



Università degli Studi di Firenze



FINANZA FIRENZE®

Risk Management Conference 2008

Credit and Financial Risk Management 40 years after the Altman Z-score model

An interdisciplinary perspective on today's Risk Management

Florence, June 12-14, 2008

KEYFACTS 1° EDITION 2008

Coorganizers:





INTERNATIONAL RISK MANAGEMENT CONFERENCE

Florence, June 12-14, 2008

Credit and Financial Risk Management: 40 years after the Altman Z-score model

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Florence, Italy: June 12-14, 2008

University of Florence-Polo delle Scienze Sociali and Palazzo Pitti

This international Credit and Financial Risk Conference (IRMC2008) brought together 291 leading experts from Academia and Professionals for a two-day conference and ½-day professional symposium in Florence, Italy. Scholars and practitioners from more than 40 countries worldwide have discussed about risk and the company and bank implications. The mission of the conference was to provide a forum for recent advances in risk management. It has been accomplished. IRMC2008 presented the latest research from the major schools of thought and a diversity of new approaches to Risk Management: Corporate Finance, Banking and Financial Mathematics. Risk is, in fact, a multifactor concept to be addressed from different perspectives. Starting from the latest theories and tools developed in the Risk Management field, we have moved to Corporate Finance, where risk is studied both in the value maximization framework and in strategies for mitigating risk. Banking is concerned with Risk Capital and Capital Requirements. The Basel II framework played a key role in risk assessment and measurement and it affects banks' and customers' portfolio selection and performance. Risk can also be addressed from an actuarial and statistical perspective. A final research area has been addressed by the conference: financial accounting that is increasingly involved in the risk assessment process in these fields of studies.



KEKFACTS from the 1° Edition 2008

Edition:	1°	Location	Florence /Pistoia - Italy	Date	June 12th-14 th
Title:	Credit & Financial Risk Management 40 years after the Altman Z-Score Model. An interdisciplinary perspective on today's risk management				
Host Institution	University of Florence – Italy – Prof. Oliviero Roggi				
Co-chair:	NYU – Stern School Of Business – Salomon Center – Prof. Edward. Altman University of Trieste – School of Finance – Prof. Maurizio Dallochio				
Keynote Speakers	<p>Prof. Edward Altman – NYU Stern School of Business – Salomon Center</p> <ul style="list-style-type: none"> Lecture "Z-Scores and the Probability of Default: A 40 Year Perspective" <i>Professional Workshop</i>: Current Conditions in Global Credits Markets: a tale of Three Periods" <p>Prof. Viral Acharya – London Business School – Private Equity Institute</p> <ul style="list-style-type: none"> Lecture "Liquidity Risk of Corporate Bond Returns" Co-authors: Yakov Amihud and Sreedhar Bharath <p>Prof. William Perraudin – Imperial College – Risk Management Lab.</p> <ul style="list-style-type: none"> Lecture "Dynamic Default Rate Distributions" Co-author: Robert Lamb 				
Consultants	Bocconi University – Prof. Maurizio Dallochio University of Cagliari – Prof. Riccardo De Lisa University of Foggia – Prof. Stefano Dell'Atti				
Dead Lines & Date	30 April – Full papers				
Registered Participants:	147	Guests & Authorities		134	
Paper submitted	58	Paper Accepted	48	Paper Presented	48
Scientific Committee	Prof Edward Altman (New York University) Prof. Viral Acharya (London Business School) Prof. Annarita Bacinello (University of Trieste) Prof. Giorgio Bertinetti (University Ca' Foscari of Venezia) Prof. Alberto Bertoni (Bocconi University) Prof. Lorenzo Caprio (University Cattolica) Prof. Ada Carlesi (University of Pisa) Prof. Maurizio Dallochio (Bocconi University) Prof. Riccardo De Lisa (University of Cagliari) Prof. Stefano Dell'Atti (University of Foggia) Prof. Maurizio Fanni (University of Trieste) Prof. Marcello Galeotti (University of Florence) Prof. Giampiero Gallo (University of Florence) Prof. Francesco Giunta (University of Florence) Prof. Elisa Luciano (University of Turin) Prof. Mario Massari (Bocconi University) Prof. Giampiero Nigro (University of Florence) Prof. Ivano Paci (University of Florence) Prof. Riccardo Passeri (University of Florence)				



	Prof. William Perraudin (Imperial College London) Prof. Mario Pines (University of Trieste) Prof. Oliviero Roggi (University of Florence) Prof. Sandro Sandri (University of Bologna)
Sponsors	Main Sponsor: Banca CR Firenze Events Sponsor: Ente Cassa di Risparmio di Firenze Fondazione Cassa di Risparmio di Pistoia e Pescia Fondazione Monte dei Paschi di Siena FidiToscana SpA
Auspices	Accademia Italiana di Economia Aziendale Associazione per la Matematica Applicata alle Scienze Economiche e Sociali Regione Toscana Comune di Firenze
Conference Management	Centro Studi per L'Economia la Politica e la Finanza: Finanza Firenze www.finanzafirenze.org
Info	Prof. Oliviero Roggi – academic coordinator Email: oliviero.roggi@unifi.it Tel +390554374720



Florence, June 12-14, 2008

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List of papers accepted

Title	Authors
A stochastic programming approach for multi period portfolio optimization	Hanke - Geyer - Weissensteiner
An affine intensity model for large credit portfolios	Acciaio - Herzel
An empirical study of the relation between equity implied probabilities of default and fundamental information	Fargher - Kalotay
Cash management using multi stage stochastic programming	Ferstl - Weissensteiner
Analysis of liquidity risk management practices	Ismal
Effects of macroeconomics announcements on stock returns across volatility regimes	Aray
Financing Decisions. The Case for Convertibles	Del Viva
Implied Default Barrier in credit default swap premia	Forte - Alonso - Marques
Is KMV Model Suited to Estimate the Credit Risk of Listed in Taiwan	Choun Chou Wu
Non parametric tests for analyzing the fine structure of price fluctuation	Mancini - Cont
Ownership Links, Leverage and Credit Risk	Luciano - Nicodano
Predicting SME failure: an application in the US and UK	Wilson - Altman - Sabato
Liquidity risk of corporate bonds returns	Acharya - Amihud - Bharath
The Innovest Austrian Pension Fund Financial Planning Model InnoALM	Ziemba - Geyer
The use of insurance contracts of exchange and firm market value: new evidence from tunisian banking sector	Dorraa Chabeene
Trading Risk Management in Emerging GCC Financial Market	Mazin Al Janabi
The Effects Of Robust Estimation On operational risk severity distribution and capital charge	Huber
Credit Risk Discovery in the Stock and CDS market: who, when and why leads?	Forte - Lovreta
Incentive and risk taking in hedge fund	Ziemba - Kouwemberg
40 years of model of business insolvency. A proposal of its taxonomy	Somoza - Vallverdù Calafell
The information risk drivers. 15 years of analysis to support risk premia modelling	Mantovani
Pricing and hedging structure product A comparison of numerical methods for virtual power plant	Fanone
Bank Rating Systems After Basel 2. Determinants and Possible Effects on Financing Italian SMEs	Cipollini - Dainelli - Giunta
Performance of dual rating system combining rating stability, rating accuracy and rating timeless	Altman - Rijken
Company financial performance prediction by virtue of economic value added measure by simulation methodology	Zmeskal - Dluhosova



Risk neutral and actual default probabilities	Quittard-Pinon - Le Courtois
Rating History and the Rating Dynamics of Fallen Angels, Rising Stars, and Big rating jumpers	Dang - Partington
Modeling the Loss Distribution	Chava - Stefanescu - Turnbull
A Comparison of a Logistic Regression, Discriminant Analysis and Support Vector Machines on the Bank of Portugal Data	Lacerda - Moro
Cooperative Banks and Financial Stability	Hesse - Čihák
Islamic bank and financial stability	Hesse - Cihak
The Market Structure, Financial Technology Investment and performance in Taiwanese Banking Industry	Chang - Tu
On the philosophy and dynamic characteristic of rating agencies and credit risk models	Florez-Lopez
Credit Risk Transfer Instruments in Romania in the Light of Subprime Crisis	Anton
Accounting-Based versus Market-Based Cross-Sectional Models of CDS Spreads	Das - Hanouna -Sarin
The working capital in the turnaround management	Mariani
Basel II Accord, Credit Portfolio Reallocations and Risk Taking Incentives	Girod - Bruno
A credit contagion model for the dynamics of the rating transitions in a SME bank loan portfolio	Basso - Gusso
The development of a simple and intuitive rating system under Solvency II	Van Laere - Baesens
Banks' Buffer Capital: How important is Banks' Precautionary Motive?	Valencia
Assessment of bank creditworthiness The relation between bank financial fundamentals and credit rating	Bernè - Ciprian - Fanni - Vento
Understanding and Predicting the Resolution of Financial Distress	Jacobs - Karagozoglu - Layish
Failure prediction models: performance, disagreements and internal rating systems	Mitchell - Van Roy
The value investing: The case of italian market	Di Biase
Reputational effects of operational risk events for financial institutions	Masala - Micocci - Cannas - Flore
Empirical estimation of loan loss distribution: Vasicek and extensions	Batiz - Christodoalakis - Poon
CDS and rating announcements. A comparative analysis	Salvi - Dallochio - Bonini - Iavarone
Determinants of bank distress in a liberalised financial market	Uremadu
Do target prices predict rating changes?	Pettinato - Bonini - Salvi



Thursday 12th June 2008
Afternoon

CONFERENCE PROGRAM

Location: Polo Scienze Sociali
Building D6 – Economics
Via Pandette 9, Florence

Time	Event					
9.00 – 15.00	Conference registration					
15.00 – 16.30	Opening and plenary session (1) 15.00 Welcoming remarks University of Florence, Local Authorities greetings Conference Opening, Oliviero Roggi 15.40 Edward Altman , Keynote lecture "Z-Scores and the Probability of Default: A 40 Year Perspective"					
16.30	Coffee Break					
16.50 - 18.50	Parallel session (1)					
Area	Default Risk Modeling Area		Corporate Risk management		Quantitative Tools for Risk Management	
	Chairman: Maurizio Fanni		Chairman: Lorenzo Caprio		Chairman: Marcello Galeotti	
16.50 - 17.15	Aula Botticelli	"40 years of model of business insolvency. A proposal of its taxonomy" Authors: <u>Somoza A.</u> – J. Vallverdu Calafell	Aula Giotto	"An empirical study of the relation between equity implied probabilities of default and fundamental information Authors: <u>N. Fargher</u> – E. Kalotay	Aula Raffaello	"Trading risk management in emerging GCC financial market" Author: M. Al Janabi
17.20 - 17.45		On the philosophy and dynamic characteristic of rating agencies and credit risk models Author: Florez-Lopez R.		"Financing decisions. The case for convertibles" Author: L. Del Viva		"Basel II Accord, Credit portfolio reallocations and risk taking incentives" Authors: O. Bruno – <u>A. Girod</u>
17.50 - 18.15		"Bank Rating Systems After Basel 2_Determinants and Possible Effects on Financing Italian SMEs" Authors: Giunta F. - <u>Dainelli F.</u> - Cipollini F.		"The information risk drivers. 15 years of analysis to support risk premia modelling" Author: G. Mantovani		"A stochastic programming approach for multi-period portfolio optimization" Authors: <u>M. Hanke</u> – A. Geyer – A. Weissensteiner
18.20 - 18.45				"Understanding and predicting the resolution of financial distress" Authors: M. Jacobs – A. K. Karagozoglu – <u>D. N. Layish</u>		"Empirical estimation of loan loss distribution: Vasicek and extensions" Authors: E. Batiz-Zuk – G. Christodoulakis – S. Poon
18.45 – 19.45	Free Time					



Friday 13th June 2008
Morning

CONFERENCE PROGRAM

Location: Polo Scienze Sociali
Building D6 – Economics
Via Pandette 9, Florence

Time	Event							
09.15 – 10.45	Parallel sessions (2) and Ph.D Clinic							
Area	Default Risk Modeling and banking Area		Banking & Risk Management		Corporate Risk Management		Quantitative Tools for Risk Management	
	Chairman: TBA		Chairman: Riccardo De Lisa		Chairman: Maurizio Dallochio		Chairman: Anna Rita Bacinello	
09.15 – 9.40	Aula Botticelli	Reputational effects of operational risk events for financial institutions Authors: Cannas G. - Flore G. - Masala G. - Micocci M.	Aula Michelangelo	“Credit risk transfer instruments in Romania in the light of subprime crisis” Author: S. G. Anton	Aula Giotto	“The working capital in the turnaround mnagement” Authors: G. Mariani	Aula Raffaello	“An affine intensity model for large credit portfolios” Authors: <u>B. Acciaio</u> – S. Herzel
9.45 – 10.10		“Incentive and risk taking in hedge fund” Authors: <u>W. Ziemba</u> - Kouwemberg		“Recurring credit crises an Irving Fisher solution” Author: N. F. Chen		“Implied default barrier in credit default swap premia” Authors: <u>S. Forte</u> – F. Alonso – J. M. Marques		“The effects of robust estimation on operational risk severity distribution and capital charge” Author: S. Huber
10.15 – 10.40		Ownership Links, Leverage and Credit Risk Authors: <u>Luciano E.</u> – Nicodano G.		Estimating conservative loss given default Authors: <u>G. Sabato</u> – M. Schmid		“Value investing from theory to practice: the case of the Italian stock market” Author: P. Di Biase		“Risk neutral and actual default probabilities with an endogenous bankruptcy jump-diffusion model” Authors: <u>F. Quittard-Pinon</u> – O. Le Courtois
11.00 – 11.15	Plenary Session (C)							
11.15 – 13.00	11.15 William Perraudin (Imperial College London) - Keynote lecture “ <i>Dynamic Default Rate Distributions</i> ” Co-author: Robert Lamb 12.00 Panel Discussion 12.30 Free time							



13.00 - 14.00	Lunch
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Friday 13th June 2008
Afternoon

Conference Program

Location: Polo Scienze Sociali
Building D6 – Economics
Via Pandette 9, Florence

Time	Event							
14.00 – 16.00	Parallel sessions (3)							
	Default Risk Modeling Area		Banking & Risk Management		Corporate Risk Management		Quantitative Tools for Risk Management	
	Chairman Maurizio Fanni		Chairman: Riccardo De Lisa		Chairman: Giorgio Bertinetti		Chairman: Elisa Luciano	
14.00 - 14.25	Aula Botticelli	“Predicting SME failure: an application in the US and UK” Authors: E. Altman - <u>N. Wilson</u> - G. Sabato	Aula Michelangelo	“Credit risk discovery in the Stock and CDS market: who, when and why leads?” Authors: S. Forte – <u>L. Lovreta</u>	Aula Raffaello	“Do target prices predict rating changes?” Authors: <u>O. Pettinato</u> – A. Salvi - Bonini	Sala Giotto	“A comparison of a logistic regression, discriminant analysis and support vector machines on the bank of Portugal data” Authors: <u>A.I. Lacerda</u> – <u>R. A. Moro</u>
14.30 - 14.55		The development of a simple and intuitive rating system under Solvency II Authors: <u>Van Laere E.</u> - Baesens B.		“Accounting-based versus market based cross-sectional models for CDS spreads” Authors: S. Das – <u>P. Hanouna</u> – A. Sarin		Company financial performance prediction by virtue of economic value added measure by simulation methodology Authors: <u>Z. Zmeskal</u> – D. Dluhosova		“A credit contagion model for the dynamics of the rating transitions in a SME bank loan portfolio” Authors: <u>A. Basso</u> – R. Gusso

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15.00 - 15.25	Cds and rating announcements A comparative analysis Authors: <u>Salvi A.</u> – Dallochio M. - Bonini S. - Iavarone D.	“Assessment of bank creditworthiness: t relation between bank financial fundamentals and credit rating. Empirical evidence for European banking market” Authors: <u>F. Bernè</u> – M. Ciprian – M. Fanni – F. Vento	“Rating history and the rating dynamics of fallen angels, rising stars and big rating jumpers” Authors: <u>H. Dang</u> – G. Partington	“Pricing and hedging structure product. A comparison of numerical methods for virtual power plant” Author: E. Fanone
15.30 - 15.55	Performance of dual rating system combining rating stability, rating timeless Authors: E. Altman - <u>E. Rijken H</u>	“Determinants of Bank Distress in a Liberalised Financial Markets” Author: S.O.Uremadu		
16.00 – 16.15	Coffee break			
16.15 – 18.30	Plenary session (3) Chairman: Maurizio Fanni 16.15 Viral Acharya (London Business School) Keynote lecture “ <i>Liquidity Risk of Corporate Bond Returns</i> ” Co-authors: Yakov Amihud and Sreedhar Bharath 17.00 Panel Discussion Chairman: Giampiero Gallo 17.30 William Ziemba , Guest lecture “ <i>The Innovest Austrian Pension Fund Financial Planning Model InnoALM</i> ” Co-author: Alois Geyer			
18.30 – 20.00	Free time			



Conference Program

Saturday 14th June 2008
Morning

Location: Auditorium
Ente Cassa di Risparmio Firenze
Via Folco Portinari 5, Florence

Time	Event
09.30 – 11.15	<p>Professional workshop</p> <p>“Current Conditions in the Global Credit Markets: A New Paradigm or Great Credit Bubble?”</p> <p>Keynote Speaker: Prof. Edward Altman “Current Conditions in Global Credits Markets: a tale of Three Periods”</p> <p>Featured Presentation: Prof. Viral Acharya “Lesson for Central Banking from the Sub-Prime Crisis”</p> <p><i>"For some time now, I have been concerned about the contagion between the credit markets and the real economy. Indeed, I believe we are already in, or very close to being in, a real economy recession in the US, and I am convinced that the downturn is credit market motivated. In fact, it would not surprise me if one concludes that the last two recessions of 1991 and 2001 were also motivated by credit events. One "shoe" that has not fallen, however, is the increase in corporate bond and loan defaults. Most observers, including myself, now believe that increased defaults, perhaps sizeable, are inevitable. Indeed, in early 2008, that is exactly what has taken place. The question now is how severe will be this increase, which will partially depend on how the real economy, particularly in the US and Europe, will fare. Another "shoe" deals with the LBO market. With more than 650 of these highly leveraged transactions in the last four years, a big question is how they will hold-up in a changed credit environment".</i></p> <p style="text-align: right;">Edward Altman</p>
11.15-11.30	Coffee break



11.30 – 13.00	<p style="text-align: center;">Workshop Round Table</p> <div> <div> Aureliano Benedetti Maurizio Esentato Robert Holman Mauro Maccarinelli Jacopo Morelli Massimo Marchesi Senior Analyst Duncan Martin Chairman: Oliviero Roggi </div> <div> President Banca CR Firenze Calyon Credit Agricole CIB Chief Executive Director - Czech National Bank Risk Management Intesa San Paolo National Vice President of Young Entrepreneurs Former European Commission Banking Unit Basel II Team Banca d'Italia Director of Credit Analytics, Corporate Markets Division RBS Academic Coordinator IRMC2008 <p style="text-align: center;">Panelists may change</p> </div> </div>	
13.00	Lunch	