

Newsletter

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EDITORIAL

Excellence is the keyword for the largest European doctoral program in finance

By Olivier Steimer

The SFI Ph.D. program aims to become the best platform for advanced training available to Europe's financial industry. To reach this goal, three conditions have to be met: the Institute needs to attract the best students, make sure these students interact with the best professors and, finally, provide the best possible training.

The SFI today counts nearly 75 Ph.D. students, up from 40 under the FAME doctoral program. We are well on the way to reach 80 students. This is no doubt a European record.

As to our faculty, SFI already counts 40 specialists of international reputation. This number should climb to 60 by the end of the build-up phase. The hiring of these professors is our response to the essential need to reinforce the available long term competencies in both applied and fundamental research; a strategic axis for the banks and for the universities.

The SFI Ph.D. program offers a rich, solid and well balanced training spread over four years.

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NEWS

Recognition for research and knowledge transfer

Who would not wish to be recognized for hard won achievements? In recent months, the Swiss Finance Institute has added top papers to its academic publication list, expanded research affiliations and enjoyed the close attention of hundreds of finance professionals at education and knowledge transfer activities.

According to Swiss Finance Institute Director of Research Professor Rajna Gibson this recognition is no accident and stems from having achieved an institutional critical mass.

Future finance

With total enrolment numbers exceeding those of other European business schools, the Swiss Finance Institute Doctoral program has seen the arrival of 18 new PhD students in 2007. Five PhD students graduated in 2007, and a further 4 will finish in the near future.

Students in the program have the run of Switzerland's top finance research

centers. The Zurich campus is the destination for 9 of the new recruits to the doctoral program with others taking up research positions at the Lemman campuses and the University of Lugano.

In recognition of the fine work coming from the PhD program, the Institute awarded its annual Doctoral prize to Sébastien Michenaud, who is based at the University of Lugano. The award is given to the best doctoral presentation at the annual Doctoral workshop. The workshop is co-organized with NCCR Finrisk and held each year at Study Center Gerzensee.

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Doctoral Prize winner Sébastien Michenaud, and Best Discussants Anna Cieslak and Alexandre Jeanneret (Andrea Vedolin not present at the Award ceremony).

>> Editorial

The first year takes place on three campuses in Lausanne/Geneva, Zurich and Lugano. After this phase, students move among the various sites to follow specialized courses. Our professorial talent will lead students to the frontiers of financial knowledge and turn them into the "discoverers" of the future.

The reputation of the SFI program is building up progressively. It must become THE reference in Europe, and perhaps the world. This reputation will help our students find positions in the top research universities around the globe. Simultaneously it will enable us to attract the best students from the world over. Our ambition? That in financial education SFI rivals the best programs offered by top anglo-saxon universities.

Note that only 10-15% of our graduates will ultimately embark on an academic career. The remainder will obtain positions in the financial industry. If the career paths of the 27 existing SFI graduates can be taken as a guide a large majority will remain in Switzerland. It is therefore reasonable to expect that at least 50 young Ph.D.s will join the Swiss financial industry in the next four years.

Armed with the most advanced financial knowledge, these postgraduates represent an extraordinary body of competences. Making these students available to the financial industry is a challenge that SFI is happy to take up. In the context of the Swiss Bankers Association's "Roadmap 2015", which aims to promote excellence in the Swiss financial sector, there is no doubt

that these Ph.D.s will make essential contributions to the Swiss and international financial community.



Olivier Steimer, Chairman of the Swiss Finance Institute Foundation Board

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Michenaud wins the award for his presentation "Analysts Consensus and Corporate Investment". Additional awards are made to the Best Discussant at the Doctoral workshop. These go to Alexandre Jeanneret, University of Lausanne, and to Anna Cieslak and Andrea Vedolin, both of the University of St. Gallen.

Assembled minds

The Institute held its second annual meeting at the Swiss Exchange ConventionPoint on December 4th. Nearly 300 members of Switzerland's financial services community heard top presentations on credit risk, and on recent developments in the construction of financial markets designed to promote sustainable energy use.

Recently, the Institute signed a cooperation agreement with ETH Zurich to work with researchers from the ETH Mathematics Department and Department of Management, Technology and Economics.

The cooperation agreement focuses on financial engineering and mathematical finance. The latter is a field of basic research in mathematics that has strong applications to the financial sector.

Indeed, the annual meeting showcased ETH Zurich's expertise in mathematical finance with a presentation by Professor Paul Embrechts. Embrechts discussed the limitations of Value at Risk methods for estimating credit and operational risk.

Visiting professors Darrell Duffie, from Stanford University, and Amit Goyal, from Emory University, are also contributing to awareness of the Institute's activities. Duffie's presentation on credit risk at the annual meeting was much anticipated and journalists from Europe, the US and Asia approach him for his views.

World media remains focused on the impact of US sub prime financing uncertainties on the global economy. Darrell Duffie and Institute Director Jean-Pierre Danthine have recently given interviews on this topic.

Opening up

Finally, the Swiss Finance Institute invites you to the opening of its new offices in Rue des Gares in Geneva. The event on January 29th also launches our new executive education course on energy and emissions trading.

Björn Stigson, President of the World Business Council for Sustainable Development, is guest of honor at the event and will give a presentation about financial innovation and sustainable development. Visit www.sfi.ch to register for the event. ♦

Mark your calendars...

January 29 2008 at 17:30
Geneva office opening and launch
of emissions trading course
Rue des Gares 9, Geneva
Join us: www.sfi.ch/events

: Being there: Second annual meeting of the Swiss Finance Institute

The meeting on December 4th assembled leading Institute research faculty and prominent financial practitioners from around the world. Covered by journalists from *Neue Zürcher Zeitung*, *Le Temps*, *L'AGEFI* and *Finanz und Wirtschaft*, the event raised awareness about the Institute's research, education and knowledge transfer activities.



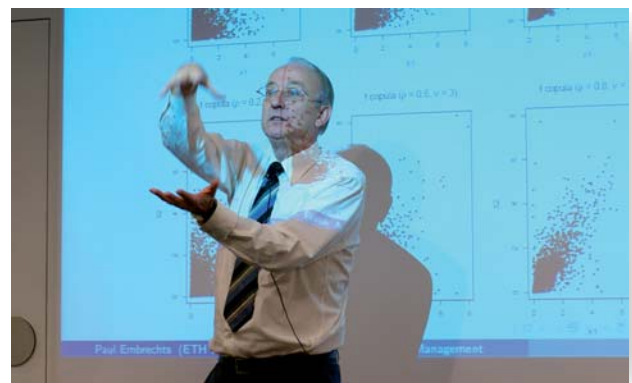
Plenary presenter Darrell Duffie

SFI visiting professor Darrell Duffie describes his empirically derived credit risk estimation methods using so-called 'frailty measures' adapted from medical research.



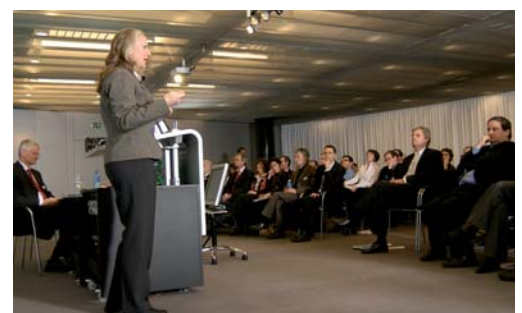
Robert Rabinowitz

Director of Climate Exchange (Europe)
Robert Rabinowitz spoke about the success of SO₂ ('acid rain') reduction campaigns in the early 1990s as a reminder of the potential to reduce greenhouse gases through carbon trading.



ETH risk researcher Paul Embrechts

ETH Professor Paul Embrechts explained how existing risk models misleadingly predict events like the collapse of Long-Term Capital Management (LTCM) to be less frequent than they are in reality.



Research award winner Susan Christoffersen



Jean-Pierre Danthine in discussion



Paul Embrechts and audience



An attendee pauses for thought



Harry Hurzeler chairs the executive education session

: New executive finance course on energy and emissions trading

The Swiss Finance Institute 4-day emission trading course to be held May 12-15 2008 is a timely initiative to bring regulators, traders, exchange staff, compliance officers and others involved in energy and emissions up to speed with developments in the carbon market from an investors point of view.

The course will be led by world-renowned experts from academia and practice: **Mark Holder**, Associate Professor of Finance at Kent State University (US), **Jim Kharouf**, co-founder and editor of the Environmental Markets Newsletter, and **Peter Fusaro**, best-selling author of "What went wrong at Enron". Fusaro co-founded the US based Energy Hedge Fund Center and the newsletter Energy Hedge.

If you want to learn more about this initiative join us at the SFI Office Inauguration Party on 29 January 2008. Björn Stigson, President of the World Business Council for Sustainable Development, will give the keynote address.

Why such a course now? In only a few years the call for action on climate change has become more intense, global and directed towards concrete action. According to the World Bank's State and Trends of the Carbon Market 2007 report, the carbon market has trebled to US\$30 Billion between 2005 and 2006. European Union Allowances count for nearly US\$25 Billion. The voluntary market such as practiced under the Chicago Climate Exchange saw a turn-over of US\$100 million. According to the International Emission Trading Association (IETA)

emission trading in 2007 could be worth between US\$ 60-70 Billion.

Why emissions trading? On an international scale, a turning point took place in public awareness of climate change when Nicholas Stern, former World Bank Chief Economist and Head of the UK Government Economic Service, issued a timely, informative and urgent "Review on the Economics of Climate Change" in October 2006. He concluded that "tackling climate change is the pro-growth strategy for the longer term; ignoring it will ultimately undermine economic growth." He saw four main actions in a future international framework, namely pursuing emissions trading, technology cooperation, action to reduce deforestation and adaptation to help countries that are the most vulnerable to climate change.

Are all emission reduction trading schemes the same? No. Many different forms of trading have evolved. The cap and trade approaches are the most evolved form of trading and are practiced in the European Union. In the absence of federal legislation, regional exchanges in the US are also beginning to emerge.

Offset and credit-based emission reductions represent another form of trading. These systems are project-based in generally non-capped industries. Offsets are sold to new or expanding companies to offset their own emissions. ♦

Martina Priebe, Program Director, Swiss Finance Institute

: Executive Program 20th anniversary: An idea that has come a long way



Executive Program Alumni Prize winners Haibo Wunderli-Ye (middle), Patricia Grichting (right, facing) and Frédéric Lenoir (left of photo), and Alumni association head Beat Fraefel (right of photo).

Dr. Wunderli-Ye receives the award for her Executive Program thesis on wealth management in China. Originally trained as a molecular biologist, Wunderli-Ye spoke of the value of pursuing research through the Program. A colleague commented that Wunderli-Ye's thesis is now a must read for their team of wealth managers working with clients in China.

What started initially as a discussion between three professionals more than 20 years ago has grown to become a globally minded research and executive education program created for banking executives.

Twenty years ago, on June 30 1987, the Swiss Banking School was founded as a private association by Schweizerische Bankgesellschaft, Schweizerischer Bankverein, Schweizerische Kreditanstalt, Bank Bär and Bank Vontobel.

By autumn of the same year the first 80 participants attended the School's first lectures at the University of Zurich. The opening speech was given by University of Zurich Professor Kilgus, who was one of the initial three proposing the School.

Kilgus' speech emphasized the achievement of having gained consensus in an otherwise competitive context. With considerable prescience, Kilgus also spoke about the School's contacts and relationships with other Swiss universities, including the University of Lausanne and Geneva.

Back then, Professor Kilgus expressed interest in closer cooperation with these universities. He explained that the foundation board of the School was keen to be open to executive bankers throughout Switzerland.

Twenty years later this close cooperation has become a reality.

The Swiss Finance Institute combines the expertise and resources of FAME, Swiss Banking School and FINRISK. The Institute is the product of intensive negotiation between Swiss banks, Swiss universities and the Swiss Exchange SWX under the initiative of the Swiss Bankers Association.

The aim of the Swiss Finance Institute is to combine excellence in research and executive education in finance and banking, and to secure the worldwide recognition that this achievement will bring.

Today, the Swiss Finance Institute builds on a strong track record. The Executive Courses in Finance celebrates its 25th anniversary this year. And the Executive Program, a general management program in banking, celebrates its 20th cycle of graduates this year. On December 7th it marked this with a special event attended by banking VIPs that had been involved with, or graduated from the Program. ♦

Silvia Gerber-Helbling,
Program Director, Swiss Finance Institute

: City size matters for financial returns

McGill University researchers Susan Christoffersen and Sergei Sarkissian have received the SFI 2007 Outstanding Paper Award for their publication showing that big city mutual fund managers outperform their peers in smaller financial centers.



*Susan Christoffersen
at the Annual Meeting*

Almost 80 recent finance papers were reviewed exhaustively to select the winning paper. The findings of the paper, entitled *City size and fund performance*, provide interesting clues about how Switzerland can improve its standing as a global financial center.

Christoffersen and Sarkissian find a positive relation between mutual-fund profitability and the metropolitan head count.

But this relation seems to be driven by highly experienced fund managers and is apparent only after these managers work for several years in their respective funds. Less experienced fund managers in larger cities do not display a performance advantage, even if they are better educated than their peers in smaller financial centers.

The study shows that the advantages of big cities can be partly attributed to learning effects. These effects appear to improve a fund manager's gross and risk-adjusted returns. Several factors may contribute to these learning effects including interaction with investors that have higher skill levels, a gradual development of superior business relations, and access to better, for example private, information.

Several theories have attempted to explain the economic advantages of big cities. One theory states that cities offer superior possibilities for learning, and therefore attract the kinds of managers that are most likely benefit from these possibilities.

But empirical evidence for learning effects in big cities is elusive, and that is why the new study is so interesting.

Christoffersen points out that Switzerland offers an ideal environment for these learning effects to emerge. The country's well-developed educational infrastructure and close proximity to banking and other financial intermediaries provide ideal conditions for learning and information exchange. These conditions may foster the benefits revealed by the study.

The search for the 2007 Outstanding Paper Award was coordinated by Swiss Finance Institute Senior Chair holder Professor Michel Habib, University of Zurich. Co-author Sergei Sarkissian gave a full presented on the paper at a special event at the Société de Lecture, Geneva on December 6th. ♦



*From all of us at the
Swiss Finance Institute,
best wishes for 2008!*

IMPRESSUM

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