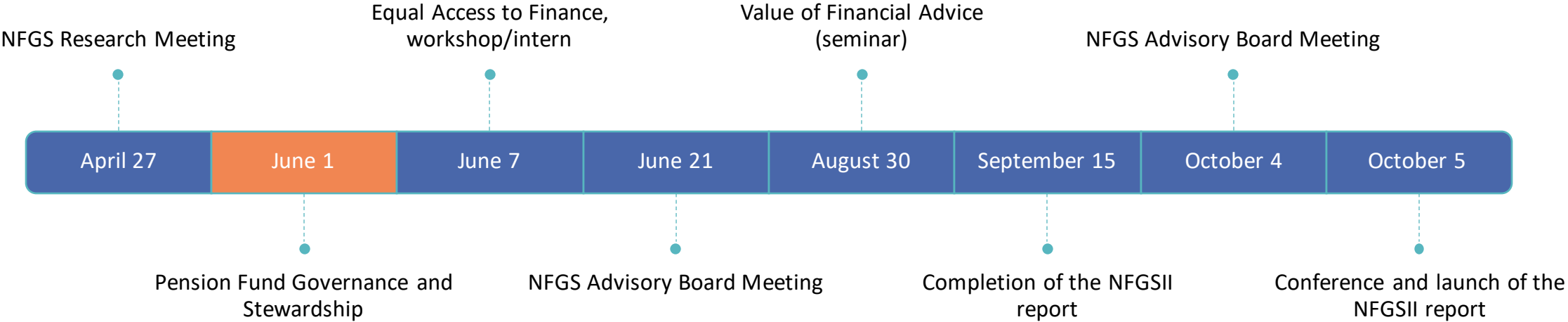
Weighted Average	
2016	0,08
2022	0,04



Events



Events



June 1: Pension Fund Governance and Stewardship

Programme

Pension Fund Governance and Stewardship

1 June 2023

08:30 - 08:55 **House opens - registration – coffee**

08:55 - 09:00 **Welcoming remarks**

by **Svend E. Hougaard Jensen**, Professor of Economics and Director of PeRCent.

09:00 - 09:45 **Service before self: Litigation Activities of Pension Funds in Class Action Lawsuits**

by **Gudrun Johnsen**, Senior Advisor, Danmarks Nationalbank and affiliated researcher of PeRCent & CCG

09:45 - 10:30 **Leading by example: The Pension Fund Board and its Quest for Good Governance and Sustainable Investing**

by **Carine Smith Ihenacho**, Chief Governance and Compliance Officer at Norges Bank Investment Management

10:30 - 11:00 **Coffee break**

11:00 - 11:45 **The Labor's Capital: Opportunities, Challenges and Victories**

by **David Webber**, Professor of Law at Boston University

11:45 - 12:55 **Panel Discussion on the Current Challenges and Opportunities in Pension Fund Governance and Stewardship**

Moderator: **Lars Rohde**, Fmr. Governor, Danmarks Nationalbank

Panel:

Anne Broeng, Chairwoman and board member

Carsten Brogaard, Deputy Director General at Finanstilsynet (the Danish Financial Supervisory Authority)

Laila Mortensen, CEO at Industriens Pension

Martin Præstegaard, CEO at ATP

12:55 - 13:00 **Closing remarks**

by **Lars Ohnemus**, Director of Center for Corporate Governance (CCG)

13:00 - 14:00 **Light lunch**



**THANK YOU FOR YOUR GOOD
COOPERATION. WE LOOK FORWARD TO
CONTINUING THE NFGS JOURNEY WITH
YOU.**