International Risk Management Conference 2014

Seventh Edition

The Safety of the Financial System: From Idiosyncratic to Systemic Risk

Warsaw, Poland: June 23-24, 2014
Warsaw School of Economics
INTERNATIONAL RISK MANAGEMENT CONFERENCE 2014

“The Safety of the Financial System: From Idiosyncratic to Systemic Risk”

After the sixth successful edition in Copenhagen, the conference organizer, The Risk, Banking and Finance Society - in collaboration with the University of Florence, the NYU Stern Salomon Center and this year’s host institution, Warsaw School of Economics - would like to invite you to join the seventh edition of the International Risk Management Conference in Warsaw, Poland, June 23-24, 2014.

The conference will bring together leading experts from various academic disciplines and professionals for a two-day conference including three keynote plenary sessions, three parallel featured sessions and a professional workshop.
IRMC CONFERENCE MISSION
The mission of the conference is to provide a professional forum to discuss recent advances in risk management. IRMC2014 aims to present the latest research from the major schools of thought in finance, economics, and strategic management.

OUR PERSPECTIVE ABOUT RISK
Risk is a multifactor concept to be addressed from different perspectives. The Conference’s research and presentations of the conference focus on the latest theories and tools developed in the risk management field. This includes studies in Corporate Finance, where risk is studied both in the value maximization framework and in strategies for mitigating risk. The discussions in Banking are concerned with risk capital and capital requirement. Of a particular interest is how the Basel III and Solvency II frameworks play a key role in risk assessment and measurement and how it affects banks’ and customers’ portfolio selection and performance. Financial accounting is increasingly relied upon in the assessment of corporate risk processes and enterprise risk management frameworks based on various control systems. The transfer of risk can also be addressed from actuarial and statistical perspectives. A final research area addressed by the conference is strategic risk management where global corporations address the resilience of their planned business activities. All relevant methodological and empirical papers are welcome.

Welcome to the IRMC 2014 Conference. We are delighted that you have chosen to join us in Warsaw this year to participate in the many presentations and discussions around the very timely conference theme: “The Safety of the Financial System: From Idiosyncratic to Systemic Risk”. The conference introduces a string of leading international experts to speak to this theme and challenge our thinking in a series of keynote speeches and featured lectures. It brings together dedicated researchers from leading academic institutions around the world in scholarly sessions and from major corporate and financial institutions to engage in professional workshops and roundtable discussions on current topics of practical relevance.

The Professional Workshop will take place on June 24, and features many prominent keynote speakers dealing with the subjects of prospective financial regulation in Europe and conditions in the international credit markets. It will be followed by roundtable discussions among distinguished business executives that outline practical responses to the challenging economic conditions. The conference will feature presentations from a string of well-known and distinguished academics and regulators including:

Franklin Allen (Wharton - Upenn)
Edward I. Altman (NYU Stern School of Business)
Andrzej Banasiak (BFG-Bank Guarantee Fund, member of the management board)
Menachem Brenner (NYU Stern)
Santiago Carbo-Valverde (Bangor Business School)
Sanjiv Das (Santa Clara University)
Slawomir Grzelczak (Vice President of the Management Board, Biuro Informacji Kredytowej S.A.)
Michał Kruza (University of Massachusetts Amherst)
Bing Liang (University of Massachusetts Amherst)
Marcin Przasnyski (StockWatch)
Iwona Sroka (KDPW-National Depository for Securities, Chairman of the management board)
Dobieslaw Tymoczko (SGH and National Bank of Poland)

The parallel session are organized around the following headings:
A1 Credit risk
A2 Financial stress and bank debts
A3 Banking regulation and market reactions
A4 Financial stability and systemic risk
A5 Information implied by financial markets
A6 Emerging financial markets
B1 Corporate finance, governance and risk taking
B2 Risk premia and imperfections
B3 Systemic risk in US and Europe
B4 Sovereign credit risk
B5 Bond default and bank capital structure
B6 Market structure and taxes
C1 Systemic risk and contagion
C2 Bank capital, deposit insurance and stress tests
C3 Empirical asset pricing
C4 Risk taking behavior in financial institutions
C5 Extreme risks and portfolio performance
C6 Monetary policy and financial stability

Warsaw School of Economics as host institution together with the permanent coordinating institutions, the University of Florence and NYU Stern’s Salomon Center look forward to welcome the guests to the IRMC 2014, which also will comprise some social events that hopefully will create good memories of a wonderful Warsaw experience for all.

With best wishes from the Conference Coordinators:

Edward Altman
NYU Stern
Małgorzata Iwanicz-Drozdowska
Warsaw School of Economics
Oliviero Roggi
University of Florence
THE RISK, BANKING AND FINANCE SOCIETY

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.

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
### MONDAY, June 23, 2014

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<tr>
<th>Time</th>
<th>Event</th>
<th>Location</th>
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<tbody>
<tr>
<td>08.00-09.00</td>
<td>Registration</td>
<td>Building C</td>
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<tr>
<td>09.00-09.30</td>
<td>Welcome remarks</td>
<td>Ground Floor</td>
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<tr>
<td>09.00-10.50</td>
<td><strong>Plenary session (1)</strong></td>
<td>Mezzanine Floor</td>
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<tr>
<td>10.40-10.50</td>
<td>Q&amp;A</td>
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<tr>
<td>10.50-11.15</td>
<td>Coffee Break</td>
<td>Mezzanine Floor</td>
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<tr>
<td>11.15-13.00</td>
<td><strong>Parallel session (A)</strong></td>
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<tr>
<td>13.00-14.00</td>
<td>Lunch and Poster Session (see pag. 52 for details)</td>
<td>Auditory Hall II</td>
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<td>14.00-16.15</td>
<td><strong>Parallel session (B)</strong></td>
<td>Mezzanine Floor</td>
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<tr>
<td>16.15-16.45</td>
<td>Coffee Break</td>
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<tr>
<td>16.45-18.30</td>
<td><strong>Plenary session (2)</strong></td>
<td>Mezzanine Floor</td>
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<tr>
<td></td>
<td>16.45-17.30 Menachem Brenner (NYU Stern School of Business) “The State of Regulation 6 Years after the Financial Crisis”</td>
<td>Auditory Hall I</td>
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<td>17.30-18.00 Bing Liang (University of Massachusetts Amherst) “Operational Risk: The case for Hedge Funds”</td>
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<tr>
<td>18.00-18.30</td>
<td>Q&amp;A</td>
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<tr>
<td>18.30-20.00</td>
<td>Free time</td>
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<tr>
<td>20.00</td>
<td>Gala dinner at Polonia Palace Hotel</td>
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### TUESDAY, June 24, 2014

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<tr>
<th>Time</th>
<th>Event</th>
<th>Location</th>
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<tr>
<td>09.00-10.45</td>
<td><strong>Professional Workshop (PW1)</strong> Chair: Michał Kruszka (KNF - Financial Supervision) Opening Andrzej Jakubiak (Chairman Polish Financial Supervision Authority, KNF) “Current Conditions and Outlook for Global Credit Markets”</td>
<td>Building C Mezzanine Floor Auditory Hall I</td>
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<tr>
<td></td>
<td>10.00-10.20 Marcin Przasnyski (StockWatch) “Practical Application of Altman Z*-Score to Companies Listed on Stock and Bond Markets in Poland in 2008-2014”</td>
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<td></td>
<td>10.20-10.45 Andrzej Banasiak (BFG - Bank Guarantee Fund) “Additive and Multiplicative Risk Assessment Models, Early Warning System”</td>
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<td>09.00-10.45</td>
<td>Coffee Break</td>
<td>Mezzanine Floor</td>
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<tr>
<td>09.00-10.45</td>
<td><strong>Professional Workshop (PW2)</strong> Chair: Sławomir Grzelczak (BIK) 11.15-11.35 Michał Kruszka (KNF) “Macroprudential Supervision and Systemically Important Institutions”</td>
<td>Building C Mezzanine Floor Auditory Hall I</td>
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<tr>
<td></td>
<td>11.35-11.55 Iwona Sroka - Piotr Siejda (KDPW) “Requirement of Clearing OTC Derivates in Central Counterparties (CCPs): Example of KDPW_CCP_Services”</td>
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<td></td>
<td>11.55-12.15 Sławomir Grzelczak (BIK) “The Development of Credit Market in Poland. The Influence of the Quality and Completeness of the Data from Banking and non-Banking System on the Correct Prediction of the Borrowers Behaviors”</td>
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<tr>
<td>12.15-13.00</td>
<td>Q&amp;A and all PW (1+2) Speakers</td>
<td>Mezzanine Floor</td>
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<tr>
<td>13.00-14.00</td>
<td>Lunch and Poster Session (see pag. 52 for details)</td>
<td>Auditory Hall II</td>
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<td>14.00-16.15</td>
<td><strong>Parallel session (C)</strong></td>
<td>Mezzanine Floor</td>
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<td>16.15-16.45</td>
<td>Coffee Break</td>
<td>Auditory Hall II</td>
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<tr>
<td>16.45-18.30</td>
<td><strong>Plenary session (3)</strong></td>
<td>Mezzanine Floor</td>
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<td></td>
<td>16.45-17.30 Sanjiv Das (Santa Clara University) “Risk (and Return) Networks”</td>
<td>Auditory Hall I</td>
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<td>17.30-18.00 Santiago Carbo-Valverde (Bangor Business School) “Bank Safety-net Subsidies: Recent Developments”</td>
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<td>18.00-18.30</td>
<td>Q&amp;A</td>
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<tr>
<td>18.30-19.00</td>
<td>Conclusion</td>
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### PARALLEL SESSIONS SCHEDULE

**MONDAY MORNING, JUNE 23, PARALLEL SESSION A – TIME 11.15-13.00**

<table>
<thead>
<tr>
<th>Time</th>
<th>Event</th>
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credit Risk                                                                 |
| 11.45-12.00   | Voluntary Guaranteed Bank Deposits: The Roles of the Strength of the
Bank and the Guarantor                                                                 |
| 12.00-12.25   | Does Assigning Priority to Deposits Affect Bank Conduct? Evidence
from a Queue Experiment                                                                 |
| 12.25-12.50   | Financial Stress Index: A Lens for Supervising the Financial System |
| 12.50-13.00   | Financial Crisis. Crash, Sovereign, and Misvaluation Risk Premia |
| 13.00-13.15   | Credit Risk Management: Disentangling the managerial tempting motives |
| 13.15-13.30   | A Unified Approach to Pricing and Risk Management of Equity Credit Risk |
| 13.30-13.45   | How do Banks Minimize Intermediation Risk? Evidence from Banks Acquisitions |
| 13.45-13.50   | Do Credit Rating Controversies Lead to Better Corporate Governance? Evidence from Banks |
| 13.50-13.55   | Volatility Decay Risk Premia |
| 13.55-14.00   | Time-Varying Systematic and Idiosyncratic Risk Exposure of US Bank Holding Companies |
| 14.00-14.15   | Global Currency Misalignments, Crash, Sovereign, and Misvaluation Risk Premia |
| 14.15-14.30   | A Unified Approach to Pricing and Risk Management of Equity Credit Risk |
| 14.30-14.45   | How do Banks Minimize Intermediation Risk? Evidence from Banks Acquisitions |
| 14.45-14.55   | Do Credit Rating Controversies Lead to Better Corporate Governance? Evidence from Banks |
| 14.55-15.10   | Volatility Decay Risk Premia |
| 15.10-15.25   | Time-Varying Systematic and Idiosyncratic Risk Exposure of US Bank Holding Companies |
| 15.25-15.40   | Global Currency Misalignments, Crash, Sovereign, and Misvaluation Risk Premia |
| 15.40-15.55   | A Unified Approach to Pricing and Risk Management of Equity Credit Risk |
| 15.55-16.00   | How do Banks Minimize Intermediation Risk? Evidence from Banks Acquisitions |
| 16.00-16.15   | Do Credit Rating Controversies Lead to Better Corporate Governance? Evidence from Banks |

### PARALLEL SESSIONS SCHEDULE

**MONDAY AFTERNOON, JUNE 23, PARALLEL SESSION B – TIME 14.00-16.15**

<table>
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<tr>
<th>Time</th>
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<tr>
<td>14.00-14.30</td>
<td>Corporate Finance, Investment, and Risk Taking</td>
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<tr>
<td>14.30-14.45</td>
<td>Volatility Decay Risk Premia</td>
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<tr>
<td>14.45-14.55</td>
<td>Time-Varying Systematic and Idiosyncratic Risk Exposure of US Bank Holding Companies</td>
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<tr>
<td>14.55-15.10</td>
<td>Global Currency Misalignments, Crash, Sovereign, and Misvaluation Risk Premia</td>
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<tr>
<td>15.10-15.30</td>
<td>A Unified Approach to Pricing and Risk Management of Equity Credit Risk</td>
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<td>15.30-15.45</td>
<td>How do Banks Minimize Intermediation Risk? Evidence from Banks Acquisitions</td>
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<tr>
<td>15.45-15.55</td>
<td>Do Credit Rating Controversies Lead to Better Corporate Governance? Evidence from Banks</td>
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<tr>
<td>15.55-16.00</td>
<td>Volatility Decay Risk Premia</td>
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<tr>
<td>16.00-16.15</td>
<td>Time-Varying Systematic and Idiosyncratic Risk Exposure of US Bank Holding Companies</td>
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<td>Global Currency Misalignments, Crash, Sovereign, and Misvaluation Risk Premia</td>
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<td>A Unified Approach to Pricing and Risk Management of Equity Credit Risk</td>
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<td>How do Banks Minimize Intermediation Risk? Evidence from Banks Acquisitions</td>
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<tr>
<td>17.55-18.00</td>
<td>How do Banks Minimize Intermediation Risk? Evidence from Banks Acquisitions</td>
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### PARALLEL SESSIONS SCHEDULE

**Chairmen:**
- M. Campongo F.
- Galai D.
- Szeli M.

**Location:** Warsaw School of Economics

**Time:** Tuesday June 24th 2014 - afternoon

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<tr>
<th>Time</th>
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<tr>
<td>14.00</td>
<td>Opening</td>
<td>Chairman: M. Campongo F.</td>
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</table>
| 14.30-14.45 | Paper I | C.3. Bank capital and depository institutions
| 14.45-15.00 | Paper II | C.2. Bank capital, leverage and stress tests
| 15.30-15.45 | Paper IV | C.2. Bank capital, leverage and stress tests
| 16.00-16.15 | Break |
| 16.30-16.45 | Paper VI | C.1. Systemic risk and contagion

**Location:** Room 3A – Third floor

**Minor changes may be made to the program.**

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**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

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**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

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**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: 220

Papers submitted: 104

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**INTERNATIONAL RISK MANAGEMENT CONFERENCE 2011**

New Dimensions in Risk Management

Amsterdam, Netherlands - June 14rd-15th, 2011

Host Institution: VU Vrije University of Amsterdam

Chairmen: Edward Altman, Oliviero Roggi and Herbert Rijken

Number of attendees: 220

Papers submitted: 110

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**INTERNATIONAL RISK MANAGEMENT CONFERENCE 2012**

Global Standards for Risk Measurement, Management and Regulation

Rome, Italy - June 18th-19th, 2012

Host Institution: Pontificia Università Lateranense

Chairmen: Edward Altman, Oliviero Roggi, Riccardo De Lisa and Roberto Moretti

Number of attendees: 232

Papers submitted: 115

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**INTERNATIONAL RISK MANAGEMENT CONFERENCE 2013**

Enduring Financial Stability. Contemporary Challenges for Risk Management and Governance

Copenhagen, June 24th-25th, 2013

Host Institution: Copenhagen Business School

Chairmen: Edward Altman, Oliviero Roggi, Torben Juel Andersen, Steffen Andersen and Bjarne Astrup Jensen

Number of attendees: 240

Papers submitted: 120
CONFERENCE KEYNOTES BIOS

Franklin Allen
Franklin Allen is the Nippon Life Professor of Finance and Professor of Economics at the Wharton School of the University of Pennsylvania. He has been on the faculty since 1980. He is currently Co-Director of the Wharton Financial Institutions Center. He was formerly Vice Dean and Director of Wharton Doctoral Programs and Executive Editor of the Review of Financial Studies, one of the leading academic finance journals. He is a past President of the American Finance Association, the Western Finance Association, the Society for Financial Studies, and the Financial Intermediation Research Society. He received his doctorate from Oxford University. Dr. Allen’s main areas of interest are corporate finance, asset pricing, financial innovation, comparative financial systems, and financial crises. He is a co-author with Richard Brealey and Stewart Myers of the eighth and ninth editions of the textbook Principles of Corporate Finance.

Menachem Brenner
Prof. Brenner’s primary areas of research include derivative markets structure, option pricing, inflation expectations, auctions, market efficiency and liquidity. His articles have appeared in leading journals in finance and economics including the Journal of Finance, the Journal of Financial Economics, the Journal of Business, the Journal of Political Economy and the Journal of Monetary Economics. In 1986, he co-invented (with Prof. Galai) the volatility index based on the prices of traded index options and introduced the idea of volatility derivatives, an idea which was implemented 20 years later. He has written more than 60 scholarly articles in diverse areas in finance and economics. Professor Brenner was a founding editor of the Review of Derivatives Research and has served on several editorial boards and program committees. He is a regular member of the Deutsche Bank Prize in Financial Economics nominating committee. He received several grants and the Graham Dodd Award for excellence in financial writing. He was also awarded Stern’s Glucksman Prize for the best new research paper in Finance. In addition to working with doctoral students and teaching the popular finance course on “Futures and Options,” he served as deputy chairman of the finance department and is currently the director of the Masters in Global Finance program, a joint venture between the Hong Kong University of Science and Technology’s Business School and NYU Stern. Before joining Stern, Professor Brenner was a tenured faculty member at the Hebrew University. He has been a Visiting Professor at Berkeley, the University of Bergamo, University of Melbourne and Tel Aviv University. Professor Brenner also served as an Advisor to the Bank of Israel, the Securities Authority and was a board member of the Tel Aviv Stock Exchange where he chaired the committee that recommended the establishment of an Options Market in Israel. He was a floor trader in options and futures at the NYFE and NYSE.
Bing Liang

Prof. Liang is Professor of Finance at Isenberg School of Management, University of Massachusetts Amherst since 2008. Previously, he served as Associate Professor of Finance at Isenberg School of Management, University of Massachusetts Amherst from 2003 to 2008, and Assistant Professor of Finance at Weatherhead School of Management, Case Western Reserve University from 1995 to 2003. He was a Visiting Scholar at London School of Economics in 2004. Prof. Liang has extensive teaching experiences at the undergraduate, MBA and PhD levels. Prof. Liang teaches Investments and Corporate Finance at the both MBA and undergraduate levels, Empirical Financial Economics at the PhD level. Besides, the courses of Advanced Investments, Capital Markets and Institutions, Personal Finance and International Finance are all at the undergraduate level. In SAIF, he teaches Asset Management. Prof. Liang's papers and researches have appeared in Journal of Finance, Journal of Financial Economics, Journal of Business, Journal of Financial and Quantitative Analysis, and other leading academic journals. Prof. Liang co-authored several book chapters, for books including Encyclopedia of Quantitative Finance, Foundation of Managed Derivatives, World of Hedge Funds, and The Asian Financial Crisis and Taiwan’s Economy.

His outstanding contributions on research and teaching were recognized and honored by Isenberg School of Management as Research Fellow in 2007 and 2008, the BSI Gamma Foundation Award (2007), the Best Paper Award at China International Conference in Finance in 2007, Award for Outstanding Accomplishments in Research and Creative Activity, University of Massachusetts Amherst (2006), Outstanding Research Award, Isenberg School of Management (2006), and the Best Paper Award in Hedge Funds, European Finance Associate Meetings in 2003. Prof. Liang is on the editorial boards of European Financial Management, Journal of Investment Management, and Journal of Alternative Investments. He served as the Guest Editor for European Financial Management’s Special Issue on Hedge Funds in 2007. He was invited as an expert at the SEC’s Roundtable on Hedge Fund in 2003. Prof. Liang has been actively involved in several academic organizations, such as American Finance Association and the Western Finance Association.

Sanjiv Das

Sanjiv Das is the William and Janice Terry Professor of Finance at Santa Clara University’s Leavey School of Business. He previously held faculty appointments as Associate Professor at Harvard Business School and UC Berkeley. He holds post-graduate degrees in Finance (M.Phil and Ph.D. from New York University), Computer Science (M.S. from UC Berkeley), an MBA from the Indian Institute of Management, Ahmedabad, B.Com in Accounting and Economics (University of Bombay, Sydneyham College), and is also a qualified Cost and Works Accountant. He is a senior editor of The Journal of Investment Management, co-editor of The Journal of Derivatives, and Associate Editor of other academic journals. Prior to being an academic, he worked in the derivatives business in the Asia-Pacific region as a Vice-President at Citibank. His current research interests include: the modeling of default risk, machine learning, social networks, derivatives pricing models, portfolio theory, and venture capital. He has published over eighty articles in academic journals, and has won numerous awards for research and teaching. His recent book “Derivatives: Principles and Practice” was published in May 2010. He currently also serves as a Senior Fellow at the FDIC Center for Financial Research.

Santiago Carbo-Valverde

Santiago Carbo-Valverde is Professor of Economics and Finance at the Bangor Business School (United Kingdom). He is also the Head of the Financial Studies Department of the Spanish Savings Bank Foundation. He was the Dean of the School of Economics and Business at the University of Granada. He has been (and in some cases still is) consultant for public institutions such as the European Central Bank, the Federal Reserve Bank of Chicago, the European Commission, the Spanish Ministry of Science and Innovation, or the Spanish Ministry of Labour, and for private institutions. His research interests include bank regulation, payment systems, securitisation and corporate finance. He is the author of over 200 articles and publications on the financial system. He has published articles in peer-reviewed journals such as European Economic Review, Review of Finance, Journal of Money, Credit and Banking, Journal of International Money and Finance, Journal of Banking and Finance. He has given conferences, lectures and seminars at international institutions (G-20, World Bank, World Savings Banks Institute), central banks and government bodies.

Dobieslaw Tymoczko

Dobieslaw Tymoczko - graduated from the Warsaw School of Economics (M.A. in Finance and Banking, 1999; Ph.D. in Economics with distinction, 2006). Currently employed at the Warsaw School of Economics (Institute for Foreign Trade and European Studies, International Financial Management Unit: courses on finance, financial markets, monetary policy; author and co-author of more than forty articles, working papers, research studies and reports) and Narodowy Bank Polski (Financial System Department, Deputy Director, responsible for i.a. financial system analyses, evaluation of the economic impact of regulations on the financial system). Member of the Board of International Journal of Central Banking.

Dobieslaw Tymoczko

Dobieslaw Tymoczko - graduated from the Warsaw School of Economics (M.A. in Finance and Banking, 1999; Ph.D. in Economics with distinction, 2006). Currently employed at the Warsaw School of Economics (Institute for Foreign Trade and European Studies, International Financial Management Unit: courses on finance, financial markets, monetary policy; author and co-author of more than forty articles, working papers, research studies and reports) and Narodowy Bank Polski (Financial System Department, Deputy Director, responsible for i.a. financial system analyses, evaluation of the economic impact of regulations on the financial system). Member of the Board of International Journal of Central Banking.
The professional workshop will provide an insight into bankruptcy prediction and crisis management from different perspectives.

The first session will be focused on the bankruptcy prediction, taking into account the situation on the global credit markets and Polish experiences in using bankruptcy prediction models. During the second session speakers will explain how to prevent from the crisis using regulatory measures and adequate data for credit risk management. After the speeches the floor will be open for debate and commentaries from the participants.

**PROGRAM WORKSHOP**

**Professional Workshop (PW1)**

*Chair: Michał Kruszka (KNF - Financial Supervision)*

09.00-09.10 Opening - Andrzej Jakubiak  
(Chairman of Polish Financial Supervision Authority-KNF)

09.10-10.00 Edward I. Altman (New York University-Stern)  
“Current Conditions and Outlook for Global Credit Markets”

10.00-10.20 Marcin Przasny (StockWatch)  
“Practical Application of Altman Z*-Score to Companies Listed on Stock and Bond Markets in Poland in 2008-2014”

10.20-10.45 Andrzej Banasiak (BFG - Bank Guarantee Fund)  
“Additive and Multiplicative Risk Assessment Models, Early Warning System”

10.45-11.15 Coffee Break

**Professional Workshop (PW2)**

*Chair: Sławomir Grzelczak (BIK)*

11.15-11.35 Michał Kruszka (KNF)  
“Macroprudential Supervision and Systemically Important Institutions”

11.35-11.55 Iwona Sroka - Piotr Siejda (KDPW)  
“Requirement of Clearing OTC Derivatives in Central Counterparties (CCPs): Example of KDPW CCP Services”

11.55-12.15 Sławomir Grzelczak (BIK)  
“The Development of Credit Market in Poland. The Influence of the Quality and Completeness of the Data from Banking and non-Banking System on the Correct Prediction of the Borrowers Behaviors”

12.15-13.00 Q&A with all PW (1+2) Speakers

13.00-14.00 Lunch

**WORKSHOP KEYNOTE BIO**

**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.
Michał Kruszka

KNF-Polish Financial Supervision Authority, Deputy Director of Analyses and International Cooperation Department

Born on 10 March 1971. Michał Kruszka holds MA in Economics (Poznań University of Economics) and MA in Law (A. Mickiewicz University in Poznań). He has PhD and habilitation (post-doc scientific degree) in Economics. From 1995 to 2012, Michał Kruszka served as teaching assistant, assistant professor, and associate professor at the Poznan University of Economics. Since 2013, he has been associate professor at the Vistula University in Warsaw. His academic work covers macroeconomics, finance and international trade in services. He is an author of two books and numerous scientific papers. Michał Kruszka joined the KNF - Polish Financial Supervision Authority in September 2010. He served as senior economist, and Head of Research Unit. In August 2012, Michał Kruszka was appointed to the position of Deputy Director of Analyses and International Cooperation Department. He oversees the area of macroprudential supervision, macroeconomic models, statistical analysis, and international cooperation in the field of capital market.

Marcin Przasnyski

StockWatch.pl

Marcin started StockWatch.pl in 2008 after graduating from TRIUM MBA program, and developed it to prominent position of a major source of news, data and research covering stock and bond markets in Poland. He firstly graduated from Warsaw University in Journalism in 1995, and spent 20+ years in printed press publishing. Marcin have started up a handful of companies with widely renowned press magazines such as Bajtek, Top Secret or Secret Service, then worked for a number of years for Axel Springer as a senior manager for printed and online media. From 2006 he moved to digital sector, diversifying his activities between marketing financial information in StockWatch.pl and helping start-ups in digital entertainment industry. In-between Marcin worked for a couple of years as a Chief Financial Officer of medium-sized companies, and served on supervisory boards of private and public companies. He is also a member of Equities Committee at Warsaw Stock Exchange, helping shaping polish capital market.

Iwona Sroka

KDPW-National Depository for Securities, Chairman of the management board

Responsible for the management of two key infrastructure institutions in the Polish capital market: the central securities depository (KDPW) and the CCP clearing house (KDPW_CCP). In 2009, appointed President & CEO of KDPW, since the spin-off of the clearing house KDPW_CCP from KDPW in 2011, she is also President & CEO of KDPW_CCP. Educated at the Warsaw School of Economics, where she obtained her Ph.D. in Economics (Management Science). Member of the Board of Directors of the European Central Securities Depositories Association (ECSDA). Chairwoman of the Board of Directors of the Junior Achievement Foundation, Member of the Payment System Council at the National Bank of Poland. Since October 2011 serves as Vice President of the Employers of Poland, the oldest and biggest organisation of employers. On 18 April 2012 she was appointed by Polish Prime Minister to the Tripartite Social and Economic Committee. Assistant Professor at the Faculty of National Economics, Department of Management, University of Warsaw, where she gives lectures on capital markets, risk management instruments, investor relations, and business ethics. As an expert in these areas, she is also a lecturer of the Executive MBA course of the Institute of Economic Sciences at the Polish Academy of Sciences.
“MANAGING AND MEASURING RISK.
EMERGING GLOBAL STANDARDS AND REGULATIONS AFTER THE FINANCIAL CRISIS”
Editors: Oliviero Roggi and Edward I. Altman

The IRMC 2008-2012 Keynotes Commemorative Book presents the most recent achievements in risk measurement and management, as well as regulation of the financial industry, with contributions from prominent scholars and practitioners such as Robert Engle, 2003 Nobel Laureate in Economics, Viral Acharya, Torben Andersen, Zvi Bodie, Menachem Brenner, Aswath Damodaran, Marti Subrahmanyan, William Ziemba and others. The book provides a comprehensive overview of recent emerging standards in risk management from an interdisciplinary perspective. Individual chapters expound on the theme of standards setting in this era of financial crises where new and unseen global risks have emerged. The chapters are organized to allow the reader with a broad perspective of the new emerging standards in macro, systemic and sovereign risk before zooming into the micro perspective of how risk is conceived and treated within a corporation. A section is dedicated to credit risk and to the increased importance of liquidity both in financial systems and at the firm’s level.

IRMC 2012 SPECIAL ISSUE ON “FINANCIAL MARKETS, INSTITUTIONS & INSTRUMENTS”
Vol 22, Number 2
Guest Editors: Oliviero Roggi (University of Florence & RBF), Francesca Campolongo (JRC European Commission) and Riccardo De Lisa (University of Cagliari & FITD)

The special issue presents five papers selected among the several presented at IRMC 2012. These papers address the issue of financial stability by investigating some potential sources of banks’ riskiness that can contribute to the instability of system. The first (Vallascas and Hagendorff) and the second (Switzer and Wang) papers focus on bank governance structures and CEO remuneration policies and try to investigate how these two aspects can be connected to the bank riskiness. The third (Boucher and Maillet) paper discusses the problem of model risk in VaR computations and documents a procedure for correcting the bias due to specification and estimation errors. Finally the fourth (De Spiegeleer and Schoutens) and the fifth (Roggi, Giannozzi and Mibelli) papers present research results on contingent convertible bonds, analyzing potential sources of risks embedded into these financial instruments, and looking for possible solutions.

ORDER BOTH SUBSCRIBING THE “RBF GOLD MEMBERSHIP”
PARALLEL SESSION A1
CREDIT RISK

Chairman: Altman E.I.

Lorne Switzer (Concordia University, Canada)

“Institutional Investment Horizon, the Information Environment and Firm Credit Risk”

Discussant: Dallocchio M.

ABSTRACT

We provide evidence that the impact of the investment horizon of institutional investors on the credit risk of U.S. industrial firms is both statistically significant and economically sizable. Specifically, we find that during the sample period of 2001-2011, higher institutional ownership is negatively related to five-year CDS spreads. This result is primarily driven by short-term institutional investors. Trading by short-term institutional investors also reduces a firm's credit spread, implying that the firm’s creditors benefit from the improved information environment created by short-term institutions. On the other hand, long-term institutional ownership is positively related to a firm’s credit spread. Concentrated ownership of both types of institutional investors increases a firm's risk level, consistent with conflicts of interest between shareholders and bondholders and the existence of private benefit enjoyed by blockholders at the expense of other stakeholders. However, during the financial crisis period from 2007 to 2008, higher ownership by long-term institutional investors is associated with lower credit risk of firms. Hence, long-term institutions play an important role in enhancing financial stability during the crisis period by mitigating risk. These results are robust to estimation with endogenous institutional ownership.

Karol Przanowski (Warsaw School of Economics, Poland)

“Credit Acceptance Process Strategy Case Studies - the Power of Credit Scoring”

ABSTRACT

The paper is aware of the importance of certain figures that are essential to an understanding of Credit Scoring models in credit acceptance process optimization, namely if the power of discrimination measured by Gini value is increased by 5% then the profit of the process can be increased monthly by about 1500 kPLN (300 kGBP, 500 kUSD, 350 kEUR). Simple business models of credit loans are also presented: acquisition - installment loan (low price) and cross-sell - cash loans (high price). Scoring models are used to optimize process, to become profitable. Various acceptance strategies with different cutoffs are presented, some are profitable and some are not. Moreover, in a time of prosperity some are preferable whilst the inverse is true during a period of high risk or crisis. To optimize the process four models are employed: three risk models, to predict the probability of default and one typical propensity model to predict the probability of response. It is a simple but very important example of the Customer Lifetime Value (CLTV or CLV) model business, where risk and response models are working together to become a profitable process.

Edward Altman (New York University, USA)

Małgorzata Iwanicz-Drozdowska (Warsaw School of Economics, Poland)

Erkki Laitinen (University of Vaasa, Finland)

Arto Suvas (University of Vaasa, Finland)


ABSTRACT

The purpose of this paper is firstly to review the literature on Z-Score Model applications. This review is based on an analysis of 33 scientific papers published from the year 2000 in leading financial and accounting journals. Secondly, we use a large international sample of firms to assess the classification performance of the model in bankruptcy prediction. In all, we analyze its performance in firms from 32 European and 3 Non-European countries (including the U.S.). This kind of comprehensive international analysis has not been presented thus far. Except for the U.S., the firms in the sample are private. The version of the model developed by Altman (1983) for private firms (Z'-Score Model) is used. We regard our review and analysis as important contributions for the sake of the popularity of the Z'-Score Model. The literature review shows that results for Z-Models have been somewhat uneven so that in some studies the models have performed well, whereas in others they have been outperformed by competing models. None of the reviewed studies is based on comprehensive international comparisons, which makes the results difficult to generalize. The international analysis in this study shows that while a general international model works reasonably well, for most countries the classification accuracy may be considerably improved with country-specific estimation. In a country model, the information provided even by simple additional variables may help boost the classification accuracy to a much higher level.
**ABSTRACT**

A unique feature of the index is that it employs a dynamic weighting method that captures the changing relative importance of the different sectors of the financial system. This study shows that the index can be applied to monitoring and analyzing financial system conditions. The methodology uses daily public market data collected from different sectors of financial markets. 

This paper develops a new financial stress measure that considers the supervisory objective of depositors in the resolution process could improve the soundness of banking systems without us to document that subordinating general creditors lowers overall funding costs but increases banks’ cost of non-deposit funds due to increased market discipline. Banks subject to depositor preference display greater profitability and a reduced propensity to take risk. Complementary evidence using event-study methodology for both U.S. and European banks points towards the model’s implications. Results also suggest that the implicit support for a bank is higher when the sovereign where the bank is headquartered is larger or more creditworthy.

Enrico Onali (Bangor University, UK)
Klaus Schaeck (Bangor University, UK)
Danny McGowan (Bangor University, UK)
Piotr Danisewicz (Bangor University, UK)

"Does Assigning Priority to Deposits Affect Bank Conduct? Evidence from a Quasi-Experiment"

**ABSTRACT**

We exploit plausibly exogenous variation in the priority of claims on a failing banks’ assets mandated by depositor preference legislation passed by 15 U.S. states to establish the causal effects of conferring priority to depositors in the resolution process on bank behavior. Sharp differences in the applicability of these laws between state- and nationally-chartered banks allow us to document that subordinating general creditors lowers overall funding costs but increases banks’ cost of non-deposit funds due to increased market discipline. Banks subject to depositor preference display greater profitability and a reduced propensity to take risk. Complementary evidence using event-study methodology for both U.S. and European banks points towards increases in bank value. In contrast to bankers’ concerns about detrimental effects of such legislation in Europe, where policymakers advocate the benefits of depositor preference laws, our results suggest that bank shareholders should welcome such legislation. Importantly, priority for depositors in the resolution process could improve the soundness of banking systems without giving rise to moral hazard.

Stephen Ong (Federal Reserve Bank of Cleveland, USA)
Mikhail Oet (Federal Reserve Bank of Cleveland, USA)
Timothy Bianco (Federal Reserve Bank of Cleveland, USA)
Dieter Gramlich (Baden-Wuerttemberg Cooperative State University, Germany)

"Financial Stress Index: A Lens for Supervising the Financial System"

**ABSTRACT**

This paper develops a new financial stress measure that considers the supervisory objective of identifying risks to the stability of the financial system. The index provides a continuous signal of financial stress and broad coverage of areas that could indicate it. The construction methodology uses daily public market data collected from different sectors of financial markets. A unique feature of the index is that it employs a dynamic weighting method that captures the changing relative importance of the different sectors of the financial system. This study shows how the index can be applied to monitoring and analyzing financial system conditions.

Bo Larsson (Stockholm University, Sweden)
Hans Wijkander (Stockholm University, Sweden)

"Dynamic Banking: Value Maximization, Risk-taking and Responses to Shocks and Regulation"

**ABSTRACT**

The financial crisis 2007-2008 has triggered extensive government efforts on regulation of banks. Yet, few models of dynamic banking exist. A stochastic dynamic model of bank value maximization under limited liability and in which bankruptcy can occur is developed. Within the model risk-taking and bank responses to regulations are explored. It is shown that risk-neutral banks behave as if they were risk-averse when below target level capitalized and that risk-taking at target level of capitalization is still below that of single period value maximization under limited liability. It is also shown that banking regulations often have significant and adverse second-order effects through banks’ dynamic adjustment to regulations. Moreover the model gives rise to endogenous capital buffer. Mispriced external funding of banks and misalignment of management and owner interests are likely sources of banks’ excessive risk-taking.
ABSTRACT

This paper studies the significant variation in the cross-section of individual and systemic risk of large banks during the recent financial crisis to identify bank specific factors that determine risk. The results indicate that individual and systemic risk grows with bank size and is inversely related to bank capital, consistent with the presence of agency conflicts in large organizations and too big to fail considerations. Our results contribute to the ongoing debate on the merits of imposing systemic risk-based capital requirements on banks.

Aneta Hryckiewicz (Kozminski University, Poland)

ABSTRACT

Why were some banks heavily affected by mortgage crises, while others barely? Why were some banking sectors dominated by “originate and distribute” model, while others were heavily dominated by trading? Why did some banks decide not to follow the others, and preferred to stay more balanced. How the models chosen by banks translated into their risk-return profiles? And finally, how should we regulate the banking industry to make the world safer? This article raises these issues. It shows that heterogeneity in the banking industry was huge. We document that institutional factors were largely responsible for the development of individual banking models across the globe. We find that the most risky banking model is when the banks heavily trade in the securitized asset. However the most “optimal” strategy from risk-return profile seems to be the “balanced” model.

Maarten Van Oordt (De Nederlandsche Bank, The Netherlands)
“Systemic Risk and Bank Business Models”

ABSTRACT

In this study we disentangle two dimensions of bank’s systemic risk: The level of bank tail risk and the linkage between the tail risk of a bank and severe shocks in the financial system. We employ a measure on the systemic risk of financial institutions that can be decomposed into two subcomponents reflecting these dimensions. Empirically, we show how bank characteristics are related to bank tail risk and systemic linkage. The relations between bank characteristics and these dimensions determine the relation between bank characteristics and systemic risk. Certain characteristics that are irrelevant to the soundness of a financial institution taken in isolation turn out to be important for the level of systemic risk, and vice versa. Our analytical framework helps to evaluate differences in scope and directions of policy under the micro- and macroprudential objectives of regulation.

Luis Fortes Felix (VU University Amsterdam, The Netherlands)
Philip Stork (VU University Amsterdam, The Netherlands)
Roman Kraussl (Luxembourg School of Finance, Luxembourg)
“The 2011 European Short Sale Ban: An Option Market Perspective”

ABSTRACT

We examine how the 2011 European short sale ban affected jump risk and contagion risk of both banned and unbanned stocks. Using Extreme Value Theory, we estimate the tails of stock options’ risk-neutral densities to calculate extreme downside risk. Using this measure and implied volatility skews, we find that on ban announcement day jump risk abruptly rose for all stocks and subsequently remained elevated, impacting especially banned stocks. We show that it is the imposition of the ban itself that led to the increase in jump risk rather than other causes such as information flow, options trading volumes, or stock specific factors. We document that contagion risk decreased for banned stocks after imposition of the ban, while it increased for unbanned stocks. Substitution effects were minimal, as both banned stocks’ put trading volumes and put-call ratios declined during the ban. We argue that the ban curbed further selling pressure and decreased contagion risk in financial stocks, by redirecting trading activity towards index options.
ABSTRACT

This study examines the use and determinants of covenants in public debt issued by Russian companies. On the basis of issue characteristics, firm characteristics and systemic risk variables, we investigate that the likelihood of including covenants clause in financial contracts is positively related to the riskiness of bond issues. Using a hand-collected database of Russian firms that place bonds both in domestic and Eurobond market, we provide evidence that the covenant protection in Euro-bond market has a positive impact for those firms that issue in Russian market, with a reduction in covenant intensity. We document that a negative relation between offering yield and the presence of covenants which is consistent with the costly contracting hypothesis (CCH) is registered only in Eurobond market. We al-so find a non linear relation between investment and covenant protection for the firm that issue in Russian market, indicating a possible optimal covenant protection for a bond issue.

Zbigniew Krysiak (Warsaw School of Economics, Poland)
Rasoul Rezvanian (Northeastern Illinois University, USA)
Ewelina Klaczynska (Northeastern Illinois University, USA)

“Short Term Abnormal Returns on Stock Market in Poland Triggered by Exogenous Risk Factors”

ABSTRACT

We examine investors’ reaction to sharp price changes using two equity market indices in Poland; WIG20 and WIG. Using daily market returns of two indices from 1991 to June 2012, we identify the event days as the days where market indices exercised positive or negative daily price changes of 3 percent or more, and three and standard deviation from the mean of the market returns. By following the market behavior through price trend for 30 days after the event day, two conclusions can be reached: (a) The arrival of unexpected news that cause sharp price changes also increase market volatility, and (b) the subsequent price adjustments event days, two conclusions can be reached: (a) The arrival of unexpected news that cause sharp price changes also increase market volatility, and (b) the subsequent price adjustments on the basis of issue characteristics, firm characteristics and systemic risk variables, we investigate that the likelihood of including covenants clause in financial contracts is positively related to the riskiness of bond issues. Using a hand-collected database of Russian firms that place bonds both in domestic and Eurobond market, we provide evidence that the covenant protection in Euro-bond market has a positive impact for those firms that issue in Russian market, with a reduction in covenant intensity. We document that a negative relation between offering yield and the presence of covenants which is consistent with the costly contracting hypothesis (CCH) is registered only in Eurobond market. We al-so find a non linear relation between investment and covenant protection for the firm that issue in Russian market, indicating a possible optimal covenant protection for a bond issue.

EMERGING FINANCIAL MARKETS

Chairman: Bazzana F.
Flavio Bazzana (University of Trento, Italy)
Roberto Gabriele (University of Trento, Italy)
Anna Zadorozhnaya (Omsk State Transport University, Russia)

“The Role of Covenants in Bond Issue and Investment Policy. The Case of Russian Companies.”
Discussant: Stopczynski A.

PARALLEL SESSION B1
CORPORATE FINANCE, GOVERNANCE AND RISK TAKING

Chairman: Dallocchio M.
Frederick Dongchuhl Oh (Korea Advanced Institute of Science and Technology, South Korea)
Frederick Bereskin (University of Delaware, USA)
Bushik Kim (Korea Institute of Finance, Korea)

“Do Credit Rating Concerns Lead to Better Corporate Governance? Evidence from Korea”
Discussant: Riepe J.

ABSTRACT

We show that credit rating concerns affect firms’ corporate governance structure. We exploit the 1997 Asian financial crisis as an exogenous shock that led to improvements in Korea’s credit rating system and find that credit rating concerns affect corporate governance following the crisis, but not before the crisis. Moreover, this effect is concentrated in firms that are in chaebol business groups, consistent with their increased dependence on external financing. Finally, we find that firms that were particularly affected by the reforms demonstrate an increased reliance on debt that is dependent on credit ratings, consistent with our hypothesized effects of this exogenous shock. Our paper presents a novel approach to evaluate whether managers would improve their firms’ corporate governance in response to their credit rating concerns.

Jan Riepe (Ludwig Maximilian University of Munich, Germany)

“Capital Management without Earnings Management: Disentangling the Managerial Reporting Incentives”

ABSTRACT

This study exploits an often overlooked regulatory threshold in order to clearly disentangle earnings- and capital-driven reporting behaviors in banks. The threshold limits the amount of loan loss allowances in a bank’s supplementary regulatory capital. Thereby, the marginal effect of loan loss provisions on the regulatory capital changes at the threshold, while earnings and tax incentives remain constant. We document a strong change in banks’ reporting behavior around the threshold. Thereby, we are able to rule out competing explanations regarding the underlying managerial incentives, e.g. increased earnings. While previous studies must rely on increased retained earnings as the mechanism behind capital management, those studies frequently cannot differentiate between earnings- and capital-related incentives. Furthermore, we document stronger capital management activities for banks with weaker market discipline, and less incentive based compensation. Tracking the underlying managerial incentive is important for standard-setters and regulatory authorities in their striving toward a sound regulatory framework. Furthermore, analysts and researchers should account for distorted reporting items when analyzing banks.

Charles Boissel (HEC Paris, France)

“Can Big Players Affect Aggregate Lending? Evidence From Banks Acquisitions”

ABSTRACT

The huge increase in the concentration of the US banking sector over the past three decades has led to questioning the role of the largest banks in affecting aggregate lending fluctuations. I use banks acquisitions to estimate the share of US aggregate lending growth that may be explained by idiosyncratic shocks to the US biggest banks. I show that following the increase in concentration and the decline in aggregate lending volatility, they gained importance in the past 20 years and can account for around 4 percents of aggregate lending growth variations over the 1990-2010 period.

Agnieszka Słomka-Golebiowska (Warsaw School of Economics, Poland)
Piotr Urbanek (University of Lodz, Poland)

“How do (if any) Uniform Corporate Governance Measures Matter for Executive Compensation Practice at Closely-held Banks?”

ABSTRACT

The aim of this paper is to examine the executive compensation practices in closely-held financial institutions where the corporate governance conflict lies between the blockholder on one hand and minority shareholders and depositors on the other. We study the determinants of the level of bank’s executive compensation based on the example of Poland. In particular, we investigate the impact of corporate governance measures on the level of executive compensation. We find that most of the corporate governance measures are related to the level of executives’ compensation, among them board independence and ownership concentration. We show that origin of the bank’s parent company matters as banks tend to rely on the corporate governance standards from the home country of the financial conglomerate. Our findings also reveal that the executive’s characteristics determine to a large extent the executive pay at banks which calls for improvement the internal corporate governance practices.
PARALLEL SESSION B2
RISK PREMIA AND IMPERFECTIONS

Chairman: Bertinetti G.
Dan Galai (The Hebrew University of Jerusalem, Israel)
Haim Levy (Ben Gurion University, Israel)
Ben Schreiber (Bank of Israel, Israel)
“Volatility-Decay Risk Premia”

Discussant: Gemmil G.

ABSTRACT
We estimate post-jump volatility-decay risk premia as the predictable difference between periods of high and low diffusive volatility. By constructing straddle portfolios after positive and negative jumps occur, we show that the gains that these hedged options’ portfolios yield compensate investors for the uncertain magnitude and duration of volatility decay, as well as for vega exposure. This paper adds to the literature by distinguishing between the premia after positive versus negative jumps, and by exploring premia patterns over time. In particular, we find that GARCH(1,1) is an inefficient identifier of jumps, and show that Hampel [1971] is a superior procedure.

Huishou Huang (University of Glasgow, UK)
Ronald MacDonald (University of Glasgow, UK)
Yang Zhao (University of Glasgow, UK)
“Global Currency Misalignments, Crash Sensitivity, and Moment Risk Premia”

ABSTRACT
We show the profitability of currency carry trades can be understood from the perspective of real exchange rate misalignments. We employ copula method to measure tail sensitivity and compute moment risk premia by model-free approach using volatility risk premia as the proxy for downside insurance costs. We find notable regime-dependent behavior of currencies with respect to these two dimensions and the pay-off components of a strategy trading on skew risk premia mimic the behavior of carry trades. We further purpose a novel strategy that makes a trade-off in the time-variation of risk premia and is thereby almost immunized from risk reversals. It generates sizeable returns that cannot be explained by canonical risk factors. We also investigate currency momentum and value strategies, and reveal that the changes in global sovereign CDS spreads contribute to a major variation of the factor that captures the common dynamics of the FX strategies. A crash-averse investor is better off by allocating about 40% of the wealth to misalignment portfolio and about 35% to crash-sensitive portfolio in tranquil periods while reallocating about 85% of the portfolio holdings to downside-insurance-cost strategy during the financial turmoil.

Claudio Fontana (University of Evry, France)
Juan Miguel Montes (Ludwig Maximilian University of Munich, Germany)
“A Unified Approach to Pricing and Risk-management of Equity and Credit Risk”

We propose a unified framework for equity and credit risk modeling, where the default time is a doubly stochastic random time with intensity driven by an underlying affine factor process. This approach allows for flexible interactions between the defaultable stock price, its stochastic volatility and the default intensity, while maintaining full analytical tractability. We characterise all risk-neutral measures which preserve the affine structure of the model and show that risk management as well as pricing problems can be dealt with efficiently by shifting to suitable survival measures. As an example, we consider a jump-to-default extension of the Heston stochastic volatility model.

Robert Faff (University of Queensland, Australia)
Jerry Parwada (University of New South Wales, Australia)
Eric Tan (University of New South Wales, Australia)
“Did Bank-Related Hedge Funds Benefit from Bailouts During the Financial Crisis of 2007-2009?”

ABSTRACT
The ongoing debate about the Volcker Rule raises questions about whether banks’ connectedness to hedge funds increases the risk of shifting the banks into the federal safety net, particularly during crisis periods. We examine whether bank-related hedge funds benefited from bailout programs initiated in seven countries during the 2007-2009 financial crisis. Reduced fund liquidation probabilities followed bailouts of financial firms offering prime brokerage and custodial services to hedge funds, particularly for non-U.S. domiciled funds. However, we do not find any evidence bailouts lead to improved capital levels in bank-related hedge funds. Collectively, our evidence suggests that bailouts helped stem the propagation of contagion through information channels rather than directly through counterparty funding.
Chairman: Das S.

Wolfgang Bessler (University of Giessen, Germany)
Tom Nohel (Loyola University Chicago, USA)

Discussant: Koziol P.

**“Time-Varying Systematic and Idiosyncratic Risk Exposures of US Bank Holding Companies”**

**ABSTRACT**

We analyze the time-varying risk exposures of US bank holding companies for the period from 1986 to 2012 by decomposing total bank risk into systematic banking-industry risk, systematic market-wide risk, and unsystematic or idiosyncratic bank risk. Banking-industry risk factors are directly related to banks’ intermediation functions, while market-wide risk factors are affecting banks and industrial firms alike. Idiosyncratic bank risk relates to characteristics that are specific to an individual bank. Our empirical results suggest that credit risk is most important in crisis periods, while real estate risk emanates in the context of adverse real estate market conditions. The banks’ interest rate risk sensitivity reverses over the sample period. We provide evidence that banks’ market risk exposure can be explained by asset-wide risk factors such as liquidity, volatility, and foreign exchange risk. Analyzing individual bank risk suggests that differences in risk exposures are directly related to bank characteristics including the equity ratio, loan loss provisions, and real estate loans. In addition, individual bank risk has a strong state-level business cycle component that is not captured by the systematic banking-industry and market-wide risk factors. Our results are robust to alternative risk factor specifications. Overall, our study contributes to understanding the structure and time-variation of banks' systematic and idiosyncratic risks.

Francesco Giuliani (University of Bologna, Italy)

“Risk Management and Capital Structure Testing with Respect to Systemic Risk”

**ABSTRACT**

Systemic risk is the protagonist of the recent financial crisis. This paper proposes a definition and a propagation mechanism for systemic risk. Risk management has a direct linkage with capital management, when addressing the question that the risk handled by a financial institution is compatible with the amount of equity available. This paper proposes a risk management of liquid market variables, which compose the assets of a bank, based on the statistical tool of PCA. The principal component analysis will define the PCR, or Principal Components of Risk. Such definition of Risk will be adopted to test if the risk represented by PCR is explanatory of the movements of equity and/or debt for the banks included in the index Itraxx financial senior: the results of these regressions will be compared with a formal Capital Adequacy test in order to assess the financial soundness of the main financial European institutions.

Hasan Sabzevarri (Lund University, Sweden)
Farrukh Javed (Lund University, Sweden)

“Estimation of Systemic Risk in the European Banking System”

**ABSTRACT**

This paper is an attempt to measure the systemic risk contributions of the PIIGS (i.e. Portugal, Ireland, Italy, Greece, and Spain) countries’ banks on the rest of major European countries’ banking system. We use Conditional Value-at-Risk (CoVaR) as a co-movement measure to calculate systemic risk. We employ two methods, quantile regression and Dynamic Conditional Correlation (DCC), in order to empirically calculate this risk measure. These methods show a significant spillover risk of the PIIGS’ banking system on the European countries’ banking industry. In addition to CoVaR, in this study we also measure the individual risk of each country independently by VaR. Amongst a variety of the estimated VaR measures, we choose the one with better performance gauged by backtesting methodologies. A comparison of these two measures, CoVaR and VaR, shows that there is no one-to-one relation between the measures estimated by DCC(1,1), but a significant relation between the measures when CoVaR estimated by quantile regression. Finally, we examine the CoVaR measure for two periods, before and during the 2007-2008 financial crisis. Our results indicate larger systemic risk in the second time period (during the recent crisis), since that period has a larger volatility and also the main European countries’ banking indices have higher correlations with PIIGS’ banking index.

Xisong Jin (University of Luxembourg)
Francisco Nadal De Simone (Central Bank of Luxembourg)

“Tracking Changes in the Intensity of Financial Sector’s Systemic Risk”

**ABSTRACT**

This study uses a novel framework which combines marginal probabilities of default estimated from a structural credit risk model with the consistent information multivariate density optimization (CIMDO) methodology and the generalized dynamic factor model (GDFM) supplemented by a dynamic t-copula. The financial sector comprises the banking and the investment fund industries. The framework models the financial sector components’ default dependence explicitly and captures the time-varying non-linearities and feedback effects typical of financial markets. It measures financial sector’s systemic credit risk in the three forms categorized by the European Central Bank: (1) credit risk common to the financial sector; (2) credit risk in the financial sector conditional on distress on a specific financial institution or combination of financial institutions and; (3) the buildup of banking system vulnerabilities over time which may unravel disorderly. In addition, the estimates of the common components of the financial sector’s default measures and the identification of their drivers is useful for helping to make macroprudential policy operational.
PARALLEL SESSION B4
SOVEREIGN CREDIT RISK

Chairman: Rijken H.
Thorsten Lehnert (Luxembourg School of Finance)
Christian Wolff (University of Luxembourg)
Xisong Jin (University of Luxembourg)
Lamia Bekkour (University of Luxembourg)
Fanou Rasmouki (University of Luxembourg)
“Euro at Risk: The Impact of Member Countries’ Credit Risk on the Stability of the Common Currency”
Discussant: Rijken H.

ABSTRACT
In this paper, we empirically investigate the impact of the credit risk of Eurozone member countries on the stability of the Euro. In practice, in the absence of eurobonds, euro-area credit risk is induced through the credit default swaps of the member countries. The stability of the euro is examined by decomposing dollar-euro exchange rate options into the moments of the risk-neutral distribution. We argue that sovereign capital structure arbitrage ensures that new information on sovereign distress risk affects the currency. In particular, we document that during the sovereign debt crisis changes in the creditworthiness of member countries have significant impact on the stability of the euro. An increase in member countries’ credit risk results in an increase of volatility of the dollar-euro exchange rate along with soaring tail risk induced through the risk-neutral kurtosis. We find that member countries’ credit risk is a major determinant of the euro crash risk as measured by the risk-neutral skewness. We propose a new indicator for currency stability by combining the risk-neutral moments into an aggregated risk measure and show that our results are robust to this change in measure. During the sovereign debt crisis, the creditworthiness of countries with vulnerable fiscal positions is typically the main risk-endangering factor of the euro-stability. Interestingly, however, the market perceives Greece not to be ‘systemically relevant’.

Grégoire Guilmin (University of Namur, Belgium)
“Economic Policy Uncertainty and Risk Spillovers in the Eurozone”

ABSTRACT
This paper contributes to the Eurozone debt-crisis literature by analyzing the role of economic policy uncertainty (EPU) on risk spillovers. Our two-step estimation procedure first applies the DeltaCoVaR approach developed in Adrian and Brunnermeier (2011) on data over 10 EMU countries between Q4/2008 and Q2/2013 to estimate the extent to which distress within one country affects risk at the Eurozone level. Second the DeltaCoVaR - our risk spillover measure - is regressed on EPU indices proposed by Baker et al. (2013). Our empirical results reveal that EPU, especially in Germany and Spain, plays a major role in the transmission of risk.

Mascia Bedendo (Bocconi University, Italy)
Paolo Colla (Bocconi University, Italy)
“Sovereign and Corporate Credit Risk: Evidence from the Eurozone”

ABSTRACT
We study the impact of sovereign risk on the credit risk of the non-financial sector in the Eurozone using credit default swap data. We show that an increase in sovereign risk is associated with a statistically and economically significant increase in corporate credit risk and firms’ borrowing costs. A deterioration in a country’s credit quality affects more adversely firms that are likely to benefit from government aid, those whose sales are concentrated in the domestic market, and those that rely heavily on bank financing. Our findings suggest that government guarantees, domestic demand, and credit markets are important risk transmission mechanisms.
PARALLEL SESSION B5
BOND DEFAULT AND BANK CAPITAL STRUCTURE

Chairman: Kalotay E.
Egon Kalotay (Macquarie University, Australia)
Edward Altman (New York University, USA)
“Time-Varying Forecasts of Defaulted Bond Recoveries”
Discussant: Pagano A.

ABSTRACT
We present in this paper a fast and flexible approach to modeling the conditional distribution of ultimate recoveries using mixtures of Gaussian distributions. We compare the predictive performance of our approach to that of parametric regression models and non-parametric regression trees using k-fold cross-validation, as well as out-of-time testing, thus accounting for the observability of data at the time of forecasting. While k-fold cross-validation is commonly applied in recent comparisons of recovery modeling approaches, we find that out-of-time tests yield quite a different view of models’ forecasting performance. We show that while regression trees dominate tests based on k-fold cross-validation, semi-parametric mixture models and parametric regressions outperform regression trees in forecasting recoveries on portfolios of defaulted bonds where there is no overlap between the timing of the data used for estimation and testing. These findings indicate potentially important differences between model performance inferred from cross-validation and model performance likely to be observed in practical applications. We also show that bootstrap aggregation (“bagging”) of both mixture models and regression trees generally reduces out-of-time forecast errors.

Eugen Töws (University of Cologne, Germany)
“The Impact of Debtor Recovery on Loss Given Default”

ABSTRACT
This study analyzes the contract portfolios of three major German leasing companies containing 42,575 defaulted leasing contracts. Constructing a two-step model to estimating the loss given default (LGD) of these contracts, we find that the recovery of defaulted contracts has a significant influence on the level of the LGD. While the LGD of recovered contracts is substantially lower than that of written-off contracts, accounting for these default ends increases the explanatory power of LGD variation significantly. Especially for lenders with a significant rate of recovered contracts, the accuracy of LGD estimation can be improved. A series of classification tree algorithms is used to predict the recovery of the defaulted contracts. We find that random forest (RF) outperforms all other methods used in this study, such as C5.0, J4.8, and logistic regression, in predicting the recovery in the in-sample, out-of-sample and out-of-time estimation. The benefit of the estimated contract recovery to the prediction of LGD then mostly depends on the accuracy of the classification models, the availability of contract information, and the size of the data set. Using direct linear regression as benchmark to estimating the LGD, again the RF model yields the highest explanatory power of LGD variation. We validate the models both out-of-sample and out-of-time, which is decisive for determining the models’ generalization capability. Out-of-time even RF may reach its limits given the available set of contract information.

Alix Andrès (University of St.Gallen, Switzerland)
Martin Brown (University of St.Gallen, Switzerland)
“Credit Booms And Busts In Emerging Markets: The Role Of Bank Governance And Regulation”

ABSTRACT
We investigate whether corporate governance mechanisms, risk management and board structure, are associated with a better bank performance during the financial crisis of 2007/2008 and how differences in governance and other characteristics across banks interact with regulation to affect bank risk-taking in the pre-crisis period and performance during crisis.

Wim Schoutens (KU Leuven, Belgium)
Monika Forys (KU Leuven, Belgium)
Ine Marquet (KU Leuven, Belgium)
Jan De Spiegeleer (Jabre Capital Partners, Switzerland)
“The Impact of Skew on the Pricing of CoCo Bonds”

ABSTRACT
This paper presents a Heston-based pricing model for contingent convertible bonds (CoCos). The main finding is that skew in the implied volatility surface has a significant impact on the CoCo price. Hence stochastic volatility models, like the Heston model, which incorporate smile and skew are appropriate in the context of pricing CoCos. CoCos are hybrid financial instruments that convert into equity or suffer a write-down of the face value upon the appearance of a trigger event, often in terms of the bank’s CET1 level in combination with a regulatory trigger. The valuation of CoCos boils down to the quantification of the trigger probability and the expected loss suffered by the investors if such a trigger event eventually takes place. There are at least two schools of thought regarding valuation of CoCos. Structural models can be put at work or investors can rely on market implied models. The latter category uses market data (share prices, CDS levels and implied volatility, ...) in order to calculate the theoretical price of a CoCo bond. In De Spiegeleer & Schoutens (2012a), the pricing of CoCo notes has been worked out in a market implied Black-Scholes context. In this paper we move away from the assumption of a constant volatility which is the back-bone of Black-Scholes based valuation and put the Heston model at work and study CoCos in a stochastic volatility context. The existence of a semi closed-form formula for European options pricing under the Heston model allows for a fast calibration of the model. In our approach we combined market quotes of listed option prices with CDS data. As a case study, the procedure was applied on the Tier 2 10NC CoCo issued by Barclays in 2012.

Jan De Spiegeleer (Jabre Capital Partners, Switzerland)
Ine Marquet (KU Leuven, Belgium)
Wim Schoutens (KU Leuven, Belgium)
PARALLEL SESSION B6  
MARKET STRUCTURE AND TAXES

Chairman: Ptak-Chmielewska A.
Giovanna Nicodano (University of Turin, Italy)
Luca Regis (IMT Lucca, Italy)
“Complex Organizations, Tax Policy and Financial Stability”  
Discussant: Vuillemey G.

ABSTRACT
This paper investigates tax policy targeted to the financial stability of complex organizations. To this end, it examines the determination of leverage and dividends in a group under the traditional tax-bankruptcy trade-off, allowing for internal bail-outs. Without frictions, the subsidiary is highly levered due to the possibility of bail-outs interacting with the tax privilege. With frictions, intercorporate dividends contribute to debt shifting towards the parent, rebalancing capital structure across the organization thereby stabilizing the complex organization. Intercorporate dividend taxes (IDT) reduce optimal payout, leading to greater financial instability if capital structure returns unbalanced. Fine-tuning IDT with caps on interest deductions lowers default costs, making groups more stable than alternative organizations.

Michał Zator (Wrocław University of Economics, Poland)

ABSTRACT
We present the concept of Financial Transaction Tax (Tobin Tax, FTT) and describe its potential consequences. We analyse the relation between transaction costs and volatility of prices by presenting the empirical evidence from Warsaw Stock Exchange and exploiting the natural experiment of varying tick size. The higher tick size (and thus increased transaction costs) seems to be connected to the higher volatility. Since increased transaction costs may be a proxy for the effect of FTT, our findings may be interpreted as an evidence against the stabilizing role of the tax.

Guillaume Vuillemey (Sciences-Po, France)
Régis Breton (Bank of France)
“Endogenous Derivative Networks”

ABSTRACT
This paper proposes a network formation model of an OTC derivatives market where both prices and quantities are bilaterally negotiated. Idiosyncratic counterparty risk as well as the regulatory collateral and clearing requirements are accounted for in banks’ decisions to trade. The network of exposures, the gross and net notional amounts traded and the collateral delivered through initial and variation margins are endogenized. Conditional on regulatory requirements and on a vector of idiosyncratic bank probabilities of failure, both affecting the cost-benefit weighting of collateral, we investigate numerically the size of the derivatives network, the aggregate collateral demand and the pricing of the contracts. Three collateral schemes are analyzed: (i) various levels of collateralization for uncleared transactions, (ii) rehypothecation of received collateral and (iii) clearing through a central clearing party (CCP). Dynamic effects due to the endogeneity of the derivative network to the collateralization and clearing requirements have sizeable consequences on both contract volumes and prices. Not accounting for them in the current market conditions may lead to overestimate collateral demand induced by mandatory central clearing by up to 22%.

 ...)
PARALLEL SESSION C1
SYSTEMIC RISK AND CONTAGION

Chairman: Iwanicz-Drozdowska M.
Paola Bongini (Bicocca University of Milan, Italy)
Andrea Piccini (Bicocca University of Milan, Italy)
“Curbing the Moral Hazard of a SIFI: a Mission Impossible?”
Discussant: Iwanicz-Drozdowska M.

ABSTRACT
We investigate whether financial markets reacted to the regulatory changes implied by the publication of the list of global systemically important insurers (G-SIIs) and the new rules designed to address the too-big-to-fail problem of systemic insurers. By applying event study methodology to a sample of 44 of the world’s largest insurers, we assess whether the stock prices of G-SIIs reacted significantly and differently from those of other large insurers not deemed to be systemically important following the publication of the first list of 9 G-SIIs and the release of information regarding their new capital requirements and other policy measure. Overall, we determine that financial markets did not react to the new regulation regarding G-SIIs, confirming the results obtained in the banking sector. The new rules set for SIFIs are not being considered as capable to curb the moral hazard implications of a too-big-to-fail policy.

Philipp Koziol (Deutsche Bundesbank, Germany)
Ramona Busch (Deutsche Bundesbank, Germany)
Marc Mitrovic (Moody’s Analytics, UK)
“Many a Little Makes a Mickle: Macro Portfolio Stress Test for Small and Medium-Sized German Banks”

ABSTRACT
In this paper we develop a macroeconomic portfolio stress test that is specifically geared towards small and medium-sized banks. We combine a credit risk stress test which simulates credit impairments via a CreditMetrics type multi-factor portfolio model with an income stress test in the form of dynamic panel data regressions. Based on a stress scenario that extends experience of the financial crisis by integrating the current low interest rate environment, we analyse the stress impact on banks’ capital ratios. Our results show that savings banks and cooperative banks prove to be very resilient to macroeconomic stress, while more than 6% of our sample’s credit banks “fail” the stress test, mainly due to their lack of capitalisation. The main stress drivers prove to be credit impairments rather than other net income components.

Marcin Wolski (Warsaw School of Economics, Poland)
“Exploring Nonlinearities in Financial Systemic Risk”

ABSTRACT
We propose a new methodology of assessing the effects of individual company’s risk on other institutions and on the system as a whole. We build upon the Conditional Value-at-Risk approach, however, we introduce the explicit Granger causal linkages and we account for possible non-linearities in the financial time series. Conditional Value-at-Risk-Nonlinear Granger Causality, or NCoVaR as we call it, has regular asymptotic properties which makes it particularly appealing for practical applications. We test our approach empirically and assess the contribution of the euro area financial companies to the overall systemic risk. We find that only a few financial institutions pose a serious ex ante threat to the systemic risk, whereas, given that the system is already in trouble, there are more institutions which hamper its recovery. Moreover, we discover non-negligible nonlinear structures in the systemic risk profile of the euro zone.
ABSTRACT
We analyze the effect of bank capital, regulation and deposit insurance on the systemic risk of global banks during the period of 1999-2012. Using a comprehensive panel of large international banks, we find that higher Tier 1 capital decreases both the exposure and contribution of individual banks to systemic risk. We also show that deposit insurance schemes that require banks and depositors to bear more financial risk are associated with a more pronounced vulnerability and contribution of individual banks to a crisis of the financial sector. Further results show that bank size and interconnectedness are positively related to financial fragility. In contrast, we find no convincing evidence that a bank’s supervisory environment or non-interest income significantly influence a bank’s exposure or contribution to systemic risk.

Gunther Wuyts (KU Leuven, Belgium)
Reina Renard (KU Leuven, Belgium)

“Ambiguity vs Risk Aversion, Participation, and Interbank Market Stress”

We develop a theoretical interbank market (IBM) model which explains a number of key facts observed during financial crises: a sudden and significant increase in IBM rates, reduced participation by lending banks, liquidity shortages (i.e. the lenders’ supply being smaller than the borrowing banks’ demand), and ultimately an IBM freeze. A crucial element is a bank’s ability to assess risk correctly. Our model’s core feature is the distinction between ambiguity averse and risk averse lending banks. While the latter have unique priors concerning the default probabilities of borrowers in the IBM and the associated costs, ambiguity averse lenders do not and consider a set of possible priors. Our key insight is that ambiguity and risk differentially affect a bank’s decision to participate as a lender in the IBM. Moreover, at a given rate, the ambiguity averse lenders supply less interbank loans than the risk averse ones. Deciding on the optimal lending amount results in a unique IBM equilibrium which is either a full participating equilibrium in which all lenders participate, or a partial participating equilibrium where only an optimal lending amount results in a unique IBM equilibrium which is either a full participating equilibrium in which all lenders participate, or a partial participating equilibrium where only the risk averse lenders do. By incorporating the two types of aversion in a model, we are able to determine that an ambiguous shock (as at the start of a crisis) leads to a sudden spike in IBM rates, liquidity shortages, and a market freeze. This ambiguity effect is more direct and stronger compared to a shock in risk. Finally, we discuss the (in)effectiveness of different government policies in supporting the IBM.

Benjamin Guin (University of St.Gallen, Switzerland)
Martin Brown (University of St.Gallen, Switzerland)
Stefan Morkoetter (University of St.Gallen, Switzerland)

“Switching Costs, Deposit Insurance and Deposit Withdrawals from Distressed Banks”

We study deposit withdrawals by retail customers of two large Swiss banks after these banks incurred substantial investment losses in the wake of the U.S. subprime crisis. Our analysis is based on survey data providing information on all bank relations of 1,475 households and documenting their reallocation of deposits in 2008-2009. We find that households are 16 percentage points more likely to withdraw deposits from a distressed bank than from a non-distressed bank. The propensity to withdraw deposits from a distressed bank is substantially reduced by household-level switching costs: Households which rely on a single deposit account, which do not live close to a non-distressed bank, or which maintain a credit relationship with the distressed bank, are significantly less likely to withdraw deposits. By contrast, we find that the withdrawal of deposits from distressed banks is unrelated to household coverage by deposit insurance.

Our findings provide empirical support to the Basel III liquidity regulations which emphasize the role of well-established client relationships for the stability of bank funding.

Andrea Pagano (European Commission - Joint Research Centre, EU)
Francesca Campolongo (European Commission - Joint Research Centre, EU)
Jessica Cariboni (European Commission - Joint Research Centre, EU)
Nathalie Ndacyayisenga (European Commission - Joint Research Centre, EU)

“Targeting Banks’ Structural Reform”

Strengthening financial stability through the separation of risky trading activities from more customer-oriented activities is the core objective of banks’ structural reforms. These reforms, which have been at the core of the policy discussion in recent times in Europe, are usually targeting very large and complex banking groups which offer a very diversified set of services. This paper investigates some of the proposed and discussed metrics (e.g. HLEG, Commission and OECD), all based on banks’ balance sheet information, which are indeed used to identify those institutions which should be considered for structural separation. We illustrate and compare different metrics using a sample of about EU listed banks, scanning the period 2008-2012, whose scope is to measure, in absolute and relative terms, banks’ involvement in risky activities associated to trading. Via robust clustering techniques, we set thresholds (hard and soft) which can be used for screening whose banks may be proposed for structural separation. Results show that alternative definitions broadly identify similar clusters and the list of banks does not vary significantly. We also discuss the introduction of a grey-zone around the proposed thresholds, which allows taking into account the changes in the activities that banks may implement. Further, we investigate the use of an alternative metric more related to bank’s business model than to the size of its trading activities. The business model metric is strictly related to the notion of Distance to Default. More precisely, it is built using the factors, from banks’ balance sheet variables, which are found to be the most significant to estimate the Distance to Defaults. Due to the complementary information arising from these two different banks’ risk measures, we propose to couple one metric assessing the bank’s involvement in trading with the metric associated to bank’s business model.
PARALLEL SESSION C3
EMPIRICAL ASSET PRICING

Chairman: Galai D.

Miriam Marra (ICMA Centre - Reading University, UK)
Gordon Gammill (Warwick Business School, UK)

“Explaining CDS Prices Before and After the Lehman Default with a Simple Structural Model”
ABSTRACT
Discussant: Gupta A.

We examine what determines CDS prices over 2005-2012. To do this, we calibrate Merton’s model in a novel way that allows for deviations from lognormality. The model works well in cross-section and time-series, both within and out-of-sample. It confirms that systematic equity volatility is the major determinant of CDS prices. Before the Lehman default, all firms have CDS prices that are close to those set by the model (with small variations due to illiquidity and earnings-uncertainty). After the default, some firms continue to have CDS prices at model-predicted levels, but others are now more strongly influenced by idiosyncratic factors and have much higher prices.

Quanzi Zhang (HEC-Lausanne)
Eric Jondeau (Swiss Finance Institute and University of Lausanne, Switzerland)

“Asymmetric Beta Comovement”
ABSTRACT

In this paper, we study the comovements among downside betas as well as upside betas. We find that the asymmetry between downside-beta comovement and upside-beta comovement negatively predicts future market return. Furthermore, this asymmetry is identified as the main driving force for market level skewness. An indicator called “Systematic Downside Risk” (SDR) is created to characterize this asymmetry in the comovement of betas. We find that SDR can effectively forecast future stock market movements and we obtain out-of-sample R-squares (compared with a strategy using historical mean) of more than 2.272% with monthly data. An investor who timed the market using SDR would have had a Sharpe ratio gain of 0.206.

Aparna Gupta (Rensselaer Polytechnic Institute, USA)

“Explanatory Co-movement in Asset Prices with Minimal Dependence Structures”
ABSTRACT

In this paper, we build on the minimum spanning tree (MST) literature developing a layered MST that uses a multi-factor model to explain the dynamic dependencies among elements using systematically and idiosyncratic components of asset prices. This framework proves to be flexible with changes in the underlying data and the choice of factors for the investigation. We show applications of our framework in different contexts and observe that the methodology is helpful in understanding the change of the interdependencies among entities in a data-set. Using this approach we are able to demonstrate dramatic changes in the topology of asset prices networks during critical moments of the recent financial crisis.

Nikolaos Artavanis (University of Massachusetts Amherst, USA)

“On the Estimation of Systematic Downside Risk”
ABSTRACT

This paper discusses the appropriate methodology for the estimation of systematic downside risk. I find that the Hogan & Warren (1974) approach is the only one of several specifications of downside beta, that is consistent with both the original downside risk framework, as defined by Markowitz (1959), and state-preference theory. Empirically, the HW downside beta dominates both its unconditional counterpart and the alternative specifications of downside beta, suggesting that the role of downside risk has been greatly underestimated in the past literature. Additionally, as opposed to unconditional beta, HW downside beta (i) predicts significantly larger slopes and non-significant intercepts in portfolio cross-sectional tests that are consistent with theory and (ii) is not subsumed by size and changes in market value of equity, that drive the priced component of book-to-market (Gerakos & Linnainmaa (2012)). The results indicate that downside beta has increased ability in capturing distress risk, which can account for its superior empirical performance.

PARALLEL SESSION C4
RISK TAKING BEHAVIOR IN FINANCIAL INSTITUTIONS

Chairman: Szela A.

Bálint Horváth (Tilburg University, The Netherlands)

“The Impact of Taxation on Bank Leverage and Asset Risk”
ABSTRACT

Discussant: Fiordelisi F.

This paper investigates capital, risk and liquidity decisions of the U.S. commercial banks during the period from 2001 till 2009. We extend the simultaneous equation model with partial adjustment introduced by Shriives and Dahl (1992) and examine a relationship between bank liquidity, capital and risk adjustments in the presence of securitization. Our research empirically verifies the theoretical predictions of Repullo (2005). Our results indicate that banks simultaneously coordinate short-term adjustments in capital, risk and liquidity. We show that during the pre-crisis period short-term adjustments in bank capital inversely affect short-term adjustments in bank risk and vice versa. During the financial crisis, lower risk implies higher capital, however higher capital induces more risk-taking. We provide some tentative explanations for this change in sign. Next, we find a significant, negative and bidirectional relation between bank risk and liquidity adjustments. Finally, we also establish that banks increase liquidity ratios when their capital adjustment is lower during the crisis, showing that banks faced difficulties changing capital, liquidity and risk in the regular and distress times. Rates of liquidity and risk adjustment are mostly higher during the crisis, indicating that banks were inclined to reach desired levels of liquidity and risk much faster during the crisis than in the pre-crisis period. While the rates of capital adjustment are lower during the crisis, showing that banks faced difficulties changing capital ratios to desired levels during the financial turmoil. Our results emphasize that it is critical to incorporate the liquidity ratios, in addition to capital requirements, into the banking regulations.

Natalya Martynova (University of Amsterdam, The Netherlands)

“Internal Asset Transfers and Risk Taking in Financial Conglomerates”
ABSTRACT

This paper studies the effect of securitization in financial conglomerates on their risk choice, and compares it with the choice of standalone banks. Loan sales in conglomerates avoid information asymmetry, which enables conglomerate banks to shift worse loan risk to the deposit insurance by selling their best loans to the affiliates. However, such a value transfer induces a better asset monitoring by conglomerates enhancing their asset value. Under low capital requirements, conglomerate banks may be safer than standalone banks due to higher monitoring incentives. The model predicts to Vicker’s proposal of the UK structural reform showing that higher bank capital requirements alone may not offset conglomerate banks’ risk shifting incentives.
This paper develops a novel early-warning signal model for European listed and non-listed banks to study the ability of the measures introduced or improved by Basel III to predict bank distress. Basel III framework has introduced a number of important changes in the sphere of bank regulation. Among others, it updated the existing capital regulation, both in terms of capital and risk coverage, and introduced two new funding liquidity ratios. One of the main assumptions underlying these changes is that the levels of the capital and liquidity ratios positively correlate with the level of bank financial health. This paper empirically investigates the validity of this assumption by testing the additive ability of the new Basel III ratios to predict distress events of European banks during the 2007-2012 period. We find that Basel III measures as a whole have only a small incremental out-of-sample contribution in discriminating between distressed and non-distressed banks, once we control for other traditionally used CAMEL and macroeconomic variables. We do find, however, that liquidity coverage ratio and risk weighted assets display a marginally significant association with bank distress. We also find that a high fraction of intangible assets in bank capital corresponds with higher vulnerability to distress. Finally, we propose a novel accounting-based distance-to-default measure, constructed via the application of Bayesian Model Averaging, which outperforms all existing CAMELS and Basel measures in predicting bank distress, both in-sample and out-of-sample.

**ABSTRACT**

This paper provides evidence that tails in the distribution of macroeconomic forecasts are time-varying. We estimate Value-at-Risk of output using quantile regressions and find that the shape of the distribution of output evolves over time and not only its location and its dispersion. Moreover, financial intermediation stress has a significantly stronger elasticity with real activity at the lower tail of the distribution. This information is quite valuable to policy makers in a financial crisis environment.

**Chairman:** Maillet B.

**Discussant:** Schreiber B.

**ABSTRACT**

This paper investigates the extent to which tail risk, originating in the financial sector and impacting to the stock returns of real economy firms, depends on the corporate cash holdings as well as of their financing conditions. Empirical evidence, based on an extensive database containing financial information on 4320 non-financial firms located in 16 European countries from 2003 to 2011, suggests the existence of strong tail risk spillovers in the case of firms located in the Euro-periphery countries. These spillovers are relevant in the case of firms located in the Euro-core countries. The tail risk spillovers are weakest in the case of firms located in France, Netherlands, and UK, especially in periods of credit restrictions.

**Chairman:** Maillet B.

**ABSTRACT**

Most of the performance measures proposed in the financial and academic literature are subject to be gamed in an active management framework (Goetzmann et al., 2007). One of the main reasons of this drawback is due to an incomplete characterization by these measures of studied return distributions. We introduce a new flexible Generalized Utility-based N-moment measure of performance (GUN, in short), characterizing the whole return distribution, which is hardly gambleable. More precisely, it takes into account the first four moments of the return distribution and the associated sensitivities of a representative investor, reflecting his preferences and risk profile. The new performance measure is also well adapted for analyzing performance of hedge funds and more generally for evaluating fund performance. It could also serve as the basis of the detection of fraudulent funds as illustrated with the case of the Madoff’s fraud.

**Chairman:** Maillet B.

**Discussant:** Schreiber B.
Marcin Chlebus (Warsaw School of Economics, Poland)
“One-Day Prediction Of State Of Turbulence For Portfolio. Models For Binary Dependent Variable”
ABSTRACT
This paper proposes an approach to predict states (states of tranquillity and turbulence) for a current portfolio (an asset) in a one-day horizon. The prediction is made using 3 different models for a binary variable (LOGIT, PROBIT, CLOGLOG), 4 definitions of a dependent variable (1%, 5%, 10%, 20% of worst realization of returns), 3 sets of independent variables (untransformed data, PCA analysis and factor analysis). Additionally an optimal cut-off point analysis is performed. The evaluation of the models was based on the LR test, Hosmer-Lemeshow test, GINI coefficient analysis and KROC criterion based on the ROC curve.
Six combinations of assumptions have been chosen as appropriate (any model for a binary variable, the dependent variable defined as 5% or 10% of worst realization of returns, untransformed data, 5% or 10% cut-off point respectively). Models built on these assumptions meet all the formal requirements and have a high predictive and discriminant ability. Forecasting the state of turbulence can support the process of risk management in financial institutions, for example, by generating a trigger which imposes stricter control processes or increases the capital buffer. These models may also be included in the measurement of market risk in a financial institution. The ability to identify the state of the portfolio can help to measure independently the level of risk in a state of tranquillity and a state of turbulence, which can make the measurement more accurate.
**POSTER SESSION ABSTRACT**

**Idiosyncratic Risk and the Cross-section of Stock Returns: The Role of Mean-Reverting Idiosyncratic Volatility**

**ABSTRACT**

Whether idiosyncratic risk has correlation with cross-section of stock returns has been debated since 1980s. While some studies find no significant evidence on the significance of idiosyncratic risk in explaining the cross-section, other report positive correlations, and yet other studies document puzzling significant negative correlation. This paper argues that idiosyncratic risk is positively correlated with expected returns when short-run forecast is distinguished from the mean-reverting volatility. The latter enters investors’ decision problem through the forecasts of end-of-period expected volatility as it affects end-of-period prices. We employ a data set comprising 6478 securities listed at NYSE, AMEX and NASDAQ as spanning the period from January 1960 until March 2013. We compare the accuracy of four different idiosyncratic volatility proxies based on Mincer-Zarnowitz regressions. We find that the most accurate forecasts are those from ARMA(1,1) and lagged historical volatility, yet they are not robust predictors of the cross-section, based on Fama-Macbeth regressions with individual assets. On the other hand, the mean-reverting level of volatility is found to be a robust predictor of the cross-section after controlling for beta, size, book-to-market, momentum, return reversals, liquidity, market and volatility regime. Furthermore, we document a robust negative correlation between the deviations of volatility from its mean and the excess return. Our results suggest that both long-term and short-term effects play a part in explaining the cross-section of returns.

**Aneta Ptak-Chmielewska (Warsaw School of Economics, Poland)**

**Anna Matuszyk (Warsaw School of Economics, Poland)**

"**Default Prediction Models for SMEs using Discriminant and Survival Analysis, Evidence from Polish Market**"**

**ABSTRACT**

Credit risk associated with the banking activity and is the most important type of the risk to which banks are being exposed. The traditional approach to the credit risk assessment is based on models using the discriminant analysis and logistic regression. However, the requirements for the models are changing. Nowadays, methods used in the banking sector are insufficient and banks are looking for newer and more sophisticated techniques in the credit risk assessment process. One of such methods is survival analysis, the popularity of which has increased in recent years. The study was carried out in order to provide the new insights into the credit risk and its management methods. The aim was to compare the new technique (survival analysis) used in the credit models with the traditional one (discriminant analysis), analyse the strengths and weaknesses of both methods and their usage in practice. This study attempts to use macroeconomic data to build models and examine its impact to the prediction. For this purpose, a number of models was built on the basis of the Polish SMEs (turnover above 2 million Euro) using the data set consisting of 1347 enterprises including 494 defaults. The time range was 2002–2010 FS (2004–2012 for defaults history), so the whole economic cycle was available.

**Piotr Fiszeder (Nicolaus Copernicus University, Poland)**

**Grzegorz Perczak (Nicolaus Copernicus University, Poland)**

"**Low and High Prices Can Improve Volatility Forecasts Based on the GARCH Model in the Turmoil Period**"**

**ABSTRACT**

The paper includes the modification of the GARCH model, which is formulated and its parameters are estimated on the basis of not only closing prices but also of information about daily minimum and maximum prices. It has been shown in an empirical application for the Polish stock index WIG20 that the use of low and high prices in the derivation of the likelihood function of the GARCH model can improve volatility estimation prices. It has been shown in an empirical application for the Polish stock index WIG20 that the use of low and high prices in the derivation of the likelihood function of the GARCH model can improve volatility estimation.

**ABSTRACT**

The impact of bank competition on financial stability remains debatable among academics and policymakers alike (Beck, De Jonghe, & Schepens, 2013). The aim of this study is to develop a banking competition financial stability model that will identify significant indicators for individual bank and market financial stability. Previous empirical studies (e.g., Beck et al., 2013; Berger & Klapper, 2009; Fu, Lin, & Molyneux, 2014; Mirzaei, Moore, & Liu, 2013) have assessed international banking sectors to ascertain if the Competition-Stability or Competition-Fragility view holds, with contrasting results. The proposed models’ intention is to enhance current models, especially in a liquidity context by using multiple regression on a broader transnational dataset using the Global Systemically Important Banks as a benchmark. Dummy variables (such as categorized under the Basel III’s (subject) will be incorporated into the proposed model to investigate whether banks under different regulatory frameworks face dissimilar systemic risk levels. This research will contribute to the market competition and financial stability debate and may have policy implementations.

**Stefano Olgiati (University of Bergamo, Italy)**

**Alessandro Danovi (University of Bergamo, Italy)**

**Gilberto Bronzini (Studio Danovi, Italy)**

"**The Italian Crisis and Producer Households Debt: a Source of Stability? A Reproducible Research**"**

**ABSTRACT**

The European Credit Research Institute Research Report 2013 identifies Households debt "rapid increase and abrupt retrenchment" among the causes of macroeconomic instability in the European Union after 2008. In our research: i) we accessed the Bank of Italy Online Statistical Database on Customers and Risk for Producer Households (PH–SETCON 7010) and Non-Financial Corporations (NFC– SETCON 7006) with R Swave open access statistical software, which makes our analysis freely reproducible by other researchers; ii) we subset the Eurozone credit sector into the Bank of Italy sub-sectors Households and Producer Households, which are market producing entities limited to informal partnerships, de facto companies and sole proprietorships with up to five employees and iii) we tested the hypothesis of "rapid increase and abrupt retrenchment" of debt for this subset in Italy for the period 1996–2013. We found that the number of PH has grown from 27% in 1996 to 43% in 2013 of all non-financial entities reporting to the Central Credit Registrar and that PH debt has been more stable with a lower Variance Coefficient of 10.3% (14.2%) versus 13.2% (20.1%) in NFC. We also found that the time series of the ratio of debt granted to NFC (numerator) versus PH (denominator) is best described (Multiple R2 0.95) by the concavity of the 5th degree coefficient (slope -1.22; 95% CI -1.52 – -0.91) of a 5th order polynomial linear regression and by the convexity of the 2nd degree coefficient (slope 4.26; 95% CI 2.53 – 5.99) for bad debt (Multiple R2 0.47), with this concavity of debt and convexity of bad debt beginning with the Italian crisis in the second trimester of 2008. We reject the hypothesis (p < 0.01) of "rapid increase and abrupt retrenchment" of debt for the subset Producer Households during the Italian Crisis. We generate the hypothesis that this subset could represent a prospective source of stability relative to Non-Financial Corporations.

**Shann Turnbull (International Institute for self-governance, Australia)**

**Michael Pirson (Fordham University School of Business, US)**

"**Could the 2008 US Financial Crisis be Avoided with Network Governance?**"**

**ABSTRACT**

Banks failed in 2008 because individuals with knowledge of risks were not connected to individuals who had the incentive and power to take corrective action. Evidence of this problem is provided by reports from the Lehman liquidator and The Financial Crisis Inquiry Commission. Improved communications and control within and between banks, their regulators, and their stakeholders can be achieved with network governance. Lawmakers and/or regulators can introduce network governance by requiring bank shareholders to amend corporate constitutions to introduce a division of powers between boards of directors and executive officers. These decentralization regulatory architecture is how simple living creatures sustain their existence in complex, dynamic and unpredictable environments without suffering communication errors and/or overload. The natural science of control and communication identified in 1948 by Wiener explains why centralized control and communication systems are not found in nature. This science of regulatory systems explains why regulators and large financial firms fail to reliably manage, regulate or govern complexity. Examples of large network governed firms provide evidence that they obtain sustainable operating advantages over business cycles. This indicates how natural systems provide design criteria to enhance the efficacy of business operations, governance and regulation.
POSTER SESSION ABSTRACT

Jessica Cariboni (European Commission - Joint Research Centre, Italy)
Henrik Joennsson (European Commission, EU)
Laleh Kazemi Veisari (European Commission - Joint Research Centre, Italy)
Dimitrios Magos (European Commission, EU)
Evangelia Papanagiotou (European Commission - Joint Research Centre, Italy)
Christophe Planas (European Commission - Joint Research Centre, Italy)

“How to Deal with Benchmark Manipulation? A Case of the Polish Zloty Money Market”

ABSTRACT

We study the performance and behavior of Value at Risk (VaR) measures used by a number of large banks during and before the financial crisis. Alternative benchmark VaR measures, including GARCH-based measures, are also estimated directly from the banks’ trading revenues and help to explain the bank VaR performance results. While highly conservative in the pre-crisis period, bank VaR exceedances were excessive and clustered in the crisis period. All benchmark VaRs were more accurate in the pre-crisis period with GARCH-VaR measures the most accurate in the crisis period having lower exceedance rates with no exceedance clustering. Variance decompositions indicate a limited ability of the banks’ VaR methodologies to adjust to the crisis-period market conditions. Despite their weaker performance, the bank VaRs exhibited greater predictive power for a measure of realized PLN volatility than benchmark VaR measures. Benchmark Expected Shortfall measures are also considered.

Piotr Mielsl (Warsaw School of Economics, Poland)

“How to Deal with Benchmark Manipulation? A Case of the Polish Zloty Money Market”

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We study the performance and behavior of Value at Risk (VaR) measures used by a number of large banks during and before the financial crisis. Alternative benchmark VaR measures, including GARCH-based measures, are also estimated directly from the banks’ trading revenues and help to explain the bank VaR performance results. While highly conservative in the pre-crisis period, bank VaR exceedances were excessive and clustered in the crisis period. All benchmark VaRs were more accurate in the pre-crisis period with GARCH-VaR measures the most accurate in the crisis period having lower exceedance rates with no exceedance clustering. Variance decompositions indicate a limited ability of the banks’ VaR methodologies to adjust to the crisis-period market conditions. Despite their weaker performance, the bank VaRs exhibited greater predictive power for a measure of realized PLN volatility than benchmark VaR measures. Benchmark Expected Shortfall measures are also considered.

Ewa Ratuszny (Warsaw School of Economics, Poland)

“Influence of Robust Estimation on Value at Risk. Bounded Innovation Propagation and Regression Quantiles Method”

ABSTRACT

We examine volatility prediction from ARMA-GARCH-class models estimated using quasi-maximum likelihood (QML) and robust bounded innovation propagation (BIP) method, and illustrate influence of estimation method on value at risk (VaR) in presence of atypical observations. We apply Monte Carlo to compare the results, assuming several fractions of atypical observations. We explore effect of atypical observations on risk measurement for ARCH-GARCH-class models estimated with QML and robust BIP estimators, and for conditional autoregressive value-at-risk (CAYaR), based on regression quantiles.

Jakub Nowotarski (Wroclaw University of Technology, Poland)

“Computing Electricity Spot Price Prediction Intervals using Quantile Regression and Forecast Averaging”

ABSTRACT

We examine possible accuracy gains from forecast averaging in the context of interval forecasts of electricity spot prices. First, we test whether constructing empirical prediction intervals (PI) from combined electricity spot price forecasts leads to better forecasts than those obtained from individual methods. Next, we propose a novelty method for constructing PI, which utilizes the concept of quantile regression (QR) and a pool of point forecasts of individual (i.e. not combined) time series models. While the empirical PI from combined forecasts do not provide significant gains, the QR based PI are found to be more accurate than those of the best individual model (the smoothed nonparametric autoregressive model).
Gala dinner at Polonia Palace Hotel
Gala dinner will be held in the beautiful Ludwikowska ballroom in Polonia Palace Hotel. It is the pride of the hotel, ranked among Poland most elegant places since 1913. The Louis XVI-style décor underscores the grandeur of this room.

Dress code: FORMAL CASUAL

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Edward L. 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, financial, 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 Interschool 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 and NYU Stern

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 2006, 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 (Brazil), 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.

Małgorzata Iwanicz-Drozdowska
Professor of Finance, Warsaw School of Economics

Prof. Małgorzata Iwanicz-Drozdowska is a full professor of finance at Warsaw School of Economics (Poland). She graduated from Warsaw School of Economics in 1993. She has been involved for more than 20 years in the business practice. Now she is a member of the supervisory board of: Alior Bank, Insurance Guarantee Fund and European Medical Fund. She is co-operating with Gdansk Institute of Market Economy (think tank) and Warsaw Institute of Banking. She was granted a scholarship from Georgetown University, Washington, D.C. (1999) and Deutsche Stiftung fuer Internationale Rechtliche Zusammenarbeit EV (1998). She was a visiting researcher (March 2013 – New York University – Stern School of Business) and a visiting professor (February 2012 – University of Edinburgh – Napier). She is the author of more than 130 publications on banking and financial services market and participant of many research projects. Her specialization includes: financial safety net, financial stability, bank management and financial education.

Andrzej Sławinski
Professor of Economics, Warsaw School of Economics

Dr. Piotr Barbiela - Dr Marcin Kwiatowski - Dr Anna Matuszyk - Dr Piotr Mielus - Dr Aneta Ptak-Chmielewska

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Dr. Piotr Barbiela - Dr. Marcin Kwiatowski - Dr. Anna Matuszyk - Dr. Piotr Mielus - Dr. Aneta Ptak-Chmielewska

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Anna Szelagowska - professor at the Institute of Corporate Finance and Investment, College of Business Administration, Warsaw School of Economics. She is interested in banking, slow finance, housing funding and urban development. She has a Doctor of Economy degree and Bachelor of Management and Production Engineering degree. The academic teacher of the following courses: Real Estate Finance, Financial Frauds, Personal Finance Management. Editor of series books related to the contemporary banking. Author and co-author more than 100 articles concerning the finance and banking issues. "Eco-innovations in cities" project methodological coordinator.

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