

NEWS

CENTER FOR
FINAN
CIAL
STUDIES

2/02



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research projects, conferences or individual presentations, and in this way contribute towards a wider portfolio of individual issues. We are especially pleased to welcome our Frankfurt colleague, Volker Wieland, as the new programme director for the field of Central Banking. Volker Wieland is Professor of Monetary Theory and Policy at the Goethe-University of Frankfurt and supervises the monetary research programme there. We have also been successful in enlisting Mark Wahrenburg, Professor of Finance and Banking and speaker of the department of finance at the Goethe-University of Frankfurt and Uwe Walz, from 1st September on Professor of Industrial Organization at the Goethe-University of Frankfurt, as programme directors for the field of "Venture Capital & New Markets in Europe". In addition, we would like to warmly welcome Stefan Mittnik, Professor for Empirical Economics and Statistics at the Christian Albrechts University of Kiel, who has agreed to take over the field of Risk Management with a particular focus on extreme value analysis.

"Change under competition" provides us with a great opportunity and at the same time it represents new challenges to our members and above all to our staff. We would therefore like to say a big thank you to all those involved for their support during the last few months. For the second half of the year we anticipate further impulses from the growing number of active national and international partners which we will be reporting on in the next newsletter. Should you have any questions about the contents of this newsletter then please call or contact us at www.ifk-cfs.de.

Best wishes,

Jan Krahen

Jan P. Krahen

Antje Becker

Antje Becker

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12th June

Notes from the latest Board Meeting

On 12th June, 2002 the Managing Board and the Board of Trustees Meeting as well as the Members' General Meeting took place under the direction of **ROLF-E. BREUER**, Chairman of the Managing Board of the Gesellschaft für Kapitalmarktforschung e.V. The agenda contained the reorganisation of existing research activities and the strategic outlook for the executive development programme.

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In the Members' General Meeting changes to the statutes (details on this can be found at www.ifk-cfs.de) and the setting up of the **Center for Financial Studies Foundation** were agreed. This foundation will provide the CFS with a long-term funding perspective for research (CFS has been funded hitherto by donations and members' contributions). Furthermore, the election and re-election of the Managing Board and Board of Trustees also took place.

We are thus very pleased to be able to take this opportunity to introduce the following **new Members of the Managing Board** of the Gesellschaft für Kapitalmarktforschung e.V.:

DR. JOSEF ACKERMANN, Spokesman and Chairman of the Group Executive Committee, Deutsche Bank AG, Frankfurt

NORBERT ENSTE, Partner, B. Metzler seel. Sohn & Co. KGaA, Frankfurt

MATHIAS HLUBEK, Chief Financial Officer, Deutsche Börse AG, Frankfurt, Vice Chairman, Treasurer

DIETER POSCH, Minister of Economics, Transportation, Urban and Regional Development
Ministry Economics, Transportation, Urban and Regional Development, Wiesbaden

AXEL WEBER, Chairman of the Board of Management, Deka-Bank Deutsche Girozentrale, Frankfurt, Vice Chairman

as well as the new **Members of the Board of Trustees**:

PROF. DR. RUDOLF STEINBERG, President, Goethe-University, Frankfurt

KARL-HEINZ WEIMAR, Minister of Finance, State of Hessen, Ministry of Finance, Wiesbaden

and **MANFRED ZASS**, Deputy Chairman of the Supervisory Board of Deutsche Börse AG, Frankfurt.

Thus, as of 12th June, 2002 the Managing Board and Board of Trustees members comprise:

Gesellschaft für Kapitalmarktforschung e.V. Managing Board

Dr. Rolf-E. BREUER
Chairman of the Supervisory Board,
Deutsche Bank AG, Frankfurt
(Chairman of the Supervisory Board
of Deutsche Börse AG)
Chairman

Mathias HLUBEK,
Chief Financial Officer,
Deutsche Börse AG, Frankfurt
Vice Chairman, Treasurer

Axel WEBER
Chairman of the Board of
Management, DekaBank Deutsche
Girozentrale, Frankfurt
Vice Chairman

Dr. Josef ACKERMANN
Spokesman and Chairman of the
Group Executive Committee,
Deutsche Bank AG, Frankfurt

Norbert ENSTE
Partner, B. Metzler seel. Sohn & Co.
KGaA, Frankfurt

Prof. Dr. Jan Pieter KRAHNEN
Director, Center for Financial
Studies, Frankfurt

Dr. Horst MÜLLER
Member of the Board of Managing
Directors of Dresdner Bank AG,
Frankfurt

Dieter POSCH
Minister of Economics,
Transportation, Urban and Regional
Development
Ministry Economics, Transportation,
Urban and Regional Development,
Wiesbaden

Prof. Dr. Rüdiger von ROSEN
Managing Director of Deutsches
Aktieninstitut e.V., Frankfurt

Prof. Dr. Reinhard H. SCHMIDT
Dean, Department of Economics,
Goethe-University, Frankfurt

Ernst WELTEKE
President of Deutsche Bundesbank,
Frankfurt

Gesellschaft für Kapitalmarktforschung e.V. Board of Trustees

Karl Otto PÖHL
President Deutsche Bundesbank
(retired), Frankfurt

President of CFS and Chairman of
Board of Trustees

Dr. Wolfgang GRAEBNER
Chairman of the Supervisory Board
of easetec European Asset
Securitisation Technology, Frankfurt
Vice Chairman

Dr. Norbert BRÄUER
Member of the Board of Managing
Directors of Landesbank Hessen-
Thüringen Girozentrale, Frankfurt

Gerhard BRUCKERMANN
Chairman and CEO of Dpfa
Deutsche Pfandbrief Bank AG,
Wiesbaden

Andreas DOMBRET
Managing Director, Rothschild
GmbH, Frankfurt

Claus DÖRING
Chief Editor of Börsen-Zeitung,
Frankfurt

Dr. Dieter FALKE
Chairman of the Board of Falke
Bank AG, Düsseldorf

Uwe FLACH
Deputy Chairman of DZ BANK AG,
Frankfurt

Dr. Jürgen FÖRTERER
Chairman of the Board of R + V
Versicherungsgruppe, Wiesbaden

Gerd HÄUSLER
Counsellor and Director of the
International Monetary Fund,
Washington D.C.

Dr. Martin HÜFNER
Executive Vice-President and Chief
Economist at Bayerische Hypo- und
Vereinsbank AG, München

Prof. Dr. Dr.h.c. mult. Otmar ISSING
Member of the Executive Board of
the European Central Bank,
Frankfurt

Max Dietrich KLEY
Deputy Chairman of the Board of
Executive Directors of BASF
Aktiengesellschaft, Ludwigshafen

Bernd KNOBLOCH
Member of the Board of Eurohypo
Aktiengesellschaft Europäische
Hypothekenbank der Deutschen
Bank, Frankfurt

Prof. Dr. Claus KÖHLER
Member of the Board of Directors
(retired) of Deutsche Bundesbank,
Frankfurt

EVENTS

CFS colloquium series

"Cross Border Financial Integration – Trends, Strategies and Lessons Learned"

Financial Services in Global Markets – Experiences and perspectives of Daimler Chrysler Services AG

KLAUS MANGOLD, Member of the Board of Management of the DaimlerChrysler Group, Stuttgart and Chairman of DaimlerChrysler Services AG, Berlin spoke on this subject within the framework of the CFS colloquium series "Cross Border Financial Integration – Trends, Strategies and Lessons Learned".

Today DaimlerChrysler Services AG, the public service company of DaimlerChrysler, focuses on financial and mobility services. Its contract turnover is approximately 120 Mrd. €, 15% of which is based in Germany, with the growth rate in double figures. The acquisition of shares in Hyundai Motor Company and Mitsubishi Motors Corporation has enabled DaimlerChrysler to improve its global market position and

secure better access to the growth markets of Asia.

The strong growth of the financial services sector stems from the liberalisation and globalisation of the markets. Owing to the progress which accompanies cost degression in the fields of information and communication technology and to the introduction of the euro, market transparency has risen and international competition has increased. A restructuring process has begun, giving rise to new market entrants from other branches and company mergers.

Up to 85% of the financial services business of DaimlerChrysler Services AG evolves around the vehicle sector. This is extremely important for the success of sales. 60% of the risks of production nowadays remain via sales financing in the car manufacturer's portfolio and a further 10% derives from fleet management and car rental services. Fleet management (the management of both commercial vehicle and car fleets outsourced by companies, as for example in the case of Siemens or the police forces of some of the Länder) is a dynamically expanding global business sector in which DaimlerChrysler Services with 250000 vehicles managed world wide has assumed the leading market position.

The field of mobility services includes, for example, the internationally viable telematic "Toll Collect" system, which enables the collection of toll fees on a completely electronic basis. In combination with the "Advanced Telematics" product, this also enables haulage contractors to make use of other services such as consignment monitoring.

The expansion of the financial services business was made possible by the acquisition of a fully-fledged banking licence and the setting up of the DaimlerChrysler Bank. Customer relationship management is thus now able to respond in greater depth and on a more individual basis to customer requirements. New customers are to be recruited and existing customer relations consolidated and expanded. In addition, it should become easier to exploit potential cross-selling opportunities, for example via credit card business. Sales are conducted via the existing outlet network, the call centre and the internet. The product portfolio of DaimlerChrysler Bank comprises deposit taking, savings plans, fund management and insurance services. The aim is to provide the customer with an excellent second bank.

The insurance services include insurance coverage for company risks, involving for example production plants and transport, insurance products tailored to suit the needs of car customers, brokerage services for non-vehicle related insurances of company-concerned businesses, traditional car insurance, innovative coverage concepts for car businesses, and special insurance products for fleet management.

Klaus-M. PATIG
Member of the Board of Managing
Directors of Commerzbank AG,
Frankfurt

Dr. Hans RECKERS
Member of the Governing Board of
the Deutsche Bundesbank, Frankfurt

Gerhard ROGGEDE
Member of the Managing Board of
Westdeutsche Landesbank
Girozentrale, Düsseldorf/Münster

Helmut SPÄTH
Member of the Board of Managing
Directors of Bayern-Versicherung,
München

Prof. Dr. Rudolf STEINBERG
President, Johann Wolfgang-Goethe
University Frankfurt

Stefan L. VOLK
Member of the Board of Managing
Directors of Gerling-Versicherungs-
Beteiligungs-AG, Köln

Prof. Dr. Karl-Heinz VOLLMER
Member of the Board of Managing
Directors of GZ-Bank AG (retired),
Karlsruhe

Karl-Heinz WEIMAR
Minister of Finance, State of Hessen,
Ministry of Finance, Wiesbaden

Manfred ZASS
Deputy Chairman of the Supervisory
Board of Deutsche Börse AG,
Frankfurt

Short Notice

We are pleased to be able to welcome
as new members to the Gesellschaft
für Kapitalmarktforschung e.V.:

Firm members:
Rothschild GmbH, Frankfurt
Weil, Gotshal & Manges LLP, Frankfurt

Individual members:
Aurelius Noell
Markus Warncke
Michael Kavadias

* "The Gesellschaft für Kapitalmarktforschung e.V." is the organisation
which sponsors the Center for Financial
Studies. Information on how to become
a member, please see CFNewsletter
2/01 or visit our homepage: www.ifk-fs.de

EVENTS

The stagnation of vehicle sales and the intense battle at the margin will raise the demand for financial services to support sales. At the same time the competition among commercial credit companies will intensify. DaimlerChrysler Services intends to meet this double challenge and make a contribution to the company's measurable wealth.

In this context the evaluation and provision of cover against credit risks takes on a particular significance. The codes discussed under the Basle II agreement on the equity securitisation backing of credits and the discriminative evaluation of credit risks support the measures planned in risk management by DaimlerChrysler Services AG. DaimlerChrysler Services anticipates as a result of the Basle II arrangements growth potential in its vehicle financing business.

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We asked KLAUS MANGOLD

What influence is the Basle II Treaty likely to have on your fields of business? What positive expectations do you have? and he answered:

"Best-practice risk management is a prerequisite for success in the financial services business. DaimlerChrysler Services already uses advanced tools and methods for the assessment and management of risk. With the Basle II Accord the fundamental principles of risk management also become the basis for the assessment of capital adequacy by the regulatory authorities. In the future, regulatory capital requirements can be based on the actual performance of the risk parameters of a lender's portfolio. Consistency between internal methodologies and regulatory methodologies in the area of capital allocation is a key benefit of Basle II."

A key aspect of the Basle II Accord is a more precise and differentiated view on credit risk supported by statistical methods. This sharpened view on risk leads to a more differentiated, risk-adjusted pricing and to increased competition. Excellent customer relationship management, and the ability to offer innovative and customized financial products as well as methodological expertise in risk management and pricing are the key success factors in this competition.

As a specialised automotive financial services provider we see ourselves well positioned in the competitive field. The fact that we focus on a well-defined business area gives us the opportunity to develop industry-specific tools for the assessment and management of credit risk, which allows us to take advantage of our deep and thorough understanding of the automotive market and its inherent risks and opportunities. The resulting excellence in risk assessment and management works to the benefit of our customers through the mechanism of risk-based pricing."

And what negative expectations do you have? and he answered:

"Pillars 2 and 3 of the Basle II Accord outline extensive supervisory review and reporting requirements. We support the core principle of ensuring the quality of risk information by the use of market discipline and close dialogue with the supervisory authorities. With this in mind, we are concerned about potentially excessive and disproportionate documentation requirements. We feel that such requirements should be developed in proportion to the inherent risk of the particular credit activities of different lenders."

Klaus Mangold



www.ifk-cfs.de

Integrated Financial Regulation: Lessons from the experience of the UK's Financial Services Authority

was the title of a presentation given by **HOWARD DAVIES**, Chairman of the Financial Services Authority (FSA) and Director of the Bank of England.



Howard Davies

Many independently operating regulators, for example, the regulators for banks, insurance companies and investment firms have been integrated in the FSA and the authority has assumed the previous responsibilities of 10 separate regulatory bodies. The FSA's field of operation is laid down by the Financial Services and Markets Act, which among other things lists the objectives of the authority to maintain confidence in the UK's market, to promote public understanding of the financial system, to protect consumers and to reduce financial crime. The FSA differs from the regulators of other countries in that it is able to take on more advanced legislative responsibilities for which in Germany, for example, the Bundesrat and Bundestag would need to be consulted. The FSA is in charge of regulation, supervision and legislation. It is responsible for authorising and licensing financial institutions, exerting disciplinary power and acts as either the civil or criminal prosecutor. Of course the exercising of these powers is rigorously monitored; the FSA does not regulate take-overs and oversee accounting standards directly or audit auditors.

The FSA has a highly integrated internal structure. For example, a major financial groups division operates the integrated supervision of complex financial groups. It would be inappropriate, given the convergence of sectors within the banking and insurance industries and the securities firms, to organise regulation on a sectoral basis. Furthermore, a single regulator is able to achieve economies of scale and scope and allocate resources more efficiently and more effectively. A single regulator also has a better chance of being able "to reconcile the potentially conflicting aims of prudential supervision and the conduct of business regulation", in the event, for example, of a potential bank run when it may be necessary to weigh up the protection of the depositors as a group against the right of the individual to information. A single regulator is also an advantage in that it implies clear and consistent accountability.

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Howard Davies discussed some points of criticism usually raised with respect to integrated regulation such as the incompatibility between prudential supervision and the conduct of business regulation, the reduction of the central bank's ability to monitor financial stability by divorcing prudential regulation from it. Davies did not agree with this line of argument since in his experience as the former Deputy Governor of the Bank of England there was very little overlap between the work of the supervisor and the monetary analysis division at the Bank. Moreover the arrangements in the UK "ensure that there are structural links between the FSA and the Bank of England, and a proper two-way flow of information". With respect to further criticisms, Davies cited ignorance about the international dimension of regulation also owing to the separation from central bank and the accompanying domestic focus, the lack of expertise and the focus on the problems of individual sectors because of the regulation dominance. This last point in particular, according to Davies, is to be taken very seriously. The FSA structure with separate decision-making bodies for all disciplines with statutory consultation processes and statutory consumer and practitioner panels is intended to ensure that power is kept in balance and exerted sensibly.

The question concerning the regulatory structure per se is not one which Davies deems to be particularly relevant: "I am comfortable with our own new model, and in the particular circumstances of the United Kingdom and the City of London. But far be it from me to argue, that this is the only workable solution."

Anke Leiser (CFS research staff)

Financial Market Development in Central Europe: The Banking Sector and Capital Markets

On 10th April, 2002 HANNA GRONKIEWICZ WALTZ, Vice President at the European Bank for Reconstruction and Development and former Governor of the Central Bank of Poland gave a talk in the lecture hall of Commerzbank AG.

The subject of this lecture was the "FINANCIAL MARKET DEVELOPMENT IN CENTRAL EUROPE: THE BANKING SECTOR AND CAPITAL MARKETS", which focussed specifically on the history and the difficulties involved in the transformation of financial institutions.

To explain to bankers who have been living in a planned economy the meaning of financial intermediation is not easy, she said, since they have been accustomed to having a central plan. Under such a regime there were no real interest rates, nor a real price of money. Once a year, everything was simply divided between different enterprises, which were not permitted to fail. When talking about financial intermediation, therefore, one of the main tasks was first to explain and then to enforce financial discipline. Moreover, she continued, it was very important to teach people about the relationship between risk and return. Ignorance with respect to how their risk should be undertaken seems, according to Gronkiewicz Waltz, to be one of the reasons why many enterprises as well as banks went bankrupt after 1989.

Whilst referring to the problems of the banking sector, Mrs. Gronkiewicz Waltz pointed out that in the first instance bankers had no credit history of borrowers and, moreover, it was difficult to predict their future cash flows or the volatility of interest rates, respectively, since inflation rates were very high. For instance in Poland it was 600% in 1989 (now it is 3.5%). The system of collateralisation, which had not been used previously, had to be introduced. In Russia, the Ukraine and the Baltic States the whole institutional structure had to be reconstructed, since they had neither the legal framework to enforce collateral, nor had they a banking supervision. Mrs. Gronkiewicz Waltz attributed the fact that the banking crisis in Poland in the 90s did not turn into a public crisis to, among other things, the installation of an appropriate, well trained banking supervision. She went on to point out that despite the banking supervision, which functioned fairly efficiently, about 40 commercial banks and about 120 corporate banks nevertheless had to be closed in Poland. There was a lack of skills and experience concerning the running of a bank under the new system, she said, and emphasised institution building to be a very important task.

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Hanna
Gronkiewicz
Waltz

Mrs. Gronkiewicz Waltz continued that even if in a country in transition banks were to operate with US bankers, UK supervision, German auditors, a French legal framework and Swiss supervisory boards the problem of loans possibly becoming an equity risk with no up side exists. She stated that this was inherently so since the proportion of non-performing loans is much higher in emerging than in developing economies owing to the different structures of the economies and the different risks involved.

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Mrs. Gronkiewicz Waltz went on to compare the bailout costs of banking crises as percentage of the GDP of several countries. Interestingly, the bailout costs of the banking crisis which happened for example in Sweden between 1991 and 1994 was about the same level as the one in Poland in the 90s. According to Mrs. Gronkiewicz Waltz, a big debate ensued in Poland and also in other countries about whether strong foreign banks were actually needed within a country in transition. She answered this question in the affirmative by saying that countries in transition need (foreign) banks that bring with them a "reputation" to be put at stake, in particular since local banks have no track record. They need banks with the objective of "arms length banking" rather than "related lending" in order to prevent a vicious circle of cheap credits based on relationships, which often lead local banks into solvency problems. Central and Eastern Europe appear to have learnt the lesson; in Estonia, Latvia, Hungary and Poland there are only a few state-owned banks and in 1999 in these countries more than 50% were under the ownership of foreign banks.

Turning to the stock market of transition economies, Mrs. Gronkiewicz Waltz presented numbers that underlined the low stock market capitalisation and the relatively low market liquidity. She attributed this to the fact that in comparison to emerging economies, for instance, transition countries had a much shorter history of market economy. Moreover, as she admitted, the best companies prefer to be listed in New York or at other foreign stock exchanges. Comparing the structure of institutional investors in transition economies with that of the UK, she depicted the relatively immense importance of pension funds and investment and mutual funds in the UK. Pension funds are of only small significance in transition economies, mainly because they were established quite late, she explained.

Before Gronkiewicz Waltz summarised the future challenges of transition economies, she stated that 11th September had had no serious impact on these economies. After a psychological downturn markets immediately returned to their previous levels.

She finished by emphasising the need to deepen market liquidity, to strengthen institutions in order to ensure the enforcement of laws and regulations and to establish good corporate governance, disclosure and transparency. She concluded by saying that the broadening of the asset base of institutional investors and the fostering of alliances or mergers of stock exchanges is essential for the further development of financial markets in transition economies.

Stefanie Franzke (CFS research staff)

Threats and Opportunities in International Asset Management

On 25th June 2002, **PIERRE RICHARD**, Chief Executive Officer of Dexia Group, gave a talk on "[THREATS AND OPPORTUNITIES IN INTERNATIONAL ASSET MANAGEMENT](#)". In his presentation he outlined the aims and strategies of Dexia Group for coping with both the problems and the benefits of globalisation and financial integration, within the business field of international asset management.



Pierre
Richard

He began by outlining the backbone structure of Dexia Group, which was created in 1996 by a first inter-European cross merger in this sector of industry. Although the central management functions are closely bundled, the core business lines of public and project finance, retail financial services and investment management services are geographically distributed between France, Belgium and Luxembourg. This geographical division into global, domestic and pan-European business lines has made it possible for Dexia Group to foster managerial expertise, placing clear priority thereby on a long-term business approach whilst at the same time keeping a low-risk profile.

Although private banking still accounted for half of Dexia's gross operating income in 2001, it is asset management that is really at the heart of cross business synergies within Dexia Group. With respect to the types of asset management, Dexia concentrates mostly on mutual and institutional funds, with the first type taking up more than 40 per cent of the group's whole asset management. In order to become one of the European Top 20 asset management institutions, Dexia has decided to actively respond to recent and expected developments in European financial markets. Therefore, as Richard pointed out, the management very carefully observes the main market trends with reference to both the advantages and disadvantages for Dexia's current business practice. In this context, Dexia's managers regard the following developments as being the most influential. First, the share of assets managed by third parties has strongly increased during recent years and is expected to grow further. Detrimentally, however, this has also shifted a large amount of market power to the different distribution channels. Secondly, whilst demographic trends will certainly favour funded schemes in future, thereby increasing the importance of fund management, the "pan-Europeanisation" of funds, which would be one of Dexia's strengths, will still need some more time to come into play. Thirdly, managers expect a strong shift to higher



margin products within the asset management industry, which should lead to a decreasing volume of bond funds and money market funds, whilst equity funds are believed to grow. Fourthly, Dexia suspects that the largely positive development in the profitability of asset management groups in the last few years will eventually lead to a declining growth rate. Additionally, Dexia states that European management groups should be prepared to experience even stronger competition from US houses in the future. However, in order to cope with the threats and opportunities of financial integration, Dexia Group not only carefully analyses general market trends. Rather, as Richard pointed out, Dexia is also concerned with changes in client structure. In this respect, a fairly strong rise in the public sector's demand for asset management as well as from the life insurance sector is expected. Furthermore, according to Richard, demand during the last years has been driven to an increasing extent by quality aspects, so that management decisions in the years to come will be assessed by their performance even more so than before. With reference to this aspect, Richard emphasised the importance of withstanding the temptation to do what everyone else is doing. Instead, he stressed that Dexia aims on an individual basis at positioning in the most profitable segments of the savings market with respect to its strength as an inter-European financial institution. In order to work its way into the top of the European financial industry as well as to strengthen its core competencies, Dexia Group has also completed several acquisitions throughout Europe during the last few years. Today, Dexia branches can be found not only in France, Belgium and Luxembourg but also in the UK, Jersey, Denmark, the Netherlands, Spain and Italy. Owing to these geographical enlargements combined with specialised positioning in the markets and the close observation of and reaction to long-term market trends, Richard considered Dexia Group to be well prepared to meet the challenges of international financial integration in the years to come.

Christina Metz (Goethe-University of Frankfurt)

supervision of firms in the US. He argued that the US Congress was just as much responsible as Enron and Arthur Andersen for the economic disaster. Indeed, he put forward the apparent inability of US members of Parliament in the past to improve the accounting system despite repeated warnings from the Financial Accounting Standards Board (FASB). He attributed this weakness to business lobbies, mainly those associated with the oil industry. Nevertheless, all things considered, he believes the system to be substantially sound. This lecture on a topic straight from the current headlines by such a prestigious professor attracted a large audience including many high-profile accountants. It was well received and gave rise to interesting debates between Zeff and the participants on, among other things, whether the International Accounting Standards should be adopted in the USA. Zeff was not inclined to believe that this would be an appropriate move. Stephen A. Zeff is a Professor of Accounting at Rice University, Houston. He was president of the American Accounting Association in 1986. In 1999, the AAA's International Accounting Section nominated him as the recipient of its International Accounting Educator Award. In 2001, Zeff received the Hourglass Award from the Academy of Accounting Historians, thus becoming one of the few to have been granted this award more than once.

Issam Hallak (CFSresearch staff)



Stephen
A. Zeff

CFSresearch lectures

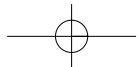
Joint Lunchtime Seminars

The Joint Lunchtime Seminars Series are a series of weekly research lectures inviting academics from other institutions to present their research in the fields of Monetary Economics, Macroeconomics, Finance and Econometrics. The speakers comprise both well-established senior researchers as well as those at the assistant and associate level from all over Europe and the United States.

Originally started in January 2001, the weekly presentations have become a fixed entry in the diary of many members of research institutions and central banks located in Frankfurt. As a result, seminars are usually accompanied by lively debates and subsequent discussions.

The Joint Lunchtime Seminars are organised by Philipp Hartmann (European Central Bank), Heinz Herrmann (Deutsche Bundesbank), Volker Wieland and Klaus Adam (both Goethe-University of Frankfurt and CFS).

Events



Events

EVENTS

Monetary Economics	
23 January 02	Jeffery D. Amato (Bank for International Settlements, Basel) "Inflation Targeting in Emerging Markets and Transition Economies: Lessons After a Decade" (Co-Author: Stefan Gerlach, Hong Kong Monetary Authority, University of Basel, CEPR)
6 February 02	Klaus Adam (University of Frankfurt) "Inflation Dynamics and Subjective Expectations in the United States"
20 March 02	Stefania Albanesi (IGIER, Bocconi University, Milano) "Time Consistency of Optimal Monetary Policy with Heterogeneous Agents"
27 March 02	Andreas Schabert (Köln University) "Monetary Policy and Real Wealth"
8 May 02	Matthias Brückner (University of Bonn) "Does Broad Money Matter for Interest Rate Policy?" (Co-Author: Andreas Schabert, University of Cologne)
22 May 02	Burkhard Heer (University of Bamberg) "Welfare Costs of Inflation in a Dynamic Economy with Search Unemployment"
5 June 02	Ilian Mihov (INSEAD, Fontainebleau, and CEPR) "Credibility and Flexibility with Monetary Policy Committees" (Co-Author: Anne Sibert, Birkbeck College, London and CEPR)
19 June 02	Petra Geerats (University of Cambridge) "How Transparent are Central Banks?" (Co-Author: Sylvester Eijffinger, CentER for Economic Research, Tilburg University)
Financial Economics, Econometrics and others	
9 January 02	Peter R. Hansen (Brown University, Providence) "An Unbiased and Powerful Test for Superior Predictive Ability, with a Comparison of Inflation-Forecasts"
16 January 02	Thomas Gehrig (University of Freiburg) "Information Sharing in Banking: A Collusive Device?" (Co-Author: Rune Stenbacka, Swedish School of Economics & Business Administration)
30 January 02	Mark Weder (Humboldt-University, Berlin) "Did Sunspot Forces Cause the Great Depression?" (Co-Author: Sharon G. Harrison, Dept of Economics, Barnard College of Columbia University)
13 February 02	Juha Tarkka (BANK OF FINLAND) "Stock Exchange Alliances, Access Fees and Competition" (Co-Author: Oz Shy, Bank of Finland)
20 February 02	Klaus Wälde (University of Dresden) "Too much money, too little trade?" (Co-Author: Jens Eisenschmidt, University of Dresden)
27 February 02	Bernd Fitzenberger (University of Mannheim) "Evaluating the Employment Effects of Public Sector Sponsored Training in East Germany: Conditional Difference-in-Differences and Ashkenfelter's Dip" (Co-Authors: Annette Bergemann and Stefan Speckesser, both University of Mannheim)
6 March 02	Matthew Pritsker (The Federal Reserve Board) "The Hidden Dangers of Historical Simulation"
13 March 02	Josef Zechner (University of Vienna) "Credit Risk and Dynamic Capital Structure Choice" (Co-Author: Thomas Dangl, University of Vienna)
3 April 02	Antonio Ciccone (Universitat Pompeu Fabra, Barcelona) "Trade and Productivity"
10 April 02	Martin Bohl (European University Viadrina Frankfurt, Oder) "The present value model of US stock prices redux: A new testing strategy and some evidence" (Co-Author: Pierre L. Siklos, Wilfrid Laurier University, Canada)
17 April 02	Wilko Bolt (De Nederlandsche Bank, Amsterdam) "Banking Competition, Risk, and Regulation" (Co-Author: A. F. Tieman, De Nederlandsche Bank)
24 April 02	Monique Belt (Studienzentrum Gerzensee and University of Bern) "Why are Recessions more Volatile than Expansions? A Theoretical Explanation"

15 May 02	David de Meza (University of Bristol) "In Defence of Usury Law"
29 May 02	Gerald Willmann (University of Kiel) "Why Legislators are such Protectionists: The Role of Majoritarian Voting in Setting Tariffs"
12 June 02	Martin Zagler (Vienna University of Economics & B.A.) "Sectoral Shifts, Dependant Self-Employment, and the New Economy"
26 June 02	Frank Heinemann (University of Munich) "Speculative Attacks as a Coordination Game; Experimental Evidence on the Impact of Public versus Private Information"
3 July 02	Oliver Kirchkamp (University of Mannheim) "Expectations view' on fiscal policy - An experiment using real world data" (Co-Author: Michele Bernasconi, Università dell'Insubria, Como/Varese)
10 July 02	Marco Ottaviani (London Business School) "The Strategy of Professional Forecasting" (Co-Author: Peter Norman Sørensen, University of Copenhagen)

CFSresearch conferences**Financial Globalisation:
A Blessing or a Curse?**

"**FINANCIAL GLOBALISATION: A BLESSING OR A CURSE?**" was the title of a conference organised jointly by **GRACIELA KAMINSKY** (George Washington University, Washington DC), **SERGIO SCHMUCKLER** (World Bank, Washington DC), and **AXEL A. WEBER** (University of Cologne and CFS). The conference took place on 30th – 31st May, 2002 in Washington. Five sessions covered the topics of "**GLOBAL BANKING**", "**FINANCIAL LIBERALISATION, BOOMS, AND BUSTS**", "**GLOBALISATION, INSTITUTIONS, MACROECONOMICS, AND POLITICS**", "**FINANCIAL GLOBALISATION AND GROWTH**", and "**FINANCIAL GLOBALISATION AND ASSET MARKETS**".



The first session "**GLOBAL BANKING**" was chaired by **ASLI DEMIRGÜC-KUNT** (World Bank). **MARIA SOLEDAD MARTINEZ PERIA** (World Bank) presented results about the impact of foreign bank penetration on the access of small and medium-sized enterprises to credit in developing countries. Using data from a large cross-country enterprise level survey, she concluded that foreign bank participation improves financing conditions (both quantities and terms) for enterprises of small sizes. **ALLEN BERGER** (Federal Reserve Board) and **DAVID SMITH** (Federal Reserve Board) investigated two dimensions of bank globalisation, bank nationality and bank reach. Analysing a data set of 2000 foreign affiliates of multinational corporations operating in 20

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European nations, they found that these firms frequently use host nation banks for cash management services, and that bank reach may be strongly influenced by this choice of bank nationality. Their results suggest limits to the degree of future bank globalisation. **JORGE ROLDOS** (IMF) examined the evolution of market structures in emerging markets banking systems during the 1990's. Despite a significant process of bank consolidation, he did not find evidence for increased concentration as measured by standard indices. His results suggest that markets have not become less competitive.

The second session "**FINANCIAL LIBERALISATION, BOOMS, AND BUSTS**" chaired by **PHILIP SUTTLE** (World Bank) was opened by **PIERRE GOURINCHAS** (Princeton University) and **OLIVER JEANNE** (IMF), who analysed the benefits of capital account liberalisation for emerging market economies. They showed that conventionally measured welfare gains from convergence achieved by foreign capital inflows appear relatively limited for the typical emerging country. Their approach emphasises that poor countries face a number of micro-distortions which lower the return to capital, possibly below world interest rates. **HÉLÈNE REY** (Princeton University) investigated the impact of financial globalisation on asset prices, investment, and the possibility of crashes driven by self-fulfilling expectations in emerging markets. She concluded that symmetric liberalisation of capital outflows and inflows increases asset prices, investment, and income in emerging markets. However for intermediate levels of international financial transaction costs, she found that pessimistic expectations can be self-fulfilling, leading to a financial crash. Financial markets are more prone to financial crashes simply because they have lower income levels and not because of the existence of market failures, bad monetary policies, or exchange rate regimes. Graciela Kaminsky (George Washington University) examined the dynamic effects of domestic and external financial liberalisation on financial markets by analysing financial liberalisation in twenty-eight mature and emerging market economies. Her results indicate that while financial liberalisation may trigger financial excesses in the short-run it also triggers changes in institutions supporting a better functioning of financial markets.

MICHAEL MOORE (George Washington University) chaired the session on "**GLOBALISATION, INSTITUTIONS, MACRO-ECONOMICS, AND POLITICS**". **CARMEN REINHART** (IMF and University of Maryland) found that financial liberalisation delivers higher real interest rates, lower investment, but no lower growth, a higher level of foreign direct investment,

and a high gross capital flow, but the catch is that this is only the case in the higher income countries. Analysing 369 firms **PETER HENRY** (Stanford University) found that in the first year capital-poor countries open their stock markets to foreign investors, the growth rate of their typical firm's capital stock exceeds its pre-liberalisation mean by 4.1 percentage points and in each of the next three years by 6.1 percentage points. However, there is no evidence that differences in the liberalisation-induced changes in the cost of capital or investment opportunities drive the cross-sectional variation in the post-liberalisation investment increases. **LUIGI ZINGALES** (University of Chicago) showed that the development of the financial sector does not change monotonically over time. Moreover, cross country differences in financial development change considerably over time. Since these patterns are not fully consistent with structural theories, he proposed instead an "interest group" theory. **SIMON JOHNSON** (MIT) found that institutional problems and not poor macroeconomic policies are responsible for volatility and crisis. Distortionary macroeconomic policies are more likely to be symptoms of underlying institutional problems rather than the main cause of economic volatility.

Session four on "**FINANCIAL GLOBALISATION AND GROWTH**" was chaired by **HALI EDISON** (IMF). In the first paper, **CHRISTIAN LUNDBLAD** (Indiana University) found evidence that equity market liberalisations lead, on average, to a one-percent increase in annual real economic growth over a five-year period. Both investment and factor productivity increase after liberalisation. In the second paper **ARTURO GALINDO** (Inter-American Development Bank) showed that financial liberalisation, mainly in the domestic financial sector, promotes growth in sectors which are intensive in external funding. The result is robust to the fact that financial reforms usually come with other structural changes. Finally, **ROSS LEVINE** (University of Minnesota), using new statistical techniques and two new databases, found that the exogenous component of foreign direct investment (FDI) has no robust, independent influence on growth.

The next session, chaired by **ANTOINETTE SCHOAR** (MIT), was about "**FINANCIAL GLOBALISATION AND ASSET MARKETS**". **ANDREW KAROLYI** (Ohio State University) examined the question why foreign firms listed in the US are worth more than firms from the same country that are not listed in the US. They found that growth opportunities of cross-listed firms are more highly valued because they are better able to take advantage of these opportunities and

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because a smaller fraction of the cash flow is expropriated by controlling shareholders. **ENRICO PEROTTI** (University of Amsterdam) found that successful privatisation and financial liberalisation in emerging countries have increased confidence in government policy. The resulting resolution of policy risk has been important for the broadening and deepening of their stock markets. **STIJN CLAESSENS** (University of Amsterdam) looked at the effects of economic and financial development on stock markets. On the one hand, more developed countries have larger and more liquid markets. On the other hand, the degree of migration to international exchanges also increases.

In the concluding panel, moderated by **JERRY CAPRIO** (World Bank), **STANLEY FISCHER** (Citicorp), **JEFFREY FRANKEL** (Harvard University) and **KENNETH ROGOFF** (IMF) discussed the central topic of the conference: Financial globalisation: A Blessing or a Curse?

Marco Hoeberichts/Elke Hahn (CFSresearch staff)

European Monetary Union was a big blessing in this environment, and thirdly, with respect to the M3 indicator, he said that even after changing its definition the indicator was completely unhelpful and furthermore it was confusing for communication. **FABIO CANOVA** (University Pompeu Fabra, Barcelona and London Business School) found little evidence of surprising ECB movements in 2001. Compared to the monetary rule of the Fed, the ECB was slower to cut interest rates, but cut them by similar amounts. He evaluated the ECB communication strategy as unsatisfactory.

The CEPS Report 2002 was presented by **DANIEL GROS** (Centre for European Policy Studies, Brussels) and **CARLO MONTICELLI** (Deutsche Bank Research, London). This report was not only concerned with the ECB but also with economic problems in Euroland. Daniel Gros stressed that the slowdown in productivity in Euroland limits room for manoeuvre for both fiscal policy and the ECB. Carlo Monticelli explained that there were no clear monetary policy mistakes in 2001. He raised the criticism that money was still assigned a prominent role in the first pillar of the ECB monetary policy strategy. Further criticism was aimed at transparency and communication policies. He conceded, however, that noticeable improvements in communication had been made.

JUAN J. DOLADO (Universidad Carlos III de Madrid) presented the Observatorio del Banco Central Europeo (OBCE). Although stating that the ECB has not fulfilled its target in the recent year, he argued that modifying the target would induce a larger loss in credibility than continuously not fulfilling the target and therefore suggested that the current inflation target be maintained. He also suggested clarifying the meaning of "the medium term" and proposed that it be defined as two years.

STEVEN CECCHETTI (Ohio State University) explained that inflation in the euro area rose due to external factors and that monetary policy eased as the economy slowed. With respect to communication and transparency he emphasized that the markets should react to data and not to the policymakers and concluded that the ECB has done especially well in this respect. The ECB should, furthermore, find a way to explain the nature of disagreements in the Governing Council. In his opinion the best solution would be to publish the minutes. **MARCO MAZZUCHELLI** (San Paolo IMI, Milan) attested the ECB a successful handling of the multiple "special events". He also detected signs of improvements in the ECB communication strategy such as the fact that the ECB is now speaking with one

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voice and there is consistency between the press conferences and the monthly bulletin.

OTMAR ISSING (ECB) stressed the importance of the conference for the ECB. Looking back, the ECB has faced many challenges in the past period such as oil price shocks, Y2K, the cash change-over and the 11th September events. All in all, the Bank has managed these challenges well as witnessed by measures of inflationary expectations and confidence in the euro. Criticism of the ECB concentrates on two issues, i.e. the definition of price stability and the two-pillar strategy. Critics argue that the ECB's definition of price stability focuses too much on the upper bound, but in fact the objective is symmetric, with zero being the lower bound. Another criticism is that the ECB's definition of price stability (0-2%) is excessively ambitious. Research suggests that with an inflation rate as low as 1%, the risk of reaching the zero bound for nominal interest rates is quite small. Finally, it was argued that the definition of price stability leaves little room for relative price movements due to the Balassa-Samuelson effect. This risk is small for the current EMU members but plays a bigger role for the accession countries. However, these economies are relatively small and the convergence criteria make sure that entrants have a low level of inflation. Another object of criticism is the two-pillar strategy. The distinction between inflation targeting and the ECB strategy is often over-emphasized. Furthermore, empirical evidence shows that money is important for medium and long term price dynamics, which the two-pillar strategy takes into account.

The panel discussion on the topic of EU enlargement was chaired by **VITOR GASPAR** (ECB). It started with a presentation by **CHRISTIAN THIMANN** (ECB), focussing on four issues which are important with respect to the accession countries. In the case of nominal convergence, the rate of inflation is low and the performance is good. As far as real convergence is concerned, there is still a long way to go before income per head approaches the EU-average. Different countries have chosen different exchange rate regimes to prepare for ERM II, but in many countries the role played by the euro is increasing. Finally, the financial sectors in accession countries remain small and dominated by foreign institutions. Ricardo **BARBIERI HERMITTE** (Morgan Stanley) argued that the main question for financial markets was about the timing of accession. Looking at ever-increasing interest rate convergence, the market would appear to expect EMU-entry by 2008. **CARLO BASTASIN** (La Stampa) stressed the importance of political leadership in the process of accession; costs and benefits

will be unequally distributed both over time and geographically and politicians will have to explain this to the public. **LASZLO HALPERN** (CEPR and Institute of Economics, Budapest) compared the accession process and entry into EMU to the latest enlargement, during which some countries were very successful in quickly reducing the inflation rate to meet the convergence criteria. **ILIAN MIHOV** (INSEAD) argued that the rationale for the convergence criteria should be rethought. The inflation criterion in particular might be inconsistent with the exchange rate criterion in the presence of Balassa-Samuelson effects.

The final panel, chaired by **IGNAZIO ANGELONI** (ECB), was devoted to the topic of international economic linkages and policy co-ordination. **MARTIN EICHENBAUM** (Northwestern University) put forward three different definitions of "policy coordination". Coordination can refer to the provision of information, reactions to cross-border developments or to policies and the sharing of goals (between monetary authorities). He considered the exchange of information and sharing of common goals, such as low inflation and high growth, to be very important. On the other hand, he found that the correlations among business cycles in the US, Europe and Japan have shrunk over time and thus it is doubtful whether large gains in policy coordination could be expected. Daniel Gros (Centre for European Policy Studies, Brussels) questioned the usefulness of policy coordination between fiscal and monetary policy. He found that fiscal policy has no positive effect on private sector GDP owing to a more than 100 percent crowding-out effect and stated that the effects of fiscal policy on prices were basically zero as well. **JOHN LIPSKY** (JP Morgan) pointed out that in the G7 countries both inflation and growth dispersion are at 40-year lows. This is different to previous recessions, where both inflation and growth dispersion rose to higher levels. Apparently, there has been a global shock and a coordinated policy response. **GUIDO TABELLINI** (Bocconi University) argued that information exchange between policymakers is useful but stronger fiscal policy coordination is undesirable because it might lead to more social programmes and might impair central-bank independence.

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CFresearch activities**ECB-CFS Research Network**

The European Central Bank and the Center for Financial Studies started a Network Initiative to promote research on “**CAPITAL MARKETS AND FINANCIAL INTEGRATION IN EUROPE**”. The Research Network took up its activities with a launching workshop at the ECB in Frankfurt on 29th-30th April 2002.

Introducing the ECB-CFS Research Network

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The ECB-CFS Research Network Initiative focuses on European financial integration and financial system structures in Europe. It aims at co-ordinating and stimulating top-level and policy-relevant research that significantly contributes to the understanding of the structure and integration of the financial system in Europe and its international linkages with the United States and Japan.



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The Research Network is organised by **FRANKLIN ALLEN** (Wharton School, University of Pennsylvania), **GIANCARLO CORSETTI** (University of Rome III and Yale University), **JEAN-PIERRE DANHINE** (University of Lausanne), **VÍTOR GASPAR** (ECB), **PHILIPP HARTMANN** (ECB), **JAN PIETER KRAHNEN**, (Goethe-University of Frankfurt and CFS), **MARCO PAGANO** (University of Salerno), and **AXEL A. WEBER** (University of Cologne and CFS).

The format is a Network, whose key feature should be a strong interaction between researchers in the ECB, other Eurosystem central banks, other official institutions and the academic sector, in order to exchange information and ideas, and to exploit potential synergies. Empirical, institutional and theoretical research is equally welcome. Academics and policy-oriented researchers are invited to join the Network on the basis of a two-sided commitment. The ECB and the CFS provide funding for meetings and conferences (jointly with local organisers), maintain a Network web site at <http://www.ifk-cfs.de/english/homepage-ecbcfs.htm> and act as the intermediary for contacts between academic and central bank Network Members. Members are expected to produce original research in the field of the Network, present it in the workshops and conferences of the Network, make it available on the Network web site, and publish the results in top academic journals.

Research covers European banking, credit, money, bond, equity and derivatives markets, including settlement systems and settlement costs. Trends towards securitisation and a possible convergence of the European bank-based financial system towards a more market-based financial system figure very highly on the agenda. A detailed “roadmap” of the initiative describing the scope of the Research Network and highlighting concrete issues where new research looks particularly promising and/or necessary is available at the web site of the Research Network. The launching workshop on 29th-30th April 2002 was devoted to two main topics: “**EUROPEAN DEBT MARKET STRUCTURES**” and “**FINANCIAL LINKAGES BETWEEN EUROPE, THE US, AND JAPAN**”.

The Launching Workshop of the ECB-CFS Research Network

The workshop combined “agenda setting” academic talks, research paper presentations, key note addresses by ECB Executive Board Members and a plenary panel discussion. In three areas leading academic experts gave an overview

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of the state of the art in their respective fields and indicated the following potentially promising directions for future research:

1) The structure of financial systems 2) European financial integration and 3) Global financial linkages

During the second day, research papers selected through a Call for Papers on European debt markets and international financial linkages were presented and discussed. The second day ended with a panel discussion, that included **DAVID WRIGHT**, the Director Internal Market of the European Commission, and **ALBERTO GIOVANNINI**, who chairs a main advisory group of financial market participants. Throughout the workshop, three ECB Executive Board Members, **OTMAR ISSING**, **TOMMASO PADOA-SCHIOPPA** and **SIRKKA HÄMÄLÄINEN**, gave the key note addresses. Here, only the "agenda setting" part of the workshop is reported. The full programme of the launching workshop including the documents underlying the presentations and a more detailed summary are available on the web site of the Network at <http://www.ifk-cfs.de/english/homepage-ecbcfs.htm>.

JAN P. KRAHNEN (Goethe-University of Frankfurt and CFS) welcomed those attending the workshop and introduced **OTMAR ISSING**, who delivered the opening keynote speech on "**MONETARY POLICY IN AN ENVIRONMENT OF GLOBAL FINANCIAL MARKETS**". In his speech, Issing stressed how financial markets are essential for the transmission of monetary policy. Monetary policy sets only the current short-term interest rate, but for today's investment decisions future refinancing conditions are also relevant. In this context, the monetary policy strategy is crucial for providing the markets with a reference against which new information can be consistently evaluated. The more predictable monetary policy is, the smoother its implementation will be, since the market can adjust interest rates in anticipation of policy actions. Therefore, the understanding of the determination of asset prices needs to be widened and deepened. This is especially true for financial markets in the euro area, which have seen the most remarkable pace of change among all developed financial markets over the last few years. Issing encouraged new research in the field of financial linkages, global trends and other factors determining the evolution of financial markets in Europe. In addition, new ways to extract market information and expectations, as well as a better understanding of the transmission mechanism of monetary policy to the real econo-

my through financial markets, are highly relevant questions for policy makers.

1) The structure of financial systems

This session was chaired by Jan P. Krahenen and started with Franklin Allen presenting his views on "**THE STRUCTURE OF FINANCIAL SYSTEMS AND FINANCIAL STABILITY**". Allen started by pointing out how the difference between the Anglo-Saxon market-based system and the German-style bank-based system is the central theme of the research agenda on the structure of financial systems. The focus of theoretical and empirical research has been on market-based systems; more work is needed on the advantages and disadvantages of the bank-based system. Issues that need to be addressed fall in four categories. First, the organisation of the financial system influences risk-sharing by households, which is one of the most important functions of the financial system. This raises questions about the risk of the average household's portfolios in bank-based and market-based systems. Second, the relationship between the availability of information and the allocation of resources in bank-based systems deserves more attention. Third, market-based systems seem more successful than bank-based systems in financing new firms. This raises the question about the best way to finance start-ups. Finally, the relationship between financial integration and the Euro is an important topic for research. The proposed research agenda on financial stability contains four categories, as well. First, the relationship between the type of financial system (bank vs. market-based) and financial stability is of great relevance. For example, to what degree are market-based financial systems susceptible to financial crisis (e.g., long term capital management)? Or, is the regulation of banks a desirable way to ensure financial stability? Second, the large and rapid effect of financial crises on the real economy is an important topic. Third, the link between financial fragility and contagion needs to be explored further. How important are contagion and financial fragility in practice and what mechanisms trigger them? Finally, do competition in the financial services industry and financial stability go together?

In the second part of the session, **ELI REMOLONA** (Bank for International Settlements) presented his views on "**MICRO AND MACRO STRUCTURES IN FIXED INCOME MARKETS: THE ISSUES AT STAKE IN EUROPE**". He discussed issues related to the effects of the euro on market functioning (in providing liquidity and forming prices) by distinguishing between size and structural effects. Clearly, an interesting research topic in this field is the measurement

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of liquidity in European fixed income markets (e.g., the price impact of trade, focusing on the role of private information). The assessment of the structural differences between European and US markets is important as well. This includes differences in the mix of major players, the market microstructures, the benchmarks, the informational structures and the way the central bank operates in the markets. The second part of Remolona's talk focussed on the competition among various market microstructures. Understanding the mechanisms of this competition would be helpful in coming to grips with such issues as the advantages of electronic trading, the optimal level of transparency, the role of inter-dealer markets and the formation of benchmarks. Finally, the issues about how prices in fixed income markets reflect fundamentals (factors that affect asset values but are exogenous to the process of providing liquidity), including fundamentals about the underlying economy and about credit risk, are important as well. The top three research issues for Remolona are 1) the role of inter-dealer markets (trading among dealers plays an essential role in the price discovery process), 2) the benchmark tipping process (the trading process leads to critical threshold of activity in one of the instruments as pricing reference) and 3) the behavior of default risk premia.

The talk by COLIN MAYER (Oxford University), "CORPORATE GOVERNANCE AND LEGAL STRUCTURES", was originally due to take place on the first day, together with Allen and Remolona, but owing to Mayer's scheduling conflicts, it had to be postponed until the following day. For coherence, we are summarising it under this section, rather than with the submitted papers, as indicated in the programme. Mayer reviewed the developments of corporate finance, starting with complete markets models, moving through information and incomplete contract models, up to the political economy of finance. He focussed on how both theoretical developments and empirical evidence have shaped the research agenda in this field. Starting from a point of view where nothing matters (Modigliani and Miller), corporate finance has now expanded in many directions, including financial institutions, corporate governance, law and finance. Great attention has been given to the role of law in the development of a financial system. The significance and quality of the legal system was emphasised by the introduction of incomplete-contract models. One prediction of this branch of literature is that whenever the legal system performs poorly, we should observe that non-market processes play a more prominent role. On the other hand, the political economy of finance stresses that law and regulation are an outcome of lobbying, and

therefore cannot be treated as exogenous. What emerges from the empirical literature is that there is no convincing evidence that favours one theory over another in explaining differences in financial systems. Nevertheless, further understanding of these issues is of utmost importance, not least for policy making. According to Mayer, if one shares the view that different systems are suited to different activities, the implication is that policy should be enabling rather than restrictive or prescriptive. According to Mayer, the ECB-CFS Research Network can play an important role in terms of identifying research agenda, facilitating research activities in this area through workshops, and particularly encouraging exchange of data as well as ideas.

Owing to time constraints, there was no discussion after Allen's and Remolona's presentations. ANTONIO SÁINZ DE VICUÑA (ECB) asked Mayer's view on the conflict between harmonisation and competition, in the context of the European Union. In particular, he was worried about the risk that competition might hamper the purposes of regulation. According to Mayer, harmonisation is important, especially in the regulation of certain parts of the financial system. However, provided there is a good standardised information disclosure, and provided that the systemic risks associated with bank failures are not present, one can argue quite strongly for differences in regulatory structures and competition between different systems. JAN P. KRAHNEN pointed out how most of the empirical work is carried out on German and UK data. He asked whether there is a need for more analysis focussing also on the other European countries. Mayer thinks that this is precisely the sort of requirement that arises in this area of research. There has been very little serious international comparative work that tries to use standardised data banks and techniques across countries.

2) European Financial Integration

JEAN-PIERRE DANTHINE was the chair of this session.

The first speaker, MARCO PAGANO, talked about "MEASURING FINANCIAL INTEGRATION". His talk was based on the report prepared by the Centre for Studies in Economics and Finance for the European Commission, "Study to analyse, compare, and apply alternative indicators and monitoring methodologies to measure the evolution of capital market integration in the European Union" authored by himself, Klaus Adam, Tullio Japelli, Annamaria Menichini and Mario Padula. He evaluated the degree of European financial integration by looking at indicators in four broad categories: 1) indicators of credit and bond market integration, 2) indicators of stock market integration, 3) indi-

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cators of integration based on economic decisions of household and firms, and 4) indicators of institutional differences. When theoretical benchmarks are available, he uses β -convergence and σ -convergence indicators. These indicators are taken from the growth literature. β -convergence regresses the average growth rate on the initial level of the variable of interest and interprets a negative correlation as a sign of convergence. This is interpreted as a measure of the speed of adjustment of single countries towards the long-run benchmark value. σ -convergence, on the other hand, measures whether there is a tendency for countries to become more similar over time in terms of deviations from the benchmark, and it is computed as a cross-sectional standard deviation of a variable. Pagano's preliminary conclusions suggest that: A) convergence in credit and bond markets should be achieved soon. It is important to monitor the evolution of the share of foreign assets held by the national banking sectors, in order to get a measure of the home bias and therefore of the degree of market segmentation of European credit markets. B) the monitoring of stock market integration should be done by using quantity-based indicators, such as the share of equities managed by equity funds with an international investment strategy. C) indicators based on household decisions are rather volatile and hence unreliable. One should focus instead on indicators based on the decision of firms, such as those based on merger and acquisition activity.

XAVIER VIVES (INSEAD) talked about "INDUSTRIAL ORGANISATION OF BANKING, BANK COMPETITION AND BANK MARKET INTEGRATION". He started by pointing out how over the last sixty years the banking system has moved from regulation, intervention and stability towards liberalisation and greater instability. This resulted in an increase in competition, disintermediation, market integration, financial innovation and financial fragility. Adding to these factors, technological change in information technology and communications paved the way to a radical transformation of the banking sector. Banking business witnessed a major consolidation wave and moved from taking deposits and granting loans to provision of services to investors and firms. Such developments pose key questions. Is too much competition in the banking sector potentially harmful, by increasing instability? Does the consolidation wave pose a threat to competition? Is the Internet and globalisation making banking contestable, thus reducing the scope for public intervention and competition policy? What is the impact of mergers? Modern industrial organisation and financial intermediation analysis may provide useful tools to answer these questions. What emerges is that there is a

danger of both excessive competition and excessive market power. The reason is that banking is a multi-product industry, with different levels of competition in different product markets. Thus the optimal level of competition depends on the institutional characteristics of regulation and on bank soundness. The implication is that different countries may have different optimal levels of competition intensity. Countries with a sound legal structure can benefit from vigorous rivalry. To the contrary, economies with weak institutional structures and high social costs of failure should moderate the intensity of competition.

In the discussion, PHILIPP HARTMANN (ECB) pointed out how the current literature is divided about the desirability of competition in banking. One line of thought, based mainly on empirical contributions, supports it for efficiency reasons, while the other, built more on theoretical arguments, is against it for stability reasons. He asked whether the speaker would feel that the current situation in banking suggests more attention to competition or stability. Vives responded that the period in which banks were strictly regulated implied huge efficiency losses. The key question we need to answer is what is the optimal degree of competition. His impression is that banking can take quite a bit of competition as long as it is regulated appropriately. MARCO PAGANO stressed the difficulty of defining integration in banking. He suggested that when a company can issue debt and take credit from banks in different countries at the same terms, that would be a sign of integration. He then asked the following questions: How to make this definition operational at the data level? Can we ever measure integration? Vives thinks that these are very important issues, but that there are no clear-cut answers. For example, in retail, deposit and services markets there may be differences in preferences and culture that explain variations in conditions. The consequence is that these differences need not be sub-optimal. The law of one price might not make sense for some of these products.

3) Global Financial Linkages

The last session of the day was chaired by AXEL A. WEBER, PHILIPP LANE (Trinity College Dublin) in his presentation on "GLOBAL FINANCIAL LINKAGES: SOME THEORY AND EMPIRICS", stressed the importance of gross asset trade and net trade flows for the link between global financial integration and macroeconomics. Whilst according to theory gross asset trade is driven by international diversification and risk sharing needs, reported net trade flows would be the result of efficient capital allocation and consumption smoothing objectives. Concerning gross asset trade, global

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factors like different risk aversions of different types of investors determine asset pricing and could be used to explain systemic risk events and contagion effects. International financial exposure gives also rise to international wealth effects, which are at the focus of recent international macro research. Lane also mentioned the importance of improving the data situation in terms of cross-border stocks and flows. Owing to the increasing importance of valuation effects, net foreign asset positions are very difficult to measure. Using the accumulated current account as a proxy can be highly misleading. Caution is also warranted in deriving data on net investment income. The reverse sign of average net foreign asset positions and net investment income for many countries are the result of asset returns exceeding (falling short of) liability returns for debtor (creditor) countries. Detailed data are thus essential to analyse the effects of net trade flows. As topics for future research, Lane suggested to analyse international monetary policy co-ordination in view of incomplete risk sharing, to look at non-fundamental explanations for capital flows, reconsider the issue of exchange rate misalignments and to further investigate global financial panics and contagion events.

GIANCARLO CORSETTI, “**GLOBAL FINANCIAL LINKAGES AND OPEN-MACRO MODELS**”, provided an overview of the new-open macroeconomics literature stressing the importance of cross-border goods market segmentation. The recent literature follows earlier developments in international finance in showing that market imperfections provide the foundation for new cross-border spillover effects, which here are represented by relative price adjustments in the goods market, i.e. movements in the terms of trade. Empirical evidence suggests that there is a need for models with both goods and asset market segmentation. This should lead to rethink the determination of exchange rates and its role in the international transmission mechanism. This international transmission channel will affect optimal policy rules as well. There are many approaches to model goods market segmentation. Corsetti mentioned simple shipping costs, diverse cross-country preferences for home and foreign goods, nominal rigidities such that firms can decide whether to price their goods in their home currency (producer currency pricing) or in the export market's currency (local currency pricing), and distribution costs paid in local currency. He advocated a new and promising approach for modelling goods market segmentation, which is the vertical integration between firms located in different markets (according to some estimates 70% of international trade is intra-firm). This modelling approach is able to reproduce several attractive features, among which local

price-discrimination, an incomplete exchange rate pass-through, high exchange rate volatility and the possibility of multiple equilibria. Corsetti suggested that future macro research should continue to increasingly rely on industrial organisation results and focus on the vertical integration of firms, taking into account their location decisions.

In the discussion, **HARALD HAU** (INSEAD) pointed out that on first sight the two contributions in this session appear quite “orthogonal” to each other, the first stressing the importance of capital flows and the second claiming more attention for the micro-structure of goods market segmentation. This focus of the recent theoretical literature was considered odd due to the fact that trade flows only explain a minor share of today's capital flows. Giancarlo Corsetti argued for patience, as researchers are trying to extend the finance part of the new-open macro models, like previously the finance literature had been improved by incorporating the real side of the economy. Axel A. Weber stressed the similarities between international macro theory and international finance as both continue to further explore the importance of frictions in their respective fields.

*Anke Leiser (CFS research staff), Bernd Kaltenhäuser (former CFS research staff),
Simone Manganelli and Carsten Detken (both ECB)*

PROGRAMME AREA “VENTURE CAPITAL & THE NEW MARKETS IN EUROPE”

Within the framework of the Programme Area “**VENTURE CAPITAL & THE NEW MARKETS IN EUROPE**” first results for the empirical studies carried out in collaboration with VCM Venture Capital Management (www.vcm.de) have now been published. In their CFS Working Paper 2002/01 entitled “*Die Vertragsbeziehungen zwischen Investoren und Venture Capital-Fonds: Eine empirische Untersuchung des europäischen Venture Capital-Marktes*” the authors, **MARK WAHRENBURG**, **DANIEL SCHMIDT**, and **STEFAN FEINENDEGEN** (Goethe-University of Frankfurt) provide a unique insight into the structure of principal agent problems and their contractual resolution.

On the basis of a unique data set those aspects which play a central role in Europe, such as compensation terms for fund management and enacted contract clauses, are

RESEARCH ACTIVITIES

analysed. Their structure is crucial for overcoming the agency problems inherent to principal agent relationships. Whilst the annual management fee paid to the fund management appears to be very standardised, a present value analysis of all management fees to be paid over the entire fund duration indicates clear signs of price differentiation. On the other hand, the use of profit-linked payments is highly standardised. With respect to the use of covenants, a trend towards increasingly complex contract designs is observed. Compared to the US situation, the contractual complexity appears still to be lagging behind. In respect to the use of covenants, the European market has reached a level that was reached in the US at the beginning of the nineties.

Further analysis on the evolution and use of contract designs is currently being carried out. Moreover, in cooperation with the VCM Center for Private Equity Research, further studies on subjects such as realized returns and risk measurement of venture capital investments in individual firms are planned.

*Mark Wahrenburg (Goethe-University of Frankfurt and CFS)
Daniel Schmidt (Goethe-University of Frankfurt)*

Portrait

Issam Hallak joined the Center for Financial Studies in October 2001. As a researcher he is working on the RTN-project that analyses the financial architecture and its efficiency. In this EU-sponsored project, the CFS cooperates with CEPR and universities in Europe (Madrid, London, Oxford, Brussels, Toulouse, Salerno), and the USA (Princeton and Yale).

After graduating in Paris, Issam entered the Ph.D. programme in 1996 at the European University Institute in Florence, Italy, under the supervision of J. Dow (today at the LBS, London) and A. Banerjee. The first and second years involve courses in macro-, micro-economics, and econometrics. Based on his broad knowledge in economics, his dissertation deals with the contract design of banking loans contracted by less-developed countries (the so-called sovereign debt). More specifically his research is involved with the empirical investigation of the pricing structure and the up-front payments on the banking debt contracted by sovereigns. After four years in Florence, it was time for him to widen his academic horizon. First, he spent a year at the University of Oxford where he published his work in the Oxford Discussion papers series. In October, he decided to make a new move to Frankfurt, because it is an outstanding place for banking economists to do research. Worthily, the concentration of important financial institutions along with the top-academic seminars makes Frankfurt a highly valuable location to pursuing empirical academic work on banking issues. The CFS is actually playing a major role in supporting this interaction.



Issam
Hallak



www.ifk-cfs.de

A Study Trip to the Center for Financial Studies

On 8 February 2002 the CFS welcomed **Harmen Lehment**, Director of Advanced Studies in International Economic Policy Research at the Kiel Institut of World Economics, and 23 of his students.

Time and again Lehment organizes a study trip to Frankfurt during which visits at e.g. the Deutsche Bundesbank

and the European Central Bank are planned in order to give his young researcher an idea about the research topics these institutions currently focused on.

Taking up this idea, Issam Hallak from the European University Institute (EUI) Florence, currently visiting research fellow at the CFS, gave a presentation of the sovereign debt issue with a particular focus on the design of the syndicated loan. The syndicated loan is a facility made available by a group of banks under the same facility

conditions. He explained how syndication plays a primary role in bank debt which itself allows for first stage macroeconomic development.

He also emphasized that therefore, a precise knowledge of the syndicated debt instrument is essential for the macroeconomist involved with international debt.

Stefanie Franzke (CFS research staff)

RESEARCH ACTIVITIES

CFSworking papers

The CFS Working Paper series presents the result of scientific research on selected topics in the field of money, banking and finance. The working papers are available at CFS or can be downloaded from the CFS homepage via <http://www.ifk-cfs.de>

2001/11

Daniel Gross

Country-Specific and Global Shocks in the Business Cycle

2001/12

Daniel Gross

Trade Flows and the International Business Cycle

2002/01

Stefan Feinendegen**Daniel Schmidt****Mark Wahrenburg**

Die Vertragsbeziehung zwischen Investoren und Venture Capital-Fonds: Eine empirische Untersuchung des europäischen Venture Capital-Marktes

2002/02

Issam Hallak

Price Discrimination on Syndicated Loans and the Number of Lenders: Empirical Evidence from the Sovereign Debt Syndication

2002/03

Raimond Maurer**Christian Schlag**

Money-Back Guarantees in Individual Pension Accounts: Evidence from the German Pension Reform

2002/04

Holger Claessen**Stefan Mittnik**

Forecasting Stock Market Volatility and the Informational Efficiency of the DAX-index Options Market

2002/05

Bernd Kaltenhäuser

Return and Volatility Spillovers to Industry Returns: Does EMU Play a Role?

2002/06

Andreas Bascha**Uwe Walz**Financing Practices in the German Venture Capital Industry
An Empirical Assessment

2002/07

Werner Neus**Uwe Walz**

Exit Timing of Venture Capitalists in the Course of an Initial Public Offering

2002/08

Erik TheissenInternalisierung und Marktqualität:
Was bringt Xetra Best?

Abstract of our latest Working Paper

**"Internalisierung und Marktqualität:
Was bringt Xetra Best?"**

Deutsche Börse AG plans to introduce a system (Xetra Best) allowing brokers and broker-dealers to internalize the orders of retail customers. Further, Xetra Best supports payment for order flow arrangements. Both internalization and payment for order flow may be detrimental to market quality. This paper discusses advantages and disadvantages of these arrangements. It draws on experiences made in the US. We derive policy implications that aim at a more stringent interpretation of "best execution", and at higher transparency.

**CFSresearch staff
AT (INTER)NATIONAL
RESEARCH CONFERENCES****What next for private equity
and venture capital**

STEFANIE FRANZKE, research assistant at the CFS, was invited to give a presentation based on a revised version of her paper "**UNDERPRICING OF VENTURE-BACKED AND NON VENTURE-BACKED IPOs: GERMANY'S NEUER MARKT**" at a conference organised by the Capital Market Institute (www.capitalmarketsinstitute.ca) on 20th and 21st June, 2002 in Toronto, Canada. The Capital Market Institute is a joint initiative of the Faculty of Law and the Rotman School of Management at the University of Toronto, and was established in 1998. The conference on "**WHAT NEXT FOR PRIVATE EQUITY AND VENTURE CAPITAL?**" considered the current climate for private equity and venture capital, and the prospects for the future both in Canada and internationally. The topics presented at the conference dealt with questions such as how local legal and institutional structures are affecting the provision of venture capital in different economic regions, states, provinces and countries; how angel investors have reacted to the new dynamic between entrepreneurs and investors; whether investors have turned their attention away from IPOs to other exit paths; and how Canadian and other non-U.S. firms have been affected in their search for funding and the pursuit of exit strategies by developments in the U.S. and non-U.S. markets.

Stefanie Franzke (CFS research staff)



EXECUTIVE DEVELOPMENT

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CFSexecutive development

CFS makes its contribution towards executive development and qualification training in the field of financial markets, financial intermediaries and monetary economics in the form of one to four day seminars as well as in-house events. Well-known university lecturers, leading practitioners and a network of international partners impart high-quality knowledge as well as the methods and instruments for translating this knowledge into practice. The seminars, conferences and workshops are aimed in particular at top and middle level managers as well as specialists from banks, insurance companies, trade and industry. They take place under ideal conditions at the training centre of the Commerzbank AG, in Glashütten-Oberems (Taunus) as well as the training centre of the Deutsche Bundesbank in Eltville. Special terms are available for all participants from member firms.

CFS is offering amongst other things the opportunity to acquire qualifications in the following subjects: (a complete timetable is on the overleaf of this issue)

CFSseminars

ECB-Watching – Strukturen-Analyse-Prognose

(Course language will be German)

The Monetary Policy Decisions of the European Central Bank influence interest rates, financial market prices, commodity prices and economic trends in the world's second largest currency area and beyond. It is only slowly that the contours of the still relatively young central bank and its monetary policy and market environment are beginning to be revealed. At the same time, against the background of an increasing yield orientation of all areas of business, the evaluation and forecasting of central bank behaviour are assuming ever greater significance for banks and portfolio managers.

CFS has taken note of the increased demand for information and the low supply to date of courses in the field of central bank watching and is offering through its seminar **ECB-WATCHING – STRUKTUREN-ANALYSE-PROGNOSE** a systematic survey of the structures and functioning of the European Central Bank, the instruments for forecasting central bank behaviour, and the market effects of this behaviour. In addition to information on central bank technology, the seminar also provides the fundamental tools for ECB watching. The seminar is suitable for all those in research, trade and investment management, whose job it is to conduct professional evaluations of capital market events. On the one hand the seminar provides a broad survey of the fields of central bank watching, but on the other, however, it also focuses on the actual situation in Euroland. The seminar programme begins with a survey of the structure of the European Central Bank and the euro currency area. The ECB instruments and the experiences made to date with their application will be explained. Starting with an analysis of recent developments in monetary policy strategies, the monetary policy concepts of the ECB, their practical application as well as actual market effects of central bank behaviour will be discussed. Finally the tool kit of central bank watching will be laid open. In easily accessible form and with the help of practical examples the tools with which it is possible to analyse and make predictions on the ECB interest rate policy, will be introduced. The aim here is to lay the foundations for developing own instruments for analysing interest rate policy and economic trend indicators. In addition the relationships of monetary policy and exchange rate forecasts will be considered.

Finally, the current outlook for future developments in monetary policy and the European currency union will be considered.



Karsten
Junius



Ulrich
Kater



Carsten-
Patrick
Meier

The seminar will be lead by **KARSTEN JUNIUS**, **ULRICH KATER** (both from DekaBank) and **CARSTEN-PATRICK MEIER** (Institut für Weltwirtschaft). They are joint authors of "Handbuch ECB" (Uhlenbruch Verlag). This team of experts combines an academic background of exchange rate and monetary policy with the practical application of central bank watching in the banking business.

The number of seminar participants is limited in order to enable intensive learning and a comprehensive exchange of ideas. The use of interactive learning methods, small study groups as well as individual attention ensure enduring success.

Date: 22./23. November 2002

EXECUTIVE DEVELOPMENT

Customer Relationship Management – Finanzdienstleister im Spannungsfeld zwischen Kundenbindung und Kostendruck

(Course language will be German)

This CFSseminar provides up to the minute insights from research covering the overlap between financial studies, marketing and IT, illustrated by means of actual case studies.

The seminar focus is on:

- providing a general understanding of IT as the driving force behind the markets for financial services and the changes which occur as a result
- the organisational opportunities of services supplied, particularly in the field of individual financial services in the presence of the marketing possibilities associated with multichannel banking
- analysing the opportunities available for placing the supply of services on a more personal and individual basis
- providing a survey of state of the art technology in customer relationship management.



Hans
Ulrich
Buhl

The two-day seminar delivers fundamental and comprehensive knowledge on modern, workable concepts for the management of customer relations and multichannel banking.



Andreas
Will

Faculty: HANS ULRICH BUHL (University of Augsburg) and ANDREAS WILL (University of Magdeburg)

Date: 25./26 October 2002

Corporate Valuation and Real Options

(Course language will be German)

With the seminar on CORPORATE VALUATION AND REAL OPTIONS the CFS provides an insight into current developments in corporate valuation in both research and practice. Particular attention will be paid to the practical implementation in Germany with in-depth analysis of the relevant corporate valuation approaches, i.e.

- DCF and income value appraisal methods
- multiplier analysis as well as
- the use of options price techniques for evaluating corporations.

The aim of this two-day intensive seminar is to provide basic knowledge of these three approaches. The strengths and weaknesses of these methods will be discussed and their potential and limitations with respect to the evaluation of evaluating growth industries will be demonstrated. The application of state of the art corporate valuation will be demonstrated to participants by the means of examples. At the end of the seminar the participants will be able to

- carry out a corporate valuation appraisal using traditional DCF and income value methods
- use various multiplier procedures
- analyse and explain corporate valuations as well as
- understand the use of option price theory in corporate valuation.

The first part of the seminar will deal with the DCF and income value appraisal methods, looking in particular at the derivation of performance variables and capital costs as well as the treatment of taxation.

The second part of the seminar will be devoted to comparative valuation. A number of multipliers currently in use on the capital market will be discussed and compared with one another. On the basis of a case study, the strengths and weaknesses of the various multipliers will be demonstrated. The third part of the seminar will concentrate on the application of option-based procedures, which are particularly suitable for the transformation in terms of value of growth potentials. Case study examples will serve to show their application on a branch-specific basis.

The combination of fundamental valuation methods offered in this seminar is suited to meet the needs of a broad range of participants, including in particular research analysts, M&A-consultants and portfolio managers.

The seminar is to be headed by ULRICH HOMMEL, (European Business School) and MARTIN SCHOLICH (PricewaterhouseCoopers).



Ulrich
Hommel



Martin
Scholich

Date: 29./30. November 2002

More information on this and other events can be found under www.jfk-cfs.de or call us and speak to Christiane Bauder, Tel.: +49(0)69-242941-30, Fax: +49(0)69-242941-33, Email: bauder@jfk-cfs.de

EXECUTIVE DEVELOPMENT

CFSexecutive conference

Towards an Evaluation of Internal Rating Systems: Certification and Validation

The CFSexecutive conference "TOWARDS AN EVALUATION OF INTERNAL RATING SYSTEMS: CERTIFICATION AND VALIDATION", organised by **JAN P. KRAHNEN** (Goethe-University of Frankfurt and CFS) and **MARTIN WEBER** (University of Mannheim), took place on 6th June, 2002. In the form of four panel meetings this conference brought together bankers, consultants, academics and regulators to share their views on the most recent aspects of evaluating internal systems for rating credit risk.

The welcoming address was given by Jan P. Krahn and was followed by an opening statement from **DANIELE NOUY**, Secretary General of the Basel Committee on Banking Supervision at the Bank for International Settlements in Basel. In her speech, Daniele Nouy discussed the framework and minimum requirements of the internal rating-based approaches to regulatory capital. She gave examples of several types of specific portfolios and mentioned some of the issues still open and the implementation challenges facing both banks and supervisors.

Panel 1

Rating Validation in European BANKING: from experiences to best practice

The first panel, chaired by Martin Weber, brought together representatives of the banking profession. Members of the panel included **SEBASTIAN FRITZ** (Deutsche Bank, Frankfurt am Main), **PIETER KEEMINK** (ING Group, Amsterdam), **DAVID TOWNSEND** (Barclays Group, London) and **GÜNTHER HERION** (WestLB, Düsseldorf). It was opened by Sebastian Fritz. He discussed four levels of validation in internal credit risk rating systems, which include the portfolio under consideration, the rating class, the appropriate frequency and technique as well as the optimal degree of detail used in the validation. Peter Keemink concentrated on several conflicts that typically arise within banks when implementing internal rating systems. These conflicts are based mostly on the appropriate degrees of accuracy versus materiality and of transparency versus disclosure in the rating process and hence on aspects of costs versus returns from using (regulatory) capital. David Townsend in his talk emphasised the impor-

tance of the business context in which the credit risk models are set, rather than the statistics on which they are based. Since models can only give a simplified picture of reality, a generic validation framework should bear in mind the models' weaknesses and take into consideration their compatibility with the business objectives. The last speaker of the first panel, Günther Herion, highlighted the importance of integrating individual rating systems into one general framework. In this context, he proposed a transformation of the existing approaches currently meeting the requirements of Basel II into new rating systems structured such in a way which would cover the whole credit portfolio.

Panel 2

Comparing Rating Technologies: general principles in a CONSULTANTS view

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The second panel, also chaired by Martin Weber, dealt with the consultant's view on internal rating systems. The panelists were **ANDREW KURITZKES** (Oliver, Wyman & Company, New York), **AXEL MÜLLER-GROELING** (McKinsey & Company, Cologne) and **JEFFREY R. BOHN** (KMV, San Francisco). Andrew Kuritzkes pointed out the lack of reality in the standards for empirical validation as for example the fact that the nature of credit risk and the impact of economic cycle are not taken sufficiently into account. He called for a pragmatic approach in which rating validation is part art, part science and where regulators would not only review empirical evidence but would also weigh other factors. The most important criterion for IRB validation should be the business application not the empirical one. Axel Müller-Groeling presented McKinsey's approach to supporting clients on rating. In a first step it is necessary to make sure that all parts of the risk evaluation system are well understood and work properly, then the search can be made for client-specific, custom-made solutions for individual aspects of the risk assessment process. With respect to the risk evaluation system he highlighted the need for a robust rating model by cross-checking alternative real estate models and for empirical validation where high granularity of well-differentiating default probabilities is required to manage performance improvement levers for credit risk. Jeffery R. Bohn took a closer look at the practical problems of model validation by considering, for example, the rareness of defaults, differences in the default definitions, non-stationary data and the selection bias in default samples. He pointed out that attention has to be paid to the fact that validation tests are sensitive to the exact sample chosen and because sparse data make it difficult to increase validation testing power the limitations have to be acknowledged and the boundaries understood.

EXECUTIVE DEVELOPMENT

Since it is easier to calibrate a powerful model rather than a weak one, power should be the first objective.

Panel 3**Insights from the latest international RESEARCH**

Jan Pieter Krahnens chaired the third panel, which comprised **MARK CAREY** (Federal Reserve Board, Washington), **WALTER KRÄMER** (University of Dortmund) and **RÜDIGER KIESEL** (University of Ulm). Mark Carey discussed "An academic's view of internal rating system evaluation". With regard to the information that is to be gained from a rating, it must be taken into account that the best overall rating system design might not be the same as the best design for any individual purpose. In the design of validation, attention to the incentive problems, for example, that individuals and business lines can influence rating accuracy if they have more information than the model, is crucial. While Carey mainly looked at the input of the ratings, Walter Krämer's focus was on the output of the ratings and the question "Comparing Rating Systems: which rater rates best?". Ratings are strictly regarded as probability forecasts and results are based on the confinement to well-calibrated forecasts, whereby calibration is necessary but not sufficient for a useful forecast. Krämer discussed several orderings, concentrating on partial orderings derived from independent efficiency arguments such as those of DeGroot and Fienberg or Vardeman and Meeden, that is Lorenz-default, Lorenz-non-default and receiver-operating-characteristic orderings, refusing univariate scoring rules such as the Brier score or the logarithmic rule. Most orderings are equivalent if forecasts are well calibrated, but contradictory rankings can easily occur if the calibration requirement is released. Rüdiger Kiesel compared the informational content of judgmentally-determined sovereign ratings produced by a private sector bank and by the rating agency Standard and Poor's, with quantitative ratings derived from a statistical model of sovereign default. The quantitative approach combines information from ratings histories with default/non-default data for sovereigns and generates synthetic ratings. To obtain ratings, the model of Standard and Poor's ratings was benchmarked by estimating an ordered probit model using publicly available macroeconomic and financial variables. Downgrades in both the bank and the agency ratings may be predicted by using quantitative ratings, whilst upgrades in the quantitative ratings appear to be predictable using judgmental ratings, thus quantitative ratings are preferable.

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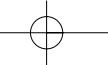
Panel 4**Rating and Banking markets: implications for the SUPERVISORY REVIEW PROCESS**

The fourth and final panel, chaired by Jan Pieter Krahnens, concentrated on the supervisory review process of internal rating systems. Among the panelists were **GERHARD HOFMANN** (Deutsche Bundesbank, Frankfurt), **IAN TOWER** (Financial Services Authority, London) and **BRIAN PETERS** (Federal Reserve Bank of New York). The panel started with a statement by Gerhard Hofmann. He pointed out that validation of internal rating systems is an ongoing and evolutionary process, which has to take into account the increasing speed of portfolio changes, technical issues, qualitative requirements as well as cross-border developments. For banks to demonstrate that their rating principles are comparable to the ones prescribed by supervisors, he suggested implementing a system based on peer reviews. Ian Towers discussed the importance of keeping a balance between clear and consistently applied standards and the appropriate flexibility of the rating approach. Concerning the data requirements, he called for the additional use of external and pooled data combined with a generally conservative view of estimated probability values. As the last speaker, Brian Peters spoke about on the problem of banks' typically underestimating time and effort in order to construct and maintain an appropriate rating system. However, he positively concluded that the gains from implementing internal rating systems for the financial industry should certainly outweigh the costs.

*Anke Leiser (CFSresearch staff)
Christina Metz (Goethe-University of Frankfurt)*

For further information and registration with respect to all CFSseminars and CFSexecutive conferences please contact Christiane Bauder, Tel.: +49-(0)69-242941-30, Fax: +49-(0)69-24941-33, Email bauder@jfk-cfs.de. Further information is also available on our homepage <http://www.jfk-cfs.de>.





SPECIAL

SPECIAL: PROGRAMME AREAS AND THEIR LEADING DIRECTORS

The new concept for the field of research envisages an integration of up to seven programme directors, who within the already established conceptual framework are to supervise on an independent basis individual research programmes.

The programme areas belong to the research fields International and Monetary Economics, Capital Markets & Asset Management and Financial Intermediation & Risk Management.



Programme Director and Director of the CFS Jan Pieter Krahnen

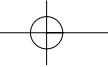
Since 1995 Jan Pieter Krahnen holds the Chair of Corporate Finance at Goethe-University of Frankfurt. He is also Director of the Center for Financial Studies and a CEPR-research fellow in Financial Economics. He was a member of the supervisory board of the futures exchange EUREX, the 1996-Metzler-Foundation Visiting Professor at the Wharton School and coordinator of the DFG-research network in finance. He is a member of the Executive Committee of the European Finance Association, and Associate Editor of the Journal of Financial Services Research & Journal of Banking and Finance.

Current research projects concentrate on relationship lending and corporate rating, and the evolving markets for illiquid assets in banking and insurance. He is also working in the field of market-microstructure, with emphasis on the role of specialists. Krahnen has published extensively in the field of Corporate Finance and Banking. The most recent publications have appeared in the Journal of Banking and Finance, the Journal of Economic Psychology, the European Journal of Finance and the Journal of Financial Intermediation. As a consultant his main area of focus has been on financial contracting and financial institutions development.



PROGRAMME AREA “THE REINSURANCE INDUSTRY AND CAPITAL MARKETS”

Since the end of 2001 a research group, currently comprising three professors, i.e. Krahnen (Frankfurt), Wambach (Nuremberg-Erlangen) and Zechner (Vienna) as well as two researchers working on their habilitation and 4 doctorate students, has been looking into the subject “Reinsurance Industry & Capital Markets”. The results of this research project will help in understanding the behavioural patterns governing the industry and the developments spurred by the surge of emerging (liquid) risks, such as alternative risk transfer markets. The analysis includes the analysis of such issues as “Pricing Cycles”, “Demand for Reinsurance” and “Alternative Risk Management Tools”, “Contractual Design” and “Microstructure of Primary and Secondary Trading of Reinsurance Contracts”. As with all CFS research projects, great importance is attached to the empirical analysis. Together with experts from the (re-) insurance industry the attempt is being made to generate a unique data set of contractual data. Experts from industry, represented by Allianz AG, Allianz Risk Transfer, Converium Ltd., Generali, Gerling Global Re, Hanover Re, Munich Re and Swiss Re, have to date exchanged views with the research teams at two workshops (November 2001 and April 2002) on the relevant questions and the data situation. The first phase of the project is expected to be completed in July 2003 with an open symposium. This programme area is currently lead by Jan Krahnen.



SPECIAL

Programme Directors Mark Wahrenburg and Uwe Walz



Mark Wahrenburg

is Professor of Finance and Banking and speaker of the department of finance at Goethe-University. He teaches investment banking, commercial banking as well as corporate finance and capital market theory. His research focuses on risk management of banks in the area of credit and market risk as well as venture capital finance. Wahrenburg studied Business Administration at the universities of Göttingen, Cologne, and Pennsylvania. Prior to moving to Frankfurt, he held positions at the University of Cologne and University of Witten/Herdecke. Besides his academic background, Wahrenburg has a long standing consulting experience in the area of bank risk management from joint work with McKinsey & Co. and AMS Management Systems. Within the Internet community, Wahrenburg is well known for his large scale experimental stock markets where more than 100 000 participants speculate on various sport events by trading virtual stocks. He is the founder of two companies: Blitztrade, an internet based stock exchange provider, and KMW Rating, a platform to support banks validation of internal rating systems.

Uwe Walz. Year of birth 1962. Studies in economics in Tübingen and San Diego. Doctorate in Economics (Dr.rer.pol.) University of Tübingen (1991). Research Fellow at the London School of Economics (1992/93) and at the University of California at Berkeley (1994).



Habilitation in Economics at the University of Mannheim (1995). 1996/97: Professor of Economics at the University of Bochum. 1997-2002: Chair in Economic Theory at the Eberhard-Karls-University of Tübingen.

Since 1997: Research Fellow of the Centre for Economic Policy Research, London. From 1.9.2002: Professor Industrial Organization at the Goethe-University of Frankfurt.

Questions asked of the CFS Programme Directors Walz & Wahrenburg

What have been the highlights to date of your academic career?

Wahrenburg: "The real highlights for me have not been any outstanding single events but rather the ongoing and intensive exchange of ideas with my academic teachers. I was very fortunate to find at an early stage mentors in the persons of Carl Christian von Weizsäcker, Herbert Hax and Eva Bössmann, who were great role models for me and who have an enduring influence on my way of thinking and working."

Walz: "I found the time spent at Mannheim during the course of my habilitation as well as the two extended periods, also in this connection, spent abroad as a Research Fellow at the London School of Economics and at the UC Berkeley to be particularly positive experiences. These periods were characterised by a maximum of freedom, time-wise, for academic work and were correspondingly productive. The most recent highlight is without doubt the offer of a Chair in the Faculty of Economics at the Goethe University of Frankfurt which gives me the opportunity to pursue my aims with respect to combining applied microeconomics and finance in an optimal manner."

Which programme area are you in charge of at CFS? And what made you decide to work together with CFS?

Wahrenburg: "I am supervising the "Venture Capital & New Markets in Europe" programme area. Even after the collapse of the Neuer Markt in Germany the financing of

growth industries will remain highly important for the development of the German capital market. We must, however, learn from past failures and create structures which are more efficient. A collaboration with CFS provides an excellent platform in this respect, since this task can only be tackled by a cooperation between research and business practice."

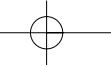
Walz: "Together with my colleague Mark Wahrenburg, I am in charge at CFS of the programme area dealing with "Venture Capital & the New Markets in Europe". The decisive advantage of collaborating with CFS is, I believe, that an institutional basis will be created, which allows the setting up on a broad basis of medium and long-term research programmes in the fields of venture capital and the New Markets as well as the forging of close contacts with business and industry. I am very confident that, with the help of CFS, we shall succeed in winning over and gaining the interest of venture capital companies and other agents in this field for research issues."

Finally, a completely different question: what particular event or issue recently has caught your attention?

Wahrenburg: "The Enron case. It has demonstrated clearly to us that complex new financial instruments such as asset backed securities or management stock options can lead to misuse and lack of transparency. The subsequent confidence crisis in the market causes damage of an yet unforeseeable extent. It is simply not enough that at the moment only a few experts understand the way in which these instruments work. Moreover, the proposed reforms in

the field of accounting and auditing will not be sufficient as long as investors are unable to estimate the opportunities and risks related to these instruments."

Walz: "Given the far-reaching consequences for both our future students and my six-year old daughter, I have been particularly interested in the results of the PISA report. I very much hope that the proper long-term consequences will be drawn from these results and the whole discussion will not just lead to ill-considered action for action's sake".



SPECIAL

Programme Director Volker Wieland



Volker Wieland is Professor of Monetary Theory and Policy at Goethe-University of Frankfurt since November 2000. Currently he also serves as a consultant at the European

Central Bank. Prior to coming to Frankfurt he spent five years as economist and senior economist in the Division of Monetary Affairs at the Federal Reserve Board in Washington, DC.

His educational background includes studies at the University of Wuerzburg, the State University of New York, the Kiel Institute of World Economics and Stanford University, where he obtained a Ph.D. in economics. He has also been a visiting scholar at the Center for European Integration Studies in Bonn, the Institute for International Economic Studies in Stockholm and the European Central Bank. Furthermore, he has taught international finance as adjunct faculty in the Finance Department of the University of Maryland Business School in College Park.

His research and teaching interests include macroeconomics, monetary theory and policy as well as international finance and trade. His recent research focusses on the performance of monetary policy rules, optimal decision-making under uncertainty and learning. He is also interested in computational methods for solving dynamic programming problems and models with rational expectations. He serves on the Advisory Council of the Society for Computational Economics and coordinates activities of the society's special interest group in economic dynamics. He also serves as Coordinating Editor of the Journal of Economic Dynamics and Control and as an Associate Editor of the European Economic Review.

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PROGRAMME AREA “CENTRAL BANKING”

It is the aim of this programme area to initiate and sponsor independent research at an international level on issues involving central bank policy and monetary economics. Research projects will fall into one of the following three subject categories: “Monetary Policy Strategy”, “Economic Fluctuations and Expectations” and “Computational Approaches to Macroeconomics and Finance” and will be conducted in collaboration with researchers from universities and central banks. The objective is to present results at international conferences, to publish in international journals and, in particular, to participate in the dialogue with researchers and practitioners from banks and central banks in CFS seminars, workshops and conferences.

researchers. It was at the Fed where I learnt the tools of my trade as a macroeconomist and discovered how satisfying it can be to work as an economist, conducting innovative research and participating in economic policy debates.”

Which programme area are you in charge of at CFS? And what made you decide to work together with CFS?

Wieland: “I am supervising the “Central Banking” programme area. I believe that CFS, by organising so many different academic and practice-oriented forums, conferences and executive development events in the field of monetary policy during the last few years, has made a very important contribution to the banking and central bank community in Frankfurt. I would like to continue this tradition within the scope of this programme and to extend it by increasing independent research activities in the future.”

Questions asked of the CFS Programme Director Wieland

What have been the highlights to date of your academic career?

Wieland: “The five years I spent as a Ph.D. student at the Department of Economics in Stanford were a decisive influence on my understanding of economics and my approach to economic research. Stanford provided a unique learning experience, enriched by the interaction with many smart and ambitious fellow students and some brilliant teachers, including John Taylor and Thomas Sargent in the field of macroeconomics. During the five years that followed I had the opportunity to work at the Federal Reserve Board in Washington together with a large number of excellent economists and

Finally, a completely different question: what particular event or issue recently has caught your attention?

Wieland: “The 11th September and the subsequent reactions in the USA and Europe. I am impressed by the extent to which the Americans are able to reconsider and in many areas completely revise their political, social and economic responses in such a crisis, pragmatically and with a view to achieving results. The policy decisions which followed have received varying appraisals, but in terms of their ability to act and to change in response to a crisis, I believe the Americans should serve as an example for us in Germany”

Programme Director Stefan Mittnik



Qualifications: 1981: Diploma in Business and Engineering, Technical University Berlin. 1982: M.A., Development Economics, University of Sussex, Brighton, England 1984: M.Sc., Systems Science and Mathematics, Washington University, St. Louis, USA. 1987: Ph.D., Economics, Washington University, St. Louis, USA

Teaching: 1984-85: Lecturer in Mathematics, Maryville College, St. Louis, USA. 1985-87: Lecturer in Economics and Lecturer in Systems Science and Mathematics, Washington University, St. Louis, USA. 1986: Research assistant, Lawrence H. Meyer and Associates, St. Louis, USA. 1987-94: Assistant/Associate Professor of Economics, State University of New York, Stony Brook, USA. 1993: Interim Professorship, Chair for Statistics and Econometrics, University of Nuremberg-Erlangen. 1993-94: Interim Professorship, Chair for Statistics, University of Kiel. Since '94: Professor for Empirical Economics and Statistics, Institute for Econometrics and Statistics, University of Kiel

Research: 1989: Visiting Research Fellow, Centre for Research on Environmental Systems, University of Lancaster, England. 1990-94: Research Fellow, Institute for Pattern Recognition, State University of New York, Stony Brook, USA. 1991: Visiting Professorship, Institute for Econometrics, Operations Research and System Theory, Technical University of Vienna, Austria. 1993: Visiting Professorship, Faculty of Econometrics, Free University of Amsterdam, The Netherlands. Since 2001: Head of the Center for Information and Network Economics, University of Kiel.

Other Activities: 1991-94: Committee on International Relations in Statistics, American Statistical Association. 1991-96: Economic and Management Systems Committee, International Federation of Automatic Control. 1991-96: Working Group on Modelling and Control of National and Regional Economies, International Federation of Automatic Control. Since 1992: Editorial Board, Computers and Mathematics with Applications. Since 1996: Editorial Board, Studies in Nonlinear Dynamics and Econometrics. Since 1996: Chairman, Technical Committee on Business and Management Techniques, Interna-

national Federation of Automatic Control. Since 1997: Elected Member, International Statistical Institute. Since 1997: Joint Editor, Book Series on Dynamic Modelling and Econometrics in Economics and Finance, Kluwer Academic Publishers. Since 1998: Associate Editor, Journal of Econometrics. Since 1999: Editor, Book Series on Quantitative Wirtschaftsforschung, Pro Business. Since 1999: Associate Editor, Journal of Financial Management and Analysis. Since 2001: Editorial Board, Empirical Economics. Since 2001: Editor, Book Series on Quantitative Finanzwirtschaft, Pro Business.

PROGRAMME AREA “RISK MANAGEMENT”

The objective of this programme area is to investigate theoretical and practical aspects arising in the context of financial risk management. Special emphasis is placed on quantitative and empirical issues that are relevant in real-life decision processes.

Questions asked of the CFS Programme Director Mittnik

What have been the highlights to date of your academic career?

Mittnik: “The fact that first steps are the ones which leave a lasting impression holds also true for my academic career. I took my first research steps shortly after beginning my Ph.D studies in the USA with a paper at a conference organised by the Econometric Society. I ended up in a session in which – apart from myself – there were only big names, all of which I knew from the literature. Naturally enough, I was very nervous. Although being a novice, my work was taken seriously and I was treated very respectfully. Until today I have maintained

close ties to some of the participants in that session.”

Which programme are you in charge of at CFS? And what made you decide to work together CFS?

Mittnik: “I am in charge of the “Risk Management” programme area. Collaborating with CFS is interesting because it provides a unique interface between academic research and the practice of finance. And both sides have – so I hope – a genuine interest in learning from one another.”

Finally, a completely different question: what event or issue recently has been particularly on your mind?

Mittnik: “With great interest I’ve been observing the recent trend in establishing private universities or university-like institutions in Germany. In principle, this is a positive development, because the growing competition will boost academic research and teaching – including that at state-funded universities. However, not many of these initiatives appear to be viable and may, thus, be counter productive. The successfully established institutions will demonstrate that the idea of some education bureaucrats, namely simply copying those elements of the American university system which do not cost anything, whilst ignoring those that do, will not work.”

DATES

FORTHCOMING EVENTS

CFS colloquium series

Globalisation of Financial Markets – Risks and Opportunities

7 Nov 02	Staatssekretär Caio K. Koch-Weser (Bundesministerium der Finanzen) „Stabilisierung der internationalen Finanzmärkte – Herausforderung und bereits Erreichtes“
13 Nov 02	Ingrid Matthäus-Maier (Vorstandsmittel Kreditanstalt für Wiederaufbau) „Aufbau marktwirtschaftlicher Finanzsysteme in Transformationsländern – innovative Ansätze der KfW“
27 Nov 02	Hans-Jürgen Schinzler (Vorsitzender des Vorstands Münchener Rückversicherungs-Gesellschaft) „Alternativer Risikotransfer: Rückversicherung im Wettbewerb mit dem Kapitalmarkt oder sinnvolle Ergänzung?“
4 Dez 02	Jürgen Dormann (Chairman of the Management Board AVENTIS S.A.) „Chancen und Risiken einer fokussierten internationalen Strategie: Das Beispiel der Pharma-Weltmärkte“
12 Feb 03	Harald Wiedmann (Sprecher des Vorstands KPMG Deutsche Treuhand-Gesellschaft AG) „US-GAAP/IAS: Brauchen wir weltweit harmonisierte Rechnungslegungsregeln?“
23 Feb 03	Jochen Sanio (Präsident Bundesanstalt für Finanzdienstleistungsaufsicht) we will keep you informed via our homepage about the subject

Lectures will be held in German.

Please note that admission to the lectures of the CFS colloquium is only possible with a valid ticket. Interested parties who do not receive tickets regularly may contact Birgit Pässler, Tel. +49-(0)69-242941-14, or use Fax: +49-(0)69-242941-77, or Email: paessler@jfk-cfs.de. For further information please consult our homepage: <http://www.jfk-cfs.de>.

EXECUTIVE DEVELOPMENT 02/03

CFS seminars

6/7 Sep 02	Finanzökometrie und Prognosemodelle I: Statistische Grundlagen (Grundlagenseminar) Walter Krämer, University of Dortmund € 1690 for member companies *, € 1790 for non-members
13/14 Sep 02	Finanzökometrie und Prognosemodelle II: Moderne Zeitreihenverfahren (Aufbauseminar) Walter Krämer, University of Dortmund € 1690 for member companies *, € 1790 for non-members
6/7 Sep 02 & 13/14 Sep 02	Finanzökometrie und Prognosemodelle I und II: Statistische Grundlagen & Moderne Zeitreihenverfahren Walter Krämer, University of Dortmund € 2790 for member companies * € 2990 for non-members
20/21 Sep 02 as well as 8/9 May 03	Bilanzierung von Finanzinstrumenten nach HGB, IAS und US-GAAP Martin Glaum, Universität Gießen Volker Thier, KPMG € 1790 for member companies * € 1890 for non-members
18/19 Oct 02	Aktienbewertung und Style-Investing Manfred Steiner, University of Augsburg € 1690 for member companies * € 1790 for non-members

25/26 Oct 02 **Customer Relationship Management – Finanzdienstleister im Spannungsfeld zwischen Kundenbindung und Kostendruck**
Hans Ulrich Bühl, University of Augsburg
Andreas Will, University of Magdeburg
€ 1790 for member companies *
€ 1890 for non-members

25/26 Oct & 8/9 Nov 02 as well as 14/15 Mar & 28/29 Mar 03 **Zinsprodukte: Analyse und Bewertung**
Wolfgang Bühler, University of Mannheim
Wolfgang M. Schmidt, Hochschule für Bankwirtschaft
€ 2790 for member companies *
€ 2990 for non-members

7/8 Nov 02 **Behavioral Finance**
Martin Weber, University of Mannheim
Joachim Goldberg, cognitrend GmbH
€ 1790 for member companies *
€ 1890 for non-members

8/9 Nov 02 as well as 16/17 May 03 **Euroland- und US-Wirtschaftsindikatoren als Market Movers**
Conrad Mattern, Activest Investmentgesellschaft mbH
€ 1690 for member companies *
€ 1790 for non-members

14/15/16 Nov 02 as well as 8/9/10 May 03 **Kreditderivate, ABS und ihre Einsatzmöglichkeiten in Kreditrisikomanagement**
Günter Franke, University of Konstanz
Dirk J. Nonnenmacher, Dresdner Bank AG
€ 2390 for member companies *
€ 2540 for non-members

22/23 Nov 02 **ECB-Watching – Strukturen-Analyse-Prognose**
Karsten Junius, DekaBank
Ulrich Kater, DekaBank
Carsten-Patrick Meier, Institut für Weltwirtschaft
€ 1790 for member companies *
€ 1890 for non-members

29/30 Nov 02 **Corporate Valuation und Real Options**
Ulrich Hommel, European Business School
Martin Scholich, PricewaterhouseCoopers GmbH
€ 1790 for member companies *
€ 1890 for non-members

29/30 Nov 02 **Operational Risk – Von der Begriffsbestimmung zu zukünftigen Entwicklungen – Anforderungen an Quantifizierung und Management von Operationalen Risiken**
Christian Schlag, University of Frankfurt
Robert Hübner, Deutsche Bank AG
Further speakers are: Thomas Kaiser, KPMG,
Gerrit van den Brink, Dresdner Bank AG
€ 1790 for member companies *
€ 1890 for non-members

7/8 Mar 03 **The New Techniques of Asset Backed Securities**
Ian Giddy, New York University
Additional as speaker Martina Späth, Hypo Vereinsbank
€ 1990 for member companies *
€ 2140 for non-members Course language will be English

28/29 Mar 03 **Aktien: Renditen, Modelle, Anomalien**
Richard Stehle, Humboldt-University, Berlin
€ 1690 for member companies *
€ 1790 for non-members

CFS executive conference

28 Apr 03 **Advances in Behavioral Finance II**
in co-operation with: Joachim Goldberg, cognitrend GmbH
Martin Weber, University of Mannheim
€ 590

For further information and registration with respect to all CFS seminars and CFS executive conferences please contact Christiane Bauder, Tel.: +49-(0)69-242941-30, Fax: +49-(0)69-242941-33, Email bauder@jfk-cfs.de.

Unless otherwise stated, the course language will be German. Fees include seminar fees, the costs for all seminar documents as well as board and lodgings.
(*) The discounts for member firms are limited to the annual membership fees.

We will keep you informed via our homepage or by mail as soon as our research conference programme has been established and of course about all other CFS research activities.