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SAPIENZA
UNIVERSITÀ DI ROMA




International Risk Management Conference 2012

Fifth Edition

Global Standards for Risk Measurement, Management and Regulation



Rome, June 18th-19th, 2012
Pontificia Università Lateranense
Piazza S. Giovanni in Laterano - Roma

Brought to you by:  RBF
The Risk Rating and Finance Society

HOST INSTITUTION:

FONDO INTERBANCARIO DI TUTELA DEI DEPOSITI/Interbank Deposit Protection Fund
Via Del Plebiscito, 102 - Roma
Website: www.fitd.it/en

CONFERENCE MANAGEMENT

The Risk, Banking and Finance Society
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Email: info@irmc.eu
www.therisksociety.org
Skype: THERISKSOCIETY

Pre-event Conference management

Finanza Firenze Research Centre
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www.finanzafirenze.org

INTERNATIONAL RISK MANAGEMENT CONFERENCE 2012

“Global Standards for Risk Measurement, Management and Regulation”

After the fourth successful edition in Amsterdam, the permanent organizers (University of Florence, NYU Stern Salomon Center) together with this year's Host Institution (Italian Deposit Insurance Fund) and in collaboration with the Joint Research Centre of the European Commission, the Corporate Governance Unit of the International Finance Corporation (World Bank Group), University of Rome - La Sapienza and University of Rome - Tor Vergata and Roma Tre, would like to invite you to the Fifth edition of the International Risk Management Conference in Rome, Italy. The conference will bring together leading experts from Academia and Professionals for a two-day conference consisting of three keynote plenary sessions, three parallel sessions and 1/2-day professional workshop on “Financial Stability and Sovereign Crisis.” The conference will be held in Rome next June 18th-19th. This year the focus area is on Global Standards for Risk Measurement, Management and Regulation.

IRMC 2012 - Organizing Committees

Permanent Conference Co-Chairmen:

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

Conference Co-Organizer:

Corporate Governance Unit of the International Finance Corporation (WBG) - Maxine Garvey
European Commission, Joint Research Center - Francesca Campolongo

Host Institution: Italian Deposit Insurance Fund, Rome – FITD

Roberto Moretti, Secretary General
Riccardo De Lisa, University of Cagliari & FITD Research

Local University Partners:

University of Roma Tor Vergata - Alessandro Carretta
University of Rome Tre - Franco Fiordelisi
University of Roma La Sapienza - Giovanni Palomba

Conference Consultants:

Giorgio Bertinetti, University of Venice
Maurizio Dallochio, Bocconi University
Maurizio Fanni, University of Trieste
Herbert Rijken, VU University Amsterdam

Academic Coordination:

Oliviero Roggi, University of Florence & NYU Stern School of Business (oroggi@stern.nyu.edu)

Scientific Committee

Chairman: Menachem Brenner (New York University - Stern)

Viral Acharya	(New York University - Stern)
Edward Altman	(New York University - Stern)
Annarita Bacinello	(University of Trieste)
Giorgio Bertinetti	(University of Venice)
Marco Bigelli	(University of Bologna)
Lorenzo Caprio	(University Cattolica)
Ada Carlesi	(University of Pisa)
Alessandro Carretta	(University of Rome - Tor Vergata)
Maurizio Dallochio	(Bocconi University)
Riccardo De Lisa	(University of Cagliari)
Maurizio Fanni	(University of Trieste)
Gabriele Fiorentini	(University of Florence)
Franco Fiordelisi	(University of Rome Tre)
Marcello Galeotti	(University of Florence)
Paolo Giudici	(University of Pavia)
Elisa Luciano	(University of Turin)
Giovanni Palomba	(University of Rome La Sapienza)
Paolo Paruolo	(University of Insubria)
Loriana Pelizzon	(University of Venice)
Herbert Rijken	(VU of Amsterdam)
Andrea Resti	(Bocconi University)
Oliviero Roggi	(University of Florence)
Francesco Saita	(Bocconi University)
Win Schoutens	(Catholic University of Leuven)
Anthony Saunders	(New York University - Stern)
Marti Subrahmanyam	(New York University - Stern)
William Ziemba	(University of British Columbia)

IRMC CONFERENCE MISSION

The mission of the conference is to provide a forum for recent advances in risk management. IRMC2012 aims to present the latest research from the major schools of thought in Corporate Finance, Banking, Financial Mathematics, Financial Accounting and a diversity of new econometric approaches to Risk Management.

OUR PERSPECTIVE ON RISK

Risk is a multifactor concept to be addressed from different perspectives. The Conference's research and presentations 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 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. Risk can also be addressed from an actuarial and statistical perspective. A final research area addressed by the conference is Financial Accounting that is increasingly involved in the risk assessment process in these fields of studies.

Letter from the organizers

Welcome to the IRMC 2012 Conference. We are delighted that you have chosen to be with us and to participate in this year's discussions and events. The host institution this year is the Italian Deposit Insurance Fund (FITD) and is working closely with our permanent Coordinating Institutions: the University of Florence, NYU Stern's Salomon Center, the Joint Research Centre of the European Commission and the Corporate Governance Unit of the International Finance Corporation (World Bank Group). As is our tradition, the IRMC brings together leading experts and dedicated researchers from academic institutions all over the world and from the world's major financial and economic institutions for a series of Keynote and Featured speeches, parallel scholarly sessions and an important Practitioner Workshop and RoundTable discussion on currently relevant topics.

This year's Practitioner Professional Workshop will feature two Keynote addresses on the subject of the prospect of Financial Stability and Sovereign Crises, followed by a two Roundtables of distinguished practitioners on the same subject. This will take place over one-half day on the morning of June 19. Throughout the conference we will hear Keynote and Featured presentations from such well known and distinguished Academics and Regulators as:

Edward Altman	(NYU Stern)
Gabriel Bernardino	(EIOPA European Insurance and Occupational Pensions Authority)
Zvi Bodie	(Boston University)
Robert Engle	(NYU Stern)
Massimo Marchesi	(European Commission)
Stefano Micossi	(Assonime)
Sebastian Schich	(OECD)
Andrea Sironi	(Bocconi University)
Marti Subrahmanyam	(NYU Stern)
Clas Wihlborg	(Chapman University)

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

*Risk Regulatory Framework & Financial Safety Net
Systemic Risk
Quantitative Tools for Risk Management
Risk Management and Value
Macroeconomic risks and modeling
COCOs
Risk Management and portfolio analysis
Credit Risk & Rating
Contagion Risk
Compensation, Governance & Banking
Financial Crisis*

Finally, the FITD has organized a stimulating social event that will ensure a wonderful experience for all.

Best wishes from the Conference Coordinators:



Edward Altman
NYU Stern



Oliviero Roggi
University of Florence



Prof. Riccardo De Lisa
University of Cagliari
and FITD Research

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.

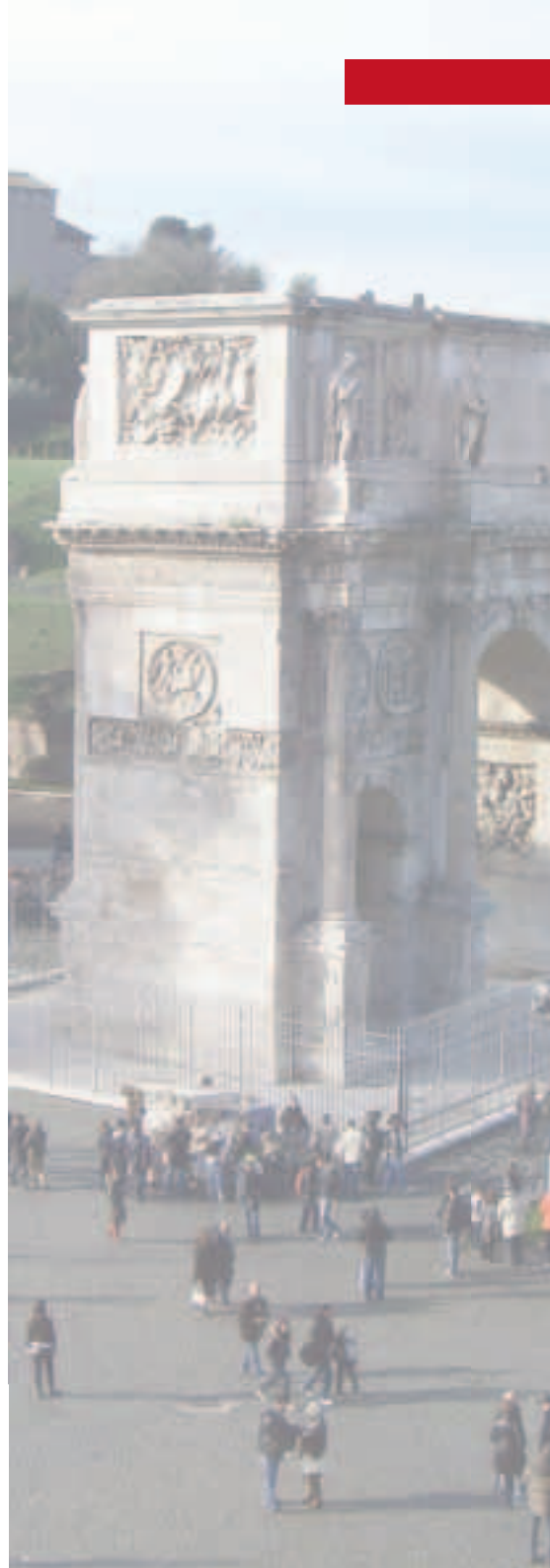
The Society invites individuals interested in understanding risks and other financial topics to join the community as “Individual Associates”. In addition to individuals, corporations and institutions may also enjoy membership of the association as “Corporate” or “Supporting Associates”. Members contribute 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



Conference Schedule Details	pag. 8
Parallel sessions schedule	pag. 10
IRMC previous edition	pag. 13
Conference keynotes bios	pag. 14
Professional Workshop	pag. 18
- Workshop keynotes bios & speech abstracts	pag. 19
- Round table discussion on Banking	pag. 21
Parallel session abstracts	pag. 22
- Parallel session A1 Risk regulatory framework & financial safety net	pag. 24
- Parallel session A2 Systemic Risk	pag. 26
- Parallel session A3 Quantitative Tools for Risk Management	pag. 28
- Parallel session A4 Risk Management and Value	pag. 30
- Parallel session B1 Macroeconomic Risks and Modeling	pag. 32
- Parallel session B2 COCOs	pag. 34
- Parallel session B3 Quantitative Tools for Risk Management	pag. 36
- Parallel session B4 Risk Management and Portfolio Analysis	pag. 38
- Parallel session B5 Credit Risk & Rating	pag. 40
- Parallel session C1 Contagion Risk	pag. 42
- Parallel session C2 Compensation, Governance & Banking	pag. 44
- Parallel session C3 Quantitative Tools for Risk Management	pag. 46
- Parallel session C4 Financial Crisis	pag. 48
- Poster session	pag. 50
Social events information	pag. 52
Conference venues	pag. 53
Conference co-organizers	pag. 54
Conference organizers	pag. 55
Conference Management and contact information	pag. 56

CONFERENCE SCHEDULE DETAILS:

MONDAY		June 18 th 2012
Time	Event	Location
08.00-09.00	Conference Registration	
09.00-10.45	Opening and plenary session (1) 9.00 Welcoming remarks FITD, Local Authorities greetings, Conference Opening Edward Altman "Predicting Default and Recovery Rates" Zvi Bodie "Integrated Wealth and Risk Management: First Principles." Q&A	Pontifical Lateran University Piazza San Giovanni in Laterano, 4
10.45-11.00	Coffee Break	
11.00-13.00	Parallel session (A)	
13.00-14.00	Lunch	
14.15-16.15	Parallel session (B)	
16.15-16.30	Coffee Break	
16.30-18.30	Plenary session (2) Robert Engle "The Dynamic Conditional Beta Model for Systematic Risk" Q&A Featured Lecture: Clas Wihlborg "Implicit Guarantees, Governance and Bank Risk-Taking through the Crisis" Q&A	
20.00	Gala Dinner	Associazione Nazionale Banche Popolari Piazza Venezia, 11 00187 Rome, Italy

CONFERENCE SCHEDULE DETAILS:

TUESDAY		June 19 th 2012
Time	Event	Location
08.45-10.20	PROFESSIONAL WORKSHOP 08.45 P. Savona , FITD Chairman, Opening 09:00 Edward Altman (NYU Stern School of Business) "Current Conditions & Outlook for Global Sovereign and Corporate Credit Markets" 09:40 Robert Engle (NYU Stern School of Business) "How Does Systemic Risk Look Today" Moderator: O. Roggi , UNIFI & NYU	
10.20-10.35	Coffee Break	
10.35-11.50	I Roundtable: Sovereign risk and financial stability Opening speech: G. Bernardino (Chairman EIOPA) D. Focarelli (Chief Economist, ANIA ESRB) M. Esentato (Managing Director, Classis Capital) M. Pierdicchi (Managing Director, Standard and Poor, Italy) S. Schich (Principal Economist, OECD) Moderator: F. Campolongo (Joint Research Centre, European Commission)	Pontifical Lateran University Piazza San Giovanni in Laterano, 4
11.50-13.00	II Roundtable: Financial stability and regulation Opening speech: S. Micossi (General Director, Assonime) M. Maccarinelli , Head of Market Risk and Financial Valuations, Risk Management Department Intesa Sanpaolo F. Carns (Director of Officer of International Affairs, FIDC) M. Marchesi (Financial Stability Unit, EU Commission) G. Niolu (KPMG) R. Di Salvo (General Director FBCC - Italian Co-operative Banks Deposit Protection Fund) Moderator: R. De Lisa (Unica & FITD)	
13.00-14.00	Lunch	
14.00-16.00	Plenary session (3) Marti Subrahmanyam "Does the Tail Wag the Dog? The Effect of Credit Default Swaps on Credit Risk" Q&A Featured Lecture: Andrea Sironi "The impact of government ownership on bank risk" Q&A	
16.00-16.15	Coffee Break	
16.15-18.30	Parallel sessions (C)	
18.30-18.45	Closing	

PARALLEL SESSIONS SCHEDULE

Area	A1. Risk Regulatory Framework & Financial Safety Net	A2. Systemic Risk	A3. Quantitative Tools for Risk Management	A4. Risk Management and Value
11.00 - 11.25	Chairman: <i>De Lisa R.</i> "Empirical Analysis of Bank Capital and New Regulatory Requirements for Risks in Trading Portfolios" Authors: <i>Jacobs M.</i> , <i>Inanoglu H.</i> , <i>Karagozoglus A. K.</i>	Chairman: <i>Schoutens W.</i> "Systematic tail risk" Authors: <i>Van Oordt M.</i> , <i>Zhou C.</i>	Chairman: <i>Barone-Adesi G.</i> "Safe Haven Assets and Investor Behaviour under Uncertainty" Authors: <i>McDermott T.</i> , <i>Baur D.</i>	Chairman: <i>Bertinetti G.</i> "The value of ERM : an empirical analysis of the Italian listed companies" Authors: <i>Cardenal C.</i> , <i>Bertinetti G.</i> , <i>Cavezzali E.</i>
11.25 - 11.50	"Investigating Alternative Safety-Net Designs" Authors: <i>Cariboni J.</i> , <i>Maccaferri S.</i> , <i>Petracco Giudici M.</i> , <i>Marchesi M.</i>	"The Role of Capital in Financial Institutions and Systemic Risk" Author: <i>Corvasce G.</i>	"A moment matching market implied calibration" Authors: <i>Cuillaume E.</i> , <i>Schoutens W.</i>	"Profitability, growth and different flow concepts implications for failing firms" Author: <i>Laitinen E. K.</i>
11.50 - 12.15	"What Matters most in the Measuring Banks' Exposure to the Interest Rate Risk in the Banking Book?" Authors: <i>Curcio D.</i> , <i>Cocozza R.</i> , <i>Gianfrancesco I.</i>	"Modeling Correlated Systemic Liquidity and Solvency Risks in a Financial Environment with Incomplete Information" Authors: <i>Barnhill J.</i> , <i>Schumacher L.</i>	"Reconciling Conflicting Evidence on Firm versus Market Skewness: A Systematic Downside Risk Approach" Author: <i>Zhang Q.</i>	"Currency risk exposure and the value of European firms" Authors: <i>Parlapiano E.</i> , <i>Alexeev V.</i>
12.15 - 12.40	"Banking on Regulation?" Authors: <i>Larsson B.</i> , <i>Wijkander H.</i>	"Identifying systemically important financial institutions: size and other determinants" Authors: <i>Moore K.</i> , <i>Zhou C.</i>	"Behavioral Finance and the Pricing Kernel Puzzle: Estimating Sentiment, Risk Aversion, and Time" Authors: <i>Barone-Adesi G.</i> , <i>Mancini L.</i> , <i>Shefrin H.</i>	"Strategic risk management and corporate value creation" Authors: <i>Andersen I.</i> , <i>Roggi O.</i>
12.40 - 13.00	"Banking PD model for EU Banks" Authors: <i>Rijken H.</i> , <i>Campolongo F.</i> , <i>De Lisa R.</i>	"FIX - The Fear Index measuring market fear" Author: <i>Fony M.</i> , <i>Dhaene J.</i> , <i>Dony J.</i> , <i>Schoutens W.</i> , <i>Linders D.</i>		

PARALLEL SESSIONS SCHEDULE

Area	B1. Macroeconomic risks and modeling	B2. COCOs	B3. Quantitative Tools for Risk Management	B4. Risk Management and portfolio analysis	B.5 Credit Risk & Rating
14.15 - 14.40	Chairman: <i>Bremmer M.</i> "Follow the money: The monetary roots of bubbles and crashes" Authors: <i>Corsi F.</i> , <i>Sornette D.</i>	Chairman: <i>Cariboni J.</i> "Steering a bank around a death spiral: Multiple trigger CoCos" Authors: <i>De Spiegeleer J.</i> , <i>Schoutens W.</i>	Chairman: <i>Luciano E.</i> "Alternative Modeling for Long Term Risk" Authors: <i>Zhao X.</i> , <i>Guegan D.</i>	Chairman: <i>Rijken H.</i> "Managing the Risks of Corporate Bond Portfolios: New Evidence in the Light of the Subprime Crisis" Authors: <i>Barone Adesi G.</i> , <i>Carriano N.</i> , <i>Dall'O H.</i>	Chairman: <i>Giudici P.</i> "Which market drives credit spreads in tranquil and crisis periods? An analysis of the contribution to price discovery of bonds, CDS, stocks and options" Authors: <i>Avino D.</i> , <i>Lazar E.</i> , <i>Vorotko S.</i>
14.40 - 15.05	"Circuit Breakers and Market Runs" Authors: <i>Draus S.</i> , <i>Van Achter M.</i>	"Coco-bonds, conversion prices and risk shifting incentives: How does the conversion ratio affect management's behaviour?" Authors: <i>Roggi O.</i> , <i>Giannozzi A.</i> , <i>Mibelli L.</i>	"On the (Mis)Use of Conditional Value-at-Risk and Spectral Risk Measures for Portfolio Selection - A Comparison with Mean-Variance Analysis" Author: <i>Brandner M.</i>	"Testing predictability of mutual fund performance" Authors: <i>Matalin-Saez J.C.</i> , <i>Tortosa-Ausina E.</i> , <i>Soler-Dominguez A.</i>	"The Time Varying Properties of Credit and Liquidity Components of CDS Spreads" Authors: <i>Vorotko S.</i> , <i>Corò F.</i> , <i>Dufour A.</i>
15.05 - 15.30	"Determinants of Households Risk" Authors: <i>Callado E.J.</i> , <i>Gonzalez N. U.</i>	"Contingent Conversion Convertible Bond: New Avenue to raise bank capital" Authors: <i>Di Cirolamo E.</i> , <i>Campolongo F.</i> , <i>De Spiegeleer J.</i> , <i>Schoutens W.</i>	"Risk Model-at-Risk" Authors: <i>Mattlet B. B.</i> , <i>Boucher C. M.</i> , <i>Danielsson J.</i> , <i>Kouontchou P. S.</i>	"The Risk measurement choice in selecting REITs: evidence from the U.S. financial institutions" Authors: <i>Mattarocci C.</i> , <i>Giannotti C.</i>	"Default Risk Estimation, Bank Credit Risk, and Corporate Governance" Authors: <i>Switzer L.</i> , <i>Wang J.</i>
15.30 - 15.55	"Interest rate trap, or: Why does the central bank keep the policy rate too low for too long time?" Authors: <i>Illing G.</i> , <i>Gao J.</i>	"Contingent-Claim-Based Expected Stock Returns" Author: <i>Chen Z.</i>	"Deleveraging can kill diversity" Authors: <i>Schoutens W.</i> , <i>Madan D.B.</i>	"Temporal Profiles of Cash Flows: implications for financial leverage" Authors: <i>Choi L.</i> , <i>Lee J.</i>	"Bayesian credit rating assessment" Authors: <i>Giudici P.</i> , <i>Cerchiello P.</i> , <i>Rocca E.</i>

PARALLEL SESSIONS SCHEDULE

Area	C1. Contagion Risk	C2. Compensation, Governance & Banking	C3. Quantitative Tools for Risk Management	C4. Financial Crises
16.15 - 16.40	<p>Chairman: <u>Subrahmanyam M.</u></p> <p>"The impact of network inhomogeneities on contagion and system stability" Authors: <u>Walther U.</u>, <u>Hübsch A.</u></p>	<p>Chairman: <u>Fiordelesi F.</u></p> <p>"Basel III and CEO compensation in banks: A new regulatory attempt after the crisis" Authors: <u>Gill A.</u>, <u>Eufinger C.</u></p>	<p>Chairman: <u>Luciano E.</u></p> <p>"Modeling and Forecasting Volatility of Energy Forwards" Authors: <u>Olesen K.V.</u>, <u>Lunde A.</u></p>	<p>Chairman: <u>Sironi A.</u></p> <p>"Active Risk Management and Financial Stability: Theory and Evidence" Author: <u>Silva Buston C.</u></p>
16.40 - 17.05				
17.05 - 17.30	<p>"Conditional probabilities and contagion measures for Euro Area sovereign default risk" Authors: <u>Schwaab B.</u>, <u>Zhang X.</u>, <u>Lucas A.</u></p>	<p>"The theoretical and practical influence of the level of compliance with corporate governance codes of practice on financial reporting - An empirical study: evidence from Australia" Authors: <u>Safari M.</u>, <u>Mirshakary S C.</u>, <u>Roth W.</u></p>	<p>"Real Estate Forward Contracts: Pricing on Italian Data." Authors: <u>Escarolo A.</u>, <u>Luciano E.</u></p>	<p>"Bank Risk-Taking and the Lender of Last Resort" Author: <u>Mink M.</u></p>
17.30 - 17.55	<p>"Liquidity commonality and risk management" Authors: <u>Weiß G.</u>, <u>Supper H.</u></p>	<p>The effect of Basel III on Italian Banking system" Authors: <u>DeMeo E.</u>, <u>Capuano C.</u>, <u>Tizzanini G.</u></p>	<p>Ratings based capital adequacy for Securitizations" Authors: <u>Lützenkirchen K.</u>, <u>Rösch D.</u>, <u>Scheule H.</u></p>	<p>Were multinational banks taking excessive risks before the recent financial crisis?" Authors: <u>Pozzolo A.E.</u>, <u>Gulamhussen M. A.</u>, <u>Pinheiro C.</u></p> <p>"The Impact of Government Interventions on CDS and Equity Markets" Authors: <u>Schweikhard F.A.</u>, <u>Tsesmelidakis Z.</u></p>

IRMC PREVIOUS EDITIONS



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

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



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

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



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

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



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

CONFERENCE KEYNOTES BIOS



CONFERENCE KEYNOTES BIOS

Edward Altman

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

Edward I. Altman is the Max L. Heine Professor of Finance at the Stern School of Business, New York University. He is the Director of Research in Credit and Debt Markets at the NYU Salomon Center for the Study of Financial Institutions. Prior to serving in his present position, Professor Altman chaired the Stern School's MBA Program for 12 years. He has been a visiting Professor at the Hautes Etudes Commerciales and Universite de Paris-Dauphine in France, at the Pontificia Catolica Universidade in Rio de Janeiro, at the Australian Graduate School of Management and MacQuarie in Sydney, University of Western Australia in Perth, Luigi Bocconi University in Milan and CEMFI in Madrid. Dr. Altman was named to the Max L. Heine endowed professorship at Stern in 1988. Dr. Altman has an international reputation as an expert on corporate bankruptcy, high yield bonds, distressed debt and credit risk analysis. He was named Laureate 1984 by the Hautes Etudes Commerciales Foundation in Paris for his accumulated works on corporate distress prediction models and procedures for firm financial rehabilitation and awarded the Graham & Dodd Scroll for 1985 by the Financial Analysts Federation for his work on Default Rates on High Yield Corporate Debt and was named "Profesor 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.



Zvi Bodie

Professor of Finance and Economics at Boston University School of Management

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



Robert Engle

Robert Engle, the Michael Armellino Professor of Management and Financial Services at New York University Stern School of Business, was awarded the 2003 Nobel Prize in Economics for his research on the concept of autoregressive conditional heteroskedasticity (ARCH). He developed this method for statistical modeling of time-varying volatility and demonstrated that these techniques accurately capture the properties of many time series. Professor Engle shared the prize with Clive W. J. Granger of the University of California at San Diego.



Professor Engle is an expert in time series analysis with a long-standing interest in the analysis of financial markets. His ARCH model and its generalizations have become indispensable tools not only for researchers, but also for analysts of financial markets. Many of these methods are now featured in the innovative public web site, V-LAB, where daily estimates of volatilities and correlations for more than a thousand assets can be found. These forecasts use both traditional and state of the art statistical methods. These computations are used in evaluating portfolio risk, asset allocation, derivative pricing and systemic risk measures now incorporated in the NYU Stern Systemic Risk Rankings. His research has produced such innovative statistical methods as cointegration, common features, autoregressive conditional duration (ACD), CAViaR, and DCC models. Now multiplicative error models (MEM) and factor spline garch (FSG) combine these into ever more powerful statistical tools. Professor Engle is the Director of the NYU Stern Volatility Institute and a co-founding president of the Society for Financial Econometrics (SoFiE), a global non-profit organization housed at NYU. Before joining NYU Stern in 2000, he was Chancellor's Associates Professor and Economics Department Chair at the University of California, San Diego and Associate Professor of Economics at MIT. He is a member of the National Academy of Science. He received his Bachelor of Science from Williams College and his MS in Physics and PhD in Economics from Cornell University. He grew up in Media, Pennsylvania, spent 25 years in San Diego and now lives in New York City.

Clas Wihlborg

Holds the Fletcher Jones Chair in International Business at the Argyros School of Business and Economics, Chapman University since January 2008.

He was Professor of Finance at the Copenhagen Business School (CBS) 2000-2007 and Director of the Center for Law, Economics and Financial Institutions at CBS (LEFIC). He was the Felix Neubergh Professor of Banking and Finance at Gothenburg University 1990-2000 after having held positions at New York University and the University of Southern California in the US. He obtained his Ph D in Economics in 1977 at Princeton University and an Honorary Doctorate at Lund University in 2009. Research and teaching activities have focused on Financial Institutions, International Finance, and Corporate Finance. Publications include numerous journal articles and books. His most recent books are Corporate Decision-making with Macroeconomic Uncertainty; Performance and Risk Management (with Lars Oxelheim) and Handbook on Research in International Banking and Governance (co-edited with James Barth and Chen Lin). He is a member of the European Shadow Financial Regulatory Committee and the Royal Swedish Academy of Engineering Sciences (IVA).



Marti Subrahmanyam

Professor of Finance, Economics and International Business



Marti G. Subrahmanyam is the Charles E. Merrill Professor of Finance, Economics and International Business in the Stern School of Business at New York University. He holds a degree in mechanical engineering from the Indian Institute of Technology, Madras, a post-graduate diploma in business administration from the Indian Institute of Management, Ahmedabad and a doctorate in finance and economics from the Massachusetts Institute of Technology. Professor Subrahmanyam has published numerous articles and books in the area of corporate finance, capital markets and international finance. He has been a visiting professor at leading academic institutions in Australia, England, France, Germany, India, Italy and Singapore, including ESSEC and INSEAD, in France, the Indian Institute of Technology, Madras, and the Indian Institute of Management, Ahmedabad, Università Guido Carli LUISS, in Rome, Italy, University of Konstanz, Germany, Singapore Management University and Churchill College, Cambridge University and the University of Melbourne.

He has served as a consultant to several corporations, industrial groups, and financial institutions in the U.S., Europe, Asia and Latin America. He has served or continues to serve on the boards of several companies, including AION Fund L.P., ICICI Bank Ltd. (NYSE:IBN), ICICI Prudential Life Insurance Co. Ltd., Infosys Technologies Ltd. (NASDAQ: INFY), Nomura Asset Management Inc, and Premier European Capital Ltd. He has served as an advisor to international and government organizations including the Securities and Exchange Board of India. He has taught extensively on executive programs in over twenty countries around the world.

Professor Subrahmanyam currently serves or has served as an Associate Editor of the European Financial Management, Journal of Banking and Finance, Journal of Business Finance and Accounting, Journal of Finance, Management Science, Journal of Derivatives, Journal of International Finance and Accounting, and Japan and the World Economy. He was the Founding Editor of an academic journal specializing in derivative securities and markets entitled Review of Derivatives Research. His research interests include valuation of corporate securities, options and futures markets, asset pricing, market microstructure, and fixed income markets. He has published several papers in these areas in many of the leading international journals in economics and finance, including Econometrica, The Quarterly Journal of Economics, Journal of Economic Theory, Journal of Finance, Journal of Financial Economics, and The Review of Financial Studies. His books include Recent Advances in Corporate Finance (Irwin, 1985) and Financial Options: From Theory to Practice (Dow Jones-Irwin, 1992).

Andrea Sironi

Professor of Banking and Finance

Andrea Sironi is Professor of Banking and Finance at Bocconi University, where he has also been Dean for International Affairs. He has previously been Dean of the Graduate School, Director of the Research Division of the School of Management (SDA) and Director of the Master in Risk Management (Marisk). Professor Sironi has held visiting positions at the Research and Statistics Department of the Federal Reserve Board of Governors, and at the Salomon Brothers Center (Stern School of Business, NYU). He is a member of the Fitch Academic Advisory Board and has previously been a financial analyst at The Chase Manhattan Bank in London. Professor Sironi research interests include Financial Risk Management and International Banking Supervision. He has published and edited many books and papers in international refereed journals on these subjects.



PROFESSIONAL WORKSHOP

SOVEREIGN RISK, FINANCIAL STABILITY AND REGULATION

Tuesday, June 19th, 2012, 08:45 - 13:00

Keynote Speaker: Edward Altman and Robert Engle

The Workshop will explore new and exciting measures for assessing systemic risk for major financial institutions on a global basis. Estimates can be made for the amount of capital that would be necessary for banking institutions to raise given a global liquidity and solvency crisis.

PROGRAM WORKSHOP

08:45 - P. Savona, FITD Chairman, Opening

09:00 - E. Altman, NYU "Current Conditions & Outlook for Global Sovereign and Corporate Credit Markets"

09:40 - R. Engle, NYU, "How Does Systemic Risk Look Today"

Moderator: O. Roggi, UNIFI & NYU

10:20 - 10:35 Coffee Break

10:35 - 11:50 I Roundtable: Sovereign risk and financial stability

Opening speech:

G. Bernardino, Chairman; EIOPA European Insurance and Occupational Pensions Authority

Invited speakers:

- D. Focarelli, Chief Economist, ANIA - Ass. Italiana Imprese Assicuratrici, ESRB - European Systemic Risk Board

- M. Esentato, Managing Director, Classis Capital

- M. Pierdicchi, Managing Director, Standard and Poor's, Italy

- S. Schich, Principal Economist, OECD

Moderator: F. Campolongo, Joint Research Centre, European Commission

11.50 - 13.00 II Roundtable: Financial stability and regulation

Opening speech:

S. Micossi, General Director; Assonime - Associazione fra le Società italiane per Azioni

Invited Speakers:

- M. Maccarinelli, Head of Market Risk and Financial Valuations,
Risk Management Department Intesa Sanpaolo

- F. Carns, Director of Officer of International Affairs, FIDC - Federal Deposit Insurance Corporation

- M. Marchesi, Financial Stability Unit, European Commission

- G. Niolu, KPMG

- R. Di Salvo, General Director (FBCC - Italian Co-operative Banks Deposit Protection Fund)

Moderator: R. De Lisa, Unica & FITD

WORKSHOP KEYNOTES BIOS & SPEECH ABSTRACTS

Paolo Savona

Emeritus Professor of Political Economy at Luiss G. Carli University and Chairman of Fondo Interbancario di Tutela dei Depositi.



Born in Cagliari in 1936, graduated *cum laude* in economics in 1961 and later pursued post-graduate studies in econometrics and monetary economics at the Massachusetts Institute of Technology (Cambridge, U.S.A.). He also carried out research at the Board of Governor's Special Research Section at the Federal Reserve in Washington, DC. He has been President of the Scientific Council of Nemetria since 1989, Scientific Counselor of the Association Guido Carli since 1996, Deputy Chairman of the Aspen Institute Italy since 1997, and Chairman of the Associazione Nazionale per l'Enciclopedia della Banca e della Borsa. He is also of Il Foglio, Rome. Paolo Savona began his career at the Bank of Italy (1963-1976) where he became Director of the Financial Market Office. He was then Managing Director of Confindustria (Confederation of Italian Industry) (1976-1983), President of the Sardinian Industrial Credit Institute (1980-1989), General Secretary for Economic Planning in the Budget Ministry (1980-1982) and Managing Director and then Chief Executive Officer of Banca Nazionale del Lavoro (1989-1990). He was President of the Fondo Interbancario per la Tutela dei Depositi (1990-1999), Chief of the Communitarian Policy Department of the Prime Minister's Office (2004-05). He was appointed for several positions in different private companies: Chairman of Impregilo, Aeroporti di Roma, Gemina, Consorzio Venezia Nuova, Unicredit Banca di Roma and Member of the Board of Directors of TIM Italia and RCS Media Group. Moreover he was (2006-11) scientific editor of the Unicredit reviews *Economia Italiana*, *Review of economic conditions in Italy* and *Journal of European economic history* he was (2009-11) head Faculty of Political Science International Relations at the University Guglielmo Marconi in Rome. He served in the Ciampi Government as Italy's Minister of Industry, Commerce and Handicraft (1993-1994). He also served as Member of the OCSE Committee on the Standardization of the Financial Statistics and of the BIS Standing Committee on Eurodollars; President of the Scientific Council on Economic Planning and President of the Nuclear Commission of Inquiry in Italy. He is co-author of the first econometric model of Italian economy M1BI and author of many publications on real, monetary and financial economy as well as methodology issues. Among his most recent publications: *Geopolitica economica. Globalizzazione, Sviluppo e Cooperazione* (2004); *Sovranità & fiducia. Principi per una nuova architettura politica globale* (con Carlo Pelanda, 2005); *Il governo dell'economia globale* (2009); *Il ritorno dello Stato padrone* (2009), la ricerca della Banca d'Italia *Sviluppo, rischio e conti con l'esterno* (con Zeno Rotondi, Riccardo De Bonis, Laterza, 2010); *Intelligence economica. Il ciclo dell'informazione nell'era della globalizzazione* (con Carlo Jean, Rubbettino, 2011); *Le radici storiche e i fondamenti logici delle considerazioni finali del Governatore Carli (nell'opera dal titolo Considerazioni finali della Banca d'Italia di Guido Carli), volume 3* (2011); *Postfazioni alla ristampa dei volumi di Paolo Baffi "Studi sulla moneta" e "Nuovi studi sulla moneta"* (2011); *Eresie, esorcismi e scelte giuste per uscire dalla crisi. Il caso Italia* (2012). He won the Association for Economic Progress' 1976 prize, the 1998 Capalbio Prize for Economics, the 1999 IDI prize for the small and medium enterprise and 1999's Pisa Prize for non-fiction for his book *Che cos'è l'economia*. In 2000 he was awarded the Cultural Prize – Special Prize in Economics by the Prime Minister, and in 2008 the Prize for International Economics of the Genoa Chamber of Commerce. In 2009 the Scanno Prize for Economics, and the VII Donato Menichella Prize for socio-economic studies, and in 2010 the Fata Morgana Prize for Economics and Finance. He is Chinese Eisenhower Fellow of Taiwan.

Edward I. Altman

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



Keynote 1: Current Conditions & Outlook for Global Sovereign and Corporate Credit Markets

We will examine the current situation for sovereign and corporate credit markets' yields and CDS spreads as well as default amounts and rates. A relatively new and revolutionary "bottom-up" approach for estimating sovereign default risk will be updated and expanded to include a more comprehensive analysis of financial institution and non-financial firms in the private sectors of relevant economies in Europe and the U.S.A. A new bank risk model will be discussed which can be used to both assess individual bank insolvency risk and also the entire banking sector for specific countries.



Robert Engle

Robert Engle, the Michael Armellino Professor of Management and Financial Services at New York University Stern School of Business, was awarded the 2003 Nobel Prize in Economics for his research on the concept of autoregressive conditional heteroskedasticity (ARCH). He developed this method for statistical modeling of time-varying volatility and demonstrated that these techniques accurately capture the properties of many time series. Professor Engle shared the prize with Clive W. J. Granger of the University of California at San Diego.



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Keynote 2: The real economy cannot function without a healthy financial sector. Risk taken by one financial institution is risk to the real economy when it is correlated with other institutions risk. A measure of systemic risk called SRISK is developed to measure this risk using publicly available data. It estimates the capital that a given financial institution would need to raise if we experience another financial crisis and is thus a measure of the contribution of this institution to the financial crisis. This measure is computed weekly for global financial institutions using state of the art econometric methods and the results are displayed at vlab.stern.nyu.edu.

PARALLEL SESSION ABSTRACTS

ROUND TABLE I DISCUSSION ON SOVEREIGN RISK AND FINANCIAL STABILITY

Moderator: F. Campolongo (Joint Research Centre, European Commission)

Opening speech:

Gabriel Bernardino *Chairman EIOPA European Insurance and Occupational Pensions Authority*

Invited speakers:

Dario Focarelli *Chief Economist ANIA - Ass. Italiana Imprese Assicuratrici, SRB European Systemic Risk Board*
Maurizio Esentato *Managing Director Classis Capital*
Maria Pierdicchi *Managing Director Standard and Poor's, Italy*
Sebastian Schich, *Principal Economist OECD*

ROUND TABLE II DISCUSSION ON FINANCIAL STABILITY AND REGULATION

Moderator: R. De Lisa (Unica & FITD)

Opening speech:

Stefano Micossi, General Director Assonime Associazione fra le Società italiane per Azioni

Invited Speakers:

Mauro Maccarinelli *Head of Market Risk and Financial Valuations, Risk Management Department Intesa Sanpaolo*
Fred Carns *Director of Officer of International Affairs, FIDC Federal Deposit Insurance Corporation*
Roberto Di Salvo *General Director (FBCC - Italian Co-operative Banks Deposit Protection Fund)*
Massimo Marchesi *Financial Stability Unit, European Commission*
Giuseppe Niolu *KPMG*



PARALLEL SESSION A1

RISK REGULATORY FRAMEWORK & FINANCIAL SAFETY NET

Chairman: *Riccardo De Lisa*

Hulusi Inanoglu (Board of Governors of the Federal Reserve System)

Michael Jacobs, Jr. (U.S. Office of the Comptroller of the Currency)

Ahmet K. Karagozoglu (Zarb School of Business, Hofstra University)

“Empirical Analysis of Bank Capital and New Regulatory Requirements for Risks in Trading Portfolios”

ABSTRACT

We examine the impact of new supervisory standards for bank trading portfolios, additional capital requirements for liquidity risk and credit risk (the Incremental Risk Charge), introduced under Basel 2.5. We estimate risk measures under alternative assumptions on portfolio dynamics (constant level of risk vs. constant positions), rating systems (through-the-cycle vs. point-in-time), for different instruments (bond and CDS indices, credit ratings and industry sectors), alternative dependency structures (alternative copula and factor models and an extension to Bayesian correlations) and varying methodologies measuring the stressed VaR under extreme market movements (including the application of extreme value theory.) We find a potentially larger increase in capital requirements above and beyond that concluded in the far-ranging impact studies conducted by the international supervisors utilizing the participation of a large sample of banks. Results indicate that capital charges are in general higher for either point-in-time ratings or constant portfolio dynamics, with this effect accentuated for financial or sovereign as compared to industrial sectors; and that regulatory is larger than economic capital for the latter, but not for the former sectors. Furthermore, we find that the new requirements may introduce added uncertainty into risk measures as compared to existing approaches.

Sara Maccaferri (European Commission, Joint Research Centre, Italy and Katholieke Universiteit Leuven, Belgium) - Marco Petracco Giudici (European Commission, Joint Research Centre, Italy) - Jessica Cariboni (European Commission, Joint Research Centre, Italy) Massimo Marchesi (European Commission, DG Internal Market and Services)

“Investigating alternative safety net designs”

ABSTRACT

The financial crisis made clear the need to re-think and redesign financial safety-nets in order to make them able to guarantee the maintenance of financial stability in the future. To reach this goal the safety-net needs to be designed in an efficient manner, not only to face individual banks' difficulties, but also to control systemic distress. To this end, a variety of new tools and approaches have been proposed in the literature and in policy circles, including strengthened Depositor Guarantee Schemes, Resolution Funds and Bail-in able bonds. In this piece of work we suggest an approach to estimate the effects of the interactions of these tools and their joint calibration by extending a micro-simulation model of the banking sector, the SYMBOL model. We show how this approach can be used to investigate the outcomes of banking sector crises under various safety-net designs, by analyzing the consequences both of different sizes of available funds and different roles for each tool. The proposed approach is very flexible and could provide a quantitative base for the debate as it could be used to evaluate the different options that may arise in the policy discussion.

Rosa Coccozza (University of Naples Federico II, Italy)

Domenico Curcio (University of Naples Federico II, Italy)

Igor Gianfrancesco (Banca Popolare di Spoleto, Italy)

“What matters most in measuring banks' exposure to the interest rate risk in the banking book?”

ABSTRACT

The objective of this research is twofold: first, to test the adequacy and the effectiveness of the regulatory framework proposed by Basel Committee on Banking Supervision (2004) in order to measure the exposure to the interest rate risk in the banking book; second,

PARALLEL SESSION A1

RISK REGULATORY FRAMEWORK & FINANCIAL SAFETY NET

consistently with the criteria defined in Basel Committee on Banking Supervision (2009), to develop a model for the treatment of non-maturity deposits, which is one of the main issues related to the method proposed by the supervisory authority and one of the most widely debated in banking risk management. Referred to a sample of small and medium Italian banks, our evidence shows that the adoption of different criteria in allotting non-maturity deposits into the time bands of the regulatory maturity ladder does affect a bank's risk exposure more than the assumptions made to map the balance sheet accounts into the time bands and the refinements in the risk indexes used to estimate banks' risk exposure. An accurate measurement of the exposure to the interest rate risk in the banking book is very important for both supervisory authorities and banks. Should the assumptions underlying the methodology proposed by the Basel Committee be not consistent with the actual term structure of banks' assets and liabilities: i) supervisory authorities would not be able to identify the so called “outlier banks” (i.e. those banks whose interest rate risk in the banking book leads to an economic value decline of more than 20% of the sum of Tier 1 and Tier 2 capital); ii) banks could calculate a measure of the economic capital to face this risk that is not consistent with the actual bank riskiness. Last but not least, this measurement error would affect the bank lending capacity, since, in the banking practice, the economic capital against the interest rate risk in the banking book is added up to the capital requirements that a bank has to set aside, based on the New Capital Accord Pillar I, thus altering the capital actually available to support the credit supply to the economy.

Bo Larsson (Department of Economics, Stockholm University)

Hans Wijkander (Department of Economics, Stockholm University)

“Banking on Regulations?”

ABSTRACT

Given the lack of credible and consistent default information for European banks it is hard to assess the creditworthiness of European banks in terms of default probability. Alternatively credit ratings, CDS pricing data and stock pricing data do provide information about banking creditworthiness. However this information is only available for relative large banking institutions. In order to assess the creditworthiness of the entire banking sector in Europe financial statements are the prime source of publicly available information. By modeling credit ratings, CDS pricing data and stock price data with accounting data we are able to obtain a proxy for a European banking model. By benchmarking this model with US banking PD models we are able to control for the influence of size.

Herbert Rijken (VU University Amsterdam)

Francesca Campolongo (European Commission Joint Research Centre)

Riccardo De Lisa (University of Cagliari & FITD Research)

Janko Cizel (VU University Amsterdam)

“Banking PD model for EU Banks”

ABSTRACT

The JRC and the DG Internal Market, in cooperation with academic experts have developed the SYMBOL (Systemic Model of Banking Originated Losses) model to estimate the probability and magnitude of important economic losses and liquidity shortfalls in the (European) banking system. Key input to the SYMBOL model is the PD of individual banks. This research focuses on estimating bank PD with credit scoring models by using bank accounting information (plus stock market information if available). The scope is the US and EU countries. A benchmark credit scoring model for US banks is estimated by exploiting the FDIC database with more than 1400 bank failures. The existing SYMBOL model is used to test the sensitivity of this model to different measures of bank PD's: the original PDs (based on the inverse Basel II formula) and new PDs (based on a new credit scoring model and possibly a market implied model).

PARALLEL SESSION A2 SYSTEMIC RISK

Chairman: *Wim Schoutens*

Maarten R.C. van Oordt (De Nederlandsche Bank)
Chen Zhou (De Nederlandsche Bank and Erasmus University Rotterdam)

“Systematic tail risk”

ABSTRACT

We develop a measure of systematic tail risk, the tail beta, defined as the sensitivity of assets to extreme market downturns, and establish its estimation methodology. Following asset pricing theory based on a safety-first criterion, investors should be compensated for systematic tail risk. Empirically, we test the presence of a systematic tail risk premium in the cross-section of expected returns. The evidence supports a significant positive premium for assets with high tail betas during normal periods. However, high tail betas are also associated with large future losses under extremely adverse market conditions. Historically, these losses do almost entirely offset the premium received during normal periods. Finally, we discuss how tail betas can be applied to assess the tail risks of portfolios.

Giuseppe Corvasce (NYU Stern)

“The Role of Capital in Financial Institutions and Systemic Risk”

ABSTRACT

In line with the studies proposed by Berger et al. (1995) and Acharya et al. (2009, 2010, 2011), I study the role of capital in financial institutions and the link with systemic risk. Using the recent financial crisis as “demo” period, I estimate a measure of systemic risk, namely Systemic Expected Shortfall (SES), as the amount of capital that financial institutions might need when in aggregate the financial system is undercapitalized. This measure is able to take into account three crucial components: the total amount of market capitalization, the minimum capital adequacy ratios K (The CARK ratios) and the total amount of liabilities. Using a sample of 245 US financial institutions, I empirically investigate the joint combination of these three components. The findings of the paper are many: i) I derive minimum capital adequacy ratios for financial industries/subindustries, using a 3-steps procedure formula; ii) I investigate the relationship between variation of market capitalization and liabilities during the recent financial crisis as a function of MES and measures of insolvency risk; iii) I estimate several specifications of SES that take into account the impact that different measures of insolvency risk might have on the expected amount of capital that financial institutions needed, at the end of June 2007 and at the beginning of September 2011, in order to be resilient to a systemic crisis; iv) I compare the rankings across different specifications of SES with the measure of systemic risk (SRISK) proposed by Brownlees and Engle (2011).

Theodore Barnhill Jr. (International Monetary Fund)

Liliana Schumacher (International Monetary Fund)

“Modeling Correlated Systemic Liquidity and Solvency Risks in a Financial Environment with Incomplete Information”

ABSTRACT

This paper proposes and demonstrates a methodology for modeling correlated systemic solvency and liquidity risks for a banking system. Using a forward looking simulation of many risk factors applied to detailed balance sheets for a 10 bank stylized United States banking system, we analyze correlated market and credit risk and estimate the probability that multiple banks will fail or experience liquidity runs simultaneously. Significant systemic risk factors are shown to include financial and economic environment regime shifts to stressful conditions, poor initial loan credit quality, loan portfolio sector and regional concentrations, bank creditors’ sensitivity to and uncertainties regarding solvency risk, and inadequate capital. Systemic banking system solvency risk is driven by the correlated

PARALLEL SESSION A2 SYSTEMIC RISK

defaults of many borrowers, other market risks, and inter-bank defaults. Liquidity runs are modeled as a response to elevated solvency risk and uncertainties and are shown to increase correlated bank failures. Potential bank funding outflows and contractions in lending with significant real economic impacts are estimated. Increases in equity capital levels needed to reduce bank solvency and liquidity risk levels to a target confidence level are also estimated to range from 3 percent to 20 percent of assets. For a future environment that replicates the 1987–2006 volatilities and correlations, we find only a small risk of U.S. bank failures focused on thinly capitalized and regionally concentrated smaller banks. For the 2007–2010 financial environment calibration we find substantially elevated solvency and liquidity risks for all banks and the banking system.

Kyle Moore (Erasmus University Rotterdam) - Chen Zhou (Erasmus University Rotterdam)
“Identifying systemically important financial institutions: size and other determinants”

ABSTRACT

This paper analyzes the conditions under which a financial institution is systemically important. With measuring the level of systemic importance of financial institutions, we find that size is a leading determinant, which confirms the usual “Too Big To Fail” argument. Nevertheless, the relation is non-linear during the recent global financial crisis. Moreover, since 2003, other determinants of systemic importance than size emerge. For example, decisions made by financial institutions on their choice of asset holdings, methods of funding, and sources of income have a significant effect on the level of systemic importance during the global financial crises starting from 2008. These findings help to identify systemically important financial institutions by examining their relevant banking activities and to further design macro-prudential regulation towards reducing the systemic risk in the financial system.

Jan Dhaene (K.U.Leuven, Leuven, Belgium) - Julia Dony (K.U.Leuven, Leuven, Belgium)
Daniel Linders (K.U.Leuven, Leuven, Belgium) - Monika B. Forsy (K.U.Leuven, Leuven, Belgium) - Wim Schoutens (K.U.Leuven, Leuven, Belgium)

“FIX - The Fear Index measuring market fear”

ABSTRACT

In this paper, we propose a new fear index based on (equity) option surfaces of an index and its components. The quantification of the fear level will be solely based on option price data. The index takes into account market risk via the VIX volatility barometer, liquidity risk via the concept of implied liquidity, and systemic risk and herd-behavior via the concept of comonotonicity. It thus allows us to measure an overall level of fear (excluding credit risk) in the market as well as to identify precisely the individual importance of the distinct risk components (market, liquidity or systemic risk). As a side result we also derive an upperbound for the VIX.



PARALLEL SESSION A3 QUANTITATIVE TOOLS FOR RISK MANAGEMENT

Chairman: Giovanni Barone Adesi

Dirk G. Baur (University of Technology, Sydney)

Thomas K.J. McDermott (Trinity College, Dublin)

“Safe Haven Assets and Investor Behaviour under Uncertainty”

ABSTRACT

We study two different safe haven assets, US government bonds and gold, and examine how the price changes of these assets can be used to infer investor behavior under uncertainty. We find that investors are ambiguity-averse, that is they buy gold when faced with extreme uncertainty about the state of the economy or the financial system and when they receive ambiguous signals. In contrast, investors buy US government bonds when faced with extreme but unambiguous signals. We also show that there is overreaction to ambiguous signals.

Florence Guillaume (Department of Mathematics, University of Leuven, Belgium)

Wim Schoutens (Department of Mathematics, University of Leuven, Belgium)

“A moment matching market implied calibration”

ABSTRACT

This paper provides a new market implied calibration based on a moment matching methodology where the moments of the risk-neutral density function are inferred from at-the-money and out-the-money European vanilla option quotes. In particular, we derive a model independent risk-neutral formula for the moments of the asset log-return distribution function by expanding power returns as a weighted sum of vanilla option payoffs (based on results of [3] and [5]). For the numerical study, we work out different popular exponential Levy models, namely the VG, NIG and Meixner models. The new calibration methodology rests on closed-form formulae only: it is shown that the moment matching system can be transformed into a system of algebraic equations which computes directly the optimal value of the N model parameters in terms of the second to the $(N + 1)$ th market standardized moments under the different Levy models under investigation. Hence, the proposed calibration can be performed almost instantaneously. Furthermore, the method is not requiring a starting value for the model parameters and avoids the problem of getting stuck in local minima.

Quanzi Zhang (Swiss Finance Institute and Universite de Lausanne)

“Reconciling Conflicting Evidence on Firm versus Market Skewness: Systematic Downside Risk Approach”

ABSTRACT

Finance literature has well documented that aggregating all the positively skewed firm returns makes up the stock index which tends to be negatively skewed [e.g. Duffee (1995), Chen, Hong and Stein (2001)]. However explaining this conflicting evidence is not a straightforward exercise. To solve this problem, we build up a unified model where the negative market skewness can be explained by the individual firms' behavior. To do this, we find a proxy which represents the comovement in betas for individual firm stocks and we find that during crashes, firm's betas have higher tendency to move together than in the market booms. We call this “Systematic Downside Risk”. Then we derive the market skewness based on individual firms' beta comovement and market information. We verify that the “Systematic Downside Risk” is the main driving force to generate the negative market skewness. The CRSP data used in this paper ranges from January 1990 to December 2009 and it includes 2367 U.S. firms. In particular, we discuss two major financial events in our sample: Asian & Russian Financial Crisis (1997-1998) and the recent Financial Crisis (2007 till now). We find that our measure “Systematic Downside Risk” can help to differentiate the systemic risk for U.S. firms during these two market downturns. Additionally we empirically confirm that Individual firm skewness is positive at both mean and median level. The empirical results strongly support our model.

PARALLEL SESSION A3 QUANTITATIVE TOOLS FOR RISK MANAGEMENT

Giovanni Barone-Adesi (Swiss Finance Institute and University of Lugano)

Loriano Mancini (Swiss Finance Institute and EPFL)

Hersh Shefrin (Leavey School of Business, Santa Clara University)

“Behavioral Finance and the Pricing Kernel Puzzle: Estimating Sentiment, Risk Aversion, and Time Preference”

ABSTRACT

We combine two approaches to the pricing kernel, one empirical and one theoretical, which relax the restriction that the objective return distribution and risk neutral distribution share the same volatility and higher order moments. The empirical approach provides estimates for the evolution of the pricing kernel projection onto S&P 500 returns for the period 2002 through 2009. The theoretical approach provides a framework for extracting estimates of sentiment from the results of the empirical analysis, along with estimates of risk aversion and time preference. These estimates of sentiment turn out to be highly correlated with external measures such as the Baker–Wurgler sentiment index and Yale/Shiller crash confidence. We analyze the manner in which the two external measures reflect biases such as excessive optimism and overconfidence. Our analysis points out three significant issues related to overconfidence. The first issue is that the Baker–Wurgler sentiment index robustly reflects excessive optimism, but not the component of overconfidence that is uncorrelated with excessive optimism. The second issue is that overconfidence is strongly related to the presence of an upward sloping portion in the graph of the pricing kernel, a key feature of the “pricing kernel puzzle.” The third issue is that the time series properties of excessive optimism and overconfidence appear to generate a negative relationship between perceived risk and return.



PARALLEL SESSION A4 RISK MANAGEMENT AND VALUE

Chairman: *Giorgio Bertinetti*

**Giorgio S. Bertinetti (University of Venice) - Elisa Cavezzali (University of Venice)
Gloria Gardenal (University of Venice)**

“The value of enterprise risk management: an empirical analysis of the Italian listed companies”

ABSTRACT

The recent financial instability has made risk management an increasingly crucial activity within each company, independently of the industry it belongs to. Several economic actors have decided to face this economic complexity shifting from Traditional silo-based Risk Management (TRM) to Enterprise Risk Management (ERM), which enables firms to manage a wide array of risks in an integrated, enterprise-wide fashion. Few academics have tried to investigate the effects of the ERM implementation on firm value, mainly focusing on the financial industry. The results are still quite controversial and the effectiveness of ERM adoption needs further investigation. Moreover, there is no empirical evidence about the adoption of ERM programs within non-financial sectors. The aim of this study is double: first, we try to understand if ERM implementation affects firm value among nonfinancial companies (focusing our attention on Italian listed companies); second, we test whether there is an “industry effect” affecting the “ERM adoption effect”. We discover a strong statistically significant ERM effect on firm value, but we do not find statistically significant differences among different industries, apart from the manufacturing one.

Erkki K. Laitinen (University of Vaasa, Finland)

“Profitability, growth, and different flow concepts: implications for failing firms”

ABSTRACT

The objective is to use a theoretical model of the firm to show the relationship between profitability, growth, and financial flow concepts. The model is steady making use of the assumption of identical investment projects. It is assumed that revenue flow is generated by periodic expenditures growing at a steady rate. This revenue flow is described by profitability (internal rate of return), growth, and time distance between invested expenditure and generated revenue flow. Three kinds of financial flow concepts are drawn: revenue-expenditure flow (quick flow), revenue-expense flow (earnings), and cash flow. Earnings are drawn for three depreciation theories: proportional, rate of return, and compound interest depreciation theories. For each concept, gross and net margins (after interest, taxes, and dividends) are drawn and compared with each other. Findings are discussed with a special reference to failing firms. Theoretical results are illustrated by empirical figures from Finnish non-failing and failing firms.



PARALLEL SESSION A4 RISK MANAGEMENT AND VALUE

Fabio Parlapiano (Sapienza University of Rome, Italy)

Vitali Alexeev (University of Tasmania, School of Economics and Finance, Australia)

“Currency risk exposure and the value of European firms”

ABSTRACT

Previous work on exchange rate exposure of firm's stock returns has focused on the U.S. markets and found that the US Dollar exchange rate fluctuations have weak effect on the stock returns. Taking into account the joint influence of macroeconomic fundamentals on stock market and exchange rate returns, we examine the exchange rate exposure of the European firms after the inception of the European common currency. In our investigation of the exchange rate exposure we concentrate on the three major trading partners of the Eurozone by analyzing the impact of the US Dollar, British Pound and Japanese Yen on the European firm's stock returns. Our sample of firms includes constituents of the Euro Stoxx 50 and Euro Stoxx TMI, the two main equity indices for the Eurozone. Consistent with the theoretical predictions that firm behavior differs under a depreciating versus an appreciating home currency, our estimation of exchange rate exposure from 1999 to 2011 reveals time varying dependence. We find that among the currency pairs analyzed the Yen has had the highest impact on the returns of the European firms, with the largest impact on the firms in the financial sector. Contrary to the theoretical conception and previous research findings, the degree on internationalization does not characterize an a priori exchange rate exposure. Moreover, results suggest that the firms in countries that experienced sovereign debt crisis were penalized the most by Euro fluctuations against all three pairs of currencies.

Torben Juul Andersen (Copenhagen Business School)

Oliviero Roggi (NYU Stern and University of Florence)

“Risk Management and Value Creation”

Corporate failures, periodic recessions, regional debt crises and volatile financial markets have intensified the focus on risk management as the means to deal with turbulent conditions. The ability to respond effectively to abrupt environmental impacts is considered an important source of competitive advantage. Yet, surprisingly little research has analyzed whether the presumed advantages of effective risk management are associated with superior outcomes. Here we present a comprehensive study of risk management effectiveness and the relationship to corporate performance based on more than 33,500 observations in 3,400 firms over the turbulent 20-year period 1991-2010. Determining effective risk management as the ability to reduce earnings and cash flow volatility, we find that both have significant positive relationships to lagged performance measures after controlling for industry effects, company size and financial leverage.

PARALLEL SESSION B1 MACROECONOMIC RISKS AND MODELING

Chairman: Menachem Brenner

Fulvio Corsi (University of St. Gallen, Switzerland and Swiss Finance Institute) - Didier Sornette (ETH Zurich, Switzerland and Swiss Finance Institute)

“Follow the money: The monetary roots of bubbles and crashes”

ABSTRACT

We propose a reduced form model for the Minskian dynamics of liquidity and of asset prices in terms of the so-called financial accelerator mechanism. In a nutshell, credit creation is driven by the market value of the financial assets employed as collateral in the bank loans. This leads to a self-reinforcing feedback between financial prices and liquidity that we model by coupled non-linear stochastic processes. We show that the resulting dynamics are characterized by a transient superexponential growth qualifying a bubble regime. Unchecked, this would lead to a finite time singularity (FTS). The underlying singularity expresses the unsustainable dynamics of the corresponding economy and announces a regime change, such as a crash. We propose to describe the dynamics of the crisis by the same coupled non-linear stochastic process with inverted signs, i.e., nonlinear negative feedbacks of value and money on their growth rates. Casting the financial accelerator dynamics into a simple macroeconomic model, we show that the cycle of booms and bursts of financial assets and liquidity determines economic recessions in the form of increasing aggregate default rates and decreasing GDP. Finally, by exploiting the implications of the proposed model on the dynamics of financial asset returns, we introduce a generalized GARCH process, called FTS-GARCH, that can provide an early warning identification of bubbles. Estimating the FTS-GARCH on well-known historical bubble episodes suggest the possibility to diagnose in real-time the presence of bubbles in financial time series.

Sarah Draus (Centre for Studies in Economics and Finance, University of Naples)

Mark Van Achter (Rotterdam School of Management, Erasmus University, The Netherlands)

“Circuit Breakers and Market Runs”

ABSTRACT

This paper analyzes whether the application of a “circuit breaker” a financial market (i.e. a mechanism that interrupts trading for a predetermined period when the price moves beyond a predetermined level) reaches its intended goals of increased market stability and overall welfare. Our framework of analysis is a model in which investors can trade at several dates and might face a liquidity shock forcing them to sell immediately when the shock occurs. This setting potentially induces a “market run” where investors commonly sell merely out of fear other investors are selling and not because they have current liquidity needs. We show that the introduction of a sufficiently tightly-set circuit breaker within this setting successfully prevents this market run from occurring. Even more so, it could induce the socially optimal state (in which trading only takes place when it is motivated by liquidity needs) to arise. However, this desirable equilibrium can only be reached under particular economic conditions. When these conditions are not met, installing a circuit breaker might even lower social welfare as compared to a setting without a circuit breaker as it impedes socially desirable trades and stimulates socially undesirable trades.

PARALLEL SESSION B1 MACROECONOMIC RISKS AND MODELING

Francisco J. Callado Muñoz (Economics Department, Universitat de Girona)

Natalia Utrero González (Economics Department, Universitat de Girona)

“Determinants of Households’ Risk”

ABSTRACT

This paper deals with risk taking attitude and behaviour of households in Spain. It analyses whether business owning households are more risk tolerant than non owners and which household features are conditioning risk taking perceptions and their relation to risk behaviour. For that, it uses data from the 2005 Spanish Survey of Household Finance (EFF). The paper improves the definition and measurement of risk behaviour and stress the relevance of owning a business or your home on your risk characteristics. Results will help to increase the understanding of risk tolerance and behaviour.

Jin Cao (Norges Bank)

Gerhard Illing (University of Munich and CESifo, Germany)

“Interest rate trap”, or: Why does the central bank keep the policy rate too low for too long time?”

ABSTRACT

This paper provides a framework for modeling the risk-taking channel of monetary policy, the mechanism how financial intermediaries’ incentives for liquidity transformation are affected by the central bank’s reaction to financial crisis. Anticipating central bank’s reaction to liquidity stress gives banks incentives to invest in excessive liquidity transformation, triggering an “interest rate trap” - the economy will remain stuck in a long lasting period of sub-optimal, low interest rate equilibrium. We demonstrate that interest rate policy as financial stabilizer is dynamically inconsistent, and the constraint efficient outcome can be implemented by imposing ex ante liquidity requirements. decline significantly more than prices and ratings of corporate bonds. Default contagion exacerbates the pace and severity of tranche re-pricing and downgrading.



PARALLEL SESSION B2

COCOs

Chairman: *Jessica Cariboni*

Jan De Spiegeleer (Department of Mathematics-University of Leuven)

Wim Schoutens (Department of Mathematics-University of Leuven)

“Steering a bank around a death spiral: Multiple Trigger CoCos”

ABSTRACT

In this paper we start with the introduction of two pricing models to value contingent convertibles. One model (“rule of thumb”) has its roots in credit derivatives pricing while the second model implements an equity derivatives approach. From these models we then quantify the equity sensitivity and the negative gamma resulting from the design of a contingent convertible and illustrate the possible pitfalls of a death spiral on the share price. We conclude that moving away from one large single CoCo issue towards more but smaller issues with accounting triggers spread across an extended range, will alleviate the death spiral risk.

Oliviero Roggi (NYU Stern and University of Florence)

Alessandro Giannozzi (University of Florence)

Luca Mibelli (University of Florence)

“Coco-bonds, conversion prices and risk shifting incentives. How does the conversion ratio affect management’s behaviour?”

ABSTRACT

The aim of this paper is to analyze risk shifting incentives for managers and shareholders in presence of Coco-bonds issued for banking stability extent. In particular, we assess the role of the conversion price settlement in enhancing both shareholders’ and management’s discipline. Three recent contingent reverse convertible deals are analyzed, to show how shareholder conversion returns are linked to the conversion ratio. Our findings demonstrate that, if there is an ingoing or ongoing crisis, a poor settlement of the conversion ratio could exacerbate both debt overhang and risk shifting issues, discouraging bank management from issuing new equity and investing in low risk assets. We argue that a contingent bond with a trigger based on Basel III capital ratios and a conversion price at significant discount discourages managers from taking excessive risks and limits risk shifting incentives. Moreover, we demonstrate how a unit face value sufficiently higher than the current market stock price and a small number of subscribers could impact investors’ payoffs, while avoiding unexpected wealth transfers. So regulators should consider and oversee not only the conversion trigger but also all the other features of a contingent capital security, especially the conversion ratio.



PARALLEL SESSION B2

COCOs

Francesca Di Girolamo (European Commission, Joint Research Centre)

Francesca Campolongo (European Commission, Joint Research Centre)

Jan De Spiegeleer (Jabre Capital Partners - Geneva)

Wim Schoutens (Department of Mathematics - University of Leuven)

“Contingent Conversion Convertible Bond: New avenue to raise bank capital”

ABSTRACT

This paper provides an in-depth analysis into the structuring and the pricing of an innovative financial market product. This instrument is called contingent conversion convertible bond or “CoCoCo”. This hybrid bond is itself a combination of two other hybrid instruments: a contingent convertible (“CoCo”) and a convertible bond. This combination introduces more complexity in the structure but it now allows investors to profit from strong share price performances. This upside potential is added on top of the normal contingent convertible mechanics whereas CoCos only expose the investors to downside risk. This sets up a new avenue for the banks to create new capital. First, we explain how the features of the contingent convertible bonds on one side and the features of the standard convertible bonds on the other side are combined. Thereafter, we propose a pricing approach which moves away from the standard Black&Scholes setting. The CoCoCos are evaluated using a Heston process to which a Hull-White interest rate process has been added. Finally we demonstrate through a sensitivity analysis the contribution of the different parameters to the price of the CoCoCo bond.

Zhiyao Chen (University of Reading, UK)

“Contingent-Claim-Based Expected Stock Returns”

ABSTRACT

Inspired by the success of Schaefer and Strebulaev (2008) who use structural models of credit risk to explain bond returns, I develop and test a parsimonious contingent claim model for cross-sectional stock returns. In the model stock returns are cash flow rates scaled by the sensitivity of stocks to operating cash flows. By incorporating the KMV procedure of credit risk into generalized method of moments (GMM), I perform structural estimations for stock portfolios sorted on market leverage, book-to-market ratio, asset growth rate and equity size. My model significantly outperforms the CAPM and the Fama-French model across all the testing portfolios. Four main empirical results are as follows. First, stocks are more sensitive to their underlying cash flows in bad times than they are in good times. The cross-sectional spreads in the countercyclical stock-cash flow sensitivities are largely driven by the cross-sectional differences in default probabilities in all four sets of portfolios. Second, value stocks, high-leverage stocks and low-asset-growth stocks are more sensitive to the underlying cash flows than growth stocks, low-leverage stocks and high-asset-growth stocks, particularly in recessions. Third, while the large cross-sectional spread in the stock-cash flow sensitivities explains the value, leverage and asset growth premiums, the spread in the cash flow rates accounts for the size premium. Lastly, my stock return decomposition shows that the product of the expected cash flow rate and the expected stock-cash flow sensitivity contributes to at least 82.9% of the expected stock returns of the 20 testing portfolios.

PARALLEL SESSION B3

QUANTITATIVE TOOLS FOR RISK MANAGEMENT

Chairman: Elisa Luciano

Dominique Guégan (Univeristy of Paris-Panthéon-Sorbonne)

Xin Zhao (Univeristy of Paris-Panthéon-Sorbonne)

“Alternative Modeling for Long Term Risk”

ABSTRACT

In this paper, we propose an alternative approach to estimate long-term risk. Instead of using the static square root method, we use a dynamic approach based on volatility forecasting by non-linear models. We explore the possibility of improving the estimations by different models and distributions. By comparing the estimations of two risk measures, value at risk and expected shortfall, with different models and innovations at short, median and long-term horizon, we find out that the best model varies with the forecasting horizon and the generalized Pareto distribution gives the most conservative estimations with all the models at all the horizons. The empirical results show that the square root method underestimates risk at long horizon and our approach is more competitive for risk estimation at long term.

Mario Brandtner (Friedrich Schiller University of Jena)

“On the (Mis)Use of Conditional Value-at-Risk and Spectral Risk Measures for Portfolio Selection - A Comparison with Mean-Variance Analysis”

ABSTRACT

We study portfolio selection under Conditional Value-at-Risk and, as its natural extension, spectral risk measures, and compare it with traditional mean-variance analysis. We do not focus only on the derivation of the efficient frontiers, but also consider the choice of optimal portfolios within an integrated framework. We find that spectral risk measures tend towards corner solutions. If a risk free asset exists, diversification is never optimal. Similarly, without a risk free asset, only limited diversification is obtained. The reason is that spectral risk measures are based on a regulatory concept of diversification that differs fundamentally from the reward-risk tradeoff underlying the mean-variance framework.

Christophe M. Boucher (A.A.Advisors-QCG, Variances and University of Paris-1)

Jon Danielsson (London School of Economics)

Patrick S. Kouontchou (Variances and University of Lorraine)

Bertrand B. Maillet (A.A.Advisors-QCG, Variances and University of Orléans)

“Risk Model-at-Risk”

ABSTRACT

The recent experience from the global financial crisis has raised serious doubts about the accuracy of standard risk measures as a tool to quantify extreme downward risks. Risk measures are hence subject to a “model risk” due, e.g., to the specification and estimation uncertainty. Therefore, regulators have proposed that financial institutions assess the “model risk” but, as yet, there is no accepted approach for computing such a risk. We propose a general framework to compute risk measures robust to the model risk, while focusing on the Value-at-Risk (VaR). The proposed procedure aims empirically adjusting the imperfect quantile estimate based on a backtesting framework, assessing the good quality of VaR models such as the frequency, the independence and the magnitude of violations. We also provide a fair comparison between the main risk models using the same metric that corresponds to model risk required corrections.

PARALLEL SESSION B3

QUANTITATIVE TOOLS FOR RISK MANAGEMENT

Dilip B. Madan (Robert H. Smith School of Business-University of Maryland)

Wim Schoutens (Department of Mathematics, University of Leuven)

“Deleveraging can kill diversity”

ABSTRACT

Two new indices for financial diversity are proposed. The first is aggregative and evaluates distance from a single factor driving returns. The second evaluates how fast correlation with a stock rises as the stock falls. Both measures are here risk neutral. The CRI is also compared with coVaR. These measures are negatively related and so focus attention on different aspects of systemic risk. Unlike the coVaR focused on expected losses the CRI measures the risks of increased correlation and lack of diversity in activities. The CRI also declined consistently for AIG and LEH prior to their bankruptcies indicating that the market was active in decorrelating itself from these firms.



PARALLEL SESSION B4

RISK MANAGEMENT AND PORTFOLIO ANALYSIS

Chairman: Herbert Rijken

**Giovanni Barone-Adesi (Swiss Finance Institute) - Nicola Carcano (Swiss Finance Institute)
Hakim Dall'O (Swiss Finance Institute)**

“Managing the Risks of Corporate Bond Portfolios: New Evidence in the Light of the Sub-prime Crisis”

ABSTRACT

We consider modeling errors in the hedging of a portfolio composed from BBB-rated bonds. By doing this, we open a new perspective to the debate on the relationship between corporate bonds and CDS spreads. We find that in ordinary times the added value of index-linked credit derivatives is very limited: hedging portfolios including only T-bond futures can reduce the variance by 80-85%. This compares well to the maximum variance reduction of 50% reported by previous studies. On the contrary, in times of extraordinary volatility - such as the years 2008 and 2009- T-bond futures would have been insufficient to successfully hedge the bond portfolio. However, including the 5-year CDX contract would have only slightly improved the quality of hedging. This is consistent with the literature identifying an important non-default component within corporate bond spreads. Our results encourage the offering of collateralized credit spread forwards as more effective hedging instruments than non-collateralized CDS contracts.

Juan Carlos Matallín-Sáez (Universitat Jaume)

Emili Tortosa-Ausina (Universitat Jaume)

Amparo Soler-Domínguez (Universitat Jaume)

“Testing predictability of mutual fund performance”

ABSTRACT

This paper analyzes the persistence of performance in US equity mutual funds over the period 2001-2011 for both net and gross returns. The aim of this study is to assess the robustness of persistence methodologies by means of a set of simulated passive funds. Firstly the results show, in general, how the funds' performance is close to zero. However, some funds exhibit significantly more negative (positive) performance when net (gross) returns are used. With regard to persistence, first we apply contingency tables and transition matrices in accordance with the previous literature. Results show how these methodologies are biased towards finding evidence of persistence too easily. A recursive portfolio approach is therefore applied that assesses the performance of investing following past performance recommendations. Our results show the importance of estimating the persistence for each fund style group and of considering a cross-sectional simulated procedure to estimate the significance of persistence. Thus, the results do not support the evidence of persistence in performance. Only very scarce evidence is found in some cases, but this also conditioned by whether net or gross returns are considered.



PARALLEL SESSION B4

RISK MANAGEMENT AND PORTFOLIO ANALYSIS

Claudio Giannotti (University LUM Jean Monnet)

Gianluca Mattarocci (University of Rome “Tor Vergata”)

“The Risk Measurement Choice in Selecting REITs: Evidence from The US Market”

ABSTRACT

The return distribution of US REITs is not normally distributed and so they should not be analyzed using the standard mean variance approach. The paper compares ranking based on Sharpe ratio, a RAP measure widely used that summarizes the risk-return profile of an investment looking only at the mean and variance of returns, with those achieved using different RAP measures constructed using different risk measures that do not assume the normality of the returns distribution. Results demonstrate that rankings obtained by different risk measurement approaches are not always coherent even if they are correlated and sometimes could show an high degree of persistence respect to Sharpe index. Looking at the determinants of RAP values there are no significant change in the main determinants on the basis of the risk measure choice and the general & administrative expenses, the role of the real estate investment, the debt and the volume of trades are the main drivers of all the rankings constructed. Finally we evaluate the relevance of the RAP rankings in selecting the real estate investment opportunities comparing the results of a naïve diversified portfolio with those achieved by a portfolio concentrated only on top REITs identified using different RAP measure. Results demonstrate that the choice to consider more complex RAP measure could increase the performance achieved by a diversified REITs' portfolio especially when a value weighted portfolio is constructed.

Jaewon Choi (University of Illinois)

Jongsub Lee (University of Florida)

“Temporal Profiles of Cash Flows: Implications for Financial Leverage”

ABSTRACT

This paper investigates empirically the impact on leverage of the two temporal dimensions of cash flows: duration and persistence. We propose a novel estimation of these temporal characteristics, utilizing the return decomposition based on the vector autoregressive (VAR) method and the data on the market values of firms' assets. Using these novel measures, we find evidence supporting recent developments in capital structure theory. First, firms with temporary shocks have low leverage, especially for small and financially constrained firms. Although less important unconditionally, permanent shocks' effect on leverage can be amplified, if they covary negatively with future discount rate shocks. Second, firms with long duration cash flow streams maintain low leverage and invest less in fixed assets, consistent with the notion that long asset life exacerbates debt overhang problems because default truncates future cash flows.

PARALLEL SESSION B5 CREDIT RISK & RATING

Chairman: Paolo Giudici

Davide Avino (ICMA Centre, University of Reading, Henley School of Business, UK)
Emese Lazar (ICMA Centre, University of Reading, Henley School of Business, UK)
Simone Varotto (ICMA Centre, University of Reading, Henley School of Business, UK)
“Which market drives credit spreads in tranquil and crisis periods? An analysis of the contribution to price discovery of bonds, CDS, stocks and options”

ABSTRACT

Credit spreads can be derived from the prices of securities traded in different markets. In this paper we investigate the price discovery process in single-name credit spreads obtained from bonds, credit default swaps, equities and equity options. Using a vector error correction model (VECM) of changes in credit spreads for a sample that includes the 2007-2009 financial crisis, we find that during periods of high volatility, price discovery takes place primarily in the option market, whilst the equity market leads the other markets during tranquil periods. By adding GARCH effects to the VECM specification, we also find strong evidence of volatility spillovers from the option market to the other markets in crisis periods. Finally, we show how GARCH models can be used to generate time-varying measures of price discovery.

Filippo Coro' (Henley Business School, University of Reading, UK)
Alfonso Dufour (Henley Business School, University of Reading, UK)
Simone Varotto (Henley Business School, University of Reading, UK)
“The Time Varying Properties of Credit and Liquidity Components of CDS Spreads”

ABSTRACT

This paper investigates the role of credit and liquidity factors in explaining corporate CDS price changes during normal and crisis periods. We find that liquidity risk is more important than credit risk regardless of market conditions. Moreover, in the period prior to the recent “Great Recession” credit risk plays no role in explaining CDS price changes. The dominance of liquidity effects casts serious doubts on the relevance of CDS price changes as an indicator of default risk dynamics. Our results show how multiple liquidity factors including firm specific and aggregate liquidity proxies as well as an asymmetric information measure are critical determinants of CDS price variations. In particular, the impact of informed traders on the CDS price increases when markets are characterised by higher uncertainty, which supports concerns of insider trading during the crisis.



PARALLEL SESSION B5 CREDIT RISK & RATING

Lorne N. Switzer (Finance Department, Concordia University, Canada)
Jun Wang (Finance Department, Concordia University, Canada)
“Default Risk Estimation, Bank Credit Risk, and Corporate Governance”

ABSTRACT

This study explores the relationship between credit risks of banks and the corporate governance structures of these banks from the perspective of creditors. The cumulative default probabilities are estimated for a sample of US commercial and savings banks to measure their risk taking behavior. The results show that one year and five year cumulative default probabilities are timevarying, with a significant jump observed in the year prior to the financial crisis of 2008-09. Generally speaking, corporate governance structures have greater impact on US commercial banks than savings institutions. We provide evidence that, after controlling firm specific characteristics, commercial banks with larger boards and older CFOs are associated with significantly lower credit risk levels. Lower ownership by institutional investors and more independent boards also have lower credit risk levels, although these effects are somewhat less significant. For all the banks in our sample, large board size, older CFO, and less busy directors are associated with lower credit risk levels. When we restrict the sample to consider the joint effects of the governance variables, the results on board size and busy directors are maintained.

Paola Cerchiello (University of Pavia)
Paolo Giudici (University of Pavia)
Enzo Rocca (Credito Valtellinese Bank)

“Bayesian credit rating assessment”

ABSTRACT

In this contribution we propose to estimate the probability of financial default of companies and the correlated rating classes, using efficiently the information contained in different databases. In this respect, we propose a novel approach, based on the recursive usage of Bayes theorem, that can be very helpful in integrating default estimates obtained from different sets of covariates. Our approach is ordinal: on one hand, the default response variable is binary; on the other hand, covariates that induce partitioning of companies are measured on an ordinal scale. We use our approach not only in a Bayesian variable averaging perspective but also to binarize ordinal variables in the most predictive way. The method is based on a mixture of Binomial and Beta random variables since we model the proportions of default companies in each level of the covariate as independent Binomials with a Beta prior distribution. The application of our proposal to an Italian credit risk database shows that it performs quite efficiently, allowing to predict for each company the probability of default by averaging the covariates contribute.

PARALLEL SESSION C1 CONTAGION RISK

Chairman: Marti Subrahmanyam

Arnd Hübsch (d-fine GmbH, Berlin)

Ursula Walther (Frankfurt School of Finance)

“The impact of network in homogeneities on contagion and system stability”

ABSTRACT

This work extends the contagion model introduced by Nier et al. (2007) to inhomogeneous networks. We preserve the convenient description of a financial system by a sparsely parameterized random graph but add several relevant inhomogeneities, namely well-connected banks, financial institutions with disproportionately large interbank assets, and big banks focusing on wholesale and retail customers. These extensions significantly enhance the model's generality as they reflect inhomogeneities as found in reality with a potentially decisive impact on system stability. Whereas well-connected banks and big retail banks have only a surprisingly modest impact, we find a significantly enhanced contagion risk in networks containing institutions with disproportionately large interbank assets. Moreover, we show that these effects can be partly compensated by a suitable regulatory response which demands additional net worth buffers for banks with above average volume of interbank assets. The stabilising effect is most notably achieved by a pure redistribution of equity capital without increasing its total amount.

Xin Zhang (VU University Amsterdam, and Tinbergen Institute)

Bernd Schwaab (European Central Bank, Financial Research)

André Lucas (Duisenberg School of Finance)

“Conditional probabilities and contagion measures for Euro Area sovereign default risk”

ABSTRACT

The Eurozone debt crisis raises the issue of measuring and monitoring interconnected sovereign credit risk. We propose a novel empirical framework to assess the likelihood of joint and conditional failure for Euro Area sovereigns. Our model captures all the salient features of the data, including skewed and heavy-tailed changes in the price of CDS protection against sovereign default, as well as dynamic volatilities and correlations to ensure that failure dependence can increase in times of stress. We apply the model to Euro Area sovereign CDS spreads from 2008 to mid-2011. Our results reveal significant time-variation in risk dependence and considerable spill-over effects in the likelihood of sovereign failures. We further investigate distress dependence around a key policy announcement on 10 May 2010, and demonstrate the importance of capturing higher-order time-varying moments during times of crisis for the assessment of dependent risks.

PARALLEL SESSION C1 CONTAGION RISK

Dr. Chanaka Edirisinghe (University of Tennessee)

Dr. Aparna Gupta (Rensselaer Polytechnic Institute)

Wendy Roth (University of Tennessee)

“Analysis of the Impact of Contagion Flow on Bond Portfolio”

ABSTRACT

Portfolios are constructed to achieve maximum risk-adjusted returns. In investment strategies, central measures of risk must be complemented with tail measures of risk to create a more robust investment strategy. An unanticipated event impacting securities issued by one firm can contagiously affect those of other firms through a contagion flow process. Due to a variety of factors the connections between firms can result in the spread of contagion, and potentially impact other firms in a network. This can adversely affect the level of tail risk in a portfolio investment strategy, especially when a number of connected firms are included in a portfolio. A model is developed for contagion flow between firms, which is defined, characterized and calibrated for its impact on default risk of a portfolio of debt instruments. The model assesses the role of network structure in determining the impact of contagion flow and evaluates the contagion related excess risk in a portfolio of debt instruments.

Gregor N.F. Weiß (Technische Universität Dortmund)

Hendrik Supper (Technische Universität Dortmund)

“Liquidity commonality and risk management”

ABSTRACT

We propose to model the joint distribution of bid-ask spreads and log returns of a stock portfolio by using Autoregressive Conditional Double Poisson and GARCH processes for the marginals and vine copulas for the dependence structure. By estimating the joint multivariate distribution of both returns and bid-ask spreads from intraday data, we incorporate the measurement of commonalities in liquidity and comovements of tocks and bid-ask spreads into the forecasting of three types of liquidity-adjusted Value-at-Risk (L-IVaR). In a preliminary analysis, we document strong extreme comovements in liquidity and strong tail dependence between bid-ask spreads and log returns across the firms in our sample thus motivating our use of a vine copula model. Furthermore, the backtesting results for the L-IVaR of a portfolio consisting of five stocks listed on the NASDAQ show that the proposed models perform well in forecasting liquidity-adjusted intraday portfolio profits and losses.



PARALLEL SESSION C2 COMPENSATION, GOVERNANCE & BANKING

Chairman: Franco Fiordelisi

Christian Eufinger (Goethe University)

Andrej Gill (Goethe University)

“Basel III and CEO compensation in banks: A new regulatory attempt after the crisis”

ABSTRACT

The paper analyzes the mutual influence of the capital structure and the investment decision of a bank, as well as the incentive effects of the bank executives compensation schemes on these decisions. In case the government implicitly or explicitly insures deposits and/or the banks debt, banks are incentivized to invest in risky assets and to have a high leverage. Capital regulation could potentially solve this excessive risk taking problem. However, this is only possible if the regulator can observe and properly measure the investment risks of the bank, which was called into question during the 2008-09 financial crisis. Hence, we propose a regulatory approach that is also able to implement the first best risk taking levels by the bank, but does not require the regulator to know the investment risk of the bank. The regulatory approach involves the implementation of capital requirements, which are made contingent on the management compensation.

Francesco Vallasca (University of Leeds, UK)

Jens Hagendorff (University of Edinburgh)

“Regulating Pay in Banking: Does CEO Bonus Compensation Increase Bank Default Risk?”

ABSTRACT

We investigate the link between the incentive mechanisms embedded in CEO cash bonuses and the riskiness of banks. For a sample of U.S. and European banks, we employ the Merton distance to default model to show that increases in CEO cash bonuses lower the default risk of a bank. However, we find no evidence of cash bonuses exerting a risk-reducing effect when banks are financially distressed or when banks operate under weak bank regulatory regimes. Our results link bonus compensation in banking to financial stability and caution that attempts to regulate bonus pay need to tailor CEO incentives to the riskiness of banks and to regulatory regimes.

Maryam Safari (Deakin University - Australia)

Soheila Mirshekary (Deakin University - Australia)

“The theoretical and practical influence of level of compliance with corporate governance codes of practice on financial reporting - An empirical study, evidence from Australia”

ABSTRACT

This cross-sectional study investigated the effects of level of compliance of Australian listed companies with the latest edition of the Australian corporate governance principles and recommendations on their level of discretionary accruals calculated using a modified Jones model. The hypothesis was that higher levels of compliance with corporate governance principles and recommendations would be associated with lower levels of discretionary accruals. A Primary stratified sample of 214 Australian listed companies was randomly selected for years of 2009 and 2010 to test the hypothesis. The results demonstrated a significant negative relationship between the level of compliance with Australian corporate governance principles and the level of discretionary accruals calculated using the modified Jones Model. Companies with higher levels of compliance engage in lower levels of earnings management via the manipulation of discretionary accruals.

PARALLEL SESSION C2 COMPENSATION, GOVERNANCE & BANKING

Christian Capuano (Swiss Financial Market Supervisory Authority)

Emanuele De Meo (Prometeia Spa) - Giacomo Tizzanini (Prometeia Spa)

“The effects of Basel III on the Italian Banking System”

ABSTRACT

In this note we evaluate the impact of Basel III capital requirements on lending spreads for the Italian banking system. We estimate the additional cost for banks' customers in relation to different banking profitability targets and using different approaches: a purely accounting approach, based on the Italian banking system balance sheet, and a mixed approach which takes into account interactions between regulatory variables (i.e. Tier 1 ratio) and market variables (i.e. cost of equity and credit risk). We compare our estimates to those already available in the literature for OECD countries.



PARALLEL SESSION C3
QUANTITATIVE TOOLS FOR RISK MANAGEMENT

Chairman: Elisa Luciano

Asger Lunde (Aarhus University, Department of Economics and Business)

Kasper V. Olesen (Aarhus University, Department of Economics and Business)

“Modeling and Forecasting Volatility of Energy Forwards Evidence from the Nordic Power Exchange”

ABSTRACT

We explore the structure of transaction records from NASDAQ OMX Commodities Europe back to 2006 and analyze base load forwards with the Nordic system price on electric power as reference. Following a discussion of the appropriate rollover scheme we incorporate selected realized measures of volatility in the Realized GARCH framework of Hansen et al. (2011) for the joint modeling of returns and realized measures of volatility. Conditional variances is shown to vary over time, which stress the importance of portfolio reallocation for e.g. hedging and risk management purposes. We document gains from utilizing data at higher frequencies by comparing to ordinary EGARCH models, that are nested in the Realized EGARCH. We obtain improved fit, in-sample as well as out-of-sample. In-sample in terms of improved log-likelihood and out-of-sample in terms of 1-, 5- and 20-step-ahead regular and bootstrapped rolling-window forecasts. For the most liquid series, the Realized EGARCH forecasts are statistically superior to ordinary EGARCH forecasts.



PARALLEL SESSION C3
QUANTITATIVE TOOLS FOR RISK MANAGEMENT

Alberto Frascarolo (Collegio Carlo Alberto, Torino, Italy)

Elisa Luciano (Collegio Carlo Alberto, Torino, Italy)

“Real Estate Forward Contracts: Pricing on Italian Data”

ABSTRACT

Real estate is an important asset class, whose derivative market still fails to take off. This is especially true for Italy, in spite of households and institutional investors being very much exposed to real estate. This paper nests two theoretical models for derivative pricing in the presence of trading costs and other frictions, as well as positive autocorrelation of the underlying prices. These features are indeed typical of the real estate market. It shows that they can be implemented on Italian data and produces lower and upper arbitrage free price bounds for fair forward prices.

Elisa Luciano (University of Turin, Collegio Carlo Alberto and ICER)

Giovanna Nicodano (University of Turin, Collegio Carlo Alberto and ECGI)

“Intercorporate guarantees, leverage and taxes”

ABSTRACT

This paper characterizes optimal intercorporate guarantees, under the classical trade-off between bankruptcy costs and taxation. Conditional guarantees, allowing the provider to maintain limited liability vis-à-vis the beneficiary, maximize joint value. They indeed achieve the highest tax savings net of default costs. We provide conditions ensuring that – at the optimum - guarantees increase total debt, which bears mostly on the beneficiary. This difference in optimal leverage between the provider and the beneficiary explains why optimal conditional guarantees (i) generate value independently of cash flow correlation (ii) are unilateral rather than mutual, at least for moderate default costs (iii) dominate the unconditional ones, that are embedded in mergers, at least when firms have high cash-flow correlation. We also endogenize the choice of the guarantor, showing that it has higher proportional bankruptcy costs and lower tax rates.

Kristina Lützenkirchen (Institute of Banking & Finance, Leibniz University of Hannover)

Daniel Rösch (Institute of Banking & Finance, Leibniz University of Hannover)

Harald Scheule (University of Technology, Sydney)

“Ratings based capital adequacy for securitizations”

ABSTRACT

This paper develops a framework to measure the exposure to systematic risk of asset securitizations. The paper measures empirically whether current ratings-based rules for regulatory capital of securitization reflect this exposure. The analysis is based on US data for asset securitizations for the time period between 2000 and 2008. The paper finds that the shortfall of regulatory capital during the Global Financial Crisis is strongly related to ratings. The paper shows empirically that insufficient capital is allocated to tranches with the highest rating. The problem is exacerbated by the fact that these tranches account for the greatest part of the total issuance volumes. Furthermore, this paper is the first to calibrate risk weights which provide sufficient capital charges to cover the exposure during economic downturns. These policy-relevant findings suggest a re-calibration of RBA risk weights and may contribute to the current efforts to re-establish sustainable securitization markets.

PARALLEL SESSION C4 FINANCIAL CRISES

Chairman: Andrea Sironi

Consuelo Silva Buston (Tilburg University)

“Active Risk Management and Financial Stability: Theory and Evidence”

ABSTRACT

This paper analyzes the net impact of two opposing effects of active risk management at banks on banks' stability: higher risk taking incentives versus better isolation of credit supply from varying economic conditions. We develop an environment where banks actively manage their portfolio risk by buying and selling credit protection. We show that anticipation of future risk management opportunities allows banks to operate with riskier balance sheets. However, since they are better insulated from shocks than other banks, they are less prone to failure. Empirical evidence from US bank holding companies is broadly supportive of the theoretical predictions. In particular, we find that active risk management banks were less likely to fail during the crisis of 2007-2009, even though the balance sheet displayed higher risk-taking. These results provide an important message for bank regulation which has mainly focused on balance sheet risks when assessing financial stability. The evidence shown in this paper highlights the importance of the measurement of the overall risk exposure at banks, which turns out to be reduced as a result of successful credit risk management.

Ren-Raw Chen (Fordham University)

N. K. Chidambaran (Fordham University)

Michael B. Imerman (Princeton University)

Ben J. Sopranzetti (The State University of New Jersey, Rutgers)

“Anatomy of Financial Institutions in Crisis: Endogenous Modeling of Bank Default Risk”

ABSTRACT

Assumptions underlying structural credit risk models make it difficult to apply them for estimating default risk of financial institutions, given their complex liability structures and ongoing debt refinancing requirements. We develop a structural model of bank default risk based on a generalized binomial lattice framework. The model includes an endogenous default boundary and incorporates alternate refinancing assumptions. For example, we allow for the possibility of funding maturing debt by refinancing with new debt (i.e. rollover debt) or replacing debt with new equity (i.e. de-leverage). Financial institutions and regulators can tailor the approach and estimate default risk in rapidly changing market conditions. We implement the model for the case of Lehman Brothers in the midst of the 2008 Financial Crisis and are able to predict higher default probabilities in March of 2008, well before Lehman's bankruptcy in 2008. Our model is particularly useful in the context of capital adequacy for financial institutions, especially when analyzing the default probability estimates under the more conservative de-leverage assumption.



PARALLEL SESSION C4 FINANCIAL CRISES

Mark Mink (Dutch National Bank and University of Groningen)

“Bank Risk-Taking and the Lender of Last Resort”

ABSTRACT

We show that through facilitating maturity transformation, the Lender of Last Resort also stimulates banks to lever, diversify, and lower their lending standards. Bank leverage increases shareholder value because maturity transformation effectively allows banks to borrow against lower interest rates than their shareholders. Bank diversification enables banks to lever more. When competing banks pass on the gains from maturity transformation to their customers, lending standards deteriorate. Regulatory liquidity requirements effectively reduce risk-taking, but regulatory capital requirements can stimulate banks to diversify. This increases the correlation between their asset returns, which reduces the stability of the banking system as a whole.

Mohamed Azzim Gulamhussen (University Institute of Lisbon)

Carlos Pinheiro (Caixa Geral de Depósitos)

Alberto Franco Pozzolo (University of Molise, Italy)

“Were multinational banks taking excessive risks before the recent financial crisis?”

ABSTRACT

The recent financial crisis has clearly shown that the relationship between bank internationalization and risk is complex. Multinational banks can benefit from portfolio diversification, reducing their overall riskiness, but this effect can be offset by incentives going in the opposite direction, leading them to take on excessive risks. Since both effects are grounded on solid theoretical arguments, the answer of what is the actual relationship between bank internationalization and risk is left to the empirical analysis. In this paper, we study such relationship in the period leading to the financial crisis of 2007-2008. For a sample of 384 listed banks from 56 countries, we calculate two measures of risk for the period from 2001 to 2007 - the expected default frequency (EDF), a market-based and forward-looking indicator, and the Z-score, a balance-sheet-based and backward-looking measure - and relate them to their degree of internationalization. We find robust evidence that international diversification increases bank risk.

Frederic A. Schweikhard (Goethe University Frankfurt)

Zoe Tsesmelidakis (Goethe University Frankfurt)

“The Impact of Government Interventions on CDS and Equity Markets”

ABSTRACT

We investigate the impact of government guarantees on the pricing of default risk in credit and stock markets and, using a Merton-type credit model, provide evidence of a structural break in the valuation of U.S. bank debt in the course of the 2007-2009 financial crisis, manifesting in a lowered default boundary, or, under the pre-crisis regime, in higher stock-implied credit spreads. A possible explanation is the asymmetric treatment of debt and equity in rescue measures, which tend to favor creditors. The discrepancies are driven by several factors including firm size, default correlation, and high ratings, thus corroborating our too-big-to-fail hypothesis.

Hans Byström (Lund University)

“Estimating Asset Correlations Using Credit Default Swaps plus Stocks - An Empirical Study of European Firms”

ABSTRACT

In this paper we calculate asset correlations among a set of large European firms. The firms are selected from different industrial sectors and the correlations are estimated using the method suggested by Byström [Byström, H. “An Alternative Way of Estimating Asset Values and Asset Value Correlations”. *Journal of Fixed Income*, 21 (2), (2011), 30-38.]. This method uses credit default swap spreads as well as stock prices and leverage ratios to create a proxy for the correlation among the firms’ assets. In order to investigate the properties of these correlations, which are essential input parameters in typical modern credit risk models, we have chosen to look at asset correlations among the firms included in the iTraxx Europe credit default swap index. These firms are all large European firms selected from five different industries; Autos & Industrials, Consumers, Energy, Financials and Telecommunications, Media & Technology.

Janko Cizel (Lund University)

“Are Credit Rating Announcements Contagious? Evidence on the Transmission of Information Across Industries in Credit Default Swap Markets”

ABSTRACT

The aim of this paper is to empirically test for the presence of intra-industry informational transfers (IIIT) induced by rating signals in the markets for corporate credit risk. In particular, we study the intra-industry CDS spread responses to credit rating announcements made by S&P, Moody’s, and Fitch between January 2003 and March 2011. We find statistically and economically significant industry spread responses to the announcements made by S&P, and only marginally significant and insignificant industry spread responses to the rating signals of Moody’s and Fitch, respectively. This suggests that S&P announcements contain the largest component of the industry-wide information. In the case of S&P, we observe strong evidence in favor of contagious IIIT, implying that on the day of announcement the industry abnormal spreads tend to move in the same direction as the event-firm spreads. This finding holds across all four types of rating events, and in particular for the cases in which the event-firm spread reaction has its predicted sign (positive (negative) spread change in the case of negative (positive) rating news). The magnitude of the industry peer reaction (to S&P announcements) is found to be about 6% of the event-firm abnormal spread change. Stratification and multivariate regression analyses reveal a rich pattern of IIIT behavior across several event-firm, event, and industry characteristics. For negative rating events, contagious IIIT effects tend to be stronger when event-companies: (a) are relatively large (only in the case of downgrades), (b) come from industries with large industry peers, (c) have high degree of cash-flow similarity with their industry peers, (d) are highly leveraged, (e) have higher than industry-average credit rating before the event, and (f) come from relatively credit-worthy industries. For positive rating events, the contagious IIIT effects tend to increase with: (a) industry-peer cash flow similarity, and (b) degree of financial distress, characterized by below-average event-firm credit quality and low average industry credit quality. These results contribute to our understanding of credit risk correlations, and are consistent with recent theoretical models of credit risk correlations of Giesecke (2004) and Collin-Dufresne et al. (2010a).

Ekaterini Panopoulou (University of Piraeus)

Theologos Pantelidis (University of Macedonia)

“The forecasting performance of regime-switching models of speculative behavior for exchange rates”

ABSTRACT

This study provides evidence of periodically collapsing bubbles in the British pound to US dollar exchange rate in the post-1973 period. We develop two- and three-state regime-switching models that relate the expected exchange rate return to the bubble size and to an additional explanatory variable. Specifically, we consider six alternative explanatory variables that have been proposed in the literature as early warning indicators of a currency crisis. Our findings suggest that the regime-switching models are, in general, more accurate than the Random Walk model in terms of both statistical and especially economic evaluation criteria for exchange rate forecasts. Our three-state regime-switching model outperforms the two-state models and among the variables considered in our analysis, the short-term interest rate is the optimal variable, closely followed by imports, in both statistical and economic evaluation terms. Results are more promising for one-month predictions and are qualitatively robust to the calculated bubble measure.



SOCIAL EVENTS INFORMATION

Monday, June 18th 2012

Gala Dinner

Sponsored by Associazione Nazionale delle Banche Popolari

Anyone visiting Rome will sooner or later end up at the Piazza Venezia. This square is located in the heart of Rome, at the end of the Via del Corso. The eastern side of Piazza Venezia is now closed by Palazzo delle Assicurazioni Generali, beautiful location for your gala dinner. The historical building was completed in 1907 and very similar in shape and size to Palazzo Venezia. The facade is embellished by a fine Renaissance winged San Marco lion from Padua.

A shuttle service will be available from the preferential hotels only to the Palazzo of Assicurazioni Generali. Pick up at the hotels starting from 19.45 pm. Please note that exact pick up time depends on traffic. From the hotels it will take about 15 minutes to get to the location for the gala dinner. Our conference assistants will escort you from the preferential hotels to the Palazzo delle Assicurazioni Generali.



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



The IFC Corporate Governance Unit's primary role is to assess corporate governance practices of IFC clients. In addition, the CG Unit provides focused corporate governance training to IFC investment staff, advises IFC senior management on share-voting policies and on nominations of directors to the boards of client firms. The unit also leads IFC's participation in the global dialogue on corporate governance. By making corporate governance improvements, IFC clients are more successful in attracting capital, improving their performance, and can better weather financial crises. This in turn helps boost private sector development, creating jobs, improving the quality of living, and ultimately alleviating poverty through improved economic performance. As part of IFC's response to the ongoing worldwide financial crisis, the IFC Corporate Governance Unit launched a Risk Governance Program to enhance the capability of directors in emerging markets to oversee the risk management of the organizations for which they serve as board members. The implementation of the Risk Governance Program has been on-going for 18 months and sessions have been completed in 15 countries. The sponsorship of the IRMC 2011 is a part of the Risk Governance Program and is a complement to the Risk Governance Workshops. Our sponsorship has two main objectives with regards to the risk capabilities in emerging markets: -that emerging board members/academics that did not attend the in-country workshops will participate in this central event and that those who have attended earlier workshops will come to Amsterdam to advance their skills further -that the international/wider community of risk scholars and practitioners will focus on risk issues in emerging markets; addressing the special topic more frequently and including these issues in their research program.

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

CONFERENCE ORGANIZERS

Edward I. Altman

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

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

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



Roberto Moretti

European Forum of Deposit Insurers

Mr. Moretti has been Chairperson of the EFDI from 2004 and Secretary General of the FITD from 2001. He is a qualified lawyer and registered on the Italian Lawyer Rolls for Banks. Before his present positions as Chairperson, he worked with the Italian Banking Association (IBA) both as Head of the Human Resources Department where he restructured the IT system reorganised the department and reformed the complementary Employee Social Security Scheme. He was also Assistant to the President of the IBA.



Riccardo De Lisa

Associate professor of Economics of financial intermediaries at the Cagliari University

Riccardo De Lisa is an associate professor of Economics of financial intermediaries at the Cagliari University (IT). He is the Head of Research of the Italian Guarantee Scheme (FITD). He has been a member of the Forum FIN-USE of the European Commission (EC) and member of the Consultative Panel of the Committee of European Banking Supervisors (CEBS). As a risk financial expert, he served the IMF, the TAIEX (EC) and the World Bank. He is a co-author of the Basel 2 guide to SMEs of the EC, translated in 21 languages and of the SYMBOL model. He studied at Cagliari (IT), York (UK), NY (USA).



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