

Newsletter

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EDITORIAL

Translating research into action

By Jean-Pierre Danthine

In this second issue of the Swiss Finance Institute newsletter, we are delighted to introduce the researchers who make up the heart of our competence centre and with whom we are initiating our quest for excellence in financial research.

As of August 1, 2007, the Swiss Finance Institute counts more than 40 researchers. These researchers hold professorial positions at the Institute's partner universities throughout Switzerland, and together form a substantial faculty. This faculty will drive the translation of world-class research into an enhanced university finance curriculum, and quality executive education in Switzerland.

Last December, on the recommendation of the SFI Scientific Council, the Foundation Board granted special awards to eight researchers within the SFI faculty. The awards were made in the form of Swiss Finance Institute Senior Chairs and Fellowships, and went to 8 individuals that had distinguished themselves by their strong publication record and broad international reputation. >> p.2

NEWS

International outlook in a Swiss setting

The Swiss Finance Institute is gearing up for its Second Annual Meeting and taking stock of its research activities, which has yielded a swathe of recent publications in world class academic journals. The Institute will also announce new executive education offerings and an expansion of knowledge transfer activities, each promising to bring in experts from all over the world.



Participants in the Certificate of Financial Asset Management and Engineering

The Institute will launch two new executive education programs in 2008. The Senior Management Program in Banking is aimed at senior executives and outlines such challenges as the proliferation of financial products, margin decays and organizational and reputational issues in the world of finance. Taught in four one-week blocks in London, Geneva, Frankfurt and Madrid, the program provides an integrated overview of these

challenges and their business impact.

The second new offering, the Retail Banking Retreat, is also targeted at senior executives. Module leaders Kent Eriksson, Director of the Center for Banking and Finance, KTH, Stockholm, and branding expert Leslie de Chernatony, University of Birmingham, will present recent findings on mass-market banking and review strategic and organization concerns in retail banking. >> p.2

>> Editorial

Simultaneously, and again upon the recommendation of the Scientific Council, the Foundation Board identified 3 younger scholars with the most promising potential and offered them Swiss Finance Institute Junior Chairs. A total of 5 Junior Chairs have been created to date.

A growing team

As a result, the core SFI faculty now boasts 6 professors holding senior chairs, 4 fellows and 5 junior chairs. The overall SFI research team includes 25 additional professors with permanent or temporary University contracts, all active in research under the name of, and eligible for support from the Institute.

This impressive concentration of academic talent will be further strengthened by awarding 20 new professorships in the near future. Accounting for changes among contract researchers and staff retirement, the SFI faculty will grow to more than 50 full time researchers.

We hope you enjoy this issue of the SFI newsletter and invite you to stay informed about the Institute's activities in research and executive education!



Professor Danthine is Managing Director of the Swiss Finance Institute.

>> The Retreat will also offer plenty of opportunities for networking, and to exchange ideas on best practice.

FAME, again

This year the Certificate of Financial Asset Management and Engineering (CFAME) program brought together participants from 13 countries to complete an intensive 5 week course covering such topics as hedge funds, risk management and the pricing and mathematics of options. The program was taught by high flyers from near and far including Salih Neftci of New York University, François-Serge Lhabitant, Professor and Chief Investment Officer of Kedge Capital (London) and Lausanne University professor, Erwan Morellec.

Now in its 11th year, CFAME held its awards ceremony on August 24th at the Olympic Museum in Lausanne.

On December 4th, the Institute will hold its Second Annual Meeting. Hosted at the SWX Zurich, the meeting will assemble Institute faculty members and international visitors, such as emission derivatives expert Brian O'Hearne and London Business School's asset pricing theorist Suleyman Basak.

Institute Director of Research Rajna Gibson will chair the Institute's research presentations and a parallel session will focus on margin developments in the finance industry and financial innovations for societal risks. ♦

In their own words...

"Financial engineering is about repackaging risk and return. Only magicians are able to eliminate credit risk and keep the return. As the subprime fiasco shows, for magicians giving away other people's money has become more profitable than making gold. All you need is a friendly rating agency as catalyst." **Giovanni Baroni-Adesi, Swiss Finance Institute Senior Chair**

"Consider the following statements: 'Finance can and ought to be an experimental science;' 'The CAPM and its extensions are true;' 'Your brain knows more about mean-variance analysis than you think;' 'Emotions are necessary for sound financial decision making;' 'Trading intuition in markets with insiders has little to do with mathematical skills.'" **Peter Bossaerts, Swiss Finance Institute Senior Chair**

"My research focuses not on the logic, but rather on the psycho-logic of financial markets. I am convinced that financial markets are logic – but in this, they are only logic 'on average' and typically we will find them depart quite severely from their logical averages. The subprime mortgage crisis is a nice example, since the price of subprime mortgages departed severely from the logical value for quite some time." **Thorsten Hens, Swiss Finance Institute Research Fellow**

"Recent events, such as the pension reform in the U.S., which imposes tighter pension funding requirements, and the subprime debacle, which is likely to deteriorate the balance sheets of pension plans, provide virgin territory for testing the trading strategy developed from my research. I am very excited to join the SFI. I am convinced that the interaction between academia and industry is mutually beneficial. I look forward to drawing new research ideas from issues that are relevant to the finance practitioner and to bringing my personal contribution to the activities of the Institute." **Francesco Franzoni, Swiss Finance Institute Junior Chair**

Mark your calendar...

**December 4, 2007:
Swiss Finance Institute Second Annual Meeting
SWX Swiss Exchange ConventionPoint,
Zurich**

: Faculty appointments

Fifteen researchers welcomed into new roles at the Swiss Finance Institute

The Swiss Finance Institute is proud to announce the appointment of six Senior Chairs, four Institute Research Fellows and five new Junior Chairs.



Giovanni Barone-Adesi*

Distinguished US options theoretician and University of Chicago graduate Professor Barone-Adesi now holds a

SFI Senior Chair at the University of Lugano to continue his research on asset valuation and risk management.



Erwan Morellec

Distinguished researcher and former Simon School of Business (University of Rochester) faculty member Professor Morellec

now holds a SFI Senior Chair based at the University of Lausanne to continue his research on corporate finance and asset pricing.



Julien Hugonnier

Researcher with a recent focus on the impact of portfolio constraints on equilibrium prices and the relations between

health and portfolio choice, Professor Hugonnier has been awarded a SFI Junior Chair based at the University of Lausanne.



Peter Bossaerts

Experimental finance expert and UCLA graduate Professor Bossaerts now holds a SFI Senior

Chair at the EPFL and will continue his research on markets design and neurofinance.



François Degeorge

Corporate finance expert Professor Degeorge will become a SFI Research Fellow based at the

University of Lugano.



Norman Schürhoff

Carnegie Mellon graduate in dynamic corporate finance, real options theory and empirical market microstructure

and financial intermediation, Professor Schürhoff has been awarded a SFI Junior Chair based at the University of Lausanne.



Bernard Dumas

Distinguished academic journal editor and former INSEAD and Wharton professor with degrees from Ecole

Centrale de Paris and Columbia University, Professor Dumas now holds a SFI Senior Chair based at the University of Lausanne to continue his research on international finance and finance theory in continuous time.



Thorsten Hens

Swiss Banking Institute Director and expert in behavioral and evolutionary finance, Professor Hens will become a Research

Fellow based at the University of Zurich.



Lucy White

Oxford graduate Lucy White has been awarded a SFI Junior Chair based at the University of Lausanne

to research banking capital requirements and the importance of public confidence in the banking regulator and the regulator's specific objectives.



Michael Rockinger

Currently Director of the Masters of Science in Finance at HEC, Harvard graduate and expert in asset prices Professor

Rockinger will become a Research Fellow based at the University of Lausanne.



Alexei Zhdanov

University of Rochester graduate, Alexei Zhdanov has been awarded a SFI Junior Chair based at the University of Lausanne

to research the effect of product market competition on corporate finance, and in particular, on capital structure and mergers.



Rajna Gibson*

Director of the National Centre of Competence in Research Finrisk, Professor Gibson now holds a SFI Senior Chair

in financial economics based at the University of Zurich to continue her research on asset pricing, risk management and corporate governance.



Olivier Scaillet

Professor of Probability and Statistics and expert on asset pricing and econometric theory, Professor Scaillet will

become a Research Fellow based at the University of Geneva.



Michel Habib

Wharton Financial Institutions Center Research Fellow and Wharton School graduate Professor Habib now holds

a SFI Senior Chair based at the University of Zurich to continue his research in corporate finance, market structure and the theory of the firm.



Francesco Franzoni

MIT graduate in the field of empirical asset pricing and corporate finance, Professor Franzoni has been awarded a SFI Junior

Chair based at the University of Lugano.

** Distinguished Service Senior Chairs have been awarded to Rajna Gibson in Zurich and Giovanni Barone-Adesi in Lugano in recognition of their outstanding contribution to the build-up of academic finance in Zurich and Lugano.*

: SFI A-journal publications

The Swiss Finance Institute's research activities are already highly visible. Listed below are prestigious A-journal publications from Institute-affiliated researchers, indicated in bold type-face, that are in print or accepted for print this year.

A-journals are journals recognized by the SFI Scientific Council as world class and high impact.

IN PRESS

Flight-to-Quality or Flight-to-Liquidity? Evidence from the Euro-Area Bond Market, **Alessandro Beber**, Michael W. Brandt and Ken Kavajecz, *Review of Financial Studies*, forthcoming.

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

Trading Volume and Heterogeneous Preferences, **Tony Berrada**, **Julien Hugonnier** and Marcel Rindisbacher, *Journal of Financial Economics*, forthcoming.

Prices and Portfolio Choices In Financial Markets: Theory, Econometrics, Experiments, **Peter Bossaerts**, Charles Plott and William R. Zane, *Econometrica*, forthcoming.

Analyst Hype in IPOs: Explaining the Popularity of Bookbuilding, **François Degeorge**, François Derrien and Kent Womack, *Review of Financial Studies*, forthcoming.

The Role of Knowhow Acquisition in the Formation and Duration of Joint Ventures, **Michel A. Habib** and Pierre Mella-Barral, *Review of Financial Studies*, Vol. 20, p189-233, 2007.

Learning and Asset Pricing under Uncertainty, Markus Leippold, **Fabio Trojani** and **Paolo Vanini**,

Review of Financial Studies, forthcoming.

Financing and takeovers, **Erwan Morellec** and **Alexei Zhdanov**, *Journal of Financial Economics*, forthcoming.

Stock returns in mergers and acquisitions, Dirk Hackbarth and **Erwan Morellec**, *Journal of Finance*, forthcoming.

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.

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

Level Playing Fields in International Financial Regulation, Alan Morrison and **Lucy White** (Said Business School, Oxford University), *Journal of Finance*, forthcoming.

New executive education offering: Senior Management Program in Banking

Starting July 2008 and held in Geneva, London, Madrid and Frankfurt

The Swiss Finance Institute is proud to announce the Senior Management Program in Banking, the Institute's newest offering in executive-level education. Participants in the program will gain an in-depth understanding of strategic developments in banking, including the proliferation of financial products and issues with banking organization and reputation.

Goals of the Senior Management Program in Banking:

- understand business challenges confronting the banking industry
- review the latest findings from research and practice
- engage participants in problem solving activities with outstanding academic faculty, industry leaders and peers.

The program comprises four one-week blocks held in Geneva, London, Madrid and Frankfurt. As top European financial centers, these locations offer excellent opportunities to forge networks with course leaders and with fellow participants from senior management positions. Program faculty will include, among others, Professor Ingo Walter of the Stern School of Business and Swiss Finance Institute Professor Bernard Dumas.

Please visit our website for more information.

: SFI 2nd Annual Meeting Program (Dec. 4, 2007)

At the Meeting...

Professor Darrell Duffie will present empirical evidence regarding hidden sources of default correlation, and their implications for unexpectedly large default losses relative to conventional models.

“The recent behavior of the market for structured credit products has heightened concerns that investors and dealers in these products are not confident about the methodologies used to price, rate, and risk manage these products.”

Darrell Duffie, SFI Visiting Professor at University of Lausanne.

09:15 - 09:30	Arrival, Coffee	
	FUNDAMENTAL RESEARCH Corporate Finance <i>Chairman R. Gibson</i>	EXECUTIVE EDUCATION Margin Developments in the Finance Industry <i>Chairman H. Hürzeler</i>
09:30 - 10:20	Alex Wagner Vulnerable Executive Compensation University of Zurich, Swiss Finance Institute	J. Carlos Jarillo (TBC) Strategic determinants of margins Professor of Corporate Strategy HEC, University of Geneva
10:20 - 11:10	François Degeorge Analysts and Earnings University of Lugano, Swiss Finance Institute	Jürg Bucher (TBC) Resisting margin pressure through differentiation CEO Postfinance, Bern
11:10 - 11:30	Break	
11:30 - 12:20	Erwan Morellec Investment Timing, Financing, and Information University of Lausanne, Swiss Finance Institute	Stefan Reinholz (TBC) Margin Pressures and Counter - Measures Head Segment Management, Credit Suisse, Zurich
12:20 - 13:30	Lunch	
	FUNDAMENTAL RESEARCH Frontiers of Finance <i>Chairman R. Gibson</i>	KNOWLEDGE TRANSFER Commodities of the Future <i>Chairman P. Vanini</i>
13:30 - 14:20	Peter Bossaerts Towards Understanding Trading Skill EPFL Lausanne, Swiss Finance Institute	Brian O'Hearne Weather and Emission Derivatives Managing Director Environmental and Commodity Markets, Swiss Re, New York
14:20 - 15:10	Suleyman Basak Dynamic Mean-Variance Asset Allocation London Business School, London	Jason Channell Renewable Energies Head of ESG Research, Goldman Sachs, London
15:10 - 15:30	Break	
15:30 - 16:20	Paul Embrechts VaR-driven Risk Management: Sense and (non)Sensibility ETH Zurich and London School of Economics	Paul Rabinowitz CO2: The Role of Banks to Sustain Policy Measures Chairman and CEO of the Chicago Climate Exchange, London
16:20 - 16:45	Coffee Break	
	CLOSING EVENT <i>Jean-Pierre Danthine, Managing Director, Swiss Finance Institute</i>	
16:45 - 16:50	Welcome Olivier Steimer, Chairman Foundation Board SFI	
16:50 - 17:10	SFI Prize for Outstanding Paper	
17:10 - 18:00	Darrel Duffie, Stanford University Portfolio Default Risk: Empirical Evidence	

Program subject to change.

: Featured SFI Publication

Analyst hype in IPOs: Explaining the popularity of book-building

By François Degeorge (SFI, University of Lugano), François Derrien (Rotman School of Management, University of Toronto) and Kent Womack (Tuck School of Business, Dartmouth College)

The advantages of book-building are hard to pin down. But in a financial system where the attention of analysts is perceived to be crucial, the authors of this new publication in the Review of Financial Studies soon tracked down a likely explanation for why companies go public using the book building approach.

Professor François Degeorge and his collaborators in North America show that book-built initial public offerings receive generous coverage from analysts. They argue that this goes some way to explain the popularity of book building as an approach to raising equity capital.

Degeorge highlights the fact that the book building approach is dominant despite the availability of attractive alternatives, such as the auction approach to IPOs. Auctioned IPOs differ from the book-building approach in that the pricing is decided by an auction, and investors' share allocations are made on a pro-rata basis, rather than at the discretion of the underwriter.

THE STUDY

The study compares the way financial analysts covered more than 200 book-builts and auctioned IPOs between 1993 and 1998 on the Paris stock exchange. Specifically, the authors explore the affiliation between financial analysts and the bank responsible for raising equity capital, i.e. the lead underwriter. Analysts were split into two groups

according to their affiliation with the lead underwriter. An analyst was defined as being affiliated if they worked for the lead underwriting bank, one its subsidiaries or its parent company. The generosity in financial coverage for book-built IPOs was most apparent among affiliated analysts, rather than non-affiliated analysts.

After controlling for important factors influencing analyst coverage such as company size, the study finds that book-built IPOs received twice as many recommendations from affiliated financial analysts as auctioned IPOs.

Just 26% of auctions received one or more recommendation from their lead underwriter, while this figure increased to 62% for book-built IPOs. The bias towards book-built IPOs was particularly strong for markets that were 'hot' during the study period, for example Internet company floatations. The coverage obtained by book-builts IPOs was also more favorable than that of auctioned IPOs.

THE FUTURE OF AUCTIONS

Professor Degeorge is keen to point out that auctions have a prominent

place in all kinds of commercial activity and are the subject of sound academic research activity. Auctions have been used to sell government telecom licenses, US Treasury bills and even seats on the first commercial flight of the new Airbus A380. Seats on the flights were sold on behalf of Singapore Airlines using online action site eBay.

Indeed, as a method to raise equity capital the auction approach can claim some high profile successes, including the Google Inc. floatation in 2004. But the popularity of IPO auctions worldwide has been waning, and many countries exclusively use book-building. ♦

IMPRESSUM

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The research was carried out as part of the NCCR Finrisk project on corporate finance. Professor François Degeorge is Professor of Finance at the University of Lugano. A previous publication by Professor Degeorge, on the topic of earnings manipulation, won the 2006 Swiss Society for Financial Market Research SWX Best Paper Award.
