Charitable Leverage: Banking and Finance Centres

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"Canada's financial system is part of an increasingly integrated world-wide network of financial markets and intermediaries".[1] Turbulent times, new technology, and rapid changes in regulations are increasing the pressure to keep up with the latest techniques and to invent more.

Are Canadian financiers identifying and exploiting current changes? Are they adapting to the new realities? As one example, to help ensure that the answer to these questions is a confident "yes", the Bank of Montreal has endowed several professorships to support banking research. The private sector is also creating and funding banking and finance research centres and institutes, particularly in the United States.

These centres operate as think tanks that bring together academics, business people, government, financial journalists, and graduate students in business, for discussions. Centres allow the quick exchange of ideas between the academic community and business, and conduct both applied and theoretical research. Sharing experience and insights between the private and public sectors takes advantage of the strengths of both and can also avoid duplication of efforts.

Canada has two specialized university banking and finance centres, both at the University of British Columbia: the Asia and Pacific Banking and Finance Institute[2] and the Bureau of Asset Management Research. The United States has well established centres across the country, most of them generously funded.[3] The movement of American financial entities like Amex into Canada, and the expansion of Canadian banks' interests in the United States, may impel some useful exploration of cross-border issues.

All of the centres are connected to university business schools. They may be housed in a department; they may be "independent", with faculty drawn from the business school, other academic areas or other institutions on a visiting basis; they may share financial or administrative structures with the university or private foundations.

Despite their academic connections, the centres depend on external funding, corporate or other, to cover direct operating costs and fund research projects. Two U.S. centres have resulted from individual private donations that have been generous by Canadian standards—one for one million dollars. Further funding for specific projects may be sought from foundations, governments, trade organizations, or other corporations. In some cases the results of the research may even remain the property of the sponsoring firm for an agreed period.[4]

The benefits to the sponsors of these banking and finance centres are numerous. Sponsors often participate in innovative research and gain useful contacts with faculty members in various specialities of interest to their operations. Work at the centre may take the form of seminars on current topics in finance, informal discussions on researchable issues or on specific policies, executive programs, lecture series by corporate or financial executives, workshops, annual forums, on-site visits to areas of study (including foreign travel in the case of the Asia Pacific Banking and Finance Institute), and conferences in the usual form. Business ensures continuing dialogue among finance and investment professionals and the academics.

Besides the contacts, benefits of substance may be gained. Some centres will conduct research suggested by sponsors. By addressing strategic issues facing those in the financial markets, centres help business in the short term. For example, at the Rodney L. White Center for Financial Research at Wharton, the research committee on investments initiates a series of papers on a different subject each year. The committee (made up of investment advisors, pension plan sponsors, and investment bankers) works with the Center's faculty to identify those topics that most interest the financial community. Findings are presented at a forum and the results and discussion are summarized in a monograph.[5]

These centres often involve corporate sponsors in setting long-term strategies and the direction of research in banking and finance. In other words, the returns are usually tangible in both the short- and long-term. Less tangible benefits for the sponsors include enhanced public credibility and a positive image as an enlightened contributor to the community. For these reasons the donor can "lever" a charitable donation into a return worth significantly more than it could have expected had it done the research itself. (Since money spent on private research would be deductible from taxable income in the same way as money given to the university as a charitable donation, the impact of these sponsorships on taxes is not a particular advantage to donors.)

Is this consistent with the widely held belief that charitable donations must be given for a public, not a private, purpose? In my opinion, it is. I do not, in this view, limit myself to the strict legal tests, such as that in *The Queen* v. *McBurney*: "a gift will ordinarily be without any advantage of a material character being received in return".[6] My argument is based on benefit to the public, both through the charity, in this case the university, and directly.

For example, first, the university itself benefits from establishing a banking and finance centre—arguably even disproportionately. Centres help train new faculty members who can serve elsewhere in the university. The centres create new knowledge which will affect curricula. Software programs and other teaching tools contribute to data bases and influence business schools around the world. In addition, finance centres may enhance the affiliated business school's reputation and provide a showcase for the talents of its graduate students and faculty. This in turn helps to attract top quality students—the next generation of business school faculty and business and government leaders—and outstanding faculty and, no doubt, other funding, to the university.

The centres support influential publications, part of any university's mandate. For example, the *Journal of Financial Intermediation* is published by the Banking Research Center and the Insurance Research Center at the Kellogg Graduate School of Management. Others direct publications both to academics and to financial practitioners, ensuring a wide audience for the centre's insights. For example, New York University's Salmon Center publishes books, monographs, occasional papers, and a "working papers" series. The monographs provide an outlet for papers on finance and economics that would be too long or too general in scope for scholarly journals or business periodicals. The occasional papers are devoted to work-in-progress with current applications to provide timely circulation of important new ides. The working papers give the public even quicker access to research conducted by faculty members. Other centres like the Bureau of Asset Management Research require that grant recipients write executive summaries of their main research findings in a form which is accessible to a less specialized audience.[7]

In short, centres improve both the quality of education and the quality of private financial practice. Basic research in finance, carried out through the centres, often responds to needs that are revealed when teaching materials are being prepared. It, in turn, often leads to applied research of interest not just to the sponsors but to the community at large. For example, academic study of risk management has led to portfolio diversification strategies and to the development of new financial instruments such as futures and options.[8]

Participation by business and government as well as academics may lead to better relations between regulators and those being regulated, to the advantage of both. For example, regulators are viewed as important participants at conferences on issues facing financial markets such as those organized by the Financial Markets Research Center at Vanderbilt University.

Canada has to look at such centres if it is going to thrive in international markets. Our big and often complacent banks and other financial institutions will have to learn to innovate to compete with the innovations of others. France, among others, has shown the way:

> Since the mid-80s, France has had a national policy of expanding her knowledge of modern financial theory and practice, hosting whole series of high level financial conferences which now rank among the best in the world. The French have put their new academic knowledge to work, developing new markets and instruments which could eventually challenge London and New York. To take just one example, since 1985 the French have securitized [provided lenders with new forms of securities through which to invest in] some $3 - $5 billion worth of assets. As they alter pension fund and insurance regulations to go after still more business, they will likely surpass the British, who started earlier. Moreover, the French look for business abroad as well as at home. They have even obtained US business, recently securitizing US assets arising from leveraged buyout deals ... . The income potential of this new French business is great. Judging from the press reports, the French have so far earned about $100 million through securitization. More importantly, the markets they intend to capture are some 10 to 30 times bigger than their existing business.[9]

At present, Canada has few means of bringing advanced thinkers together to explore and exploit new ideas. Banking and finance research centres could provide ways to help their sponsors and others to meet the new standards of international competition.

It should also be noted that the existence of the centres may have a regional impact on the community by making it attractive for business. The U.B.C. Bureau of Asset Management Research intends to promote Vancouver as an international financial centre by working with interested government agencies.

These impacts on the university and on the community convince me that the establishment of such research centres benefits the public as much as the corporate sponsor and thus the donations the centres receive clearly qualify as "charitable" in the broader sense.

I would argue further, however, that it is inappropriate to calculate "leverage" in the charitable field at all. Donations come in many forms besides money: time, moral support, organization assistance, advertising space or time, and volunteer assistance and recruitment. Even where money is the main contribution, the measure of the "return" for that contribution must be imprecise. Does a corporation achieve "leverage" by sponsoring a gala arts performance if it attracts favourable publicity among people it wishes to impress? Is it "leverage" to underwrite public health or welfare programs that improve the community in which the sponsor carries on business—possibly creating better potential employees and consumers, as well as healthier or happier people in general?

The contribution one makes to charity, and the satisfaction one receives from it, are in essence their own rewards. I do not dispute the legal rules that disqualify gifts as charitable where they may be taken as payment for services rendered to the donor. My point is that such a characterization is difficult and the cases in which it applies are rare. The public may be served in many ways.

Some of those ways may combine an element of private utility as well as public benefit. So long as the primary purpose of the effort, or the donation, serves the public interest, then collateral advantages that the donations may produce should be irrelevant.

In my view, the sponsorship of banking and finance research centres meets this standard. Both the public and the financial and corporate sectors benefit from their operation. Canada needs more of them in this competitive age. The definition of what is "charitable" should accommodate those needs.

FOOTNOTES

1. Professor E.H. Neave, School of Business, Queen's University, "Finance in a Changing World", revised February 20, 1991.
2. The Institute is a co-operative undertaking of the Asia Pacific Foundation of Canada and The University of British Columbia's Faculty of Commerce and Business Administration.
3. Banking Research Center, J.K. Kellogg Graduate School of Management, Northwestern University; Rodney L. White Center for Financial Research and The Weiss Center for International Financial Research, Wharton School, University of Pennsylvania; Financial Markets Research Center, Owen Graduate School of Management, Vanderbilt University; J. Ira Harris Center for the Study of Corporate Finance, School of Business Administration, University of Michigan; Center for the Study of Financial Management, School of Business Administration, University of Washington; New York University Salomon Center, Leonard N. Stern School of Business, New York University.
4. New York University Salomon Center, *Newsletter*, Number 39, Fall/Winter 1990.
5. Rodney L. White Center for Financial Research, promotional material.
6. (1985), 85 DTC 5433, at p. 5436.
7. Bureau of Asset Management Research, Faculty of Commerce and Business Administration, University of British Columbia, No. 1, November 1990.
8. Center for the Study of Financial Management, School of Business Administration, University of Washington, promotional material.
9. Professor E.H. Neave, School of Business, Queen's University, "Finance in a Changing World". (Revised February 20, 1991.)