



VU University
Amsterdam



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Università degli
Studi di Firenze



International Risk Management Conference 2011

NEW DIMENSIONS IN RISK MANAGEMENT

Fourth Annual Meeting



Amsterdam, June 14th-15th, 2011
VU University Amsterdam



IRMC 2011 - Organizing Committees

Permanent Conference Co-Chairmen:

Edward Altman *(NYU Salomon Center, Stern School of Business)*
Oliviero Roggi *(University of Florence)*

Host Institution: VU University Amsterdam

Herbert Rijken, Professor of Corporate Finance
Department of Finance and Financial Sector Management, Faculty of Economics and Business Administration

Conference Co-Organizer:

Francesca Campolongo *(European Commission, Joint Research Center)*
Maxine Garvey *(Corporate Governance Unit of the International Finance Corporation)*
Maurizio Fanni *(School of Finance Trieste)*

Conference Consultants:

Maurizio Dallochio *(Bocconi University)*
Riccardo De Lisa *(University of Cagliari)*
Giorgio Bertinetti *(University of Venice)*

Scientific Committee

Viral Acharya *(New York University - Stern)*
Edward Altman *(New York University - Stern)*
Annarita Bacinello *(University of Trieste)*
Giovanni Barone Adesi *(Swiss Finance Institute Lugano)*
Giorgio Bertinetti *(University of Venice)*
Marco Bigelli *(University of Bologna)*
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Giulio Cifarelli *(University of Florence)*
Maurizio Dallochio *(Bocconi University)*
Riccardo De Lisa *(University of Cagliari)*
Maurizio Fanni *(University of Trieste)*
Gabriele Fiorentini *(University of Florence)*
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Paolo Paruolo *(Insubria University of Varese)*
Herbert Rijken *(VU University Amsterdam)*
Andrea Resti *(Bocconi University)*
Oliviero Roggi *(University of Florence)*
Francesco Saita *(Bocconi University)*
Win Schoutens *(Catholic University of Leuven)*
Anthony Saunders *(New York University - Stern)*
William Ziemba *(University of British Columbia)*



IRMC CONFERENCE MISSION

The mission of the conference is to provide a forum for recent advances in risk management. IRMC2011 aims to present the latest research from the major schools of thought in Corporate Finance, Banking, Financial Mathematics, Financial Accounting and a diversity of new econometric approaches to Risk Management.

OUR PERSPECTIVE ON RISK

Risk is a multifactor concept to be addressed from different perspectives. Starting from the latest theories and tools developed in the Risk Management field, we move to Corporate Finance, where risk is studied both in the value maximization framework and in strategies for mitigating risk. Banking is concerned with Risk Capital and Capital Requirements. The Basel III framework plays a key role in risk assessment and measurement and it affects banks' and customers' portfolio selection and performance. Risk can also be addressed from an actuarial and statistical perspective. A final research area addressed by the conference is financial accounting that is increasingly involved in the risk assessment process in these fields of studies.

Letter from the organizers

Welcome to the IRMC 2011 Conference. We are delighted that you have chosen to be with us and to participate in this year's discussions and events. The host institution this year is the Vrije Universiteit of Amsterdam and is working closely with our permanent Coordinating Institutions: the University of Florence, NYU Stern's Salomon Center, the Joint Research Centre of the European Commission, the University of Trieste and the Corporate Governance Unit of the International Finance Corporation (World Bank Group). As is our tradition, the IRMC brings together leading experts and dedicated researchers from academic institutions all over the world and from the world's major financial and economic institutions for a series of Keynote and Featured speeches, parallel scholarly sessions and an important Practitioner Workshop and RoundTable discussion on currently relevant topics.

This year's Practitioner Professional Workshop will feature three Keynote addresses from representatives of important Dutch and European regulators as well as an Academic Commentary, all on the subject of the prospect of Financial Stability in Global Capital Markets and the outlook for Risk, followed by a Roundtable of distinguished practitioners on the same subject. This will take place over one-half day on the afternoon of June 15. Throughout the conference we will hear Keynote and Featured presentations from such well known and distinguished Academics and Regulators as:

<i>Torben Andersen</i>	<i>(Copenhagen Business School)</i>
<i>Edward Altman</i>	<i>(NYU Stern)</i>
<i>Aswath Damodaran</i>	<i>(NYU Stern)</i>
<i>Jon Frye</i>	<i>(Federal Reserve Bank of Chicago)</i>
<i>Lex Hoogduin</i>	<i>(Dutch National Bank)</i>
<i>Massimo Marchesi</i>	<i>(European Commission)</i>
<i>George Pennacchi</i>	<i>(University of Illinois)</i>
<i>Lorenzo Bini Smaghi</i>	<i>(European Central Bank)</i>
<i>William Ziemba</i>	<i>(University of British Columbia)</i>

We have organized the scholarly, parallel sessions into the following sections:

- Liquidity and Systemic Risk*
- Corporate Risk Management*
- Quantitative Tools for Risk Analytics*
- Macroeconomic Risk and Regulation and Accounting Standards*
- Corporate Governance in Banking*
- Rating Agencies and Credit Risk Models*
- Bank Probability of Default and Regulation*

Finally, the Vrije Universiteit of Amsterdam has organized some stimulating social events that will ensure a wonderful experience for all.

Best wishes from the Conference Coordinators:

Edward Altman
NYU Stern

Oliviero Roggi
University of Florence

Herbert Rijken
VU University Amsterdam

The Risk, Banking and Finance Society main object is to promote the creation and exchange of knowledge about risk, banking and finance by establishing and developing a community of academics and practitioners interested in these subjects.

The Society will promote and carry out theoretical and applied research in the economics and finance field, specifically regarding the identification, assessment and treatment of corporate, bank, national and systematic risks. It will organize and promote national and international conferences and workshops within its scope of advancing knowledge on financial subjects. In particular, "The Risk, Banking and Finance Society" main task is to act as permanent conference manager for the "International Risk Management Conference". It will also offer the "Beautiful Minds in Finance" Workshop Series and other similar events in the field.

Future projects include the creation and submission of an international research proposal to the "EU - VIIth Framework Program" about *Enterprise Risk Management and ISO 31000 standard requirements* involving top EU academic institutions (2013) and the foundation of the "Journal of Risk, Banking and Finance" (2013-2015).

The Society invites individuals interested in understanding risks and other financial topics to join the community as "Individual Associates". In addition to individuals, corporations and institutions may also enjoy membership of the association as "Corporate" or "Supporting Associates". Members contribute to the achievement of Society's objectives and enjoy the benefits of the participating in a community of scholars, practitioners and policymakers.

The achievement of the objectives of this non-profit organization will be guided by the General Assembly of Associates, their elected Board and the Society's President who acts as legal representative. In addition, a Scientific Committee and Board of Guarantors is appointed according to the *association charter*. The Risk, Finance and Banking Society was established in December 2010 under the Italian and European laws.

Founder President and Legal Representative: Oliviero Roggi

Website: www.therisksociety.org

Email: president@therisksociety.org

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CONFERENCE SCHEDULE DETAILS:

TUESDAY June 14 th 2011		
Time	Event	Location
08.00-09.00	Conference Registration	VU Main Hall
09.00-10.35	Opening and plenary session (1) Chairmen: Oliviero Roggi, Herbert Rijken	Auditorium VU University 1 Floor
	09.00 Welcoming remarks VU University, Local Authorities greetings, Conference Opening 09.30 Keynote lecture: Edward Altman <i>"Using Academic Models to Assess Global Credit Market Conditions and Outlook"</i> 10.10 Featured Lecture: Jon Frye (Federal Reserve Bank of Chicago) <i>"LGD Risk Resolved"</i> (Co-author: Jacobs M.)	
10.35-11.00	Coffee Break	
11.00-12.40	Parallel session (A) Rooms: 8a-04 - 8° Floor, 8a-05 - 8° Floor, 10a-04 - 10° Floor, 11a-05 - 11° Floor	See page 23-29
12.40-14.00	Lunch	
14.00-16.00	Parallel session (B) Rooms: 8a-04 - 8° Floor, 8a-05 - 8° Floor, 10a-04 - 10° Floor, 10a-05 - 10 Floor, 11a-05 - 11° Floor	See page 30-39
16.00-16.25	Coffee Break	
16.25-18.00	Plenary session (2) Chairmen: Maxine Garvey & Oliviero Roggi	Auditorium VU University 1 Floor
	16.25 Keynote Lecture: Aswath Damodaran (NYU Stern) <i>"Value and Risk: Beyond the Greek alphabet"</i> 17:10 Featured Lectures: Torben Andersen (Copenhagen Business School) <i>"What is good Risk Management and does it affect performance"</i> 17:35 Massimo Marchesi (European Commission) TBA	
	Sponsored By IFC World Bank Group Corporate Governance Unit	
17.45-19.15	Free Time	
19.15-21.00	Canal Cruise (Aperitif will be served on board)	
21.00	Gala Dinner at De Rode Hoed Restaurant	Keizersgracht 102 Amsterdam

CONFERENCE SCHEDULE DETAILS:

WEDNESDAY June 15 th 2011		
Time	Event	Location
9.15-10.55	Parallel sessions (C) Rooms: 8a-04 - 8° Floor, 8a-05 - 8° Floor, 10a-04 - 10° Floor, 11a-05 - 11° Floor	See page 40-47
10.55-11.20	Coffee Break	
11.20-12.45	Plenary session (3) Chairman: Francesca Campolongo 11.20 Keynote lecture: George Pennacchi (University of Illinois) <i>"Credit Ratings, Credit Spreads, and Systematic Risk"</i> Q&A 12.15 Featured Lecture: William T. Ziemba (University of British Columbia) <i>"Could Stock Market Crashes in Iceland, China and the U.S in 2007-2008 be predicted by the Bond-Stock Earnings Yield Model?"</i> (co-author: Lleo S.)	Auditorium VU University 1 Floor
12.45-14.00	Lunch	
14.00-16.00	Professional workshop on Financial Stability Chairman: Herbert Rijken Keynote Speakers on the European Monetary Union and Sovereign Risk: 14.00 Lorenzo Bini Smaghi (European Central Bank executive board member) <i>"Risk management in central banking"</i> 14.30 Q&A 14.35 Lex Hoogduin (DNB executive board member) <i>"Macprudential policy and the challenges ahead"</i> 15.05 Q&A 15.10 Edward Altman (NYU Stern) <i>"Sovereign Risk issues: The case of the Europe and the survival of the Euro"</i> 15.40 Q&A	Auditorium VU University 1 Floor
16.00-16.30	Coffee Break	
16.30-18.30	Round Table Discussion on Banking	See page 21
18.30-19.30	Drinks	

PARALLEL SESSIONS SCHEDULE

Area	Basel II, risk liquidity and systemic risk	Corporate Risk Management	Quantitative Tools for Risk Management	Macroeconomic risks, regulation and Accounting Standards
11.00 - 11.25	Chairman: Maurizio Dallochio "Systematic Interaction Risk" Authors: <u>Ahmet I.</u> - Georg C.	Chairman: Tim Adam "Corporate Risk Management, Product-Market Competition, and Disclosure" Authors: <u>Ruckes M.</u> -Hoang D.	Chairman: Menachem Brenner "The information content of implied volatility in the crude oil futures market" Author: <u>Bakanova A.</u>	Chairman: Torben Andersen "Spillover Effects among Financial Institutions: A State-Dependent Sensitivity Value-at-Risk (SDSVaR) Approach" Authors: <u>Adams Z.</u> , Fuss R.-Cropp R.
11.25 - 11.50	ROOM 8a-04 "Liquileaks" Authors: <u>Wang J.</u> - Menkveld A. J.	ROOM 8a-05 "Managerial Biases and Corporate Risk Management" Authors: <u>Adam T.</u> - Fernando C. Golubeva E.	ROOM 10a-04 "Identifying Proximity-Structured Multivariate Volatility Model" Authors: <u>Paruolo P.</u> - Caporin M.	ROOM 11a-05 "Does Eliminating the Form 20-F Reconciliation from IFRS to U.S. GAAP Have Capital Market Consequences?" Authors: <u>Kim Y.</u> -Li H.-Li S.
11.50 - 12.15	"Two-way interplays between capital buffers, credit and output: evidence from French banks" Authors: <u>Coffinet J.</u> - Coudert V. <u>Pop A.</u> - Pouvelle C.	"Hedging Inflation Risk in a Developing Economy" Authors: <u>Brière M.</u> -Signori O.	"A New Model for Dynamic Correlations under Skewness and Fat Tails" Authors: <u>Zhang X.</u> - Creal D. <u>Koopman S.J.</u> -Lucas A.	"The Riskiness of Risk Models" Boucher C. - <u>Maillet B.</u>
12.15 - 12.40	"Capital Regulation and Tail Risk" Authors: <u>Vlahu R.</u> -Perotti E. - Ratnovski L.	"Is proprietary trading detrimental to retail investors?" Authors: <u>Karabulut Y.</u> -Fecht F. <u>Hackethal A.</u>	"Modeling electricity spot prices - Combining mean-reversion, spikes and stochastic volatility" Authors: <u>Mayer K.</u> -Schmid T. <u>Weber F.</u>	"Transmission of Bank Liquidity Shocks in Loan and Deposit Markets: The Role of Interbank Borrowing and Market Monitoring" Authors: <u>Tümer-Alkan G.</u> -Allen F. <u>Hryckiewicz A.</u> - Kowalewski O.

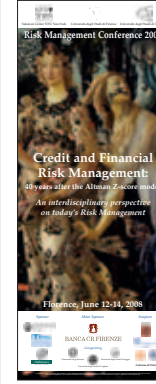
PARALLEL SESSIONS SCHEDULE

Area	Risk Management, Banking and Regulation	Corporate Governance and incentives in Banking	Quantitative Tools for Risk Management	Rating Agency and Credit Risk Modeling
14.00 - 14.25	Chairman: Wim Schoutens "Banks' Use of Credit Derivatives and Loan Pricing: What Is the Channel and Does it Persist Under Adverse Economic Conditions?" Authors: <u>Wagner W.</u> - Nardén L.- <u>Silva Baston C.</u>	Chairman: Maxime Carvey "Risk Management, Corporate Governance and Bank Performance in the Financial Crisis" Authors: <u>Sabato G.</u> - Aebi V. <u>Schmid M.</u>	Chairman: Paolo Paruolo "Fama French factors and US stock return predictability" Authors: <u>Bangopoulou E.</u> <u>Plastira S.</u>	Chairman: Herber Rijken "Are Credit Rating Agencies Useless? The Role of Rating Agencies in European Bond Markets: Information Transmission vs Spread Stabilization" Authors: <u>Ory J.</u> - <u>Raimbourg P.</u>
14.25 - 14.50	"Pricing Contingent Convertibles: A Derivatives Approach" Authors: <u>De Spiegeler L.</u> <u>Schoutens W.</u>	"Impact of Compensation Structure and Managerial Incentives on Bank Risk Taking" Authors: <u>Francis B.</u> <u>Gupta A.</u> - Hasan I.	ROOM 10a-05 "Time-varying betas of sectoral returns to market returns and exchange rate movements" Authors: <u>Kim H.</u> - <u>Hacker R.</u>	"Forecasting Corporate Distress in the Asian and Pacific Region" Authors: <u>Moro R.</u> - <u>Hardle W.</u>
14.50 - 15.15	"CDOs and the Financial Crisis: Credit Ratings and Fair Premia" Author: <u>Wojtowicz M.</u>	"Investment in Microfinance Equity: Risk, Return and Diversification Benefits" Authors: <u>Szalatz A.</u> - <u>Brière M.</u>	ROOM 10a-04 "Risk Sharing, Costly Participation, and Monthly Returns" Authors: <u>Li S.</u> - <u>Hendershott T.</u> <u>Menkveld A.</u> - <u>Seasholes M.</u>	"Common Factors and Commonality in Sovereign CDS Spreads: A consumption-based explanation" Authors: <u>Augustin P.</u> - <u>Tetongap R.</u>
15.15 - 15.40	"Does contingent capital induce excessive risk-taking and prevent an efficient recapitalization of banks?" Authors: <u>Berg L.</u> - <u>Kaserer C.</u>	"Economics, Politics, and the International Principles for Sound Compensation Practices: An Analysis of Executive Pay at European Banks" Authors: <u>Ferrarini G.</u> <u>Lungareanu M.C.</u>	ROOM 10a-05 "Advanced Scenario Generation for Historical Value-at-Risk Calculations: Empirical Analysis on Equity Options" Authors: <u>Van der Ploeg A.</u> <u>De Vries C.</u> - <u>Blacha A.</u>	"Risk models after the credit crisis" Authors: <u>Steenbeek O.</u> <u>Van den Coorbergh R.</u> <u>Molenaar R.</u> - <u>Vlaar P.</u>
15.40 - 16.00	"Risk Management With Tail Copulas For Emerging Market Portfolios" Author: <u>Borokkova S.</u>	"Forecasting volatility with a GARCH model: Some new analytical and Monte Carlo results" Authors: <u>Pantelidis T.</u> - <u>Pittis N.</u>	"Fast gradient descent method for mean-CVaR optimization" Authors: <u>Maz A.</u> - <u>Iyengar G.</u>	

PARALLEL SESSIONS SCHEDULE

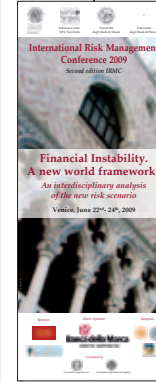
Area	Risk Management, Banking and Regulation	Corporate Finance	Quantitative Tools for Risk Management	Estimating Banks and Firms Probability of Default
	Chairman: Javier Marquez	Chairman: Giorgio Bertinetti	Chairman: Francesca Campolongo	Chairman: Gabriele Sabato
09.15 - 09.40	“Robustness and informativeness of systemic risk measures” Authors: Löffler G., Raupach P.	“Takeover Regulation in the European Emerging Economies: Representations and Warranties in Takeover Agreements” Author: Pop D.	“Multi-period credit default prediction with time-varying covariates” Author: Orth W.	“Predicting Bank Failures: Evidence from 2007 to 2010” Authors: Jordan D., Rice D., Sanchez J., Walker C., Wort D.
09.40 - 10.05	“Systematic Risk and Parameter Uncertainty in Mortgage Securitizations” Authors: Roesch D., Scheule H.	“Banking Crises and the Lending Channel: International Evidence from Industrial Firms” Authors: Suárez N., Fernández A., González F.	“Sense and Sensitivity: An input space odyssey for ABS Ratings” Authors: Di Cirolamo E., Campolongo F., Jonsson H., Schoutens W.	“Modelling credit risk for innovative firms: the role of innovation measures” Authors: Pederzoli C., Thoma G., Torricelli C.
10.05 - 10.30	“How to revise a risk based contribution: an application of Sensitivity Analysis’ importance measures to the Italian Banking System” Authors: Galliani C., Saltelli A., Vezza A., De Cesare M., De Lisa R.	“Diversification in M&As: Decision and shareholders’ valuation” Authors: Feito-Ruiz L., Menendez - Requejo S.	“Pricing Derivatives Analytically in a Heteroscedastic VAR Model with Jumps” Authors: Lin L., Vlaar P.	“Bank Loan Loss Given Default: A European Perspective” Authors: Deborges-Sanches L., Bode B., Chatzis G., Sokolova L.
10.30 - 10.55	“Operational and Reputational Risk in the European Banking Industry” Author: Sturm P.	“A Lintner-based criterion to evaluate Private Equity Investments: can we rely on accounting measures? Evidence from the North-East of Italy” Author: Cardenal G.	“Observation Driven Mixed-Measurement Dynamic Factor Models with an Application to Credit Risk” Authors: Lucas A., Creal D., Schwaab B., Koopman S.	“Applying Credit Risk Techniques to Design an Effective Deposit Guarantee Schemes’ Funds” Authors: Cariboni J., Maccaferri S., Schoutens W.

IRMC PREVIOUS EDITIONS



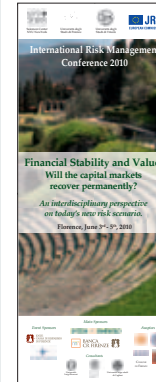
INTERNATIONAL RISK MANAGEMENT CONFERENCE 2008
Credit and Financial Risk Management: 40 years after the Altman Z-score model
An interdisciplinary perspective on today’s Risk Management

Florence, Italy - June 12th-14th, 2008
 Host institution: University of Florence
 Chairmen: Edward Altman and Oliviero Roggi
 Number of attendees: 281
 Papers submitted: 69



INTERNATIONAL RISK MANAGEMENT CONFERENCE 2009
Financial Instability. A new world framework?
An interdisciplinary analysis of the new risk scenario

Venice, Italy - June 22nd-24th, 2009
 Host institution: Ca’ Foscari University of Venice
 Chairmen: Edward Altman, Oliviero Roggi and Giorgio Bertinetti
 Number of attendees: 211
 Papers submitted: 83



INTERNATIONAL RISK MANAGEMENT CONFERENCE 2010
Financial Stability and Value. Will the capital markets recover permanently?
An interdisciplinary perspective on today’s new risk scenario.

New York University Florence Campus, Italy - June 3rd-5th, 2010
 Host institution: New York University Salomon Centre
 Chairmen: Edward Altman, Oliviero Roggi and Francesca Campolongo
 Number of attendees: 210
 Papers submitted: 104

CONFERENCE KEYNOTES BIOS



CONFERENCE KEYNOTES BIOS

Edward Altman

Max L. Heine Professor of Finance at the NYU Stern School of Business

Edward I. Altman is the Max L. Heine Professor of Finance at the Stern School of Business, New York University. He is the Director of Research in Credit and Debt Markets at the NYU Salomon Center for the Study of Financial Institutions. Prior to serving in his present position, Professor Altman chaired the Stern School's MBA Program for 12 years. He has been a visiting Professor at the Hautes Etudes Commerciales and Universite de Paris-Dauphine in France, at the Pontificia Catolica Universidade in Rio de Janeiro, at the Australian Graduate School of Management and MacQuarie in Sydney, University of Western Australia in Perth, Luigi Bocconi University in Milan and CEMFI in Madrid. Dr. Altman was named to the Max L. Heine endowed professorship at Stern in 1988. Dr. Altman has an international reputation as an expert on corporate bankruptcy, high yield bonds, distressed debt and credit risk analysis. He was named Laureate 1984 by the Hautes Etudes Commerciales Foundation in Paris for his accumulated works on corporate distress prediction models and procedures for firm financial rehabilitation and awarded the Graham & Dodd Scroll for 1985 by the Financial Analysts Federation for his work on Default Rates on High Yield Corporate Debt and was named "Professor Honorario" by the University of Buenos Aires in 1996. He is currently an advisor to the Centrale dei Bilanci in Italy and to several foreign central banks. Professor Altman is also the Chairman of the Academic Advisory Council of the Turnaround Management Association. He received his MBA and Ph.D. in Finance from the University of California, Los Angeles. He was inducted into the Fixed Income Analysts Society Hall of Fame in 2001, President of the Financial Management Association (2003) and a FMA Fellow in 2004 and was amongst the inaugural inductees into the Turnaround Management Association's Hall of Fame in 2008. In 2005, Prof. Altman was named one of the "100 Most Influential People in Finance" by the Treasury & Risk Management magazine. He also received an Honorary Doctorate from Lund University, Sweden in May 2011. Professor Altman was one of the founders and an Executive Editor of the international publication, the Journal of Banking and Finance and Advisory Editor of a publisher series, the John Wiley Frontiers in Finance Series. He has published or edited two-dozen books and over 150 articles in scholarly finance, accounting and economic journals. He was the editor of the Handbook of Corporate Finance and the Handbook of Financial Markets and Institutions and the author of a number of recent books, including his most recent works on Bankruptcy, Credit Risk and High Yield Junk Bonds (2002), Recovery Risk (2005), Corporate Financial Distress & Bankruptcy (3rd ed., 2006) and Managing Credit Risk (2nd ed. 2008). His work has appeared in many languages including French, German, Italian, Japanese, Korean, Portuguese and Spanish. Dr. Altman's primary areas of research include bankruptcy analysis and prediction, credit and lending policies, risk management and regulation in banking, corporate finance and capital markets. He has been a consultant to several government agencies, major financial and accounting institutions and industrial companies and has lectured to executives in North America, South America, Europe, Australia-New Zealand, Asia and Africa. He has testified before the U.S. Congress, the New York State Senate and several other government and regulatory organizations and is a Director and a member of the Advisory Board of a number of corporate, publishing, academic and financial institutions. He has been Chairman of the Academic Council of the Turnaround Management Association since 2002. Dr. Altman is Chairman Emeritus and a member of the Board of Trustees of the InterSchool Orchestras of New York and a founding member of the Board of Trustees of the Museum of American Finance.



Aswath Damodaran

Kerschner Family Professor of Finance at the NYU Stern School of Business

Aswath Damodaran holds the Kerschner Family Chair in Finance Education and is Professor of Finance at New York University Stern School of Business. Before coming to Stern, he also lectured in Finance at the University of California, Berkeley. Professor Damodaran received a B.A. in Accounting from Madras University and a M.S. in Management from the Indian Institute of Management. He earned an MBA (1981) and then PhD (1985), both in Finance, from the University of California, Los Angeles. Professor Damodaran's contributions to the field of Finance have been recognized many times over. He has been the recipient of Giblin, Glucksman, and Heyman Fellowships, a David Margolis Teaching Excellence Fellowship, and the Richard L. Rosenthal Award for Innovation in Investment Management and Corporate Finance. His skill and enthusiasm in the classroom garnered him the Schools of Business Excellence in Teaching Award in 1988, and the Distinguished Teaching award from NYU in 1990. His student accolades are no less impressive: he has been voted "Professor of the Year" by the graduating MBA class five times during his career at NYU. In addition to myriad publications in academic journals, Professor Damodaran is the author of several highly-regarded and widely-used academic texts on Valuation, Corporate Finance, and Investment Management. Professor Damodaran currently teaches Corporate Finance and Equity Instruments & Markets. His research interests include Information and Prices, Real Estate, and Valuation.



George Pennacchi

Professor of Finance University of Illinois & Managing Editor of Journal of Financial Intermediation

George G. Pennacchi is a professor of finance and a co-director of the Office for Banking Research at the University of Illinois at Urbana-Champaign. Also, he is the Program Coordinator for Deposit Insurance at the Federal Deposit Insurance Corporation's Center for Financial Research and is a Research Associate at the Federal Reserve Bank of Cleveland. His research focuses on financial intermediaries and the valuation of fixed-income securities and government guarantees. Currently, he is the Managing Editor of the Journal of Financial Intermediation and an associate editor of the Journal of Financial and Quantitative Analysis, the Journal of Financial Services Research, and the Journal of Money, Credit and Banking. Previously, he was an associate editor for the Journal of Banking and Finance, the Journal of Finance, the Review of Financial Studies, and Management Science, and a co-editor of Advances in Futures and Options Research. His consulting experience includes work for the U.S. Office of Management and Budget, the World Bank, and the International Monetary Fund. He has been a visiting professor at the Università Bocconi in Milan, Italy, and was a member of the finance faculty at the Wharton School of the University of Pennsylvania. Mr. Pennacchi received a Sc.B. degree in applied mathematics from Brown University in 1977 and a Ph.D. in economics from the Massachusetts Institute of Technology in 1984.



William (Bill) Ziemba

Alumni Professor of Financial Modeling and Stochastic Optimization, Emeritus, Sauder School of Business, University of British Columbia, Vancouver
 Professor of Finance, Sloan School of Management, MIT, Cambridge, MA. His PhD is from the University of California, Berkeley. He has been a visiting professor at Stanford, UCLA, Berkeley, and Chicago and a number of universities in Europe and Asia. He has been a consultant to the Frank Russell Company. His research is in asset-liability management, portfolio theory and practice, security market imperfections, Japanese and Asian financial markets, sports and lottery investments and applied stochastic programming.



Jon Frye

Senior Economist in global supervision at the Federal Reserve Bank of Chicago.

Jon Frye is a Senior Economist at the Federal Reserve Bank of Chicago. His main responsibilities are to perform credit loss research and to develop supervisory loss models. Dr. Frye is widely cited as a pioneer for his research that connects the default rate to the loss given default rate. In addition to his work at the Fed, Dr. Frye teaches in the Financial Mathematics Program at the University of Chicago. Previously he developed risk measurement and control systems for large financial institutions. Dr. Frye earned his Ph.D. from Northwestern University.



Torben Andersen

Professor Torben Andersen: Professor of Strategy and International Management at the Copenhagen Business School

Torben Juul Andersen is Professor of Strategy and International Management at the Copenhagen Business School. He has taught financial economics at George Mason University and Johns Hopkins University. He previously held positions as Vice President at Citibank/Citicorp Investment Bank, London, Senior Vice President at Unibank A/S, Copenhagen, Managing Director of SDS Securities A/S, and Senior Consultant at PHB Hagler Bailly, Arlington. He is the author of numerous articles and books. Recent books include "Strategic Risk Management Practice" (Cambridge University Press), "Perspectives on Strategic Risk Management" (CBS Press), and "Global Derivatives" (FT Prentice-Hall). His academic articles have appeared in, e.g., Strategic Management Journal, Journal of Management Studies, Journal of Business Research, and Risk Management Journal.



Massimo Marchesi

European Commission - DG Internal Market and Services

PROFESSIONAL WORKSHOP

Financial Stability for Finance professionals

Wednesday June 15th 2011, 13:00 – 19:30
Auditorium, VU University Amsterdam

This workshop is part of the International Risk Management Conference (see www.irmc.eu)

The workshop brings together policy makers and banking experts in discussing current developments in the European Monetary Union and the role of banks in these developments. It aims to look at current developments both from a macro (monetary) perspective and the (micro) banking perspective.

Keywords: sovereign risk, Basel III, banking supervision, risk management at central banks.

PROGRAM WORKSHOP ON FINANCIAL STABILITY

13:00 - 14:00 Registration

14:00 - 16:00 **Keynote speakers**

- **Lorenzo Bini Smaghi** (European Central Bank, Executive Board Member)
"Risk Management in Central Banking"
- **Lex Hoogduin** (DNB, Executive Board Member)
"Macroprudential policy and the challenges ahead"
- **Edward Altman** (NYU Stern School of Business, Max L. Heine Professor of Finance)
"Sovereign Risk issues: The case of the Europe and the survival of the Euro"

16:00 - 16:30 Break

16:30 - 18:30 **Round Table Discussion on Banking**

Chaired by Zvi Bodie *Boston University, Professor of Finance*

Panelists are:

Koos Timmermans *ING Group, Chief Risk Officer*
Mario Nava *European Commission, Head of the "Banking and Financial conglomerates" Unit in the Internal Markets and Services DG*
TBA *VU School of Finance and Risk Management*
Carola Steenmeijer *KPMG, Partner FS Advisory - Risk & Compliance*
Deepak Shimpi *Tata Capital Limited, Head of Risk*

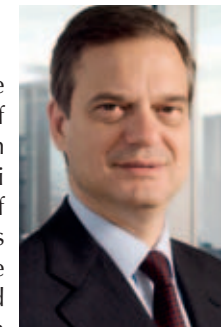
18:30 - 19:30 Drinks

WORKSHOP KEYNOTES BIOS & SPEECH ABSTRACTS

Lorenzo Bini Smaghi

Member of the Executive Board of the European Central Bank

Lorenzo Bini Smaghi has been a Member of the Executive Board of the European Central Bank (ECB) since June 2005. He is also President of the Fondazione Palazzo Strozzi, a mixed private-public institution which promotes cultural initiatives in Florence. Before joining the ECB, Mr. Bini Smaghi was Director General for International Financial Relations of the Italian Ministry of Economy and Finance. His earlier appointments include Deputy Director-General Research of the ECB, Head of the Policy Division of the European Monetary Institute (Frankfurt) and Head of the Exchange Rate and International Trade Division of the Research Department of Banca d'Italia (Rome). Mr. Bini Smaghi has published extensively in monetary and international economics and is the author of several articles and books on international and European monetary and financial issues. He grew up in Brussels (Belgium), acquiring a knowledge of foreign languages at an early age. In 1974, he graduated from the Lycee Francais de Bruxelles. In 1978, Mr. Bini Smaghi graduated in Economics from the Université Catholique de Louvain (Belgium). In 1980, he received a master's degree in Economics from the University of Southern California and a Ph. D. from the University of Chicago in 1988.



Keynote 1: Risk Management in Central Banking by Lorenzo Bini Smaghi

The speech focuses on two main issues. First it discusses why central banks (and in particular the ECB) have expanded their balance sheet during the crisis: inter alia, central banks are concerned about financial stability, which in turn is a pre-condition to price stability. Second, the speech gives an overview about risk management in a central bank and the differences vis-à-vis private financial firms. Central banks have different preferences and constraints than private financial institutions. Importantly, a central bank's risk management framework has to be sound to ensure its credibility and independence, which are key conditions to achieve price stability.

LEX Hoogduin

Executive Director of Dutch Central Bank

Professor L.H. Hoogduin became an Executive Director of De Nederlandsche Bank on 1 January 2009. Mr Hoogduin is responsible for economic policy and research, financial stability and financial markets, payments and statistics. In addition, Mr Hoogduin is part-time Professor of Monetary Economics and Financial Institutions at the University of Amsterdam. Before joining DNB's Governing Board, Lex Hoogduin was Chief Economist of the Robeco Group (2005-2008) and Managing Director of the IRIS research institute. In the twenty-five years prior to that, he had worked two stints at DNB. From 2001 to 2005 he held the post of Director of the Research Division. In the period 1997-2001, Mr Hoogduin was personal advisor to Wim Duisenberg, first President of the ECB. Lex Hoogduin graduated in General Economics from the University of Groningen in 1980, and obtained a PhD in



Economics in 1991. In 1974 he completed his secondary school education (science stream) at the Professor Ten Veen Lyceum in Emmeloord.

Keynote 2: Macroprudential policy and the challenges ahead by Lex Hoogduin

A key lesson of the 2007-2010 financial crisis is that authorities should more focus on the stability of the financial system as a whole. This is often referred to as macroprudential policy. But what exactly is the objective of macroprudential policy, which instruments can be used and what authority should be in control? These questions will be addressed by Lex Hoogduin.

Edward I. Altman

Max L. Heine Professor of finance and director of research in Credit and Debt markets at the Salomon Center for the Study of financial institutions at the New York University Stern School of Business.

Dr Altman received his MBA and PhD in Finance from the University of California, Los Angeles. Prior to serving in his present position, he chaired Stern's MBA program for 12 years. Dr. Altman was named to the Max L. Heine endowed professorship at Stern in 1988. Internationally recognized as an expert on corporate bankruptcy, high yield bonds, distressed debt, and credit risk analysis. He served as President of the Financial Management Association in 2003, and was appointed an FMA Fellow in 2004. Dr. Altman was named one of the most influential people in Finance by Treasury & Risk Management magazine in 2005, he is a Founder and Executive editor of the international publication and has published or edited many books and articles in scholarly finance, accounting, and economic journal. His work has appeared in many languages including French, German, Italian, Japanese, Korean, Portuguese and Spanish. He has been Chairman Emeritus and a member of the Board of Trustees of the Interscholar Orchestras of New York, and a founding member of the Board of Trustees of the Museum of American Finance.



Keynote 3: Sovereign Risk issues: The case of the Europe and the survival of the Euro

Professor Altman will discuss his assessment of company and sovereign default risk and explore his outlook. While the world seems to be enjoying a benign corporate environment for credit problems, Dr. Altman sees a number of storm clouds on the horizon, especially in the areas of sovereign risk and deteriorating credit quality amongst new issue corporate debt. His "bottom-up" approach, developed with Professor H. Rijken, will be utilized to assess the default risk of a number of European countries and the very survival of the Euro. Finally, he will discuss the outlook for corporate high-yield and distressed debt.

ROUND TABLE DISCUSSION ON BANKING

Chairman: Zvi Bodie (Boston University)

In the panel discussion the following banking topics will be addressed:

- Impact Basel III on business model of banks and healthiness of the financial sector
- Impact Euro sovereign debt crisis on healthiness of the European financial sector
- Banking supervision & regulation and the global level playing field
- Restructuring the financial market: shadow banking, retail banking and investment banking.

Panelists are:

Koos Timmermans
Mario Nava

ING Group, Chief Risk Officer

*European Commission, Head of the "Banking and Financial conglomerates" Unit in the Internal Markets and Services DG
VU School of Finance and Risk Management*

TBA
Carola Steenmeijer
Deepak Shimpi

*KPMG, Partner FS Advisory - Risk & Compliance
Tata Capital Limited, Head of Risk*

ZVI BODIE BIO

Chairman: Zvi Bodie

Professor of Finance and Economics at Boston University School of Management

Zvi Bodie is Professor of Finance and Economics at Boston University School of Management. He holds a Ph.D from the Massachusetts Institute of Technology and has served on the finance faculty at the Harvard Business School and MIT's Sloan School of Management. Professor Bodie has published widely on pension finance and investment strategy in leading professional journals. His books include Foundations of pension Finance, Pensions in the U.S. Economy, Issues in Pension Economics, and Financial Aspects of the U.S. Pension System. His textbook, Investments, is the market leader and is used in the certification programs of the Financial Planning Association and the Society of Actuaries. His textbook Finance is coauthored by Nobel Prize winning economist, Robert C. Merton. Professor Bodie is a member of the Pension Research Council of the Wharton School, University of Pennsylvania. His latest book is "Worry free investing: A safe approach to achieving your life time financial goals"



PARALLEL SESSION ABSTRACTS



PARALLEL SESSION A1 BASEL II, LIQUIDITY RISK AND SYSTEMATIC RISK

Chairman: Maurizio Dallocchio

Ahnert T. (London School of Economics and Political Science, England)

Georg C. (Friedrich-Schiller-Universität, Germany)

“Systemic Interaction Risk”

ABSTRACT

The financial crisis emphasized the role of systemic risks for financial (in-)stability. While different forms of systemic risk have been studied in isolation, we develop a unified model of interbank contagion, a common shock, and informational spillovers. We document a substantial interaction effect between the different forms of systemic risk. We also demonstrate that the interaction effect increases in the amount of the banks' interconnectedness and in a measure of financial crisis. Thus, our findings not only highlight the importance of a joint analysis of different forms of systemic risks, but also have strong implications for macroprudential regulation and capital adequacy requirements.

Wang T. (VU University Amsterdam) - Menkveld A. J. (VU University Amsterdam)

“Liquileaks”

ABSTRACT

A security's liquidity properties have been studied in terms of mean and variance: liquidity level and liquidity risk, respectively. This paper explores tail events, liquidity disaster risk. Liquidity might not be a worry to investors in normal market conditions, but it does become a first-order concern in case the security not only hits an illiquid state, but is also trapped in it so that waiting a day will not restore liquidity. Empirically, such events, referred to as liquidity leaks or liquileaks, can be characterized with a Markov regime-switching model that alternates between a liquid and an illiquid state. Liquileak risk is naturally defined as the probability of finding the security in the illiquid state for more than a week. This probability is estimated based on an unbalanced sample of 2147 stocks from 1963 through 2008. Standard Fama-MacBeth regressions show that a one standard deviation increase in liquileak probability commands an annual premium of 1.33%. This premium has increased over time.

Coffinet J. (Banque de France) - Coudert V. (Banque de France)

Pop A. (University of Nantes -LEMNA) - Povel C. (International Monetary Fund)

“Two-way interplays between capital buffers, credit and output: evidence from French banks”

ABSTRACT

We assess the extent to which capital buffers (the capital banks hold in excess of the regulatory minimum) exacerbate rather than reduce the cyclical behavior of credit. We empirically study the relationships between output gap, capital buffers and loan growth with firm-level data for French banks over the period 1993-2009. Our findings reveal that bank capital buffers intensify the cyclical credit fluctuations arising from the output gap developments, all the more as better quality capital is considered. Moreover, by performing Granger causality tests at the bank level, we find evidence of a two-way causality between capital buffers and loan growth, pointing to mutually reinforcing mechanisms. Overall, those empirical results lend support to a countercyclical financial regulation that focuses on highest quality capital and aims at smoothing loan growth.

Vlahu R. (Dutch Central Bank) - Perotti E. (University of Amsterdam and CEPR)

Ratnovski L. (International Monetary Fund)

“Capital Regulation and Tail Risk”

ABSTRACT

The paper studies risk mitigation associated with capital regulation, in a context when banks may choose tail risk assets. We show that this undermines the traditional result that higher capital reduces excess risk-taking driven by limited liability. Moreover, higher capital may have an unintended effect of enabling banks to take more tail risk without the fear of breaching minimal capital ratio in non-tail risky project realizations. The results are consistent with stylized facts about pre-crisis bank behavior, and suggest implications for the optimal design of capital regulation.

PARALLEL SESSION A2 CORPORATE RISK MANAGEMENT

Chairman: Tim Adam

Ruckes M. (Karlsruhe Institute of Technology) - Hoang D (Karlsruhe Institute of Technology)
“Corporate Risk Management, Product-Market Competition, and Disclosure”

ABSTRACT

This paper studies the impact of hedge accounting regulation on corporate risk management and product-market competition. We find that under current accounting standards, firms engage in risk management activities since product-market competition forces them to do so. The resulting equilibrium is desirable from a social standpoint. As we show, attempts for more transparency by additional hedge disclosure may destroy these incentives and create forces to engage in excessive risk-taking. This equilibrium behavior may deter entry and adversely effect the nature of competition in industries. Our findings hence shed light on the desirability of more transparent accounting standards and suggest that more disclosure on risk management may change risk management in undesirable ways.

Adam T. (School of Business and Economics, Humboldt University of Berlin)

Fernando C. (Price College of Business, University of Oklahoma)

Golubeva E. (Price College of Business, University of Oklahoma)

“Managerial Biases and Corporate Risk Management “

ABSTRACT

We show that managerial behavioral biases, which have been found to influence a number of corporate financial decisions, also affect corporate risk management. We find that managers reduce their hedge positions when the market moves against a hedge, but do not systematically increase their hedge positions when the market moves in favor of the hedge. This asymmetric response is consistent with managerial loss aversion coupled with mental accounting, two behavioral biases that have been documented in other corporate contexts. Furthermore, we find that managers increase their speculative activities, measured by the volatility of hedge positions, following speculative gains, but do not reduce their speculative activities following speculative losses. This finding is consistent with managerial overconfidence. Our findings provide the first evidence that corporate risk management practices are affected by managerial behavioral biases, and suggest that recognizing the presence of these biases will help bridge the gap between the theory and practice of corporate risk management.

PARALLEL SESSION A2 CORPORATE RISK MANAGEMENT

Brière M. (Université Libre de Bruxelles)

Signori O. (Centre for European Research in Microfinance CERMI)

“Hedging Inflation Risk in a Developing Economy“

ABSTRACT

Inflation shocks are one of the pitfalls of developing economies and are usually difficult to hedge. This paper examines the optimal strategic asset allocation for a Brazilian investor seeking to hedge inflation risk at different horizons, ranging from one to 30 years. Using a vector-autoregressive specification to model inter-temporal dependency across variables, we measure the inflation hedging properties of domestic and foreign investments and carry out a portfolio optimisation. Our results show that foreign currencies complement traditional assets very efficiently when hedging a portfolio against inflation: around 70% of the portfolio should be dedicated to domestic assets (equities, inflation-linked (IL) bonds and nominal bonds), whereas 30% should be invested in foreign currencies, especially the US dollar and the euro.

Karabulut Y. (Goethe University Frankfurt) - Fecht F. (EBS University)

Hackethal A. (Goethe University Frankfurt)

“Is proprietary trading detrimental to retail investors?“

ABSTRACT

We study the conflict of interests that might arise at universal banks between their proprietary trading and their retail banking. Using a unique data set that covers the stock investments of each German bank and of its respective retail customers on a security-by-security basis we study the return characteristics of those stocks that flow from a bank's proprietary portfolio into its respective customers' portfolio. Our results show that those stocks that are removed from banks' proprietary portfolio into the portfolio of their respective customers are lower performing than the average stock held in both banks and customers portfolios. This suggests that banks abuse their role in advising retail investors in order to dump low performing stocks.



PARALLEL SESSION A3
QUANTITATIVE TOOLS FOR RISK MANAGEMENT

Chairman: Menachem Brenner

Bakanova A. (University of Lugano and Swiss Finance Institute)

“The information content of implied volatility in the crude oil futures market”

ABSTRACT

In this paper, we evaluate the information content of an option-implied volatility of the light, sweet crude oil futures traded at New York Mercantile Exchange (NYMEX). This measure of volatility is calculated using model-free methodology that is independent from any option pricing model. We do find that the option prices contain important information for predicting future realized volatility. We also find that implied volatility outperforms historical volatility as a predictor of future realized volatility and subsumes all information contained in historical data.

Paruolo P. (European Commission, Joint Research Centre)

Caporin M. (Università degli Studi di Padova, Italy)

“Identifying Proximity-Structured Multivariate Volatility Model”

ABSTRACT

This paper discusses the specification and identification of structured parametrizations for multivariate volatility models, which use spatial weight matrices induced by economic proximity. These structured specifications aim at solving the curse of dimensionality problem for volatility models, which limits feasibility of model-estimation to small cross-sections for unstructured models. Structured parametrizations possess the following four desirable properties: i) they are flexible, allowing for covariance spill-over and feedback; ii) they are parsimonious, being characterized by a number of parameters that grows only linearly with the cross-section dimension; iii) model parameters have a direct economic interpretation that reflects the chosen notion of economic proximity; iv) model estimation computations are faster than for unstructured specifications. We give several examples of structured specifications, discussing how to construct proximity weight matrices in general. Identification and estimation of structured specifications is analyzed and an application to asset returns from the NYSE is provided.

Zhang X. (VU University Amsterdam and Tinbergen Institute) - Creal D. (Booth School of Business, University of Chicago) - Koopman S.J. (VU University Amsterdam and Tinbergen Institute) - Lucas A. (VU University Amsterdam)

“A New Model for Dynamic Correlations under Skewness and Fat Tails”

ABSTRACT

We propose a new model for dynamic volatilities and correlations under skewed, heavy-tailed distributions. The model combines the class of Generalized Hyperbolic (GH) distributions with an observation driven model that is excited by the scaled density score. The key novelty in our approach is that the skewed and fat-tailed shape of the distribution directly affects the dynamic behavior of the time-varying parameters. This distinguishes our approach from familiar alternatives such as the DCC model with GH disturbances. Using simulated and empirical evidence, we show that the model outperforms its close competitors if skewness and kurtosis are relevant features of the data.

PARALLEL SESSION A3
QUANTITATIVE TOOLS FOR RISK MANAGEMENT

Mayer K. (Technische Universität München) - Schmid T. (Technische Universität München)

Weber F. (Technische Universität München)

“Modeling electricity spot prices - Combining mean-reversion, spikes and stochastic volatility”

ABSTRACT

Starting with the liberalization of electricity trading, this market grew rapidly over the last decade. However, while spot and future markets are rather liquid nowadays, option trading is still limited. One of the potential reasons for this is that the spot price process of electricity is still puzzling researchers and practitioners. In this paper, we propose an approach to model spot prices that combines meanreversion, spikes and stochastic volatility. Thereby we use different mean-reversion rates for “normal” and “extreme” (spike) periods. Another feature of the model is its ability to capture correlation structures of electricity price spikes. Furthermore, all model parameters can easily be estimated with help of historical data. Consequently, we argue that this model does not only extend academic literature on electricity spot price modeling, but is also suitable for practical purposes, e.g. as underlying price model for option pricing.



PARALLEL SESSION A4
MACROECONOMIC RISKS, REGULATION AND
ACCOUNTING STANDARDS

Chairman: Torben Andersen

Adams Z. (EBS Business School) - Fuss R. (EBS Business School)
Gropp R. (EBS Business School)

“Spillover Effects among Financial Institutions”

ABSTRACT

In this paper, we estimate a system of quantile regressions for four sets of major financial institutions (commercial banks, investment banks, hedge funds and insurance companies) using daily data. Our state-dependent sensitivity value-at-risk (SDSVaR) approach enables us to quantify the size and duration of risk spillovers among financial institutions as a function of the state of financial markets (tranquil, normal, volatile). We show that while small during normal times, equivalent shocks lead to considerable spillover effects in volatile market periods. The results highlight that estimates on spillover magnitudes that do not condition on the state of financial markets may substantially over- or understate spillover effects. We show that investment banks and, especially, hedge funds play a major role in the transmission of shocks to the other financial institutions. Given our high frequency data, we can trace out the spillover effects over time in a set of impulse response functions and find that they reach their peak after 10 to 20 days. Finally, the evidence provides further support for the notion that different hedge fund styles tend to converge during crisis times.

Kim Y. (Santa Clara University, U.S.A) - Li H. (Santa Clara University, U.S.A)
Li S. (Santa Clara University, U.S.A)

“Does Eliminating the Form 20-F Reconciliation from IFRS to U.S. GAAP Have Capital Market Consequences?”

ABSTRACT

This paper investigates the capital market consequences of the SEC's decision to accept financial statements of U.S.-listed foreign companies using International Financial Reporting Standards (IFRS) without reconciliation to U.S. GAAP. We find no evidence that eliminating the reconciliation requirement has a negative impact on cross-listed firms' market liquidity or probability of informed trading (PIN). We explore other potential consequences of eliminating the 20-F reconciliation and find no evidence that the elimination has a significant impact on cost of equity, analysts' forecast error, bias and dispersion, institutional ownership, and stock price efficiency and synchronicity. In addition, we examine whether cross-listed firms adopt alternative disclosure strategies to compensate for potential information loss, and find that IFRS users do not increase their disclosure frequency nor supply the reconciliation on a voluntary basis subsequent to the elimination. Taken together, our results do not lend support to the argument that the SEC's rule change to end the reconciliation requirement for IFRS users results in information loss or greater information asymmetry.

PARALLEL SESSION A4
MACROECONOMIC RISKS, REGULATION AND
ACCOUNTING STANDARDS

Boucher C. (University of Paris-1) - Maillet B. (University of Paris-1)
“The Riskiness of Risk Models”

ABSTRACT

We provide an economic valuation of the riskiness of risk models by directly measuring the impact of model risks (specification and estimation risks) on VaR estimates. We find that integrating the model risk into the VaR computations implies a substantial minimum correction of the order of 10-40% of VaR levels. We also present results of a practical method - based on a backtesting framework - for incorporating the model risk into the VaR estimates.

Tümer-Alkan G. (VU University Amsterdam) - Allen F. (The Wharton School of the University of Pennsylvania) - Hryckiewicz A. (University of Frankfurt and Kozminski University) - Kowalewski O. (Warsaw School of Economics (SGH))

“Transmission of Bank Liquidity Shocks in Loan and Deposit Markets: The Role of Interbank Borrowing and Market Monitoring”

ABSTRACT

We examine the international transmission of bank liquidity shocks from multinational bankholding companies to their subsidiaries. Our findings are consistent with the studies that document that parent bank fragility negatively affects lending by subsidiaries. We further find that reduction in foreign bank lending is stronger for those that are dependent on the interbank market. Moreover, foreign bank lending is determined by different factors in emerging markets and in developed countries. Finally, we show that especially during the recent crisis, liquidity needs determine the change in deposits in developing economies whereas in developed countries, market discipline plays a relatively more important role.



PARALLEL SESSION B1 RISK MANAGEMENT, BANKING AND REGULATION

Chairman: Wim Schoutens

Silva Buston C. (European Banking Center and Tilburg University, The Netherlands)

Wagner W. (European Banking Center and Tilburg University, The Netherlands)

Norden L. (Erasmus University Rotterdam and ERIM, The Netherlands)

“Banks’ Use of Credit Derivatives and Loan Pricing: What Is the Channel and Does It Persist Under Adverse Economic Conditions?”

This paper studies whether the use of credit derivatives at banks has an impact on the spreads banks charge to their corporate borrowers, and if so, through which channel(s) this occurs. We find that a bank’s gross position in credit derivatives is associated with significantly lower loan spreads in syndicated lending markets, while the bank’s net position is not related to loan spreads. We argue that this is consistent with banks passing on risk management benefits to their corporate borrowers, but not with other channels through which credit derivatives may affect loan pricing. We also find that the benefits increase for borrowers that are more likely to be actively traded in the credit derivatives market. The evidence further indicates that risk management using credit derivatives continues throughout the crisis of 2007-2009 since i) the benefit of borrowing at lower spreads from credit- derivative active banks does not fall throughout the crisis, ii) active banks have persistently lower loan charge-offs than other banks, iii) active banks cut lending less than other banks during the crisis. Taken together the evidence highlights important risk management benefits from financial innovations that persist under adverse conditions -that is, when they matter most.

De Spiegeleer J. (Jabre Capital Partners, Switzerland)

Schoutens W. (Katholieke Universiteit Leuven, Belgium)

“Pricing Contingent Convertibles: A Derivatives Approach”

This article provides an in-depth analysis of pricing and structuring of contingent convertibles (CoCos). These debt instruments convert into the equity of the issuing bank or suffer a write-down of the face value upon the appearance of a trigger event. This trigger mechanism provides an automatic strengthening of the capital structure of the bank. Equity is in this case injected on the very moment the bank is failing to meet the minimum regulatory capital requirements or when it is heading towards a state of non-viability. In this paper the pricing of CoCos is handled using two different approaches. The first approach starts from a credit derivatives background. A second approach tackles the pricing and structuring of a CoCo as an equity derivatives problem. Both models are applied on the CoCos issued by Lloyds and Credit Suisse and allow to be bedded within each of these structures.

Wojtowicz M. (VU University, Amsterdam)

“CDOs and the Financial Crisis: Credit Ratings and Fair Premia”

In this paper we use the market-standard Gaussian copula model to show that fair spreads on CDO tranches are much higher than fair spreads on similarly-rated corporate bonds. Our findings imply that credit ratings are not sufficient for pricing, which is surprising given their central role in structured finance markets. The yield enhancement on tranches is attributed to a concentration of risk premia. This illustrates limitations of the rating methodologies being solely based on estimates of real-world payoff prospects. We further

PARALLEL SESSION B1 RISK MANAGEMENT, BANKING AND REGULATION

show that payoff prospects as well as credit ratings of CDO tranches have low stability. If credit conditions deteriorate, then prices and ratings of CDO tranches are likely to decline significantly more than prices and ratings of corporate bonds. Default contagion exacerbates the pace and severity of tranche re-pricing and downgrading.

Berg T. (Humboldt - Universität zu Berlin, Germany)

Kaserer C. (Technische Universität Munchen, Germany)

“Does contingent capital induce excessive risk-taking and prevent an efficient recapitalization of banks?”

In this paper we argue that CoCo-Bonds of the type that has been issued so far by Lloyds, Rabobank and Credit Suisse can potentially destabilize the financial system in future financial crises. This is driven by the fact that equity holders bear all of the losses up to a prespecified amount, while they can impose part of these losses on CoCo-Bond holders once losses exceed this amount. This payoff profile increases incentives for excessive risk-taking (asset substitution problem) and prevents private recapitalizations for viable banks in the onset of a financial crisis (debt overhang problem).

Borovkova S. (VU University, Amsterdam)

“Risk management with tail copulas for emerging market portfolios”

We study the tail dependence of emerging markets in South-East Asia and we show that this tail dependence increased during the financial crisis of 2008-2010. After applying ARMA-GARCH models to individual markets, we fit various copulas to the pairs of market returns and find that in most cases tail copulas such as the t-copula and Symmetrised Joe-Clayton provide the best fit. During the crisis, nonlinear dependence measures (such as rank correlations) and the tail dependence coefficients typically increased by tenfold or even more. We apply our method to portfolio Value-at-Risk estimation and show that the copula-based Value-at-Risk performs remarkably well for South-East Asian market portfolios.



PARALLEL SESSION B2

CORPORATE GOVERNANCE AND INCENTIVES IN BANKING

Chairman: Maxine Garvey

Sabato G. (Royal Bank of Scotland) - Aebi V. (University of St.Gallen, Switzerland)

Schmid M. (University of Mannheim, Germany)

“Risk Management, Corporate Governance, and Bank Performance in the Financial Crisis”

The recent financial crisis has raised several questions with respect to the corporate governance of financial institutions. This paper investigates whether risk management-related corporate governance mechanisms, such as for example the presence of a chief risk officer (CRO) in a bank's executive board and whether the CRO reports to the CEO or directly to the board of directors, is associated with a better bank performance during the financial crisis of 2007/2008. We measure bank performance by buy-and-hold returns, ROA, and ROE and we control for standard corporate governance variables such as CEO ownership, board size, and board independence. Most importantly, our results indicate that banks, in which the CRO directly reports to the board of directors and not to the CEO (or other corporate entities), exhibit significantly higher (i.e., less negative) stock returns, ROA, and ROE during the crisis. In contrast, standard corporate governance variables are mostly insignificantly or even negatively related to the banks' performance during the crisis.

Gupta A. (Rensselaer Polytechnic Institute, U.S.A) - Francis B. (Rensselaer Polytechnic Institute, U.S.A) - Hasan I. (Rensselaer Polytechnic Institute, U.S.A)

“Impact of Compensation Structure and Managerial Incentives on Bank Risk Taking”

We analyze the impact of managerial compensation structure in publicly-rated banks on their risk taking behavior, specifically the changes in risk taking through the changing regulatory environment for these banks. We perform a simulation analysis to study the impact of the interaction between regulatory changes and competitiveness in banking on managerial compensation, and in turn their joint impact on a bank's riskiness. The three hypotheses we examine using the simulation analysis are, 1) increase in competitiveness after deregulation results in higher levels of risk for banks, 2) regulatory changes can result in change in the composition of managerial compensation, which creates an environment of incentives for enhanced risk taking, 3) regulatory changes accompanied by certain governance or managerial compensation controls can bring prudence in the risk taking behavior. The simulation model allows isolating each factor for its impact on a particular bank's riskiness due to the regulatory changes. This impact is then correlated with the governance characteristics of the bank. We observe that competition uniformly increases the risk in firm value and shareholder-equity of all the banks, more severely for some than others. Its effect on change of firm value through regulatory changes observed is opposite from its effect on shareholder-equity for some banks. Change in competition combined with change in managerial compensation captures significantly more of the increased risk in firm value and shareholder-equity. Lastly, the governance characteristics show that risk differential between competition alone and competition combined with compensation is low for banks with good governance.

PARALLEL SESSION B2

CORPORATE GOVERNANCE AND INCENTIVES IN BANKING

Szafarz A. (Université Libre de Bruxelles, Belgium)

“Investment in Microfinance Equity: Risk, Return, and Diversification Benefits”

This paper takes full advantage of daily quoted prices of microfinance stocks from their issuance, and draws a global picture of worldwide microfinance equity from the viewpoint of a profit-oriented investor. We construct microfinance country equity indices and an international global microfinance index. We analyse the changes in these indices, which we assess in reference to comparable indices for the financial sector and also to national indices. Our findings show that microfinance has resumed its close correlation with the financial sector since 2001. In terms of risk exposure, estimations of the Capital Asset Pricing Model demonstrate that microfinance shares exhibit higher market beta than conventional financial institutions, and have equivalent currency exposure. We also examine whether adding microfinance to international asset portfolios improves the investor's risk-return performance. While the inclusion of microfinance equity has indeed been a major source of diversification in the 1990s, its impact has diminished in recent years. Still, optimal portfolios invested in countries where microfinance equity is available may contain up to 20% of stocks from MFIs.

Ungureanu M.C. (University of Genoa, Italy) - Ferrarini G. (University of Genoa, Italy)

“Economics, Politics, and the International Principles for Sound Compensation Practices: An Analysis of Executive Pay at European Banks”

In this Article we submit that the compensation structures at banks before the financial crisis were not necessarily flawed and that recent reforms in this area largely reflect already existing best practices. In Part I we review recent empirical studies on corporate governance and executive pay at banks and suggest that there is no strong support for regulating bankers' compensation structures. We also argue that detailed regulation of incentives would subtract essential decision making powers from boards of directors and make compensation structures too rigid. In Part II we note that political support for regulating bankers' pay has been strong and led to reforms promoting long-term incentives to executives on the assumption that short-term incentives were a cause of the crisis. The Financial Stability Board Principles for Sound Compensation Practices (the “Principles”) follow this trend, at the same time representing a political compromise between the various interest groups concerned. They pick up traditional compensation criteria from pre-crisis best practices, adapting them to the post-crisis setting, while leaving some flexibility in pay structures. We suggest that a certain degree of flexibility should be kept when implementing the Principles in national jurisdictions. In Part III we analyze the regulatory developments concerning executive pay at banks in Europe and find variations in the implementation of the Principles. We also show that remuneration policies at large European banks are converging towards the international Principles, while varying in the implementation of individual standards. However, recent EU reforms may change the situation considerably by imposing detailed requirements as to pay structures in the financial sector.

Chairman: Paolo Paruolo

Panopoulou E. (University of Piraeus, Greece) - Plastira S. (University of Piraeus, Greece)
“Fama French factors and US stock return predictability”

This paper investigates whether the HML, the SMB along with the short-term reversal, the long-term reversal and the momentum factors exhibit both in-sample and out-of-sample forecasting ability for the US stock returns. Our findings suggest that these factors contain significantly more information for future stock market returns than the typically employed financial variables. We also go one step further and test whether these variables can proxy for the aforementioned factors. Our results suggest that the default spread and to a lesser extent the term spread contain important information for the evolution of the factors examined.

Katzur T. (University of Groningen, The Netherlands)
Spierdijk L. (University of Groningen, The Netherlands)
“Stock Returns and Inflation Risk: A Bayesian Approach”

A widely adopted view in the economic literature is that an asset is a good hedge against inflation if the Fisher hypothesis holds true; i.e. if the marginal effect of a unit change in inflation on nominal returns (often referred to as the Fisher coefficient) is equal to unity. In a regression of volatile stock returns on slowly moving inflation rates the estimated Fisher coefficient is often characterized by large standard errors, due to which the Fisher hypothesis cannot be rejected. Investors who base their optimal investment portfolios on the assumption that stocks are a good hedge against inflation ignore the information contained in the Fisher coefficient. This raises the question whether stocks are still viewed as a good hedge against inflation if we take into account the parameter uncertainty involved with the estimated Fisher coefficient. This paper seeks an answer to this question by adopting a Bayesian approach. In our empirical study we find little traditional statistical evidence against the Fisher hypothesis, suggesting that stocks are a good hedge against both expected and unexpected inflation. By contrast, the Bayesian approach reveals a substantial exposure of stock returns to inflation risk.

Li S. (VU University, Amsterdam) - Hendershott T. (University of California, Berkeley, U.S.A) - Menkveld A. (VU University, Amsterdam) - Seasholes M. (Hong Kong University of Science and Technology, China)
“Risk Sharing, Costly Participation, and Monthly Returns”

This paper studies the joint dynamics of stock price movements and the trading of individuals, institutions, and market makers. We propose a multi-period model in which agents have different risk sharing motives and participation costs. A state-space model and proprietary NYSE trading data are used to test predictions regarding returns, order flows, and return-flow dynamics. The results show that 25% of monthly return variance is due to transitory price changes (noise). The trading variables explain 40% of this transitory variance. A one standard deviation change in market makers' positions (individuals' net trades) is associated with transitory volatility of 1.52% (also 1.52%). The results are larger for smaller stocks (2.43% and 1.86%).

Pizzutilo F. (University of Bari, Italy)
“The Long Term Behavior of the Distribution of Stock Returns: an Analysis of the Italian Market Using the Pearson Kappa Criterion”

Pearson's kappa criterion is used herein to classify return distributions of the shares in all companies listed on the Italian stock exchange into the Pearson system of continuous probability distributions. Results show that over finite time horizons, the type IV distribution describes the behavior of almost all returns on stocks. The occasional exceptions to this rule appear to be linked only with the occurrence of extraordinary events in the life of a company. The exceptions are more common when short time horizons are used to examine the data. When an infinite time horizon is assumed, the results are consistent with the hypothesis that the distributions are of type VII, which is a special, symmetrical and hyperkurtotical case of type IV distribution that subsumes the Student's t and the Cauchy distributions, and is easier to deal with in practice.

Pantelidis T. (University of Piraeus, Greece) - Pittis N. (University of Macedonia, Greece)
“Forecasting volatility with a GARCH model: some new analytical and Monte Carlo results”

This paper aims at explaining the poor forecasting performance of GARCH(1,1) reported in many empirical studies. Previous theoretical studies argue that the poor forecasting performance of GARCH(1,1) found in empirical studies is deceptive. Specifically, the utilization of the squared shocks as a proxy for the unobserved true conditional volatility increases the Mean Squared Forecast Error (MSFE) of the volatility forecasts (MSFE-inflation), rendering the MSFE criterion invalid for proper evaluation of the forecasting accuracy of GARCH(1,1). However, the analytical results presented in this paper show that the MSFE criterion remains capable to evaluate properly the forecasting performance of GARCH(1,1) relative to a simple homoscedastic model (the benchmark model in most empirical studies), since the utilization of the proxy “inflates” equally the MSFEs of the volatility forecasts of both models. We also provide useful suggestions for proper statistical evaluation of the volatility forecasts of GARCH(1,1), together with two empirical applications based on various exchange rates, stock market returns and US interest rates. The findings of this study are of great interest for the calculation of the Value-at-Risk of financial portfolios.



PARALLEL SESSION B4

QUANTITATIVE TOOLS FOR RISK MANAGEMENT

Chairman: *Elisa Luciano*

Perote J. (University of Salamanca, Spain) - Níguez T. (University of Westminster, England) - Rubia A. (University of Alicante, Spain)

“Multivariate Distributions based on General Moments Expansions: Evidence from Exchange Rates”

This paper proposes multivariate Semi-Nonparametric distributions (SNP) based on the General Moments Expansion (GME) to model portfolio returns distribution. The multivariate GME is as flexible as other multivariate SNP distributions based on Gram-Charlier series and thus is capable of capturing salient empirical regularities of financial data but it present at least two important advantages: (i) it embodies a much simpler polynomial structure which simplifies the analytical tractability of the density, specially when positive transformations are implemented; and (ii) it straightforwardly admits the consideration of any non-Normal distribution used as basis with the only requirement of having finite moments up to the expansion order. We show that if the expansion uses the Gaussian distribution as basis the two-step estimation procedure introduced by Engle (2002) can also be formally implemented for the GME distribution, thus overcoming the curse of dimensionality of multivariate volatility modeling. We compare the performance of different multivariate SNP alternatives showing that the GME-DCC model is very easy to implement and provides very accurate results for capturing portfolio returns distribution.

Kim H. (Jönköping International Business School, Sweden)

Hacker R. (Jönköping International Business School, Sweden)

“Time-varying betas of sectoral returns to market returns and exchange rate movements”

The time-varying behavior of the market and exchange risk sensitivities of the U.S. sectoral returns are estimated using random walk process in connection with the Kalman filter. As a whole, it is observable that the market risks shrink over longer time-horizons. As regards exchange risk, the findings are consistent with the notion that high US returns will induce a greater capital inflow into the US stock market and thereby cause an appreciation of the US dollar. The exchange rate risks appear to be declining with longer time horizons, in some cases resulting ultimately in a negative relationship between the US dollar and the industry returns. This is consistent with the idea that the effect of a US dollar appreciation on competitiveness of US exports becomes stronger with the larger time horizons.



PARALLEL SESSION B4

QUANTITATIVE TOOLS FOR RISK MANAGEMENT

Gulati A. (Hanken School of Economics, Finland)

“Quantile Regression Analysis of Exchange Rate Risk in Cross-Country Sector Portfolios”

This study empirically analyzes the impact of exchange rates on cross-country sectors portfolios using the quantile regression approach. The parts of the return distribution in which the investor and risk managers are interested, such as extreme outcomes in the tails, which go beyond the mean values, quantile regression approach is quite useful. There is greater impact of exchange rate, Swedish excess return portfolios, and global market index return in the post euro for the Finnish sector portfolios. The summary of quantiles results with respect to least squares estimation, we find that the quantiles results are more robust.

Van der Ploeg A. (University of Amsterdam, The Netherlands) - De Vries C. (Erasmus University Rotterdam, The Netherlands) - Blacha A. (ING, The Netherlands)

“Advanced Scenario Generation for Historical Value-at-Risk Calculations: Empirical Analysis on Equity Options”

This paper investigates the reliability of various risk factor scenario generation techniques for Historical VaR calculations applied to equity options. The models are tested on S&P500, DAX and NASDAQ100 data during 2005-2009. Logarithmic outperform absolute shifts, though these still perform suboptimal. This leads to biased VaR numbers and hence to a distorted picture of the underlying market risk, potentially leading to dangerous situations. We find that a Student-t AR-TGARCH-based model outperforms other models, correctly taking into account unconditional coverage, volatility clustering and leading to a correct BIS zone classification.

Ma A. (Chinese University of Hong Kong, China)

Iyengar G. (Columbia University, U.S.A)

“Fast gradient descent method for mean-CVaR optimization”

We propose an iterative gradient descent procedure for computing approximate solutions for the scenario-based mean-CVaR portfolio selection problem. This procedure is based on an algorithm proposed by Nesterov for solving non-smooth convex optimization problems. Our procedure does not require any linear programming solver and in many cases the iterative steps can be solved in closed form. We show that this method is significantly superior to the linear programming approach as the number of scenarios becomes large.

PARALLEL SESSION B5 RATING AGENCIES AND CREDIT RISK MODELING

Chairman: Herbert Rijken

Ory J. (Université Nancy, France) - Raimbourg P. (Université Paris, France)

“Are Credit Rating Agencies Useless”

Through an analysis of structural changes in abnormal spread series, we stress specific investors' reactions to rating actions. These reactions are much more usual when the issues are in sterling (£) than in euros. In the euro area, investors mainly react after the downgrading of banks and public issuers but before the downgrading of corporate issuers. If rating agencies transmit information about banks' default risk, we cannot say they are useless for European corporate issuers. Among these issuers, their function is to confirm (or not) informed investors' perception of default risk, and, in doing so, to stabilize (or not) spreads.

Moro R. (Brunel University, England) - Hardle W. (Humboldt-Universität zu Berlin, Germany) - Aliakbari S. (Brunel University, England)

Hoffmann L. (Humboldt-Universität zu Berlin, Germany)

“Forecasting Corporate Distress in the Asian and Pacific Region”

This study analyses credit default risk for firms in the Asian and Pacific region by applying two methodologies: a Support Vector Machine (SVM) and a logistic regression (Logit). Among different financial ratios suggested as predictors of default, leverage ratios and the company size display a higher discriminating power compared to others. An analysis of the dependencies between PD and financial ratios is provided along with a comparison with Europe (Germany). With respect to forecasting accuracy the SVM has a lower model risk than the Logit on average and displays a more robust performance. This result holds true across different years.

Augustin P. (Stockholm School of Economics, Sweden)

Tédongap R. (Stockholm School of Economics, Sweden)

“Common Factors and Commonality in Sovereign CDS Spreads: A consumption-based explanation”

This paper identifies common factors of sovereign credit default swaps in a general equilibrium setting and studies their link with the strong co-movement of spreads across countries and the term structure. We develop a general equilibrium consumption based pricing model yielding closed form solutions for CDS prices. This allows us to link sovereign credit risk premia to consumption growth forecasts and macroeconomic uncertainty, as well as investor preferences. We find evidence that shocks to U.S. consumption are a common source of time varying risk premia in the global sovereign debt market. Furthermore, spreads are mainly driven by compensation for losses in bad states, pointing to the fact that sovereign CDS spreads are similar in nature to catastrophe bonds. A principal component analysis suggests that three factors are sufficient to explain on average 95% of commonality. We interpret the first and second principal components as the level and the slope of the term structure of CDS prices. Regression analysis reveals that expected consumption growth and consumption volatility explain about 75% of these two components. Furthermore, our results favor the view that the equity and sovereign CDS market are integrated, as we manage to simultaneously price the equity and credit market.

PARALLEL SESSION B5 RATING AGENCIES AND CREDIT RISK MODELING

Steenbeek O. (Erasmus University Rotterdam, The Netherlands)

Van den Goorbergh R. (APG-All Pensions Group, The Netherlands)

Molenaar R. (APG-All Pensions Group, The Netherlands)

Vlaar P. (APG-All Pensions Group, The Netherlands)

“Risk models after the credit crisis”

In this paper, we propose a new risk model to better address events like the recent credit crisis. First, the possible start of a crisis is modeled by including a low-probability jump process. Second, the risk characteristics of the crisis are captured by allowing for time-varying volatilities and correlations. Time variation in correlations is due to the changing importance of two sources: monetary shocks leading to a positive stock–bond correlation, and risk aversion (or “flight to safety”) shocks leading to a negative stock–bond correlation. The model stays within the essentially affine class, thereby allowing for closed-form solutions for arbitrage-free nominal and real bond prices of all maturities. Moreover, equity options and swaption prices are included in the estimation procedure to enhance the proper modeling of the volatility on the equity and interest rate markets. The model captures a large part of the time variation in financial risks for pension funds due to both changing volatilities and correlations.



PARALLEL SESSION C1

RISK MANAGEMENT, BANKING AND REGULATION

Chairman: Javier Marquez

Loffler G. (University of Ulm, Germany) - Raupach P. (Deutsche Bundesbank, Germany)
“Robustness and informativeness of systemic risk measures”

Recent literature has proposed new methods for measuring the systemic risk of financial institutions based on observed stock returns. In this paper we examine the reliability and robustness of such risk measures. Adding option positions to a portfolio that is linear in the market portfolio can easily create situations in which systemic risk is consistently misestimated. Protective put strategies that are immune against extreme shocks are judged to have high systemic risk because estimation methods rely on less extreme return realizations in which option premia depress returns relative to unprotected institutions. On the other hand, extreme tail risk can be masked by buying protection against less extreme events. The estimation problems are illustrated for portfolios with standard equity options but they carry over to credit risk. This raises doubts about the informativeness of the proposed measures. In particular, a direct application to regulatory capital surcharges for systemic risk could create wrong incentives for banks.

Rösch D. (Leibniz University of Hannover, Germany)

Scheule H. (University of Melbourne, Australia)

“Systematic Risk and Parameter Uncertainty in Mortgage Securitizations”

Investors were surprised during the Global Financial Crisis that mortgage securitizations implied larger default rates than corporate bonds given the same credit rating. This paper finds that mortgage securitizations imply a larger degree of systematic risk than bond ratings given the credit rating. In addition, parameter calibration errors arising from small samples and short time series are analyzed and an out-of-sample forecasting analysis of the financial crisis is performed. The analysis shows that realized losses may be partially explained by systematic risk and parameter uncertainty.

Galliani C. (Joint Research Center European Commission) - Saltelli A. (Joint Research Center European Commission) - Veccia A. (FITD-Fondo Interbancario di tutela dei Depositi, Italy) - De Cesare M. (FITD-Fondo Interbancario di tutela dei Depositi, Italy) De Lisa R. (University of Cagliari)

“How to revise a risk based contribution: an application of Sensitivity Analysis' importance measures to the Italian Banking System”

Deposit Guarantee Schemes (DGS) aim to protect depositors of all credit institutions against bank failures. One of the most critical issues about DGS concerns the criteria to be used to assess the risk-based contribution that each member bank should pay to the Scheme. As a starting point, is it possible to evaluate models developed in European DGS? In this paper we propose an approach based on Sensitivity Analysis tools applied to the Italian Banking System. In particular, we analyze methods used by the Italian DGS (Fondo Interbancario di Tutela dei Depositi - FITD) through variance-based importance measure (sensitivity Index) performed using a recursive algorithm. Sensitivity index is applied initially to the current Italian DGS model and then to an alternative model obtained by partially revising criteria currently used at FITD.

PARALLEL SESSION C1

RISK MANAGEMENT, BANKING AND REGULATION

Sturm P. (University of Tübingen, Germany)

“Operational and Reputational Risk in the European Banking Industry”

In this paper I study the stock market reaction to the announcement of operational losses in European financial companies. Accounting for the effect of the nominal loss amount allows for an examination of the reputational damage caused by operational loss events. The analysis is based on a sample of 136 operational losses stemming from a database of the Association of German Public Sector Banks (Bundesverband öffentlicher Banken, VÖB). All operational loss events affect European financial institutions with settlements reported by the press between January 2000 and December 2009. In line with previous literature, I find a significant negative stock price reaction to the first press announcement of operational losses. Results show that the stock market also reacts negatively to the settlement announcement as losses are confirmed and the loss amount is known. Even after accounting for the nominal loss amount, cumulative abnormal returns are negative following the date of the initial news article and the settlement date indicating damages to the reputation of the firm suffering the operational loss. Multivariate regression results suggest that reputational damages are rather influenced by firm characteristics than characteristics of the operational loss event: companies with a high ratio of liabilities to total assets suffer more severe damages to reputation from operational losses than companies with more equity.



PARALLEL SESSION C2 CORPORATE FINANCE

Chairman: *Giorgio Bertinetti*

Pop D. (University of Angers, France)

“Takeover Regulation in the European Emerging Economies: Representations and Warranties in Takeover Agreements”

The contraction of European emerging markets asks for solutions preserving the channel of external financing. When the Mandatory Bid Rule is effective, multiple takeovers make markets shrink, affecting on long term the very capitalist conception of the economic regime of those countries. Our approach investigates a private alternative encouraging controlling shareholder to disclose the real value of target: representation and warranties in takeover agreements. According to our theoretical findings, the value of the control exceeds the market price if the controlling shareholder commits to share the successor liability. From a policy standpoint, the viability of such a private mechanism revolves on the mechanics of legal system.

Suárez Suárez N. (University of Castilla, Spain)- Fernández A. (University of Oviedo, Spain) - González F. (University of Oviedo, Spain)

“Banking Crises and the Lending Channel: International Evidence from Industrial Firms”

This paper analyzes how banking crises affect firms’ debt structure (amount and maturity). We define an empirical model explaining credit supply during crisis periods based on the traditional model of capital structure that previous literature has widely used. The results show that banking crises reduce both the amount and the maturity of firms’ debt. However, the higher the bank market concentration, the lower the negative effect of banking crises on firms’ debt availability and maturity. This finding suggests that during banking crises there are benefits from concentrated banking systems that foster the investment on the creation of close lending relationships, through which solving the information asymmetries between banks and firms. The results also show that the negative impact of banking crises on firms’ leverage disappears in countries with stricter restrictions on non-traditional banking activities and stronger official supervisory power

Ruiz-Feito I. (University of Oviedo, Spain)

Menendez-Requejo S. (University of Oviedo, Spain)

“Diversification in M&As: Decision and shareholders’ valuation”

The aim of this paper is to analyze the diversification decision in Mergers and Acquisitions (M&As) and how this decision is valued by acquiring shareholders, considering the influence of the legal and institutional environment. Using a sample of 447 M&As announced by European firms which acquire a target in any country in the world over the period 2002-2007, we find that the weak legal and institutional environment in the bidder country has a positive impact on the diversification decision. After controlling the diversification endogeneity, we observe that diversified M&As create value by acquiring firms.

PARALLEL SESSION C2 CORPORATE FINANCE

Gardenal G. (Ca’ Foscari University, Venice, Italy)

“A Lintner-based criterion to evaluate Private Equity Investments: can we rely on accounting measures? Evidence from the North- East of Italy ”

In this empirical study we make an effort to overcome the well-known firm selection problems in private equity, i.e. the difficulties to identify the best risk-return projects when firms are not listed on a public market. We got our main idea from Lintner (1965)’s paper and from the standard Expected Utility Theory (EUT). Using the certainty equivalent concept introduced by Lintner and the utility from investing in a generic company we try to define a firm selection criterion, which is innovative because it only requires accounting measures. We apply it to a sample of 2’974 Italian private firms operating in all industrial sectors and located in Treviso, in the North East of Italy, and we extract 94 firms which potentially could be used to form a private equity fund. Interestingly, the simple analysis of the raw data suggests a possible reason why the private equity market is underdeveloped in Italy: i.e. the risk-return relation is inverted for all the firms of the sample, highlighting difficulties by the entrepreneurs to manage risk in an effective way.



PARALLEL SESSION C3
QUANTITATIVE TOOLS FOR RISK MANAGEMENT

Chairman: Francesca Campolongo

Orth W. (University of Cologne, Germany)

“Multi-period credit default prediction with time-varying covariates”

In credit default prediction models, the need to deal with time-varying covariates often arises. For instance, in the context of corporate default prediction a typical approach is to estimate a hazard model by regressing the hazard rate on time-varying covariates like balance sheet or stock market variables. If the prediction horizon covers multiple periods, this leads to the problem that the future evolution of these covariates is unknown. Consequently, some authors have proposed a framework that augments the prediction problem by covariate forecasting models. In this paper, we present simple alternatives for multi-period prediction that avoid the burden to specify and estimate a model for the covariate processes. In an application to North American public firms, we show that the proposed models deliver high out-of-sample predictive accuracy.

Di Girolamo F. (Joint Research Center European Commission) - Campolongo F. (Joint Research Center European Commission) - Jönsson H. (BNP Paribas Fortis, Brussels, Belgium) - Schoutens W. (Katholieke Universiteit Leuven, Belgium)

“Sense and Sensitivity: An input space odyssey for ABS Ratings”

Asset backed securities (ABSs) are structured finance products backed by pools of assets and are created through a securitization process. The assessment of asset backed securities is given by ratings partly based on a quantitative model for the defaults and prepayments of the assets in the pool. This mathematical approach contains a number of assumptions and estimations of input variables whose values are affected by uncertainty. The uncertainty in these variables propagates through the model and produces uncertainty in the ratings. In the present paper we propose to work with global sensitivity analysis techniques to investigate ABS ratings sensitivity to the input parameters and we introduce a novel structured financial rating to take into account uncertainty in assessment when rating ABSs.

Lin L. (APG-Asset Management, Amsterdam, The Netherlands)

Vlaar P. (APG CAR and Netspar, Amsterdam, The Netherlands)

“Pricing Derivatives Analytically in a Heteroscedastic VAR Model with Jumps”

We derive closed-form solutions for option and swaption prices in an economic environment with time-varying second moments and stochastic jumps. Stochastic jumps are an important feature of risk models as the 2008 credit crisis has shown that extreme shocks may happen unexpectedly if the market panics. Time-varying second moments capture the persistence in volatilities and correlations, as for instance witnessed after the crash. The analytical derivative prices facilitate the incorporation of options and swaptions in the estimating procedure, thereby enhancing the proper modeling of higher moments. We also derive an analytical expression for a hybrid option that protects against a simultaneous decline of stock prices and interest rates. We show that the implied correlation between stock returns and interest rates, and thereby the price of these options, should be higher than the historical correlation, as jumps are more frequent under the risk-neutral measure than they are under the physical measure.

PARALLEL SESSION C3
QUANTITATIVE TOOLS FOR RISK MANAGEMENT

Lucas A. (VU University & Tinbergen Institute, The Netherlands) - Creal D. (University of Chicago, U.S.A) - Schwaab B. (European Central Bank, Frankfurt, Germany)
Koopman S. (VU University and Tinbergen Institute, The Netherlands)

“Observation Driven Mixed-Measurement Dynamic Factor Models with an Application to Credit Risk”

We propose a dynamic factor model for mixed-measurement and mixed-frequency panel data. In this framework time series observations may come from a range of families of parametric distributions, may be observed at different time frequencies, may have missing observations, and may exhibit common dynamics and cross-sectional dependence due to shared exposure to dynamic latent factors. The distinguishing feature of our model is that the likelihood function is known in closed form and need not be obtained by means of simulation, thus enabling straightforward parameter estimation by standard maximum likelihood. We use the new mixed-measurement framework for the signal extraction and forecasting of macro, credit, and loss given default risk conditions for U.S. Moody’s-rated firms from January 1982 until March 2010.



PARALLEL SESSION C4

ESTIMATING BANKS AND FIRMS PROBABILITY OF DEFAULT

Chairman: Gabriele Sabato

Jordan D. (Dominican University of California, U.S.A) - Rice D. (Golden Gate University, San Francisco, U.S.A) - Sanchez J. (Bank of the West, San Francisco, U.S.A) Walker C. (Northeastern University, Boston, U.S.A) Wort D. (California State University, U.S.A)

“Predicting Bank Failures: Evidence from 2007 to 2010”

This paper examines the 225 banks that failed between February 2, 2007, and April 23, 2010, comparing them to a random sample of banks that had not failed as of April 23, 2010. We performed regression and discriminant analysis on quarterly call report data for one year, two years, three years, and four years prior to bank failure to determine whether the failure could have been predicted. Our model is statistically significant at the 1% level and predicts bank failures with 88.2% accuracy one year prior to failure, 78.6% two years prior to failure, 71.4% three years prior to failure, and 66.0% four years prior to failure.

Pederzoli C. (University of Milano-Bicocca and CEFIN - Centro Studi Banca e Finanza, Italy) - Thoma G. (CEFIN - Centro Studi Banca e Finanza and University of Camerino, Italy) - Torricelli C. (University of Modena and Reggio Emilia and CEFIN - Centro Studi Banca e Finanza, Italy)

“Modelling credit risk for innovative firms: the role of innovation measures”

Financial constraints are particularly severe for R&D projects of SMEs, which cannot generally rely on equity markets and, in the EU, on a sufficiently developed VC industry. If innovative SMEs have to depend on banks to finance their R&D projects, it is particularly important to develop models able to estimate their probability of default (PD) in consideration of their peculiar features. Based on the signaling value of some innovative assets, the purpose of this paper is to show the importance to include them into models which have proved to be successful for SMEs. To this end, we take a logit model and test it on a unique dataset of innovative SMEs (based on PATSTAT database, EPO BULLETIN and AMADEUS) to estimate a two-year PD with default years 2006-2008. In the regression analysis the innovation-related variables are two in order to account for R&D productivity at the level of the firm and to consider the value of the inventive output. Our analyses first address measurement issues concerning innovation-related variable and then show that, while the accounting variables and the patent value are always significant with the expected sign, the patent number per se reduces the PD only in the presence of an appropriate equity level.



PARALLEL SESSION C4

ESTIMATING BANKS AND FIRMS PROBABILITY OF DEFAULT

Deborgies-Sanches L. (Erasmus University Rotterdam, The Netherlands) - Bode B. (Erasmus University Rotterdam, The Netherlands) - Chatzias G. (Risk Policy & Reporting Team, The Netherlands) - Sokolova L. (Risk Policy & Reporting Team, The Netherlands)

“Bank Loan Loss Given Default: A European Perspective”

The Loss-Given-Default (LGD) is a key parameter in credit risk evaluation and management. LGD is defined as the loss incurred by banks in case of borrower default. This paper is an empirical analysis of the LGD on non-traded bank loans in Europe. Based on a private data source we first investigate the accuracy of the provision policy of a Dutch bank in their final loss estimation. A univariate analysis shows that in this case, the current banking practice based on all available borrower information and expert judgment fails to satisfactorily predict the final LGD. A more elaborate approach is then developed using logistic and linear regressions. Existing literature helps us to identify all possible explanatory variables known at the origination of the loans which could influence the estimation of the dependent variable LGD. We complete this set by including new factors only known when borrowers enter default. This information comes from a confidential data source on loan loss created in 2004 by a consortium of major European banks. Our model considers resolved defaults (obligors have reached the resolution status, the final LGD is known) and unlike other studies, includes unresolved defaults (obligors have already gone into default but not reached this resolution status). The LGD distribution appears bimodal with a high concentration on its low end. Results show that our model outperforms other existing studies. It gains insight about the probability of a facility incurring a loss and the relevance of the explanatory variables in the European banking system.

Cariboni J. (Joint Research Centre European Commission) - Maccaferri S. (Joint Research Centre European Commission and Katholieke Universiteit Leuven, Belgium)

Schoutens W. (Katholieke Universiteit Leuven, Belgium)

“Applying Credit Risk Techniques to Design an Effective Deposit Guarantee Schemes’ Funds”

Deposit Guarantee Schemes (DGS) are financial institutions whose main aim is to provide a safety net for depositors so that, if a credit institution fails, they will be able to recover their bank deposits up to a certain limit. The recent global financial crisis brought DGS at the centre of the political and financial debate. We propose to simulate banks’ defaults and the corresponding losses in order to design an effective DGS. Our model allows defining a target level for the funds to be collected by the scheme in order to promptly and effectively respond to financial crisis and protect the citizens. The DGS is treated as a portfolio of banks whose default probabilities are estimated from CDS spreads and losses are simulated using the Gaussian one-factor model. The proposed approach is applied to a sample of Italian banks.

SOCIAL EVENTS INFORMATION

Tuesday, June 14th 2011

Canal Cruise through Amsterdam Canals

What better way could there be to explore Amsterdam's ancient city center than by going on a tour through the city's canals! This is definitely an experience that should not be missed when visiting Amsterdam. We will gather at 19:15 in front of the Rijksmuseum, Stadhouderskade (very close to Best Western Apollo Museumhotel and the Bilderberg Jan Luycken hotel) where the canal boats will depart. We will be welcomed on board by the Canal Company's personnel and after embarking the cruise will start. While we enjoy the incredible view of the world famous Amsterdam canal houses we will be offered various drinks and snacks on board. After an hour and a half long cruise the boat will drop us off at the restaurant.

You can take Tram 5, get off at Hobbemastraat and walk route A to B on the map below. From most hotels this will not take more than 10-15 minutes.

Our conference assistants will escort you from the hotel to the Canal Cruise.



Gala Dinner

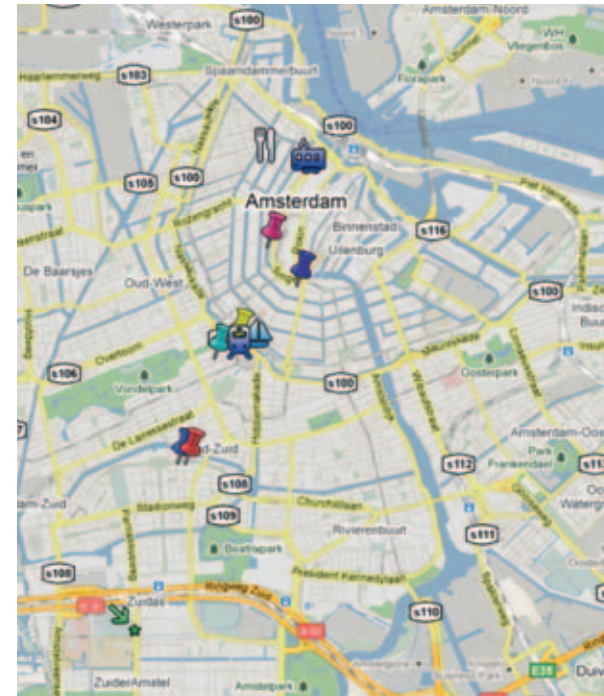
The gala dinner will be held at "Rode Hoed".

De Rode Hoed is located in a beautiful historic building in the heart of Amsterdam. The Great Hall is the largest and oldest remaining hidden church in the Netherlands. The event will begin at 21:00 and end at 23:15. Please bring your badge, which you will find in your envelopes, to this event. Dress Code is formal casual.



CONFERENCE VENUES

VU University Amsterdam
De Boelelaan, 1105 - 1081 HV Amsterdam



- IRMC 2011 VU University
- Main Conference Building De Boelelaan
- Bilderberg Hotel Jan Luyken
- NH Carlton Hotel
- Hampshire Classic - Apollo First
- Best Western Delphi Hotel
- NH Amsterdam City Centre
- Best Western Apollo Museum Hotel
- De Rode Hoed Conference Dinner
- Canal Cruise Start
- Tram Stop Hobbemastraat for Canal Cruise
- Tram Stop line 5 for restaurant

SOCIAL EVENTS

Canal Cruise and Gala Dinner

ACCOMMODATION

**** **Bilderberg Hotel Jan Luyken** - Jan Luykenstraat, 58- Amsterdam
Ph 00 800 97 33 42 26 –Email:

**** **NH Carlton Hotel** - Vijzelstraat, 4- Amsterdam
Ph +31 206222266 - Email: nhcarltonamsterdam@nh-hotels.com

*** **Best Western Apollo Museum Hotel** -P.C. Hoofdstraat, 2- Amsterdam
Ph: +31 206621402 Email: info@hotel-museum.com

**** **Best Western Delphi Hotel** –Apollolaan, 101-105- Amsterdam
Ph: +31 2067951 Email:info@delphihotel.nl

*** **NH Amsterdam City Centre** Spuistraat ,288-292- Amsterdam
Ph:+31.20.4204545 Email: nhcitycentre@nh-hotels.com

CONFERENCE CO-ORGANIZERS



The mission of the JRC is to provide customer-driven scientific and technical support for the conception, development, implementation and monitoring of European Union policies. As a service of the European Commission, the JRC functions as a reference centre of science and technology for the Union. Close to the policy-making process, it serves the common interest of the Member States, while being independent of special interests, whether private or national. The JRC aims to deliver robust and fit-for-purpose scientific technical support to policy makers based on a strong anticipation function, strategic dialogues with customers and stakeholders and an appropriate research base. The Task Force Financial Crisis was established at the JRC in January 2011 with the aim to assist Commission Services in their special effort to make the EU emerging rapidly from the current economic and financial crisis while preparing the ground for a stable financial system in the EU. The Task Force contributes to setting up an EU framework for financial crisis management and resolution in the banking and insurance sector, to improving the credibility of the rating agencies, and to enabling integrated surveillance of Member States economic stance, including their fiscal policy, reform programme, and overall sustainability of public finances.

Francesca Campolongo is the Head of the Task Force Financial Crisis of the European Commission Joint Research Centre (JRC).



The IFC Corporate Governance Unit's primary role is to assess corporate governance practices of IFC clients. In addition, the CG Unit provides focused corporate governance training to IFC investment staff, advises IFC senior management on share-voting policies and on nominations of directors to the boards of client firms. The unit also leads IFC's participation in the global dialogue on corporate governance. By making corporate governance improvements, IFC clients are more successful in attracting capital, improving their performance, and can better weather financial crises. This in turn helps boost private sector development, creating jobs, improving the quality of living, and ultimately alleviating poverty through improved economic performance. As part of IFC's response to the ongoing worldwide financial crisis, the IFC Corporate Governance Unit launched a Risk Governance Program to enhance the capability of directors in emerging markets to oversee the risk management of the organizations for which they serve as board members. The implementation of the Risk Governance Program has been on-going for 18 months and sessions have been completed in 15 countries. The sponsorship of the IRMC 2011 is a part of the Risk Governance Program and is a complement to the Risk Governance Workshops. Our sponsorship has two main objectives with regards to the risk capabilities in emerging markets:

- that emerging board members/academics that did not attend the in-country workshops will participate in this central event and that those who have attended earlier workshops will come to Amsterdam to advance their skills further
- that the international/wider community of risk scholars and practitioners will focus on risk issues in emerging markets; addressing the special topic more frequently and including these issues in their research program.

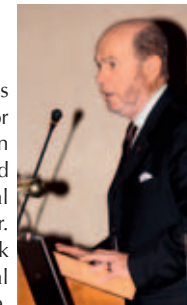
Maxine Garvey is "The risk management for board of directors" project coordinator and Senior Officer at International Finance Corporation - World Bank Group.

CONFERENCE ORGANIZERS

Edward I. Altman

Max L. Heine Professor of finance and director of research in Credit and Debt markets at the Salomon Center for the Study of financial institutions at the New York University Stern School of Business.

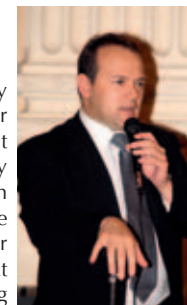
Dr Altman received his MBA and PhD in Finance from the University of California, Los Angeles. Prior to serving in his present position, he chaired Stern's MBA program for 12 years. Dr. Altman was named to the Max L. Heine endowed professorship at Stern in 1988. Internationally recognized as an expert on corporate bankruptcy, high yield bonds, distressed debt, and credit risk analysis. He served as President of the Financial Management Association in 2003, and was appointed an FMA Fellow in 2004. Dr. Altman was named one of the most influential people in Finance by Treasury & Risk Management magazine in 2005, he is a Founder and Executive editor of the international publication and has published or edited many books and articles in scholarly finance, accounting, and economic journal. His work has appeared in many languages including French, German, Italian, Japanese, Korean, Portuguese and Spanish. He has been Chairman Emeritus and a member of the Board of Trustees of the Interscholar Orchestras of New York, and a founding member of the Board of Trustees of the Museum of American Finance.



Oliviero Roggi

Professor of Corporate Finance, University of Florence

Oliviero earned his Ph.D in Management and Finance at University of Bologna and City University Business School European Joint Ph.D program in 1998. Visiting Researcher at City University Business School from 1998 to 2000, he has been appointed Assistant Professor in Corporate Finance in 2000. He is Professor of Corporate Finance at University of Florence since 2004. Founder of the Finanza Firenze Research Center in 2007, in 2008 he also founded, together with Edward Altman - NYU Stern Salomon Center, the International Risk Management Conference. In 2008-2009 he served as Visiting professor in Accounting Masters Program at Universidade de Fortaleza (Brasil). Consultant at European Commission, Regione Toscana (Italy) and other public owned entities is acting and doing research in the area of Enterprise Risk Management, and in particular Credit Risk since 2004. Member of the Scientific Committee of the Country Risk Forum of Associazione Bancaria Italiana (ABI - Italian Bankers Association). He has published papers and books on SME rating and on rating models generally speaking. In 2009, he published a book on "Risk Value and Company Default". He is Co-author of Aswath Damodaran, NYU STERN, for the forthcoming 3rd Italian edition of Applied Corporate Finance and he is NYU Stern Visiting Scholar since 2009 and consultant at IFC World Bank group since 2010.



Herbert Rijken

Professor of Corporate Finance, VU University Amsterdam

Professor Rijken obtained his doctorate in Applied Nuclear Physics at the Eindhoven University of Technology. Before his current position at VU University he was business consultant on corporate strategies and organizational design. Professor Rijken joined the VU University in 1998. He is teaching in various bachelor/master programs and executive MBA programs. His current research interests are corporate credit risk pricing, economics of corporate governance and corporate structured finance. He holds a few Board member positions.



CONFERENCE MANAGEMENT & CONTACT INFORMATION

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