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at the HOUSE OF FINANCE

Scenarios for Government Debt in Europe:
Growth versus Consolidation Debate

The Value of Financial Innovations

Contribution of Awareness Information
in Virtual Communities –
The Case of a Financial Institution

Real-Time Surveillance



Deutsche Bank



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Editorial

Scenarios for Government Debt in Europe: Growth versus Consolidation Debate

Michael Heise

The Keynesian moment in the aftermath of the financial and economic crisis in 2008/09 did not last very long. Soon, the policy discourse was that governments must now engage in fiscal consolidation to get public finances back on a sustainable footing. In the euro area, the call for fiscal consolidation measures implemented on the national level was accompanied by attempts to coordinate and monitor economic policy more closely and more effectively, embracing both crisis resolution mechanisms (e.g., rescue funds) and crisis prevention measures (e.g., reform of the Stability and Growth Pact, fiscal compact).

More than two years since the outbreak of the sovereign debt crisis, some member countries on the euro area's geographical periphery still face severe fiscal consolidation requirements and their long-term debt sustainability remains clouded by uncertainty.

The debt dynamics hinge crucially on fiscal policy discipline, future economic growth and the financing conditions prevailing on the

financial markets. But a scenario-based analysis shows that reversing the debt momentum both in the EMU countries that have been hit particularly hard by the crisis (Greece, Ireland, Portugal, and Spain) and in the core monetary union states (Germany, France, and Italy) is not an insurmountable task.

Even in a macroeconomic environment that is not overly optimistic (real GDP growth of 1-2%), the member states that are currently plagued by debt could make a return to long-term debt sustainability. This will, however, require a resolute commitment to fiscal consolidation together with implementation of the envisaged economic reforms. It is also important that the EU provides the necessary support for the amount of time needed for these countries to prove that their consolidation efforts have been successful. By way of example: If Italy generates a 4% primary surplus (planned for 2013) and notches up only 1.0% annual growth, the debt ratio will go down to 90% in 2025 with interest expenditure around 4% of GDP.



Michael Heise
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However, at a time when the recovery is still fragile and monetary policy already loose, difficult trade-offs between short-term growth and consolidation might arise – typical estimates of short-run fiscal multipliers amount to 0.5-1.0%.

They imply that in the short run, the impact of consolidation on GDP growth is likely to be negative. But there may be permanent longer-term gains in the level of output. Over time, financial markets will reward fiscal probity with reduced borrowing costs in the sovereign debt market, stimulating private domestic investment as a source of employment and growth.

A well-considered choice of policy instruments helps to ease short-term trade-offs, with some measures strengthening the economy's long-run growth potential, while also helping to ensure fairness and political acceptance of the consequences of consolidation.

Economic analyses show that the chances of success are improved by giving priority to

spending cuts rather than tax increases, and by outlining and sticking to credible fiscal roadmaps. Clearly, countries with credibility will have more freedom regarding the timing. Last but not least, a convincing policy response to the sovereign debt crisis needs to combine the consolidation of public finances with structural reforms aimed at substantially improving medium-term growth prospects in member states.

These arguments counter the recent political tide in Europe shifting away from austerity measures to calls for growth initiatives.

Growth initiatives definitely are needed in terms of structural reforms, improving the incentives for investment, innovation and labour input or opening up areas to more competition. On the other hand, retreating to debt-financed demand programmes is not a way towards higher, but rather lower medium-term growth. It would mean repeating the strategies that in many countries led into the present crisis.

Research Report

The Value of Financial Innovations

STUDIES HAVE FOCUSED ON INNOVATIONS IN VARIOUS CONTEXTS BUT LARGELY EXCLUDED FINANCIAL INNOVATIONS, DESPITE THEIR NOTABLE IMPORTANCE. THIS STUDY ANALYZES THE TYPES OF FINANCIAL INNOVATIONS BY MAJOR BANKS AND THEIR PAYOFFS. THE RESULTS INDICATE THAT SECURITY AND CREDIT INSTRUMENTS CONSTITUTE THE MOST COMMON FINANCIAL INNOVATIONS. THE AVERAGE RETURNS TO A FINANCIAL INNOVATION ARE \$146 MILLION. IN ADDITION, RADICALNESS AND FINANCIAL RISKINESS INCREASE THE RETURNS, WHEREAS COMPLEXITY DECREASES THEM.

Lisa Schöler
Gerard J. Tellis

Bernd Skiera

Introduction

In 2008, the world economy plunged into a major recession, caused primarily by the crisis in financial markets (Phillips, 2009). Much of this crisis could be attributed to high-risk and complex financial innovations introduced during 2000–2008, including those related to subprime mortgages and credit default swaps. In response, observers have called for more investigation into the different kinds of financial innovations that exist, their effects (Frame and White, 2004), and the potential drivers of their financial success (e.g., financial risk or complexity).

In particular, financial innovations may have sparked the financial crisis, but they also have offered significant benefits for consumers and for the growth of national economies. For

example, financial innovations are responsible for home mortgages, student loans, and car loans, which empower lower and middle class consumers; credits for successful entrepreneurs; and credits to the emerging markets, which has helped raise millions of people out of dire poverty (Lerner and Tufano, 2011). Consumers depend on financial innovations, and such innovations account for a substantial portion of world economies and the huge market capitalization of banks.

From the consumer perspective, two aspects of financial innovations make them unique (Lerner and Tufano, 2011): First, even the most useful innovations are often challenging for consumers to grasp. Their complexity makes it difficult for consumers to embrace financial innovations, yet it also may be nec-

essary to produce benefits for consumers. Second, though all innovations involve some financial risk, the returns to financial innovations are intimately tied to their riskiness (i.e., risk-return trade-off). Again, financial risk may be necessary to provide benefits but difficult for consumers to embrace. These variations in the types of innovations as well as in the industries create the need to study financial innovations as phenomena in their own right (Lerner and Tufano, 2011).

By considering what drives the market to value or punish financial innovations from the consumer's perspective, which is outstandingly relevant for marketing, we focus on the financial risk and the complexity of financial innovations, as well as the degree of radicalness, a feature common to all innovations. With a unique data set, including ratings of all three drivers by financial experts who adopt a consumer perspective, we investigate how financial innovations vary during recessionary versus expansionary times and between the United States and Western Europe. This is motivated by the recent financial crisis, the biggest boom and bust since the great depression that hit different locations in the world. In turn, we seek answers to the following questions:

1. How are various kinds of financial innovations distributed across product groups?
2. What are the stock market returns to these financial innovations?
3. How do the complexity, financial risk, and

radicalness of financial innovations affect their stock market returns?

4. How do economic cycles and locations affect the distribution and stock market returns of financial innovations?

Description of the Sample

In total, our final sample consists of 428 product announcements from 39 banks in the United States and Western Europe (Germany, United Kingdom, Switzerland, and France) from 2001 to 2010. Each bank made an average of eleven announcements. Banks or news sources announce their most important innovations, so our sample of announcements should also be representative of the most important financial innovations launched by anyone during this period. Most financial innovations were introduced by two American banks, US Bancorp and Citigroup, followed by two German banks, HypoVereinsbank and comdirect.

Distribution of Financial Innovations

Financial innovations consist of five product groups: securities, funds, credit, account management, and insurances. For example, a security innovation would be the commercial mortgage-backed securitization launched by Deutsche Bank. The loans get secured on a wide range of commercial properties, including offices, retail, industrial, residential, hotels, and pubs. Goldman Sachs launched a U.S. equity fund for investors that seek equity growth opportunities and cash flow to help low- and moderate-income families to buy

Independent Variables	Cumulative Abnormal Return (CAR)
Complexity	-0.42***
Risk	0.29**
Radicalness	0.23***
Recession	0.38**
United States	-0.04
Security	0.31**
Fund	0.17
Credit	0.16
Account management	0.25**
Assets	-0.04
Radicalness × recession	-0.30**
Risk × recession	0.01
Radicalness × United States	-0.15
Risk × United States	0.20**
F-value	3.16***
R ²	8.00%
N	428

*p <0.1; **p <0.05; ***p <0.01

Table 1: Drivers and Inhibitors of Successful Financial Innovations – Regression Results

homes. Citigroup introduced a lower-income program. Bank of America introduced the “Keep the Change” program for customers: The bank rounds up all debit card purchases

to the nearest dollar amount, then transfers the difference from the customer’s checking account to a savings account. Finally, as an example of an insurance innovation, the launch of “Proteski Pinjaman Mitra” by HSBC offers a new credit life protection product.

Security (40%) and credit (25%) innovations are the most frequent innovations; insurance (1%) innovations are the rarest. The percentage of security and account management innovations remained stable both before and during the financial crisis, whereas the percentage of credit innovations decreased during the financial crisis (2008–2010, 30% vs. 2004–2007, 18%; $p < 0.01$). This change might be partly due to the popularity of subprime mortgages and credit default swaps prior to 2008 and their vast unpopularity after the credit bubble burst. The percentages of fund innovations increased during the financial crisis (34%), compared to 2004–2007 (13%) ($p < 0.01$); the increase in fund innovations may reflect the banks’ efforts to introduce ways to spread risk.

Empirical Findings and Conclusion

Banks introduce more fund innovations and fewer credit innovations during the financial crisis; perhaps consumers look more intensively for financial innovations that help them spread risk when they face financial turbulences. Higher saving rates among European consumers and higher loans among U.S. consumers seem to have incentivized European banks to introduce more security innovations and U.S. banks to introduce more credit inno-

vations. That is, banks appear to react to the requirements of their local markets.

To determine the Cumulative Abnormal Return (CAR) to a financial innovation, we adopt the event study methodology. The average CAR to a financial innovation announcement is significantly positive and corresponds to \$148 million. Thus, the market considers financial innovations profitable, not harmful, despite their apparent responsibility for the financial crisis. This result should encourage banks to develop more financial innovations. In addition, the CARs are higher for more radical innovations (see Table 1).

Yet, we also find that the CARs to an announcement of a financial innovation are higher in a recession than in an expansion. In this sense, a recession may offer a chance for banks to stand out from the crowd and use financial innovations to increase their financial value: Banks should act contracyclically and introduce innovations during recessions. CARs increase with the riskiness of financial innovations. An implication of this surprising finding is that banks need not avoid risky financial innovations, and this knowledge may have prompted banks to introduce more risky products in the past decade.

The complexity of financial innovations instead has a negative impact on the cumulative abnormal returns, which is in line with some prior findings outside the banking industry. Thus, we suggest that banks should avoid complex innovations.

Compared with a more radical innovation, the effect of a less radical financial innovation is more positive during recessionary times and more negative during expansionary times. Therefore, banks should time their launch of radical financial innovations to coincide with periods of expansion rather than recessions; once a recession strikes, the negative interaction term for radicalness and recession suggests that they should consider whether waiting might be preferable to an immediate launch of their radical financial innovations.

Finally, increasing risk among financial innovations increases CARs, especially in the United States. The United States may be a more suitable market for launching more risky innovations.

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Research Report

Contribution of Awareness Information in Virtual Communities – The Case of a Financial Institution

IN DISTRIBUTED WORK ENVIRONMENTS, IT IS A CHALLENGING ISSUE FOR ORGANIZATIONS TO SUPPORT THEIR EMPLOYEES IN STAYING AWARE OF ALL IMPORTANT DEVELOPMENTS IN THEIR WORK ENVIRONMENT. ACCORDINGLY, IN THIS STUDY WE DEVELOP AND EMPICALLY TEST A CONCEPTUAL MODEL TO ENHANCE OUR UNDERSTANDING OF THE INDIVIDUALS' CONTRIBUTION BEHAVIOR OF AWARENESS INFORMATION. WE PROVIDE GUIDANCE FOR THE DESIGN AND EVALUATION OF INFORMATION SYSTEMS TO SUPPORT THE CREATION OF SITUATION AWARENESS.

Immanuel Pahlke
Roman Beck

Christoph Seebach
Janek Benthaus

Introduction

In order to stay competitive in the market, organizations are increasingly forced to reduce costs and decrease time-to-market through the introduction of distributed work in which physically dispersed individuals collaborate across different locations and time zones. The emergence of innovative communication technologies has accelerated this trend. Thus, especially the financial services industry with its information-driven business processes and globally-oriented business models are reaping the benefits of such work settings today.

However, as work becomes more global and distributed, it has proven to be difficult for

workers to stay aware of all relevant information in their work environment. Specifically, it has been shown that individuals often lack what has been labeled situation awareness (SA) which in turn may lead to inferior work performance. In brief, SA has been defined as an individual's knowledge about what is going on in its immediate environment (Endsley and Garland, 2000). For example, workers need to be aware about their colleagues' emotional state or whom to ask regarding a specific issue for working together efficiently.

Since the development of SA depends on the individual's ability to extract relevant information from the work environment – subsequently

referred to as awareness information (AwI) – specific information systems (IS) are necessary to improve workers' access to such information, particularly in distributed work settings (Hinds and Bailey, 2003). In this regard, virtual community (VC) enabling technologies, such as enterprise social media platforms, seem to be a promising solution. Such platforms foster rich interaction between distributed individuals and improve interaction transparency as well as peoples' perception of others. Hence, individuals might be able to extract a large amount of AwI by engaging in and observing other community member's social interactions online. This may

then lead to higher SA and more effective collaboration between distributed workers. However, since participation in VCs is typically voluntary, the availability of AwI and hence the benefits of VCs for improving individuals' SA is fundamentally based on other VC members' motivation to contribute AwI to others. Thus, it is important to develop a deeper understanding of the factors that influence individuals' willingness to contribute AwI in VCs.

Accordingly, we aim at explaining individuals' AwI contribution behavior in VCs. Therefore, we take into account that collaborating individuals

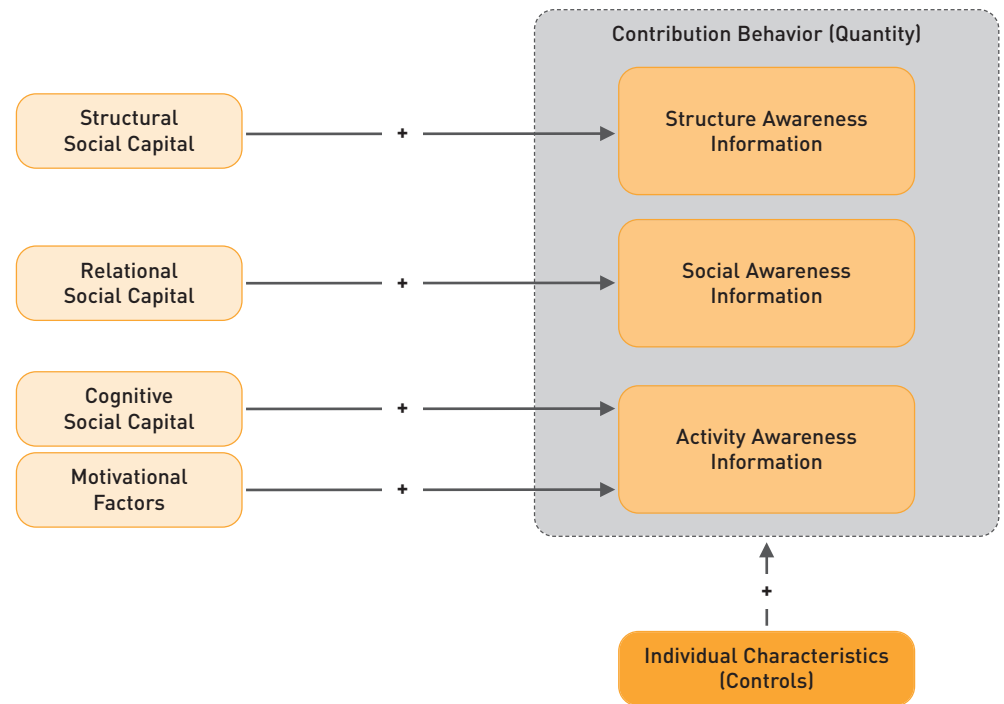


Figure 1: Research Model – Awareness Information Contribution

generally need three different types of Awl for developing SA: activity Awl, structure Awl, and social Awl (Seebach et al., 2011). The first type, activity Awl, includes information that is related to activities needed to achieve a common goal. Structure Awl, as the second type, is defined as an aggregation of all information related to knowledge about informal and formal structures at work. And finally, social Awl comprises information that is related to social interactions between collaborating individuals.

In particular, we analyze how social capital affects individuals' willingness to contribute these specific types of information needed to develop SA.

Research Model

Based on the theory of situation awareness, virtual communities as well as social capital, we propose a research model to investigate how individuals' Awl contribution behavior (i.e., the quantity of Awl individuals contribute) depends on VC members' social capital. In particular, we argue, that an individual's structural, relational, and cognitive social capital impacts the willingness to contribute activity, structural, and social Awl (Nahapiet and Ghoshal, 1998). Additionally, we take into consideration motivational factors and control variables which have been found to affect contribution behavior in VCs by previous studies (Wasko and Faraj, 2005).

For empirically testing the research model depicted in Figure 1, data was collected from a large international financial institution, which had established an enterprise microblogging

(EMB) based internal VC to improve communication and collaboration capabilities. In particular, most employees were located in UK, USA, Germany and India. The data set contains more than 15,000 messages sent by almost 1,200 VC members during the second half of 2010. As depicted in Figure 2, the EMB posts contain a high amount of Awl. Specifically, 4,706 mes-

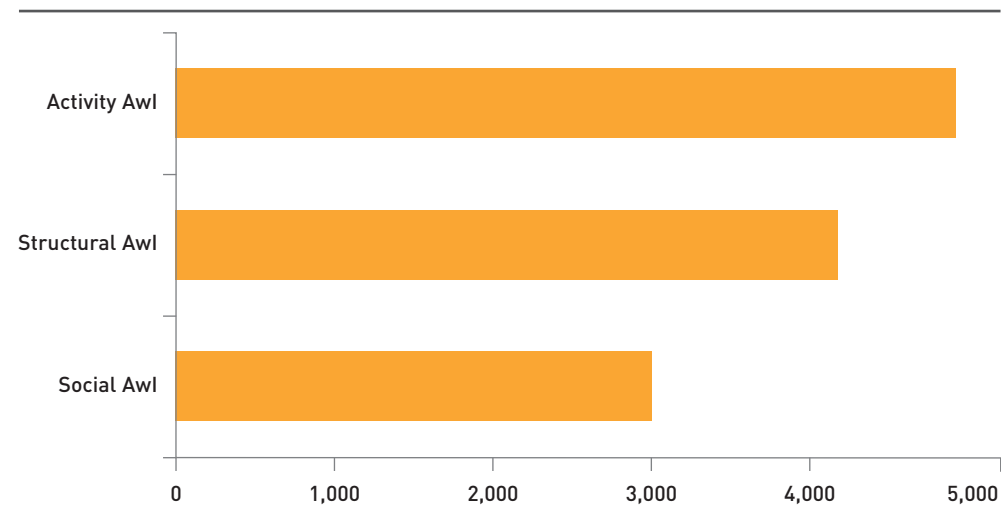


Figure 2: Amount of Messages containing Awareness Information

sages include activity Awl, 4,244 posts contain structural Awl, and 3,020 of the contributed posts comprise information that helps to improve social interaction between individuals (social Awl). Furthermore, the dataset contains meta-data regarding social network structures, VC member profiles, and userspecific settings that were used to derive measures for the explanatory variables. For testing the research model empirically, multiple negative binominal regressions were applied.

Discussion of the Results

The results of our descriptive analysis show that the messages exchanged via the EMB platform are a rich source of awareness information. More than 50% of the analyzed posts contain at least one of the three categories of awareness information. Specifically, more than 28% of the messages support users with activity Awl. However,

improves model fit and increases the explained portion of the total variance significantly. Structural social capital factors, e.g., the number of contacts an individual has, exhibits a positive and significant effect on structure Awl contributions and the quantity of activity Awl. Moreover, the empirical results show that the influence of relational social capital (e.g., the strength of relationships between individuals) on social Awl quantity is the strongest. Cognitive social capital such as shared vision and goals among individuals only exhibit a positive and significant influence on the quantity of activity Awl. On the other hand, motivational factors such as reputation expectations in addition to the positive influence on activity Awl quantity also positively affects the amount of structural Awl provided by the members of the VC.

In total, the results of our study provide strong support for the hypothesized relationships in our research model. Thus, the study provides empirical evidence for the propositions that individuals who have gained more structural social capital contribute more structure Awl. Further, higher relational social capital increases the amount of social Awl, and more cognitive social capital as well as motivational factors lead to more activity Awl contributions. In addition to the proposed relations, the empirical results also reveal some further interesting findings. In this respect, the role of relational social capital is in particular remarkable. Specifically, the results show a positive and highly significant effect of relational social capital on the provision of each of the three types of Awl, indicating that relational

with a share of more than 30% for structural Awl and 22% for social Awl, the other two types are well represented in the messages also.

Coming to the analytical investigation, our empirical results clearly indicate that individuals' characteristics (control variables) account for a significant amount of variation in social Awl quantity. Adding the explanatory factors (structural, relational, and cognitive social capital, as well as motivational factors) to the model further

social capital overall has a positive impact on individuals' awareness contribution behavior. This may be attributed to the argumentation that stronger relationships are associated with a mutual emotional attachment, which facilitates individuals' willingness to put forth more time and effort on behalf of each other. Since the contribution of any kind of information is time consuming, it is no surprise that relational social capital positively influences individuals' contribution behavior with respect to structural Awl and activity Awl as well.

Interestingly, the findings also reveal strong and positive influence of motivational factors on the amount of structural Awl. This finding can be explained by the behavior that members of VCs try to impress others with their knowledge about work processes and organizational structures.

Finally, the empirical results provide evidence for structural social capital influencing the willingness to contribute activity Awl. This might be justified by the argumentation of Nahapiet and Ghoshal (1998), who defined social ties as potential channels for information flows. In this regard, it is reasonable to assume that individuals with a higher amount of such information channels are also better informed about their colleagues' activities and information needs.

Conclusion

Our analysis of the EMB platform illustrates how an enterprise social media platform in general supports the creation and maintenance of SA within a corporate context through facilitating the exchange of different types of

Awl between dispersed coworkers. In doing so, our research contributes to the current academic understanding on SA and individuals' contribution behavior in VCs. Therefore, this study proposes and empirically analyzes a theoretical model that explains individuals' Awl contribution behavior in VCs. As a result, we were able to provide first empirical evidence that social capital is important for our understanding of individual's contribution behavior with respect to the different types of Awl. In particular, the empirical results confirm the importance of structural, relational and cognitive social capital on individuals' contributions in VCs enabled through enterprise social media platforms. Beyond this general implication, our empirical investigation in addition suggests that the extent to which the different social capital dimensions influence individuals' contribution behavior strongly varies with respect to the type of Awl.

In addition, our research provides several managerial implications. Because the findings of our study suggest that individual social capital significantly affect users' Awl contribution behavior, managers and system designers should focus their development efforts on those factors that have a strong impact on individuals' motivation to contribute Awl. This may enhance effective communication and collaboration among employees.

For example, our finding that strong social ties positively influence individuals' contribution behavior provides further insights on how to facilitate the distribution of Awl through VCs in a

corporate context. Consequently, features should be implemented that support trust and interpersonal connections, specifically between workers that are not collocated. In this regard, the follower feature – as it was implemented on the investigated EMB platform – might be a promising means for this purpose. Such features can be utilized to improve interaction transparency and provide individuals with the opportunity to build up strong relationships with coworkers who are distributed across different locations around the globe.

By highlighting the key role of individual's reputation and individuals' personal identity on providing Awl in VCs, this study further suggests that appropriate technologies should offer effective features for self-presentation. Moreover, such platforms should reward individuals' contribution efforts by leveraging features that help to uncover an individual's reputation.

In summary, our empirical findings substantiate the value of enterprise social media platforms for organizations with regard to the creation and maintenance of SA within a corporate context. For instance, the investigated EMB platform, as an example of enterprise social media, already contains the aforementioned functions – such as the follower feature, user profiles or reputation mechanisms – and may thus be a promising solution for facilitating the distribution of Awl in organizations and for improving SA. Since SA is an important prerequisite for successful collaboration, we conclude that social media platforms can play a crucial role to generate business value from

improved exchange of Awl among employees. In this regard, our findings contribute toward a better understanding on the use and value of enterprise social media platforms in an organizational context.

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Insideview

Real-Time Surveillance

INTERVIEW WITH RICHARD TIBBETTS, STREAMBASE SYSTEMS AND WOLFGANG FABISCH, B-NEXT

In the aftermath of the financial crisis, U.S. and EU regulators are pushing for stronger legislation, how will this affect market participants?

Fabisch: Regulators would like to see much tighter controls in place around trading both pre- and post-trade amongst firms. This also applies across all asset classes unlike current regulation where there are exemptions, e.g., commodities. For some market participants, surveillance and monitoring will be a 'near real-time' requirement though for other participants, the regulators are looking for a 'proportionate' level of monitoring in an 'appropriate timeframe'. Many smaller brokers, banks and HFT firms interpret this as not needing to do near real-time surveillance.

What is the biggest challenge for building efficient surveillance systems in today's market?

Fabisch: Technology can cope with huge volumes of data, e.g. CEP (Complex Event Processing). Even more difficult is obtaining quality data from trading systems and assuring that the data collected is cleansed before surveillance is carried out. Secondly, the cost of data, especially real-time data is prohibitive for many firms. Typically, we see firms using delayed data (15 minutes) or performing analysis on a T+1 basis.

Tibbetts: The main challenge is to build a robust system that is scalable and flexible enough for further adjustments. With the speed of regulatory change, trading firms cannot afford to build a system only to throw it away when regulations change. They need flexibility and to be able to reuse the data and the architecture for more than just surveillance. The same information and analysis can drive pre- and post-trade risk management, trade support, execution consulting, and other opportunities.

What are the requirements for developing real-time surveillance systems?

Fabisch: Connecting this technology to trading systems and market data sources in real-time is key to performing real-time surveillance. Furthermore, only certain market abuse scenarios are appropriate for surveillance in real-time, e.g. spoofing. Others require pattern analysis over a longer period of time.

Tibbetts: It is not just about having real-time data analysis tools like CEP. In addition to the data, you need the expertise to understand the regulations to be able to react to changes. Tools that allow experts to quickly configure new



Wolfgang Fabisch
CEO b-next AG

rules, to collaborate with developers to build correct systems, are critical to getting the first system right and making future improvements.

What role does Complex Event Processing as a technology play in this context?

Fabisch: CEP is able to perform real-time analysis as well as process large volumes of data efficiently. So even if a participant is not looking to do true real-time analysis, there is still a use case for CEP as an analysis tool processing large volumes of data.

Tibbetts: This is an ideal technology for real-time surveillance, being fast, flexible and designed from the ground up for processing real-time events, such as trade order flow. We see CEP-based surveillance solutions as positively affecting the response time for compliance officers.

How does CEP technology help market partici-



Richard Tibbetts
CTO and co-founder Streambase Systems

pants to comply with the ESMA guidelines on systems and controls in an automated trading environment?

Tibbetts: Trading platforms (regulated exchanges or MTFs) and investment firms can leverage CEP to help meet ESMA guidelines. First, it is the scalability of CEP based systems that cannot only accommodate today's high data rates, but also spikes in data volumes caused by sudden surges in transaction flow. Secondly, CEP technology can provide a real-time view of trading infrastructures for firms to monitor and identify problems as soon as possible and immediately adjust, cancel or resolve issues associated with systems or algorithms. Thirdly, the graphical event-flow development environment enables staff from different business units to collaborate more efficiently during the implementation process.

Thank you for this interesting conversation.

Infopool

News

Successful Disputation

M.Sc. Frank Zickert (layer 1) has received his doctoral degree on April 26th, 2012 with his dissertation on "Assessing Project Effort from Software Requirements".

Dipl.-Wirtsch.-Inf. Michael Chlistalla (layer 2) has received his doctoral degree on May 21st, 2012 with his dissertation on "The Impact of Regulation on European Equity Markets".

Dipl.-Kfm. Christian Stammschulte (layer 3) has received his doctoral degree on June 6th, 2012 with his dissertation on "Essays on Performance of Individual Investors and Banks".

Congratulations to all E-Finance Lab researchers on their successful disputations!

New Colleagues

Janek Benthaus joined the team of layer 1 in July 2012. Janek recently graduated from the University of Frankfurt and will be supervised by Prof. Dr. Wolfgang König and Prof. Dr. Roman Beck.

Joachim Weber joined the team of Prof. Dr. Andreas Hackethal (layer 3) in April 2012 as an external doctoral candidate. Joachim finished his studies at the University of Mannheim before working for an international consulting firm.

Peter Gomber to advise the European Securities and Markets Authority

Peter Gomber, Professor of e-Finance at the University of Frankfurt and Co-Chair of the E-Finance Lab (layer 2) has been appointed a member of the new Secondary Markets Standing Committee Consultative Working Group (CWG) of the European Securities and Markets Authority (ESMA). The CWG has been formed to assist the Secondary Markets Standing Committee of ESMA in its work relating to the structure, transparency and efficiency of secondary markets for financial instruments, including trading platforms and OTC markets. Furthermore, it assesses the impact of changes in the market structure to the transparency and efficiency of trading and develops ESMA policy in relation to the issues identified.

Further details can be found at <http://www.esma.europa.eu/page/secondary-markets-sc>

Selected E-Finance Lab publications

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Siering, M.; Muntermann J.:

The Role of Misbehavior in Efficient Financial Markets: Implications for Financial Decision Support.

In: Proceedings of the FinanceCom, Barcelona, Spain, 2012.

Wolf, M.; Beck, R.; Pahlke, I.:

Mindfully Resisting the Bandwagon – Reconceptualising IT Innovation Assimilation in Highly Turbulent Environments

In: Journal of Information Technology (online first).

For a comprehensive list of all E-Finance Lab publications see

<http://www.efinancelab.com/publications>

Infopool

RESEARCH PAPER: DOES CHATTER REALLY MATTER? DYNAMICS OF USER-GENERATED CONTENT AND STOCK PERFORMANCE

Consumers actively and regularly share their experience with others on online platforms; the body of information that they so generate is popularly known as user-generated content (UGC) or chatter. The authors find that the volume of chatter (i.e., total number of reviews posted by consumers about the products of a firm in a day) leads to significantly abnormal returns within a few days. Of all the metrics of user-generated content, volume of chatter has the strongest positive influence on abnormal returns and trading volume. The influence of negative and positive metrics of user-generated content on abnormal returns is asymmetric. Whereas negative user-generated content has a significant negative influence on abnormal returns with a short "wear-in" and long "wear-out", positive user-generated content has no significant influence on these metrics. The volume of chatter and negative chatter has a significant positive effect on trading volume. The risk of the firm increases significantly with negative information in user-generated content, whereas positive information does not have much influence on the risk of the firm. The authors' findings have several managerial implications: Because UGC predicts returns, marketing managers should monitor UGC as a part of their marketing research. Second, marketing managers should focus on negative chatter more than positive chatter or average ratings.

Tirunillai, S.; Tellis, G. J.

In: *Marketing Science*, 31 (2012) 2, pp. 198-215.

RESEARCH PAPER: IT'S TIME FOR TRUSTWORTHY SYSTEMS

Due to the advanced technologies, the machine-checked security proofs are now down-to-earth. In this regard, Heiser et al. propose a new approach for a formal verification and analysis of trusted systems. The authors present a microkernel, containing only 10,000 lines, which is able to effectively isolate trusted code from untrusted code, spatially and temporally. The authors' evaluations show that their approach can be used not only for a complete proof of confidentiality and integrity enforcements, but also for authority confinements in a very tractable and cost-saving manner. In their article, Heiser et al. also analyze proof-based attacks, weak points of systems' design, and outline feasible countermeasures.

Heiser, G.; Murray, T.; Klein, G.

In: *IEEE Security and Privacy*, 10 (2012) 2, pp. 67-70.

Electronic newsletter

The E-Finance Lab conducts two kinds of newsletters which both appear quarterly so that each six weeks the audience is supplied by new research results and information about research in progress. The focus of the printed newsletter is the description of two research results on a managerial level – complemented by an editorial, an interview, and some short news. For subscription, please send an e-mail to eflquarterly@definancelab.com or mail your business card with the note "please printed newsletter" to

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The Internet-type newsletter uses short teaser texts complemented by hyperlinks to further information resources in the Internet. To subscribe, please send an e-mail to

newsletter@definancelab.com.

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