

swiss:finance:institute



Activity Report
2006

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As a world-leading financial center building on a rich history, Switzerland's financial sector has the natural ambition of housing a world-leading research and training center in banking and finance.

The Swiss Finance Institute is the product of this ambition. Established at the initiative of the Swiss Bankers Association, it is a private foundation created in January 2006 with the support of the Swiss banking and finance community and SWX together with the Swiss Confederation, the Swiss National Science Foundation and several Swiss universities with the aim of advancing research activities in finance and executive education in the banking and finance sector.

The Swiss Finance Institute encompasses two pre-existing foundations: the International Center for Financial Asset Management and Engineering (FAME) and the Swiss Banking School. This merger has led to the creation of one of the major European providers of research, doctoral training and advanced executive education in banking and finance.

Word from the Board

The beginning of an exciting journey!

The Swiss Finance Institute started operating on January 1, 2006. The official launch was preceded by an intense activity throughout 2005 culminating with 3 Foundation Board "pre-meetings" in the Fall and the signature of MOU's with the future university partners.

Where do we stand 12 months later? This activity report provides the answers. The Swiss Finance Institute is alive and well. Two of the 3 pre-existing foundations, FAME and the Swiss Banking School, have been officially merged. Formal Cooperation Agreements have been signed with 5 university partners leading to the creation of 3 SFI regional centers in Zurich, Lugano and the Léman area. A Cooperation Agreement with FinRisk and the Swiss National Science Foundation has been signed. The two main advisory bodies, a Scientific Council and an Executive Education Advisory Board, have been nominated and are at work since early in the year. An ambitious Executive Education strategy has been elaborated, approved and is being implemented. The first SFI chair professor has been nominated and has started his mandate while 40 professors in place in partner universities have joined the Swiss Finance Institute Faculty. The SFI PhD program is up and running. Research activities have led to the first 39 research papers published, in collaboration with FinRisk, on the Social Science Research Network.

Several important publications in top journals have been recorded in 2006 or are forthcoming. The first SFI financed research project has been launched. The first SFI Annual Meeting has taken place in Zurich in the presence of Federal Councilor Couchepin. Finally, some 580 participants have attended one or several SFI Executive Education courses.

This intense activity is the first step of an ambitious build-up. The goal of the Swiss Finance Institute is to become, in partnership with Swiss universities and with all the actors of the Swiss Financial Center, a major actor on the worldwide scene of Research, PhD training and Executive Education in Banking and Finance. Year 1 has served to optimize the trajectory towards this ambitious objective. We believe the ship is on course. Exciting new developments are expected in 2007 and the first visible fruits of a remarkable country-wide effort are within reach.

At the end of this first year, we would like to extend our warmest gratitude to all of you in the universities, in the federal government and in the industry who have made the Swiss Finance Institute a thriving reality and very concretely to all Foundation Board members and to the Swiss Bankers' Association for their unfailing support.

Olivier Steimer
Chairman of the Foundation Board

Jean-Pierre Danthine
Managing Director

From left to right: Michael Jensen, Professor at Harvard Business School, Jean-Pierre Danthine, Managing Director of the Swiss Finance Institute, Pascal Couchepin, Federal Councilor, Olivier Steimer, Chairman of the Board of the Swiss Finance Institute, Pierre Mirabaud, President of the Swiss Bankers' Association



The Swiss Finance Institute Faculty

The Swiss Finance Institute will be defined first and foremost by its faculty constituted in collaboration with its partner universities. The plan is for the Institute's Faculty to count more than 50 professors with about 30 positions being opened or reallocated within the next five years.

Between January and December 2006, the Swiss Finance Institute was fortunate to obtain the official participation of the Universities of Lugano, Lausanne, Geneva and Zurich as well as EPFL to its ambitious project through the signature of Cooperation Agreements defining the terms of the collaboration and the commitments of all parties. It was expected that the ETHZ would join early in 2007 while discussions with the University of St-Gallen are still ongoing. This legal activity led to the creation of three Swiss Finance Institute regional Centers: SFI-Léman, SFI-Lugano and SFI-Zurich headed by Professors Bernard Dumas, Giovanni Barone-Adesi and Rajna Gibson, respectively.

At the individual level, 40 professors located across these three centers decided to join and contribute to the Swiss Finance Institute.

Most importantly the action of the Swiss Finance Institute will be manifest through the support it will provide to its partner universities in the process of hiring new researchers of worldwide reputation and/or with the highest prospects. A first very significant step in this direction was made with the hiring of Prof. Bernard Dumas by the University of Lausanne, where he holds a Swiss Finance Institute Senior Chair since September 1, 2006. Bernard Dumas was formerly Professor at INSEAD, at HEC (Paris) and at The Wharton School of the University of Pennsylvania. He has been a Member of the Board of the American Finance Association, is a Research Associate of NBER and a Research Fellow of CEPR. Professor Dumas is Associate Editor of the «Journal of Finance» and several academic journals and is a former co-editor of the «Review of Financial Studies». He specializes in international finance and finance theory in continuous time. He received his Master of Science and PhD from Columbia University, New York.

The intellectual life of the SFI regional centers will also be stimulated via the temporary hiring of Visiting Professors. Professor Peter Bossaerts, of the California Institute of Technology, was the first Swiss Finance Institute Visiting Professor to be nominated. He has been at the University of Lausanne since July 2006 and is expected to remain there for the entire 2006-2007 academic year. Professor Bossaerts is a specialist of experimental and neuro-finance. Among other activities he gave a public lecture in Geneva reported in the Knowledge Transfer pages of the present report.

2006

Swiss Finance Institute Faculty

Giovanni Barone-Adesi
Alessandro Beber
Tony Berrada
Marc Chesney
Fulvio Corsi
Jean-Pierre Danthine
Enrico De Giorgi
François Degeorge
Bernard Dumas (as of 1.9.06)
Pierre-André Dumont
Daniela Fabbri
Patrick Gagliardini
Fausto Galli
Hans Geiger
Rajna Gibson
Manfred Gilli
Michel Habib
Thorsten Hens
Martin Hoesli
Julien Hugonnier
Jean Imbs
Eric Jondeau
Jean Lefoll
Markus Leippold
Henri Loubergé
Erwan Morellec
Eric Nowak
Claudio Ortelli
Marc Paoletta
Michael Rockinger
Olivier Scaillet
Enrique Schroth
Norman Schürhoff
Pascal St-Amour
Paolo Vanini
Rudolf Volkart
Alexander Wagner
Mei Wang
Lucy White
Alexandre Ziegler

Publish or Perish!

It is expected that the mark of the Swiss Finance Institute will be felt very quickly via an acceleration of publications by affiliated researchers in top academic journals, i.e., those journals that historically have been first in promoting the ideas that have changed financial practices.

In our first year of operations, we inaugurated the Swiss Finance Institute Research Paper series within the Social Science Research Network (SSRN), a collaborative project with FinRisk. The decision to work with SSRN should lead to the widest dissemination of the research output of FinRisk and SFI researchers and to a high international visibility for our Institute. Thirty-nine research papers were placed into the series in 2006. A complete list of these papers is available on pages 22-24.

More mature research output is typically disseminated through academic journals and exceptionally in books. In 2006 SFI researchers have had their research published or accepted for future publication in prestigious journals such as the *Journal of Finance*, the *Review of Financial Studies*, the *Journal of Financial Economics*, the *American Economic Review*, the *Journal of Business* and other high level journals. The 2006 and forthcoming list of publications by SFI researchers is compiled in pp 18-21.

As part of a program started by its predecessor, the International Center FAME, publications in the most prestigious journals having appeared between September 2005 to August 2006 journals were distinguished with a SFI Publication Award at the 2006 Annual Meeting of the Swiss Finance Institute.

2006

Swiss Finance Institute Publication Awards

"The Economic Consequences of Increased Disclosure: Evidence from International Cross-Listings", published in the *Journal of Financial Economics*, by Carolina Salva (with Warren B. Bailey and Andrew G. Karolyi).

"Can Information Heterogeneity Explain the Exchange Rate Determination Puzzle?", published in the *American Economic Review*, by Philippe Bacchetta (with Eric Van Wincoop)

"Innovation, Differentiation and the Choice of an Underwriter: Evidence from Equity-Linked Securities", published in the *Review of Financial Studies*, by Enrique Schroth.

"Crises and Capital Requirements in Banking", published in the *American Economic Review*, by Lucy White (with Alan D. Morrison).

"The Dynamics of Mergers and Acquisitions", published in the *Journal of Financial Economics*, by Erwan Morellec (with Alexei Zhdanov).

"On the Debt Capacity of Growth Options", published in the *Journal of Business*, by Erwan Morellec (with Michael J. Barclay Clifford W. Smith, Jr.).

"Firm Value and Managerial Incentives: A Stochastic Frontier Approach", published in the *Journal of Business*, by Michel A. Habib (with Ljungqvist Alexander).

From left to right: Prof. Enrique Schroth, Lucy White, Philippe Bacchetta, Erwan Morellec, Carolina Salva and Michel Habib



The Swiss Finance Institute Research Partner: NCCR Finrisk



Based on the FINRISK/SFI cooperation agreement, an active collaboration between both entities has been installed during 2006. Most recently, this cooperation has led to the constitution of a new FINRISK research project, which is fully financed by SFI. In the following, we list the major joint activities by FINRISK and SFI during the reporting period.

Launching of the first SFI funded FINRISK research project, headed by SFI professor Bernard Dumas

In September 2006, the FINRISK director invited any faculty member at Swiss Universities to submit a proposal for a new research project in the areas of Asset Pricing/Corporate Finance/Financial Intermediation.

The FINRISK international scientific council (ISC) evaluated the four submitted proposals at its November meeting and, on the basis of scientific merits, selected the project proposed by SFI professor Bernard Dumas focusing on "Equilibrium Asset Pricing". For detailed information on this project see: www.nccr-finrisk.unizh.ch/project.php?pid=10.

The selected new project will start as of January 2007. It received an initial endowment of SFr. 320'000 per year. As for any FINRISK project, the annual budget may change over time, based on outcome of the periodical assessment by the ISC.

Given the high quality of all submitted proposals, the ISC also decided to match the SFI initiative and to immediately re-launch a second call for a new FINRISK research project under SNSF funding in early 2007.

FINRISK and SFI promote doctoral education in finance in Switzerland

The following doctoral courses in finance have been jointly organized by FINRISK and SFI in 2006. They are offered to all doctoral students from Swiss Universities (for further details see: www.nccr-finrisk.unizh.ch/courses.php?year=2006).

- **Empirical Corporate Finance**, Michel Habib (Zurich)
- **Corporate Finance Theory**, Erwan Morellec (Lausanne)
- **Linear and Nonlinear Factor Models for Finance**, Christian Gourieroux (Paris, Toronto)
- **Advanced Topics in Econometrics**, Christian Gourieroux (Paris, Toronto)
- **Behavioural Portfolio Theory**, Enrico De Giorgi (Lugano)
- **Fundamentals of Commodities-The Particular Case of Energy Commodities**, Helyette Geman (Paris)
- **Topics in Macroeconometrics**, Paolo Paruolo (Italy)
- **Advanced Financial Decision Making and Asset Pricing**, Fabio Trojani (St Gallen)

The *Fifth Swiss Doctoral Workshop in Finance* was organized on June 12-13, 2006 at the Study Centre Gerzensee joint with SFI. More than 20 doctoral students from the network institutions presented their current research. Each paper was discussed by another doctoral student before René Stulz (Ohio), Jerome Detemple (Boston) as well as other professors from FINRISK provided their comments. The workshop was sponsored by the foundation of the Study Center Gerzensee. For the full program see: www.nccr-finrisk.unizh.ch/archives/education/phd-workshop06.htm.

FINRISK provides support to SFI research papers series

In June 2006, the Swiss Finance Institute launched a new Research Paper Series (SFI-RPS) together with its research partner, the NCCR FINRISK. This new series is published on the SSRN website: www.ssrn.com/link/swiss-finance-institute.html. FINRISK and SFI agreed to equally share the publication costs. In turn, any FINRISK Working Paper can be included into the Swiss Finance Institute Research Paper Series. (Papers submitted by doctoral students or PostDocs require a formal SFI-RPS publication approval from the respective supervisor.) See pages 22-23-24 for the complete listing of the 2006 research papers in the series.

The Swiss Finance Institute PhD Program in Finance

Launched in autumn 2006, the Swiss Finance Institute PhD Program in Finance is targeted towards the pursuit of academic excellence. It aims at providing an intellectual environment and a curriculum comparable with the top PhD programs in Europe and North America. The PhD program operates at the three Swiss Finance Institute campuses in Geneva/Lausanne (Léman), Lugano and Zurich under a strong collaboration with the NCCR FinRisk (see previous page).

The curriculum comprises two phases: one preparatory year of intensive coursework followed by three years of advanced studies and research. The Program covers a wide range of subjects including Economics, Financial Economics, Corporate Finance, Mathematical Finance, and Econometrics. There is a clear focus on the mathematical foundations of Finance and all courses are taught by internationally renowned academics from Switzerland, Europe, and North America. The Program offers the ideal framework for successful and inspiring PhD studies in Finance.

Building on and strengthening the existing programs offered by the Swiss Finance Institute's partner universities in Geneva/Lausanne (Léman), Lugano and Zurich, the Swiss Finance Institute is already one of the largest such programs in the world with 65 students enrolled across the 3 Competence Centers including 18 new students who joined the program at the beginning of 2006/2007 academic year.

The SFI PhD program is placed under the twin scientific supervision of the Swiss National Science Foundation FinRisk Review Panel and the SFI Scientific Council. For a thesis to qualify a Swiss Finance Institute thesis, the thesis jury should count at least one Swiss Finance Institute-chaired professor or Swiss Finance Institute Fellow; the thesis supervisor should be a Faculty member of Swiss Finance Institute; if at all possible the thesis jury should include a SFI Faculty member from another Swiss Finance Institute Center than the Center with which the PhD student is affiliated.

As it is the objective of the Swiss Finance Institute to have students closely linked with research, the Swiss Finance Institute proposes PhD students a travel budget of up to CHF 1'000 per academic year to encourage students to present their research in professional association meetings.

PhD students with academic ambitions are encouraged to spend an extended visit abroad in a top department under the pre-arranged supervision of a researcher interested in the PhD student's research through a program of advanced doctoral grants. Under certain conditions, the Swiss Finance Institute can award financial support of up to CHF 40'000 to aid the PhD candidates in going abroad.

1st Swiss Finance Institute Doctoral Award

*The first Swiss Finance Institute doctoral award was awarded to **Maria Cecilia Bustamante**, University of Lausanne and SFI PhD student, for her paper entitled "The Dynamics of Going Public", presented at the Swiss Doctoral Workshop in Finance. The 2006 workshop was organized by the Swiss Finance Institute and SFI research partner FinRisk on June 12-13 at the Study Centre Gerzensee with 21 papers being presented by doctoral students from all-over Switzerland. The nominating committee, composed of René Stulz (Ohio State University) and Jérôme Detemple (Boston University), selected 3 papers for consideration. The other nominated papers were those of two other Swiss Finance Institute PhD students, Bogdan Stacescu, University of Zurich, and Benedetto Raccuglia, University of Lausanne. The jury, formed of Giovanni Barone-Adesi (University of Lugano), Rajna Gibson (University of Zurich) and Henri Loubergé (University of Geneva), unanimously designated the winning entry.*

The award was given at the first Swiss Finance Institute Annual Meeting on November 14, 2006.



Executive Education

The first year of Executive Education at the Swiss Finance Institute has turned into a resounding success: In its initial year SFI Executive Education offered 30 courses for 640 participants from all over the world! Three quarters of the participants of our international programs came from outside of Switzerland, representing 40 different nationalities, demonstrating the international recognition of our programs!

Executive Education is where the intellectual capital of the Swiss Finance Institute can have the most immediate impact on the finance industry. Executive Education can short-cut the normal diffusion of new knowledge which takes place through young graduates and PhDs joining the industry. However, this requires that research results are conveyed in a palatable and practically useful form. And this is where SFI Executive Education wants to excel on an international level! The fact that SFI can look back on 25 years of experience in finance executive education, and 20 years in bank management executive education through its predecessor organisations is a sound basis to build on.

To achieve this goal the Swiss Finance Institute has developed a clear and focused, but also very ambitious, strategy for its Executive Education offering:

- It will concentrate exclusively on advanced graduate level finance courses on the one hand, and on bank management courses for executives on the other hand.
- In both areas the Swiss Finance Institute will offer open-enrolment programs on a graduate level, as well as Diploma and Master Programs with highly selective admittance.
- With a few exceptions, all programs will be aimed at a global audience, so as to foster the exchange of ideas on the foremost frontiers of knowledge and experience.

The strategy comes with a clear roll-out plan which is currently being implemented.

Key figures for the Swiss Finance Institute Executive Education in 2006

- In its initial year the SFI offered 30 courses for a total of 44 week of Executive Education:
 - > 19 courses in advanced finance for a total of 23 weeks
 - > 11 courses in bank management for a total of 21 weeks
- Over 640 participants took one or more of the Institute's courses; 156 graduated from one of its diploma courses!
- In the SFI international programs more than 75% of participants came from outside of Switzerland, representing 40 different nationalities

By combining existing forces, the Swiss Finance Institute was able to dramatically kick-start this roll-out process: In Finance a wide roster of 18 one-week courses was offered, plus a 5-week immersion Certificate Program in Financial Asset Management and Engineering (FAME); in bank management 5 open enrolment bank management courses for executives were held, plus the 5-week SFI Advanced Executive Program and the 7-week, two-year SFI Executive Program, in addition to SFI contributing to two Master programs in partnership with Universities overseas. On an international graduate level in Banking and Finance, this is already one of the broadest offerings in the world!

The strategy of SFI Executive Education requires SFI to augment these programs with selected Executive Master degree programs, ideally in co-operation with Swiss and international universities. In this way the Swiss Finance Institute will become similar to a Graduate Business School, with degree programs, a PhD Program, and Research. Extensive preparatory work has been done in 2006 and discussions held with various universities with the goal of launching the first Executive Master Degree programs later in 2007.

Participants in the Certificate in Financial Asset Management and Engineering relaxing in the Lavaux area overlooking Lake Geneva

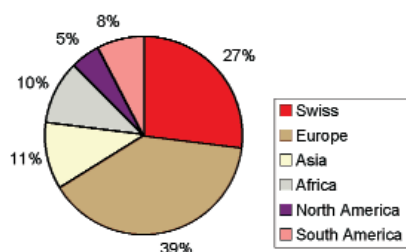


The Executive Education offering: Finance

In Finance, the focus of the Swiss Finance Institute Executive Education is on teaching state of the art finance for experienced practitioners. The main emphasis is placed on selecting outstanding teachers: To guarantee a deep insight into the topic we look for a world renowned researcher; to ensure that what is taught is relevant and applicable for the practitioner, we look for a teacher with extensive industry insights; and to ensure that our participants truly benefit from the experience we look for outstanding teaching abilities.

These rare people are sought from all over the world - and have turned out to be renowned professors such as, Frank Diebold from Wharton, Yacine Ait-Sahalia from Princeton, Stephen Schaefer from LBS, René Stulz from Ohio State University, Michael Brandt from Duke University, Richard Levich from New York University. They are joined in their courses by selected practitioners who are chosen for their experience in dealing with the challenges of day to day operational implementation.

The participants themselves are seniors in their fields, looking to update and further enhance their understanding. They join the finance courses of the Swiss Finance Institute from all over the world, as depicted by the pie chart below:



The Geneva Executive Courses in Finance

The 18 courses in advanced finance are grouped into what we call the Geneva Executive Courses in Finance, since that is where they take place. These courses are on graduate level, and introduce the latest insights into the application of finance, with each course focusing on a specific topic: Fixed Income, Asset Allocation, or Risk Management, to name a few. They typically last one week. - In 2006 259 participants elected one or more of these courses.

Certificate in Financial Asset Management and Engineering (FAME)

FAME is an intensive 5-week immersion program into the state-of-the-art techniques and practices applied in asset management and financial engineering. Taught

in Lausanne by a mixture of international professors and practitioners, and 28 participants joined this program from 18 countries of Europe, Asia and Africa.

Finance Courses for Central Bankers with the Study Center Gerzensee

The Study Center Gerzensee and the Swiss Finance Institute jointly organize finance courses for central bankers. Some of these courses provide an overview of recent developments in quantitative finance that are relevant for researchers from these organizations, other courses address new developments in financial markets and financial theory for the benefit of central bank economists. All of these courses are by invitation only.

The Executive Education offering: Bank Management

In Bank Management, the focus of the Swiss Finance Institute is on providing insights bearing on the key trends for the finance industry, both on a strategic and on an operational level. The concepts underlying these trends are presented by academics selected for their extensive industry exposure, and their understanding of the implications for the finance industry. Senior executives are invited to present their institution's reaction to these developments: the strategic responses to the strategic challenges on one level, and the state of the art implementation of new operational techniques on the other. Finally, the carefully selected participants are of the highest calibre, ensuring a critical discussion of the presented ideas among peers.

Seminars in Bank Management

In 2006 the Swiss Finance Institute organized five national and international seminars with 108 participants. The most prestigious of these seminars is the five-day International Private Banking Retreat for Managing Directors. In 2006 this seminar addressed the strategic developments in Private Banking and Wealth Management for the 8th time, with worldwide participation.

SFI Executive Program and SFI Advanced Executive Program in Bank Management

These two German part-time bank management programs gathered 185 participants in 2006. The aim of these programs is to develop a broadened understanding of the finance industry, and thereby achieve an improved quality of decision-making and a superior ability to interact with colleagues from other business areas.

The SFI Executive Program is 7 week- long spread over a two year period. It is aimed at young Vice Presidents; the SFI Advanced Executive Program consists of 25 days spread over one year, and is aimed at Senior Vice Presidents and Executive Directors. Both are comparable in style to a shortened MBA program, with extensive use of cases, class discussions, and group presentations to incorporate the experience of the widely diverse participants. Both programs utilize about a dozen professors selected from Swiss and foreign universities, each of them responsible to lead one specific subject. Up to eighty senior executives join for special presentations and in-depth discussions.

Master Programs

The 4th Cycle of the International Wealth Management Executive MBA (IWEMBA) drew to a close in October 2006 with 18 participants receiving their MBA from the University of Geneva and their Executive MBA from the Tepper School of Business of Carnegie Mellon University. The Swiss Finance Institute is a partner in this unique program, which however will not be continued in its current format. Instead work is well under way for a new Executive MBA in Bank Management, which will have a much wider reach.

The Swiss Finance Institute also organizes a two-week Swiss module for the Master in Wealth Management offered by the Singapore Management University, with the Wealth Management Institute as the third partner. The Swiss module was held for the 2nd time in 2006, with 44 participants from Singapore and SE-Asia.

Participants Executive Education courses in 2006

Finance	
<i>Geneva Courses</i>	259
<i>FAME Certificate</i>	28
Bank Management	
<i>Banking Seminars</i>	106
<i>SFI Executive Programs and Advanced Executive Programs</i>	185
<i>Master Programs</i>	62
Total	640

For a complete list of the Executive Education courses offered by the Swiss Finance Institute in 2006 see pages 25-27.

Alumni Association

The Swiss Finance Institute Alumni Association took over from the former Swiss Banking School Alumni Association on April 28, 2006. In the past graduates of the Executive Program, the Advanced Executive Program and the International Wealth Management Executive MBA were eligible to join. As a new development the SFIAA was opened to the graduates of the Certificate in Financial Asset Management and Engineering (FAME). There are currently over 1.200 members in SFIAA, with 119 new members in 2006.

The Swiss Finance Institute Alumni Association promotes

- networking among its members
- further education of its members by means of seminars and lectures (in collaboration with the Swiss Finance Institute)
- contributing to the ongoing improvement of the Swiss Finance Institute

In addition to an annual meeting of members, the Swiss Finance Institute Alumni Association and the Swiss Finance Institute jointly organize the Alumni Luncheons with prominent guest speakers as well as the SFIAA Golf Trophy in the Fall.

2006 Alumni Luncheon

28.04.2006

Herbert J. Scheidt, CEO Bank Vontobel, Zurich

04.07.2006

Marco Föllmi, Swiss National Bank, Geneva

01.09.2006

Dr. Eugen Haltiner, President of the Swiss Federal Banking Commission (EBK), Berne

28.11.2006

Pierre Chappaz, President of the Société Wikio

01.12.2006

Prof. Jean-Pierre Danthine, Managing Director of the Swiss Finance Institute, Zurich

Knowledge Transfer at the Swiss Finance Institute



“Top financial services depend on top innovation based on fundamental research and on a deep cultural and historical understanding. The Swiss Finance Institute is an instrument devoted to promote this very objective. As a result of the alliance between the National Competence Center for Research “FinRisk” and the Swiss Bankers Association, the Swiss Finance Institute is also an outstanding example of an efficient cooperation between the private sector and academia.”

Pascal Couchepin, Federal Councilor, at the 2006 SFI Annual Meeting

A number of activities fostering scientific exchanges between academic researchers, researchers affiliated with financial institutions and practitioners are planned by the Swiss Finance Institute. In this inaugural year, the main Knowledge Transfer activity was the successful offering of the first Swiss Finance Institute 1st Annual Meeting on November 14, 2006 at SWX in Zurich.

The Swiss Finance Institute Annual Meeting was a full day of activities and exchanges masterly planned by Paolo Vannini, Head of Knowledge Transfer at Swiss Finance Institute and FinRisk. A rich menu of topics was proposed under the headings of fundamental research, knowledge transfer and executive education with contributions by Swiss and foreign academics as well as financial professionals. Federal Councilor Pascal Couchepin, Switzerland’s Home Affairs Minister, addressed the meeting on the theme of “Finance, Research and Culture”.

The conference began with two parallel sessions: a fundamental research session with academics from the Universities of Zurich and St. Gallen and the London Business School covering asset management and a knowledge transfer session with experts from Credit Suisse, UBS and the Cantonal Bank of Zurich devoted to new developments in real estate markets. At a second session in the afternoon, three world renowned academics presented their recent research while an Executive Education session focused on recent trends in asset management, structured products and corporate banking.

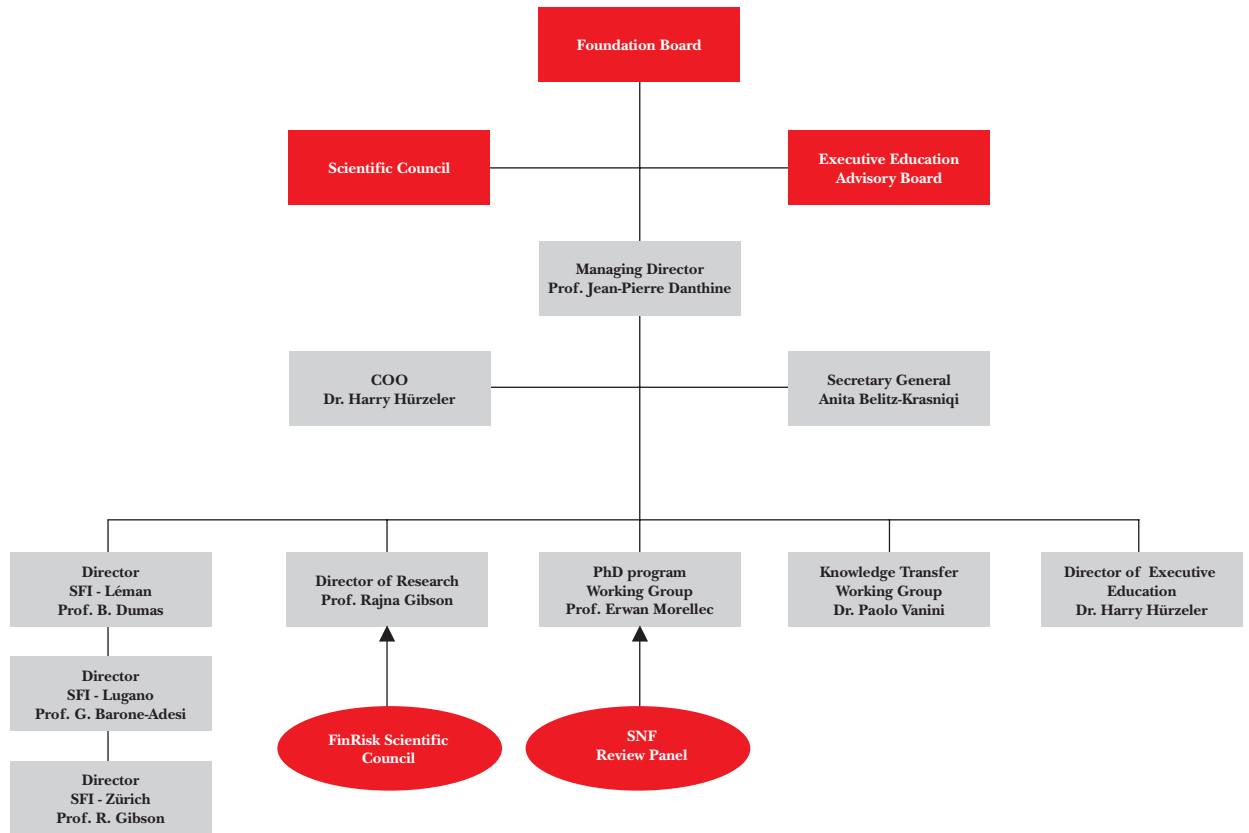
The conference concluded with a plenary session introduced by Olivier Steimer, Chairman of the Swiss Finance Institute’s Foundation Board. Nobel Laureate Rolf Zinkernagel, Michael Jensen, Professor of finance at Harvard Business School, and Jean-Pierre Danthine, Managing Director of the Swiss Finance Institute debated on the theme «Catching up with the Leaders in Financial research».

Neuro-Finance And How The Brain Perceives Financial Risk

Prof. Peter Bossaerts, Caltech and Swiss Finance Institute Visiting Professor, presented research findings at a **Swiss Finance Institute event in Geneva on October 10, 2006**. Approximately 130 participants attended this exploration of the physiological processes taking place in the brain when exposed to financial risk. Finance has always treated humans as black boxes, whereby behavioral rules are either imposed by decision theory (neoclassical finance) or derived from observation of actual or hypothetical choice (behavioral finance). In contrast, neuro-finance attempts to understand behavior by examining the physiological processes in the human brain when exposed to financial risk. The talk illustrated this point with the recent discovery that the brain analyzes monetary gambles by separately encoding their expected payoff and the payoff variance (even when subjects have never heard of these concepts). As such, the brain uses the same inputs as Markowitz’ portfolio theory. This is in sharp contrast with economics (which includes Prospect Theory), which represents desirability of gambles through scores on a single-dimensional utility scale.

The Swiss Finance Institute may also support on a small scale events organized by neighbouring institutes provided they are in line with its own objectives. In 2006, the Swiss Finance Institute provided material support for the organization of the 2nd ZURICH WEALTH FORUM in Zurich (September). It also joined FinRisk in supporting financially the organization by the Institut für Finanzmanagement at the Universität Bern of a conference on the theme *Corporate Governance in Family/Unlisted Firms*, on June 15-17, 2006, in Thun.

Structure and Overseeing Bodies



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The Foundation Board of the Swiss Finance Institute is its main governing body. It includes representatives of its 12 founding members as well as 3 representatives of its academic regional centers. The Foundation Board is advised by the Scientific Council (SC) on matters of scientific content and by the Executive Education Advisory Board (EEAB) on matters of Executive Education.

Foundation Board

The Foundation Board members represent the entire finance and banking community in Switzerland, both locally and internationally.

Swiss Finance Institute Foundation Board - December 2006

Chair

Mr. Olivier Steimer *

Chairman of the Board of Directors
Banque Cantonale Vaudoise, Lausanne

Deputy chair

Dr. Ulrich Körner **

CEO Credit Suisse Switzerland, Zurich

Dr. Marcel Rohner **

Chairman & CEO Global Wealth Management
& Deputy CEO UBS AG, Zurich

Members

Mr. Raymond J. Baer

Chairman of the Board, Julius Baer Holding Ltd.,
Zurich - as representative of the Association of Swiss
Commercial and Investment Banks in Switzerland

Mr. Antonio Foglia

Chairman of the Executive Committee, Banca del
Ceresio, Lugano – as representative of the Ticino
Bankers Association

Prof. Dr. Peter Gomez

Chairman of the Board, SWX Group

Dr. Alfredo Gysi

CEO, BSI SA, Lugano – as representative of the
Association of Foreign Banks in Switzerland

Dr. Philipp Halbherr

CFO, Cantonal Bank of Zurich, Zurich

Dr. Charles Kleiber

State Secretary, State Secretariat for Education and
Research, Berne – as representative of the Federal
Government of Switzerland

Prof. Dr. Piero Martinoli

President, University of Lugano, representing the
Swiss Finance Institute Lugano Center

Mr. Patrick Odier

Managing Partner, Lombard Odier Darier Hentsch
& Cie, Geneva - as representative of the Swiss Private
Bankers Association

Dr. Urs P. Roth

CEO, Swiss Bankers Association, Basle

Dr. Pierin Vincenz

CEO, Raiffeisen Group Switzerland, St. Gall

Prof. Dr. Jacques Weber

Rector, University of Geneva, representing the
Swiss Finance Institute Léman Center

Prof. Dr. Hans Weder

Rector, University of Zurich, representing the
Swiss Finance Institute Zurich Center.

The Swiss Finance Institute gratefully acknowledges the participation of Prof. Baggiolini and Hurst during the preparatory period and the first part of 2006 as representatives of SFI-Lugano and SFI-Léman respectively.

Scientific Council

The Swiss Finance Institute Scientific Council (SC) counts 5 international experts nominated as a result of a wide consultation with its university partners with the aim at arriving at a broad consensus on the representation in the SC of the Swiss Finance Institute main fields of research: financial mathematics, financial econometrics, investments, and corporate finance. The Foundation Board of the Swiss Finance Institute has committed to make decisions with scientific content exclusively under the recommendation of its Scientific Council. The Swiss Finance Institute is very fortunate to have been able to secure the enthusiastic support of 5 internationally renowned experts under the chairmanship of:

Prof. René Stulz

Fisher College of Business, Ohio State University.

The other members of the SC are:

Prof. Tim Bollerslev

Fuqua School of Business, Duke University

Prof. Patrick Bolton

Columbia Business School, Columbia University

Prof. Michael Brennan

Anderson School of Management, UCLA

Prof. Ioannis Karatzas

Dept of Mathematics, Columbia University

The cooperation agreement with the Swiss Finance Institute and the Swiss National Science Foundation indicates that the **International Scientific Council of FinRisk** is to act as the main supervisory body for all activities and funding falling under the heading of Project Research.

Executive Education Advisory Board

The Executive Education Advisory Board is the main supervisory body concerned with Executive Education. The Executive Education Advisory Board ensures that the Executive Education offering of the Swiss Finance Institute is of the highest quality, addresses the needs of the industry and is well coordinated with other initiatives within Switzerland.

The members of the Executive Education Advisory Board are

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A silhouette of a person's arm and hand holding a dark briefcase. The background is a bright, hazy sky with soft clouds, suggesting a sunrise or sunset. The overall mood is professional and forward-looking.

2006 Facts & Figures

Summary of 2006 financial accounts

Balance sheet as of December 31, 2006

	31.12.2006
	<u>CHF</u>
ASSETS	
Current assets	
Cash and cash equivalents	2'471'940
Accounts receivable	78'569
Other receivables	80'077
Prepaid expenses and accrued income	263'452
Total current assets	<u>2'894'037</u>
Fixed assets	
Investment portfolios	42'179'111
Due from Securities Lending and Borrowing	10'345'212
Deposits	280
Office and IT equipment	47'402
Total fixed assets	<u>52'572'005</u>
TOTAL ASSETS	<u><u>55'466'042</u></u>
LIABILITIES AND FOUNDERS' EQUITY	
Short-term liabilities	
Accounts payable	72'667
Other payables	188'220
Research accounts	85'417
Accrued expenses and deferred income	2'195'461
Long term loans founders	8'000'000
Total short-term liabilities	<u>10'541'764</u>
Founders' equity	
Foundation capital	15'000'000
Reserves	1'064'785
Retained earnings	
- As of January 1, 2006, from SFI donations and operations	18'728'941
- As of January 1, 2006, from the merger of SBS and FAME	<u>5'970'724</u>
Net result from donations and operations 2006	4'159'828
Total founders' equity	<u>44'924'278</u>
TOTAL LIABILITIES AND FOUNDERS' EQUITY	<u><u>55'466'042</u></u>

**Profit and loss statement
for the period from January 1st to December 31, 2006**

		31.12.2006
		<u>CHF</u>
EXECUTIVE EDUCATION COURSES		
Income from Executive Education courses		6'130'584
Expenses from Executive Education courses		-3'274'946
Net result from courses before general expenses		<u>2'855'638</u>
RESEARCH, PHD AND KT		
Expenses Research		-913'463
Expenses Ph D Program		-436'890
Income from Knowledge Transfer	23'353	
Expenses from Knowledge Transfer	<u>-100'292</u>	-76'939
Expenses Projects		-88'714
Net result from Research, PhD and KT before general expenses		<u>-1'516'006</u>
Net operating result before general expenses		<u>1'339'632</u>
GENERAL EXPENSES		
Personnel		-2'514'567
Other operating costs		-736'223
Extraordinary start-up costs		<u>-1'499'326</u>
Total general expenses		<u>-4'750'116</u>
Net operating result		<u>-3'410'483</u>
EXTRAORDINARY INCOME AND DONATIONS		
Net extraordinary income		15'247
Donations		4'694'023
Total extraordinary income and donations		4'709'271
INCOME/EXPENSES ON INVESTMENTS		
Total realized and unrealized gains on investments		3'011'662
Administration and bank fees		-150'622
Total income/expenses on investments		<u>2'861'040</u>
RESULT FROM DONATIONS AND OPERATIONS OF 2006		<u><u>4'159'828</u></u>

2006 and Forthcoming Publications in Academic Journals and Books

Professors

Philippe Bacchetta

Can Information Heterogeneity Explain the Exchange Rate Determination Puzzle?, Philippe Bacchetta and Eric van Wincoop, *American Economic Review* 96, 552-576, 2006.

Random Walk Expectations and the Forward Discount Puzzle, Philippe Bacchetta and Eric van Wincoop, *American Economic Review*, forthcoming.

Giovanni Barone-Adesi

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Alessandro Beber

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Tony Berrada

Incomplete Information, Heterogeneity and Asset Pricing, Tony Berrada, *Journal of Financial Econometrics* 4, 136-160, 2006.

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Marc Chesney

American Parisian Options, Marc Chesney and Laurent Gauthier, *Finance and Stochastics* 10, 475-506, 2006.

Jean-Pierre Danthine

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Intangible Capital, Firm Valuation and Asset Pricing, Danthine, J.P. and X. Jin, *Economic Theory*, forthcoming.

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Intermediate Financial Theory, Danthine J.P. and J.B. Donaldson, 2nd ed, Japanese edition, 2007.

François Degeorge

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Corporate Finance in Europe: A Survey, François Degeorge and Ernst Maug, in Xavier Freixas, Philipp Hartmann and Colin Mayers (eds.), *Financial Markets and Institutions*, Oxford: Oxford University Press, forthcoming.

Enrico De Giorgi

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Second Order Stochastic Dominance, Reward-Risk Portfolio Selection and the CAPM, Enrico De Giorgi and Thierry Post, *Journal of Financial and Quantitative Analysis*, forthcoming.

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Corsi Fulvio

The Volatility of Realized Volatility, Fulvio Corsi, Stefan Mittnik, Christian Pigorsch and Uta Pigorsch forthcoming in the Special Issue of *Econometric Reviews* on Realized Volatility and Long Memory.

Rajna Gibson

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Michel Habib

The Role of Knowhow Acquisition in the Formation and Duration of Joint Ventures, Michel A. Habib and Pierre Mella-Barral, *Review of Financial Studies* 20, 189-233, 2007.

Martin Hoesli

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Securitized real estate and its link with financial assets and real estate: An international analysis, Martin Hoesli and Camilo Serrano, *Journal of Real Estate Literature*, forthcoming.

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Debt-equity choice in Europe, Philippe Gaud, Martin Hoesli and André Bender, *International Review of Financial Analysis*, forthcoming.

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House prices, fundamentals and bubbles, Angela Black, Patricia Fraser and Martin Hoesli, *Journal of Business Finance and Accounting* 33, 1535-1555, 2006.

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Journal of Housing Economics 15, 80-97, 2006.

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Jean Imbs

Growth and Volatility, Jean Imbs, *Journal of Monetary Economics*, forthcoming.

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Eric Jondeau

Optimal Portfolio Allocation Under Higher Moments, Eric Jondeau and Michael Rockinger, *European Financial Management*, 12(1), 29-55, 2006.

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Markus Leippold

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- Multi-Currency Quadratic Model: Theory and Evidence, Markus Leippold and Liuren Wu, *Review of Finance* 9, 1-38, 2007.
- A Simple Model for Credit Contagion, Markus Leippold, Daniel Egloff and Paolo Vanini, *Journal of Banking and Finance*, forthcoming 2007.
- Trend Derivatives: Pricing, Hedging, and Application to Executive Stock Options, Markus Leippold and Jürg Syz, *Journal Futures Markets* 27 (2), 151-186, 2007.
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- Optimal Credit Limit Management, Markus Leippold, Silvan Ebnoether and Paolo Vanini, *Journal of Banking and Finance* 30, 463-487, 2006.
- Erwan Morellec**
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- Bias-Adjusted Estimation in the ARX(1) Model, S. Broda, K. Carstensen and Marc Paoletta, *Computational Statistics and Data Analysis*, forthcoming 2007.
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- Accurate Value-at-Risk Forecasting Based on the Normal-GARCH Model, C. Hartz, S. Mittnik and Marc Paoletta, *Computational Statistics and Data Analysis* 51, 2295-2312, 2006.
- Modeling and Predicting Market Risk With Laplace-Gaussian Mixture Distributions, S. Mittnik, M. Haas and Marc Paoletta, *Applied Financial Economics*, 16, 1145-1162, 2006.
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- Olivier Scaillet**
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- The estimation of copulas: theory and practice, Olivier Scaillet and A. Charpentier and J.-D. Fermanian, in *Copulas: From theory to application in finance*, Ed: Rank J., Risk Publications, London, Section2, 2007.
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- A Kolmogorov-Smirnov type test for shortfall dominance against parametric alternatives, Olivier Scaillet and M. Denuit and A.C. Goderniaux, *Technometrics*, forthcoming.
- Multivariate wavelet-based shape preserving estimation for dependent observations, Olivier Scaillet and A. Cosma and R. von Sachs, *Bernoulli*, forthcoming.
- Linear-quadratic jump-diffusion models with application to stochastic volatility, Olivier Scaillet and P. Cheng, *Mathematical Finance*, forthcoming.
- Local multiplicative bias correction for asymmetric kernel density estimators, Olivier Scaillet and M. Hagmann, *Journal of Econometrics*, forthcoming.
- Norman Schürhoff**
- Financial Intermediation and the Costs of Trading in an Opaque Market, Richard C. Green, Burton Hollifield, and Norman Schürhoff, *Review of Financial Studies*, forthcoming.

Dealer Intermediation and Price Behavior in the Aftermarket for New Bond Issues, Richard C. Green, Burton Hollifield, and Norman Schürhoff, *Journal of Financial Economics*, forthcoming.

Rudolf Volkart

Corporate Finance. Grundlagen von Finanzierung und Investition, Rudolf Volkart, 2., vollständig überarbeitete und stark erweiterte Auflage, Zürich 2006 (1250 S.) (Textbook)

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Equity Ownership in Switzerland 2006, Teodoro Cocca, Rudolf Volkart and Stefan Schmid, *Versus*, Zurich 2006.

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Alexander Wagner

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Using revealed preferences to infer environmental benefits, evidence from recreational fishing, Lori Benneer, Robert Stavins, and Alexander Wagner, *Journal of Regulatory Economics*, 28, 157-179, 2006.

Lucy White

Prudence in Bargaining: The effect of uncertainty on bargaining outcomes, Lucy White, *Games and Economic Behavior*, forthcoming.

Foreclosure with Incomplete Information, Lucy White, *Journal of Economics and Management Strategy*, forthcoming.

Do vertical mergers facilitate upstream collusion?, Lucy White and Volker Nocke, *American Economic Review*, forthcoming.

PHD Students:

Laurent Barras

International Conditional Asset Allocation under Specification Uncertainty, Laurent Barras, *Journal of Empirical Finance*, forthcoming 07

Jürg Burkhard

An intensity-based non-parametric default model for residential mortgage portfolios, Jürg Burkhard and E. Di Giorgi, *Journal of Risk*, Vol. 8, No. 4.

Cissy Chen

A New Simulation Approach to the LIBOR Market Model, Henry Schellhorn and Zhihua Chen, *Mathematical and Computer Modelling*, Volume 44, Issues 3-4, 382-396, August 2006.

Matthias Hagmann

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Philippe EHLERS, ETH Zurich, D-Math
Philipp J. SCHONBUCHER, ETH Zurich, D-Math

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Darwinian Approach**

Terje LENSBERG, Norwegian School of Economics and Business Administration
Klaus Reiner SCHENK-HOPPE, University of Leeds, Business School and School of Mathematics

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and the Business Cycle**

Ivan JACCARD, Wharton School of Finance

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Viral V. ACHARYA, London Business School & CEPR
Jean IMBS, University of Lausanne - HEC, CEPR & Swiss Finance Institute
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Lorenzo CAMPONOVO, University of Lugano
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Sofia RAMOS, ISCTE Business School

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Patrick GAGLIARDINI, University of Lugano and Swiss Finance Institute.
Olivier SCAILLET, University of Geneva and Swiss Finance Institute

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Christian EWERHART, IEW,**

University of Zurich and NCCR
Nuno CASSOLA, European Central Bank
Steen EJERSKOV, Danmarks Nationalbank
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Eric JONDEAU, University of Lausanne and Swiss Finance

Institute

Michael ROCKINGER, University of Lausanne and Swiss Finance Institute

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Martin VLCEK, Institute for Empirical Research in Economics, University of Zurich

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Marc S. PAOLELLA, University of Zurich and Swiss Finance Institute
Luca TASCHINI, University of Zurich

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Richard WATT, University of Canterbury

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Frederik LUNDTOFTE, Swiss Institute of Banking and Finance, University of St-Gallen

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Frederik LUNDTOFTE, Swiss Institute of Banking and Finance, University of St-Gallen

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Erwan MORELLEC, University of Lausanne, Swiss Finance Institute and CEPR**

Alexei ZHDANOV, School of Management, George Mason University

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Using Economic and Financial Information for Stock Selection

Iilir ROKO, University of Geneva
Manfred GILLI, University of Geneva and Swiss Finance Institute

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House Prices and Bubbles in New Zealand

Patricia FRASER, University of Aberdeen Business School
Martin HOESLI, University of Geneva, HEC and Swiss Finance Institute
Lynn Mc ALEVEY, University of Otago, Department of Finance and Quantitative Analysis

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Bernard DUMAS, INSEAD, University of Pennsylvania (The Wharton School), CEPR and NBER
Alexander KURSHEV, London Business School
Raman UPPAL, London Business School and CEPR

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Jean-Pierre DANTHINE, University of Lausanne, Swiss Finance Institute and CEPR
Xiangrong JIN, Hong Kong Monetary Authority

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Francois DEGEORGE, University of Lugano and Swiss Finance Institute
Ernst MAUG, School of Business Administration, University of Mannheim

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Philippe AGHION, Harvard

University and NBER

Philippe BACCHETTA, Study Center Gerzensee, Swiss Finance Institute and CEPR
Romain RANCIERE, IMF Research Department
Kenneth ROGOFF, Harvard University and NBER

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Philippe BACCHETTA, Study Center Gerzensee, University of Lausanne, Swiss Finance Institute and CEPR
Elmar MERTENS, Study Center Gerzensee and University of Lausanne
Eric VAN WINCOOP, University of Virginia and NBER

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François-Serge LHABITANT, University of Lausanne, HEC and EDHEC Business School

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Eric NOWAK, University of Lugano
Olaf EHRHARDT, Humboldt-Universität zu Berlin
Felix-Michael WEBER, Elephant Equity

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OLAF EHRHARDT, Humboldt-Universität zu Berlin
ERIC NOWAK, University of Lugano
JAN KUKLINSKI, University of Witten/Herdecke

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Eric NOWAK, University of Lugano, Institute of Finance
Roland ROTT, Goethe University, Department of Finance
Till G. MAHR, KPMG Deutsche Treuhand-Gesellschaft

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Why Do Stock Exchanges Demutualize and Go Public?

Sofia Brito RAMOS, ISCTE and CEMAF

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Growth and Volatility

Jean IMBS, University of Lausanne, Swiss Finance Institute and CEPR

N° 8

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Alexey MEDVEDEV, University of Geneva
Olivier SCAILLET, University of Geneva and Swiss Finance Institute

N° 7

Bounded Rationality and Asset Pricing

Tony BERRADA, University of Lausanne and Swiss Finance Institute

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Maria SEMENOVA, University of Lausanne and FAME

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Matthias HAGMANN, University of Geneva and Concordia Advisors
Joachim LOEBB, University of Zurich and Swiss Banking Institute

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Martin HOESLI, University of Geneva and University of Aberdeen Business School
Colin LIZIERI, University of Reading Business School
Bryan MACGREGOR, University of Aberdeen Business School

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The Overhang Hangover

Jean IMBS, University of Lausanne, Swiss Finance Institute and CEPR
Romain RANCIERE, CREI and IMF

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Manfred GILLI, University of Geneva
Evis KELLEZI, Mirabaud & Cie
Hilda HYSI, University of Geneva

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Stock Returns in Mergers and Acquisitions

Dirk HACKBARTH, Washington University
Erwan MORELLEC, University of Lausanne, Swiss Finance Institute and CEPR



Overview of courses offered in 2006 by the Swiss Finance Institute

Programs in Bank Management

April 2005 - October 2006

- **Executive MBA in international Wealth Management**

The Executive MBA in International Wealth Management is offered jointly with the University of Geneva and the Tepper Business School at Carnegie Mellon University. The program helps senior managers and senior advisors from Wealth Management to deepen both their understanding of the integrated advice required by sophisticated clients, as well as their understanding of how to manage the delivery of this advice.

March 27 - April 7, 2006

- **Master of Science in Wealth Management, Swiss Study Block**

The Swiss Finance Institute delivers the Swiss Study Block for this program of the Singapore Management University and the Wealth Management Institute of Singapore. This part-time program develops high potential Private Banking advisors and Asset Managers particularly for the Asian region.

March 2005 - December 2006

- **Executive Program in Bank Management**

The Executive Program combines solid knowledge and skills in management with practical know-how and insight into the functioning of the financial sector. It lasts a total of 7 weeks, spread over 16 months. This course is held predominantly in German.

February 2006 - November 2006

- **Advanced Executive Program in Bank Management**

The Advanced Executive Program helps senior executives from financial and related sectors to strengthen their management competences, to broaden their factual knowledge and to promote integrated thinking with respect to the current dramatic trends in the financial sector. The course comprises 10 modules, each lasting two and a half days. The course is held predominantly in German.

Seminars in Bank Management

The following seminars last between 3 and 6 days and are aimed at Executives from clearly targeted segments. They are taught by a mixture of academics and senior practitioners.

- **International Private Banking and Wealth Management Retreat**
Various Academics and CEOs from Private Banking
- **Team Leader in Private Banking**
Peter Schuppli
- **Credit Management**
Markus Heinzmann
- **Corporate Finance Services for European and Swiss SMEs**
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- **International Wealth and Tax Planning**
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Tim Bollerslev
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Yacine Aït-Sahalia
- **The Econometrics of Asset Allocation**
Michael W. Brandt
- **Financial Engineering**
Salih Neftci
- **Credit Risk Pricing, Management, and the use of Credit Derivatives**
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- **Exchange-Rate Economics and Forecasting**
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- **Financial Econometrics and Forecasting**
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- **Quantitative Approaches for Portfolio Management**
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- **Performance Evaluation and Attribution**
Russ Wermers
- **Modern Fixed Income and Inflation Linked Markets: Derivatives, Trading and Risk Management**
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- **Implementing Quantitative Techniques for Financial Markets**
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