

Activity Report
Geneva Finance Research Institute
March 2009 to December 2010



**UNIVERSITÉ
DE GENÈVE**

www.GFRI.ch

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Le GFRI et ses activités: un aperçu

Le G. F.R.I est un Institut pluridisciplinaire de l'Université de Genève (UNIGE) créée en mars 2009 et entièrement dédié à la recherche et à la formation en finance.

Son ambition est de donner un élan nouveau à la recherche et à la formation en finance au sein de l'Université de Genève, et ce particulièrement dans les domaines de la gestion de portefeuille et de la gouvernance d'entreprise. Structurellement interfacultaire, Le GFRI se situe à la croisée entre les Facultés des Sciences Economiques et Sociales, de Droit, de Psychologie et des Sciences de l'Education.

Par ailleurs, le GFRI collabore étroitement avec le Centre de Droit Bancaire et Financier de l'UNIGE et le Pôle de Recherche National en Sciences Affectives. Il fait partie intégrante du Swiss Finance Institute et ses activités de recherche et de formation s'inscrivent dans la complémentarité par rapport à celles menées par ce dernier.

Le GFRI se veut enfin le véhicule privilégié de transfert de connaissances de l'UNIGE en matière de finance à destination de la Cité. A ce titre il organise régulièrement des séminaires, des conférences et des débats portant sur des thèmes de « finance et société ». Dans ce contexte, le GFRI est très reconnaissant à la Fondation Genève Place Financière pour son soutien financier.

Ce rapport a pour vocation de synthétiser les activités principales en matière de recherche et d'enseignement menées par les membres du GFRI depuis sa création et ce jusqu'à décembre 2010.

Nous publions régulièrement des nouvelles au sujet du GFRI, de ses membres et de leurs activités sur notre site internet : www.GFRI.ch

1. Introduction

GFRI is a multidisciplinary Finance Research Institute located at the University of Geneva that focuses on two main research topics: Portfolio Management and Corporate Governance. Its research themes build on the role that Geneva as a financial center plays in Portfolio Management and on the Corporate Governance concerns of society at large.

GFRI research is multidisciplinary and encourages synergies between the Faculties of Economics and Social Sciences, Law, Psychology and Science of Education. GFRI collaborates in particular with the Center for Banking and Financial Law and the National Center for Research in Affective Sciences, both located at the University of Geneva. GFRI is fully integrated within the Swiss Finance Institute and pursues research and educational activities in finance that are complementary to the goals and missions of SFI in terms of achieving academic excellence in finance among SFI partner universities.

GFRI also engages in knowledge transfer activities such as conferences, seminars and public debates on finance topics related to Portfolio Management and Corporate Governance. In this context, GFRI gratefully acknowledges financial support by the Geneva Financial Center Foundation.

This activity report is intended to provide a synthetic view of the main research and educational activities pursued by GFRI's members since its inception and until December 2010.

2. GFRI Members

a. Permanent GFRI Members

Finance Professors from the Faculty of Social & Economic Sciences:

- Tony Berrada, Associate Professor of Finance
- Ines Chaieb, Assistant Professor of Finance
- Rajna Gibson Brandon, Managing Director of GFRI, Professor of Finance
- Martin Hoesli, Professor of Real Estate Finance
- Henri Loubergé, Deputy Director of GFRI, Professor of Economics & Finance
- Olivier Scaillet, Deputy Director of GFRI, Professor of Probability & Statistics

Postdoctoral researchers in Finance:

- Dr. Alexander Engulatov, Postdoctoral researcher in Finance, (PhD from EPFL)
- Dr. Philipp Krueger, Postdoctoral researcher in Finance, (PhD from The Toulouse School of Economics)
- Dr. Miret Padovani, Postdoctoral researcher in Finance, (PhD from Zurich University)

Assistants and doctoral students in Finance:

- Gerda Cabej, Phd Candidate in Economics under the supervision of Prof. Henri Loubergé
- Ronald Gindrat, Phd Candidate in Finance under the supervision of Prof. Olivier Scaillet
- Raul Gonzalez, Phd Candidate in Finance under the supervision of Prof. Olivier Scaillet
- Grégoire Iseli, Phd Candidate in Economics under the supervision of Prof. Henri Loubergé
- Kousse Kagba, Phd Candidate in Finance under the supervision of Prof. Tony Berrada, undertaking the Swiss Finance Institute Doctoral Program
- Nicolay Markov, Phd Candidate in Economics under the supervision of Prof. Henri Loubergé
- Alper Odabasioglu, Phd Candidate in Finance under the supervision of Prof. Rajna Brandon, undertaking the Swiss Finance Institute Doctoral Program
- Kustrim Reka, Phd Candidate in Finance under the supervision of Prof. Martin Hoesli
- Ramona Westermann, Phd Candidate in Finance under the supervision of Prof. Rajna Brandon, undertaking the Swiss Finance Institute Doctoral Program

Administration:

- Michael Steinhauser

b. Associate GFRI Members**Faculty from the Centre for Banking and Financial Law:**

- Rashid Bahar, Associate Professor of Law, Attorney at Law at Bär & Karrer
- Ursula Cassani, Professor of Law
- Bénédicte Foëx, Professor of Law
- Anne Héritier Lachat, Associate Professor of Law, Board Member at FINMA
- Xavier Oberson, Professor of Law
- Henry Peter, Professor of Law
- Luc Thévenoz, Director of the Centre for Banking and Financial Law, Professor of Law

Faculty from the National Centre of Competence in Research for the Affective Sciences:

- Didier Grandjean, Associate Professor of Psychology
- David Sander, Professor of Psychology
- Klaus Scherer, Director of the Geneva Emotion Research Group, Professor of Psychology

3. Research

I. General GFRI research activities

a. **Scientific collaboration and research projects**

A top priority of GFRI is to achieve excellence in academic research on topics relevant to Geneva's finance community. GFRI members also participate with two projects to the Swiss National Center of Competence in Finance & Risk Management (NCCR FinRisk).

This section describes five ongoing research projects led by GFRI members:

Credit risk and non-standard sources of risk (NCCR FinRisk Project C1)

GFRI member: Prof. Rajna Gibson Brandon

A central question in finance is how do agents and corporations make decisions under uncertainty. Some of the sources of uncertainty affecting investors' portfolio decisions and corporations' investment and financing decisions are well-understood, e.g. equity, interest rate, commodity, and exchange rate risks. Yet market risks represent only a small subset of the total risk exposures that one experiences when trading, investing, or making financing decisions in financial markets. The purpose of this project is to focus on credit risk and on non-standard sources of risk that occur once one allows for market frictions, informational distortions, and agency problems. By non-standard sources of risks, it is referred in particular to liquidity risk, operational risk, catastrophe risk, demographic risk, and model risk. Modern finance theory has not yet come up with satisfactory models for the pricing of these risk factors and their management. An exception is the measurement and management of credit risk which has received large academic attention during the late nineties, driven in part by the Basel II reform of banks' capital adequacy requirements.

Financial econometrics for risk management (NCCR FinRisk Project D2)

GFRI member: Prof. Olivier Scaillet

Theoretical econometrics considers questions about the statistical properties of estimators and tests. The goal of this project is to develop econometric methods that allow for better assessment and monitoring of financial and insurance risks. One aim of this project is to improve the econometric modeling (dynamic or marginal) of the distribution of risk and the dependencies that can occur between different sources of risk, employing both parametric and non-parametric methods. The types of risk that the proposed methods encompass are rather general and include credit risk, market risk, or operational risk. A second aim of the project is to investigate the impact of small samples when conducting inference. The project covers a range of econometric testing procedures whose underlying assumptions deviate from the typical asymptotic theory and account for the fact that, in practice, data is often limited. All the econometric tools can be used in many areas in finance as they can be applied to various types of data such as interest rates, exchange rates, and stock returns. As such, they should allow for a better understanding of how to control financial losses for banks, insurance companies, or other large investors.

Approximation methods for optimal dynamic portfolio choice

GFRI member: Prof. Tony Berrada

In the early fifties, Harry Markowitz laid the ground of quantitative portfolio choice. Focusing on two essential dimensions of asset returns – risk and return –, he showed how to optimally diversify an investor's wealth among several financial assets. A couple of decades later, Robert Merton added a third dimension – time –, and showed that time-varying market conditions and the possibility to rebalance the portfolio had an important impact on the asset allocation mix. However, Merton's dynamic programming approach faces computational challenges when addressing large dimensional problems, due to multiplicity of risk sources. This certainly explains why Markowitz's mean-variance approach is widely used, whereas Merton's approach is not. The aim of this project is to make the dynamic approach implementable by developing a simple approximation method that both applies to large dimensional portfolios and also yields closed-form solutions for a large class of stochastic processes used in modeling financial asset returns. The proposed method relies on a decomposition of the optimal dynamic portfolio around two extreme cases: the infinitely risk averse cases and the pure mean-variance case.

Fractional cointegration analysis of securitized real estate

GFRI member: Prof. Martin Hoesli

The aim of this project is to use fractional cointegration analysis to examine whether long-run relationships exist between securitized real estate returns and three sets of variables frequently used in the literature as the factors driving securitized real estate returns. That is, they examine whether such relationships are characterized by long Memory (long-range dependence), short Memory (short-range dependence), mean reversion (no long-run effects) or no mean reversion (no long-run equilibrium). Forecasting implications are also considered. Empirical analyses are conducted using data for the US, the UK, and Australia. The main finding of this project is strong evidence of fractional cointegration between securitized real estate and the three sets of variables. Such relationships are mainly characterized by short memory, although long memory is sometimes present. The use of fractional cointegration for forecasting purposes proves particularly useful since the start of the financial crisis.

Reinsurance and securitization in life risk management

GFRI member: Prof. Henri Loubergé

The large increases in longevity observed over the past decades have brought new challenges to pensions and the insurance industry. This project looks at the industry's main challenge related to longevity risk, i.e. the risk that current longevity trends change significantly in the future. Increasing amounts of capital need to be accumulated to face this long-term risk and new regulation in Europe on capital requirements threaten to worsen the situation. For the insurance industry, as well as for private pension plans, this risk has a dual representation: first of all, insurers face the risk of a significant change occurring in the general trend of longevity (systematic risk); secondly, they also face the risk of random changes in average longevity occurring in their own portfolios of insured (specific risk). Reinsurance and capital market solutions (e.g. insurance-linked securities) have today received an accrued interest as a possible suitable and efficient way to deal with this dual risk. This research topic is addressed at two levels, starting from the classical framework of risk-sharing in the insurance industry. In the first part, the project investigates the optimal strategy of sharing longevity risk among three representative agents: an insurer, a reinsurer, and a financial investor.

In a second part, the project focuses on the impact of regulation on risk transfer by differentiating reinsurance and securitization in terms of their impact on reserve requirements. More precisely, this project shows that different regulations could introduce large biases in optimal risk-sharing arrangements.

b. Finance Seminars:

Thanks to the ongoing support of the Geneva Financial Center Foundation, the Institute has launched its Finance Seminar Series and organized 22 Finance Seminars at the University of Geneva from October 2009 to December 2010:

11 November 10: Prof. Fabio Trojani, Università della Svizzera Italiana, "Taking Ambiguity to Reality: Robust Agents Cannot Trust the Data Too Much".

1 November 10: Prof. Anna Cieslak, Università della Svizzera Italiana, "Understanding bond risk premia".

14 October 10: Prof. Adlai Fisher, University of British Columbia, "Dimension-Invariant Dynamic Term Structures".

30 September 10: Prof. Suleyman Basak, London School of Economics, "Strategic Asset Allocation in Money Management".

20 June 10: Prof. Rudiger Fahlenbrach, EPFL, "CEO Contract Design: "How Do Value Maximizing Principles Do It? ".

7 June 10: Prof. Christian Hilber, London School of Economics, "Supply Constraints and House Price Dynamics: Panel Data Evidence from England"

31 May 10: Prof. René Garcia, EDHEC, "Generalized Disappointment Aversion, Long-Run Volatility Risk and Asset Prices".

6 May 10: Prof. Ines Chaieb, Amsterdam University, "Do implicit barriers matter for globalization?"

23 April: Prof. Marcel Rindisbacher, Boston University, "Optimal Portfolio Allocations with Hedge Funds"

19 April 10: Prof. Patrick Gagliardini, Università della Svizzera Italiana, "Granularity Adjustment in Dynamic Multiple Factor Models: Systematic vs Unsystematic Risks".

12 April 10: Prof. Bruce Carlin, University of California Los Angeles, "Obfuscation, Learning, and the Evolution of Investor Sophistication".

17 March 10: Mr. Philipp Kruger, Toulouse School of Economics, "Corporate Social Responsibility and the Board of Directors".

8 March 10: Prof. Rau Raghavendra, Purdue University, "Performance for pay? The relationship between CEO incentive compensation and future stock price performance".

8 February 10: Prof. M. Massa, INSEAD, "The Role of Relative Availability of Bond and Bank Financing: A Measure of Financial Inflexibility".

11 January 10: Prof. J.C. Rochet, Centre de Calcul de Toulouse, "Lending Booms and Sudden Stops".

14 December 09: Mrs. Andrea Vedolin, "The Cross Section of Equilibrium Volatility Risk Premia".

10 December 09: Prof. Steve Leroy, University of California Santa Barbara, "Mortgage Default and Mortgage Valuation".

23 November 09: Mrs. Elize Payzan, EPFL, "Is Rational Asset Valuation in Unstable Financial Markets Possible?".

12 November 09: Prof. Hannes Wagner, Bocconi University, "The Life Cycle of Family Ownership".

9 November 09: Prof. Zsuzsanna Fluck, Michigan State University, "The Defeasance of Control Rights".

2 November 09: Prof. François Derrien, HEC Paris, "Investor Horizons and Corporate Policies".

26 October 09: Prof. Laurent Fresard, HEC Paris, "The Foreign Firm Discount".

c . F i n a n c i a l D a t a b a s e s

Thanks to the financial support from the Swiss Finance Institute, from the Geneva Finance Center Foundation and from the Rectorate of the University of Geneva, the Institute has acquired annual licenses for the following databases:

- Wharton Interface
- CRSP
- Compustat
- KLD
- IBES
- Option Metrics
- TASS

These databases enable us to reinforce GFRI's research agenda in empirical finance.

II. GFRI Members research contributions - Finance Professors

d. **Publications in Academic Journals:**

Prof. Tony Berrada

Bounded Rationality and Asset Pricing with Intermediate Consumption, *Review of Finance*, 2009, vol. 13, Nr 4. Nominated for the “Deutsche Bank Prize in Financial Economics – Review of Finance Best Paper Award 2010”.

Prof. Rajna Gibson Brandon

Optimal Hedge Fund Portfolios under Liquidation Risk, with Sébastien Gyger, *Quantitative Finance*, Vol.11, No 1, January 2011, 53-67.

Modeling the Term Structure of Interest Rates: A Review of the Literature, with, François Lhabitant and Denis Talay, *Foundations and Trends in Finance*, Vol 5, No 1-2, 2010, 1-156.

Viscosity Solutions to Optimal Portfolio Allocations Problems in Models with Random Time Changes and Transaction Costs, with C. Blanche O.Scaillet, B. de Saporta, D. Talay and E. Tanré, *Radon Series on Computational and Applied Mathematics*, Vol 8, pp 1-37, 2009.

Prof. Martin Hoesli

Housing finance, prices, and tenure in Switzerland, with Bourassa, S.C., and Scognamiglio, D., *Journal of Real Estate Literature*, 18, pp. 263-282, 2010.

The interest rate sensitivity of real estate, with Chaney, A., *Journal of Property Research*, 27, pp. 61-85, 2010.

Land leverage and house prices – Editorial, *Journal of Property Finance and Investment*, 28, pp. 248-249, 2010.

Are securitized real estate returns more predictable than stock returns? with Serrano, C., *Journal of Real Estate Finance and Economics*, 41, pp. 170-192, 2010.

Predicting house prices with spatial dependence: a comparison of alternative methods, with Bourassa, S.C., Cantoni, E., *Journal of Real Estate Research*, 32, pp. 139-159, 2010.

Why do the Swiss rent?, with Bourassa, S.C., *Journal of Real Estate Finance and Economics*, 40, pp. 286-309, 2010.

House price changes and idiosyncratic risk: the impact of property characteristics, with Bourassa, S.C., Haurin, D.R., Haurin, J.L., and Sun, J., *Real Estate Economics*, 37(2), pp. 259-278, 2009.

Global securitized real estate benchmarks and performance” with Serrano, C., M., *Journal of Real Estate Portfolio Management*, 15(1), pp. 1-19, 2009.

Prof. Henri Loubergé

Hybrid Cat Bonds, with P. Barrieu, *Journal of Risk and Insurance*, vol. 76 (3), pp. 547-578, 2009.

Prof. Olivier Scaillet

Testing for stochastic dominance efficiency, with N. Topaloglou, *Journal of Business and Economic Statistics*, 28, 169-180, 2010.

False discoveries in mutual fund performance: Measuring luck in estimated alphas, with L. Barras and R. Wermers, *Journal of Finance*, 65, 179-216, Swiss Finance Institute, 2010 / Banque Privée Espirito Santo Award Prize 2008.

Pricing American options under stochastic volatility and stochastic interest rates, with A. Medvedev, *Journal of Financial Economics*, 98, 145-159, 2010.

Swap market models, with S. Galluccio, in *Encyclopedia of Quantitative Finance*, John Wiley & Sons Ltd, 2010.

CMS spread options, with S. Galluccio, in *Encyclopedia of Quantitative Finance*, John Wiley & Sons Ltd, 2010.

Weather derivatives, with P. Barrieu, in *Encyclopedia of Quantitative Finance*, John Wiley & Sons Ltd, 2010.

A primer on weather derivatives, with P. Barrieu, *Handbook on Uncertainty and Environmental Decision Making*, International Series in Operations Research and Management Science, Springer Verlag, 2010.

Testing for threshold effect in ARFIMA models: Application to US unemployment rate data, with A. Lahiani, forthcoming in *International Journal of Forecasting*.

e. Working papersProf. Tony Berrada

Incomplete Information, Idiosyncratic Volatility and Stock Returns, with Julien Hugonnier Optimal Investment with Adjustment Costs under Constant Return to Scale (in preparation), with Julien Hugonnier, SFI Working Paper Series, No 08-23), 2010.

Prof. Ines Chaieb

Do implicit barriers matter for globalization, with F. Carrieri, V. Errunza, SFI Research Paper Series, vol. 6 (2), 2010.

The unconditional and conditional exchange rate exposure of U.S. firms, with Mazzotta, SFI Research Paper Series, 2010.

Prof. Rajna Gibson Brandon

The Role of Precision and Transaction Costs in Stock, Option and Volatility Trading, with Ramo Gencay and Yi Xue, Simon Fraser University, Vancouver, Canada, Unpublished Paper, SFI Working Paper Series, No 11), 2009.

The Power of Truth: Experimental Evidence on the Economic Implications of Truth as a Sacred Value, with Carmen Tanner and Alexander Wagner, Unpublished Working Paper, Revised October 2010, 2nd round revise and resubmit at *the American Economic Review*.

Hedge Fund Alphas: Do they Reflect Managerial Skills or Mere Compensation for Liquidity Risk Bearing? with Songtao Wang, revised November 2010, revise and resubmit at the *Journal of Financial and Quantitative Analysis*.

Wild Bootstrap Inference on Price Discovery for CDS and Cash Bond Market, with Silika Prohl, NCCR FINRISK; WP558, submitted to *the Journal of Financial Econometrics*.

How Much for your Honesty? Implications of Honesty as a Sacred Value for Economic Decisions, with Nicolas Berkowitsch, Carmen Tanner and Alexander Wagner, Working Paper, Faculty of Psychology, University of Zurich, revised December 2010, submitted to *the Journal of Economic Psychology*.

Investment decisions under Ambiguity: The case of Long/Short Equity hedge Funds, with Nikolay Ryabkov, Unpublished Working Paper, University of Geneva, revised 2010.

Prof. Martin Hoesli

Fractional cointegration analysis of securitized real estate, with Serrano, C, *Journal of Real Estate Finance and Economics*.

Housing and its Role in the Household Portfolio in Colombia, with Serrano, C., SFI Research Paper Series 01, 2010.

The Interest Rate Sensitivity of Real Estate, with Chaney A., SFI Research Paper Series 13, 2010.

Volatility Spillovers, Asymmetry and Extreme Events in Securitized Real Estate Returns, with Reka, K., SFI Research Paper Series 40, 2010.

Response Speeds of Direct and Securitized Real Estate to Shocks in the Fundamentals, with Oikarinen, E., and Serrano, C., SFI Research Paper Series 47, 2010.

Land Leverage and House Prices, with Bourassa, with S.C., Scognamiglio, D. and Zhang, S., SFI Research Paper Series 48, 2010.

Predicting Securitized Real Estate Returns: Financial and Real Estate Factors vs. Economic Variables, SFI Research Paper Series 8, 2009.

Housing Finance, Prices, and Tenure in Switzerland, SFI Research Paper Series 16, 2009.

Linkages Between Direct and Securitized Real Estate, SFI Research Paper Series 26, 2009.

House Prices, Disposable Income, and Permanent and Temporary Shocks, SFI Research Paper Series 42, 2009.

Land leverage and house prices, Bourassa, S., Hoesli, M., Scognamiglio, D. and Zhang, S., Regional Science and Urban Economics.

The long-run dynamics between direct and securitized real estate, with Oikarinen, E., and Serrano, C., Journal of Real Estate Research.

Prof. Henri Loubergé

Real estate bubbles and their consequences – Geneva in the 90's, A Case Study, with C. Pasche, 2010.

Prof. Olivier Scaillet

Recovering Nonlinear Dynamics from Option Prices, with Raul Gonzalez and Alexander Engulatov, 2010.

f. Published books

Prof. Martin Hoesli

Investimento Immobiliare – Mercato, valutazione, rischio e portafogli, with Morri, G., 2010, Hoepli (Milan).

g. Contribution in Published books

Prof. Rajna Gibson Brandon

Sacred Values and Ethical Decision-Making, with C. Tanner and A. Wagner, in *Socialpsychologie & Oekonomie*, edited by E.H. Witte and T. Gollan, Pabst Verlag, Germany, 2010.

Prof. Henri Loubergé

The economics of risk: A partial survey, with Louis Eeckhoudt July 2010, to be published in *Handbook of Risk*, Springer, 2011.

h. Other research activities (conference and seminar participation, etc)

Prof. Tony Berrada

Participation at the European Finance Association Meeting, Bergen 2009.

Participation at the Swiss Society for Financial Market Research, Geneva 2009.

Participation at the Australasian Finance and Banking Conference, Sydney 2010.

Participation at the CRSP Forum, Chicago 2010.

Participation at the Mathematical Finance Days, Montreal 2010.

Participation at the Portuguese Finance Network, Azores 2010.

Prof. Ines Chaieb

Participation at the EUROFIDAI-AFFI International Paris Finance Meeting, December 2010.

Prof. Rajna Gibson Brandon

Presentation titled “Risk Management after the Financial Crisis, UNICORE Conference, Geneva, April 2009.

Presentation titled “La Crise Financière de 2007-2009::Une Perspective”, on the occasion of a special conference on the Financial Crisis organized by the University of Geneva for the public community, March 2009.

Presentation titled “The 2007-2009 Financial Crisis: A Perspective, International Colloquium de Glion, A dialogue forum attended by International Universities Presidents, June 2009.

Presentation of the paper titled The Role of Precision and Transaction Costs in Stock, Option and Volatility Trading, at the Rimini Workshop on Liquidity and Market Microstructure organized by RCEA in Rimini, May 2009.

Chair for the Conference on Market Microstructure organized by the Swiss National Bank in Zurich in October 2009.

Organized a series of 3 Keynote Lectures on the aftermath of the Financial Crisis at the University of Geneva, with Professor Martin Hellwig, Professor Ingo Walter and Dr. Philipp Hildebrand (then Vice - President of the Swiss National Bank) as keynote speakers, in November 2009.

Presentation titled “Honesty in Financial Economic Decision-Making, Keynote Speaker at the Université Libre de Bruxelles, Brussels, February 2010.

Organisation of a Conference on “Managerial Compensation” and Presentation of a paper titled “Honesty in Financial Economic Decision-Making”. This event marked the official launching of the Geneva Finance Research Institute (GFRI), University of Geneva, March 2010.

Presentation of the paper titled “The Role of Precision and Transaction Costs in Stock, Option and Volatility Trading”, at the Finance seminar, University of Venice, June 2010.

Presentation of the paper titled “Hedge Fund Alphas: Do they Reflect Managerial Skills or Mere Compensation for Liquidity Risk Bearing?”, Keynote Speaker, Conference on Fund of Hedge Funds, Zurich, September 2nd 2010.

Presentation in panel discussion on “the Role of Honesty in Financial Decision-Making”, Lake Geneva Financial Innovation Society, Geneva, November 2010.

Presentation and discussion on the “Future of Risk Management” at a panel session on “Financial Innovation after the Crisis”, organized by EPFL, Lausanne, November 2010.

Organisation of a panel discussion on the topic “Managers and Shareholders: Who Controls Listed Companies?”, Geneva Finance Research Institute, University of Geneva, November 2010.

Prof. Martin Hoesli

“Predicting house prices with spatial dependence: a comparison of alternative methods”, Seminar on housing markets, Doctoral program for the built environment, Helsinki University of Technology, Helsinki, Finland, March 2009.

Predicting securitized real estate returns: financial and real estate factors vs. economic variables, 16th European Real Estate Society Annual Conference, Stockholm, Sweden, June 2009.

Land leverage and house price dynamics, research seminar, University of Cincinnati, USA, December 2009.

Predicting house prices with spatial dependence: a comparison of alternative methods, 16th European Real Estate Society Annual Conference, Stockholm, Sweden, June 2009.

Linkages between direct and securitized real estate, 16th European Real Estate Society Annual Conference, Stockholm, Sweden, June 2009.

Predicting securitized real estate returns: financial and real estate factors vs. economic variables, 25th American Real Estate Society Annual Conference, Monterey, USA, April 2009.

Predicting house prices with spatial dependence: a comparison of alternative methods, 25th American Real Estate Society Annual Conference, Monterey, USA, April 2009.

Response speeds of direct and securitized real estate to shocks in the fundamentals, 2nd ReCapNet Conference, Mannheim, Germany, October 2010.

Land leverage and house prices, research seminar, Faculty of Economics and Business, University of Amsterdam, The Netherlands, September 2010.

Response speeds of direct and securitized real estate to shocks in the fundamentals, International Real Estate Seminar, Isle of Skye, Scotland, August 2010.

Land leverage and house prices, 15th Asian Real Estate Society Annual Conference, Kaohsiung, Taiwan, July 2010.

The role of real estate in a mixed-asset portfolio and the impacts of recent developments, conference of the Società Italiana di Estimo e Valutazione (SIEV), Politecnico di Milano, Milan, Italy, July 2010.

Volatility spillovers and asymmetry in real estate stock returns, 17th European Real Estate Society Annual Conference, Milan, Italy, June 2010.

Land leverage and house prices, 26th American Real Estate Society Annual Conference, Naples (FL), USA, April 2010.

House prices, disposable income, and permanent and temporary shocks, 16th Pacific Rim Real Estate Society annual conference, Wellington, New Zealand, January 2010.

Land leverage and house price dynamics, Weimer School of Advanced Studies in Real Estate and Land Economics, North Palm Beach (FL), USA, January 2010.

Prof. Henri Loubergé

Participation at the 36th Seminar of the European Group of Risk and Insurance Economists (EGRIE), Norwegian School of Economics and Business Administration, Bergen, 21-23 September 2009.

Participation at the SFI Annual Meeting, Zurich, November 2009.

Participation at the ICMB Seminar on Cross-Border Banking, Genève, 7 May 2010.

Participation at the Doctoral Workshop SFI and Finrisk, Gerzensee, 21-22 June 2010.

Participation at the Doctoral Workshop SFI and Finrisk, Gerzensee, 8-9 June 2009.

Participation at the Conference Finmas "Some Pitfalls in Risk Management", Hotel Métropole, Geneva, May 2009.

Prof. Olivier Scaillet

Participation at the Editorial Board of Journal of Business and Economic Statistics of the American Statistical Association (Associate Editor: 2007-2010).

Member of the International Scientific Council of the Solvay Brussels School of Economics and Management (Université Libre de Bruxelles)

Robust resampling methods for time series, with L. Camponovo and F. Trojani, Statistics Seminar at University of Gent, Gent, March 2010.

Robust resampling methods for time series, with L. Camponovo and F. Trojani, Conference on Resampling Methods and High Dimensional Data, College Station, March 2010.

Detecting spurious jumps in high frequency data, with P. Bajgrowicz, MAF conference, Ravello, April 2010.

Detecting spurious jumps in high frequency data, with P. Bajgrowicz, seminar at Banque de France, Paris, April 2010.

Detecting spurious jumps in high frequency data, with P. Bajgrowicz, seminar at Cass Business School, London, May 2010.

Detecting spurious jumps in high frequency data, with P. Bajgrowicz, ESWC 2010, Shanghai, August 2010.

Detecting spurious jumps in high frequency data, with P. Bajgrowicz, Oxford-Man Institute seminar, Oxford, November 2010.

Unsupervised risk factor clustering, with G. Criton, Oxford-Man Institute hedge fund conference, Oxford, November 2010.

Time-varying risk premium in large cross-sectional equity datasets, with P. Gagliardini and E. Ossola, High-Dimensional Econometric Modelling Conference, London, December 2010.

One week visit at Oxford University, Oxford, November 2010.

i. Doctoral thesis supervision

Prof. Rajna Gibson Brandon

Gorazd Brumen, SFI and University of Zurich, defended in June 2009.

Luca Taschini, SFI and University of Zurich, defended in April 2009 (as Thesis co-supervisor).

Dissertation chairman, Mr. Songtao Wang, University of Zurich in September 2010 .

Alexandre Jeanneret, from UNIL, defended his doctoral thesis in June 2010 (member of the doctoral committee).

Pierre Bajgrowicz defended his doctoral thesis at the University of Geneva in June 2010 (president of the doctoral thesis committee).

Supervising the following four doctoral students: Alper Odabasioglou: SFI and University of Geneva, Nikolay Ryabkov, SFI and University of Zurich, Vahe Sahakyan, SFI and University of Zurich, Ramona Westermann, SFI and University of Geneva.

Prof. Martin Hoesli

Dissertation chairman for Camilo Serrano, who defended his thesis titled "Behavior and Predictability of Securitized Real Estate Returns" on November 3, 2009 at the University of Geneva.

Member (opponent) of the Ph.D. committee for Olof Netzell, "Essays on lease and property valuation", School of Architecture and the Built Environment, Royal Institute of Technology, Stockholm, Sweden, December 2010.

Member of the Ph.D. committee for Xialong Liu, "Three essays on real estate finance", Faculty of Economics and Business, University of Amsterdam, The Netherlands, September 2010.

Prof. Henri Loubergé

Dissertation chairman for Mr. Philipp Fasnacht : "Three Essays on Equity Correlations." Université de Genève, Faculté des SES, June 2009.

Dissertation chairman for Mr. Georgios Gatopoulos: "Three Essays on International Finance." Université de Genève, Faculté des SES, January 2010.

Dissertation chairman for Mr. Enrico Schuman: "Essays on Practical Financial Optimisation." (Directeur: Prof. Manfred Gilli). Université de Genève, Faculté des SES, September 2010.

Supervising the following four doctoral students: Ph. Fasnacht, G. Gatopoulos, G. Cabej. N. Markov.

Prof. Olivier Scaillet

PhD defense of Enrico Schumann (Uni. de Genève 2010): co-advisor

PhD defense of Pierre Bajgrowicz (Uni. de Genève 2010): advisor.

PhD defense of Heni Boubaker (Université de Marseilles 2010): external referee

Supervision the following doctoral students: Gilles Crito, Raul Gonzalez

j. A w a r d a n d h o n o r s r e l a t e d t o r e s e a r c h a c t i v i t i e sProf. Ines Chaieb

Do implicit barriers matter for globalization, F. Carrieri, I. Chaieb and V. Errunza is Winner of Best Paper Award at NFA meetings 2009 (Toronto CFA Societies' Capital Market Research Best Paper Award).

Prof. Martin Hoesli

Prize for the best paper presented at the 2009 annual meetings of the Pacific Rim Real Estate Society in Sydney (Australia). The title of the paper was "Predicting house prices with spatial dependence: a comparison of alternative methods".

Prize for the best paper presented at the 2010 annual meetings of the Asian Real Estate Society in Kaohsiung (Taiwan). The title of the paper is "Land Leverage and House Prices".

III. GFRI Members research contributions - Finance Post-doctoral Researchers**k. Publications in Academic Journals:**Dr. Miret Padovani

An intergenerational cross-country swap, with Paolo Vanini, *Journal of Risk Finance*, Vol. 11 Issue 5, pp.446 – 463, 2010.

l. Working papers:

Alexander Engulatov

Recovering Nonlinear Dynamics from Option Prices, with Olivier Scaillet and Raul Gonzalez. The preliminary version of the paper has been accepted for a presentation at the Fourth Annual SoFiE Conference.

Dr. Philippe Krueger

The WACC Fallacy: The Real Effects of Using a Unique Discount Rate, with Augustin Landier and David Thesmar, 2010.

m. Other research activities (participation at conferences and seminars)

Dr. Philippe Krueger

Participation at the conference "Les défis de la finance durable, une industrie en pleine expansion", Sustainable Finance Geneva, November 2010.

IV. GFRI Members research contributions – Finance PhD Students**n. Working papers:**

Raul Gonzalez

Recovering Nonlinear Dynamics from Option Prices, with Olivier Scaillet and Alexander Engulatov. The preliminary version of the paper has been accepted for a presentation at the Fourth Annual SoFiE Conference.

Ronald Gindrat

Smooth Ambiguity Aversion and the Continuous-time Limit, with Jean Lefoll, 2010

Ambiguity, Risk-Equivalent Recursive Preferences, and Optimal Portfolio-Consumption Strategies, 2010.

Nicolay Markov

iActual versus Perceived Taylor Rules. How predictable is the European Central Bank?, 2010.

A Regime Switching Model for the European Central Bank, September 2010.

Has the Fed's policy switched over time? An empirical investigation based on Actual and Perceived Taylor Rules, November 2010.

Ramona Westermann

Macroeconomic Conditions, Growth Opportunities and the Cross-Section of Credit Risk, with, M. Arnold and A. Wagner, SFI Paper Series N° 10-19, invitation to revise and resubmit to *the Journal of Financial Economics*, 2010.

o. Other research activities (participation at conferences and seminars)Ronald Gindrat

Presentation at the Colloque international de l'association française de finance, Brest: "Smooth Ambiguity Aversion and the Continuous-time Limit", May 2009.

Presentation at the Risk, Uncertainty, and Decision workshop, Duke University: "Smooth Ambiguity Aversion and the Continuous-time Limit," June 2009.

Nikolai Markov

Participation at the Annual Conference T2M: "Theories and methods in macroeconomics", University of Mans, France, March 2010.

Participation at the Annual 30th CIRET Conference: "Economic tendency surveys and financial markets", hosted by the Conference Board, New York, October 2010.

Alper Odabasioglu

Participation at the 5th Annual Meeting of the Swiss Finance Institute, November 2010.

Participation at the Swissquote Conference on Interest Rate and Credit Risk, October 2010.

Ramona Westermann

Presentation at the Doctoral Workshop Gerzensee (Research Session), June 2010: Macroeconomic Conditions, Growth Opportunities and the Cross-Section of Credit Risk.

4. Education

a. **Doctoral program in Finance**

The doctoral program in finance at the University of Geneva is fully integrated within the PhD program of the Swiss Finance Institute (SFI), a private foundation created in 2006 by Switzerland's banking and finance community in cooperation with leading Swiss universities.

4 PhD students are currently enrolled at the University of Geneva in this doctoral program (Ronald Gindrat, Kagba Kousse, Alper Odabasioglou, Ramona Westermann).

The program is structured in two phases:

(i) A first year course divided in three semesters (September to June) with a total of nine courses, after which students are evaluated on the basis of their test scores and a summer paper (first paper) prepared under the supervision of a SFI Professor.

(ii) Years 2-4 are assigned to the writing of the thesis itself. In the middle of year 4, students usually participate in the academic job market conference held at the ASSA in the United States.

During the first phase, students are fully funded by the SFI (grant of CHF 30,000). During the second phase, students are hired as assistants in one of the partner universities.

The SFI doctoral program has now acquired an excellent international reputation. Excellent placement of students in the academic market allows SFI to compete with institutions at the forefront of academic Finance. Note for example that over the last two years SFI students have been appointed to the rank of Assistant- Professors at the following universities: Carnegie Mellon, Rochester, McGill, London School of Economics, Boston University, HEC Paris, University of New South Wales, HEC Montreal, Bocconi, etc.

b. **Master program in Finance**

Organized jointly by the Universities of Geneva (GFRI Institute, Faculty of SES), Lausanne (Faculty of HEC) and Neuchâtel (Faculty of SES), this program covers a wide variety of finance topics such as wealth management, financial engineering or financial analysis. The area of specialization for the University of Geneva is wealth management for which we benefit from synergies with the curriculum offered by the Faculty of Law for legal and property tax courses. Depending on the orientation chosen, the program can be taken in French or in English.

We receive over 500 applications for admission to the Master Program in Finance every year.

In the academic year of 2009-2010, 39 students enrolled in the first year, and 17 students followed the second year of the program in Geneva.

Our graduates subsequently pursue their careers primarily in the funds' management in banking, and in risk management positions within firms located both in Switzerland and abroad.

5. Recruitment within the Institute

Professors:

Prof. Ines Chaieb from Amsterdam University has been hired as Assistant Professor in Finance in July 2010 and has joined the GFRI in November 2010. Her position is financed by the Swiss Finance Institute.

Prof. Hau, from INSEAD Paris has been hired as Full Professor of Finance in 2010 and will be joining the GFRI in September 2011. He will also hold a SFI Senior Chair.

Post-doctoral Scholars:

Mrs. Miret Padovani, with a PhD in Finance from Zurich University, was hired as a post-doctoral researcher in Finance in April 2010. Her position is financed by the Geneva Financial Center Foundation.

Mr. Philipp Krüger, with a PhD in Finance from the School of Economics of Toulouse, was hired as a post-doctoral researcher in Finance in September 2010.

Administration:

Mr. Michael Steinhauser, previously employed by the Swiss Finance Institute, hired in June 2009.

6. Knowledge transfer activities

a. Conferences

25 March 2010: Conference "Rémunération et Gouvernance: Quo Vadis? "

This conference aimed, with two academic presentations and a wide open debate, to advance the discussion on executive composition, a topic that is both complex and emotionally charged. The topic of the conference highlighted the importance of seeking a balance between what can be done by effective corporate governance to establish incentive compatible remuneration policies and ultimately by enforceable regulation.

Introduction by the Rector of UNIGE, Prof. Jean Dominique Vassali

Keynote Speakers: Prof. Rajna Gibson, Prof. Anne Héritier Lachat

Participants: 88

Le Geneva Finance Research Institute et le Centre de Droit Bancaire et Financier vous invitent à une conférence-débat :

RÉMUNÉRATION ET GOUVERNANCE: QUO VADIS?

*25 Mars 2010 / 17h -19h / Entrée Libre
Université de Genève / Unimail
Bd du Pont d'Arve 40 / 1211 Genève 4 / salle R290*



18 November 2010: Roundtable “Managers and Shareholders: Who Controls Listed Companies?”

This roundtable fostered a debate on the benefits and risks of shareholders activism as a counter-balance to managerial power. It shed light on the respective rights and obligations of shareholders and managers of listed companies.

Introduction by Prof. Rajna Gibson Brandon

Keynote Speakers: Mr. Anton Affentranger, Prof. Rashid Bahar, Mr. Dominique Biedermann and Prof. Peter Böckli

Conclusion by Prof. Anne Héritier Lachat

Participants: 83

Le Centre de Droit Bancaire et Financier et le Geneva Finance Research Institute vous invitent à une Table Ronde:

ACTIONNAIRES & MANAGERS: QUI CONTRÔLE LES SOCIÉTÉS COTÉES?



*18 Novembre 2010 / 17h - 19h / Entrée Libre
Université de Genève / Unimail / salle MS160
Bd du Pont d'Arve 40 / 1211 Genève 4*

Inscription et renseignements: info@GFRI.ch

b. Press Articles

1. Au lieu de se diluer, les risques se sont concentrés (Campus, March 09)
 2. La Suisse ne doit pas être la seule à faire des concessions (Bilan, 11 March 09)
 3. La Suisse doit devenir la Silicon Valley de la finance mondiale (Bilan, 22 April 09)
 4. Nous devons expliquer la crise (Tribune de Genève, 29 April 09)
 5. Faire de Genève un centre de recherche spécialisé en finance (L'Hebdo, 30 April 09)
 6. Twisting the facts on active management (Financial Times. com, 09 May 09)
 7. Case for active management is actually strong (Financial Times.com, May 09)
 8. Rajna Gibson se lance (Private Banking, June 09)
 9. Nos universités sont à la traîne avec des salaires peu compétitifs (Agefi, 14 July 09)
 10. Active managers: lucky, skilful, or useless? (Financial Time.com, 21 Oct.09)
 11. Le monde de l'entreprise vu de l'Université (Tribune de Genève, 21 Oct. 09)
 12. Il faut que les fonds propres des banques atteignent 30% (Tribune de Genève ,11 Nov. 09)
 13. Imaginer des précautions contre les risques non anticipés (Agefi, 17, Nov. 09)
 14. La Suisse doit réduire la taille de ses grandes banques (Tribune de Genève 17, Nov. 09)
 15. Les banques doivent assumer elles-mêmes le coût des risques (Le Temps 18 Nov. 09)
 16. Les banques doivent renoncer à des activités (Agefi ,18 Nov. 09)
 17. L'éthique plus efficace que la réglementation? (T –Take it, 3 March 10)
 18. Tentatives de réglementation des bonus: le risque d'une impasse (Le Temps, 22 March 10)
 19. Les Suisses d'Exception (La Tribune de Genève, 27 March 10)
 20. On se focalise trop sur la possibilité de limiter les bonus (Le journal de l'UNIGE, March 10)
 21. Une Tête chercheuse en finance (L'Hebdo, 20 May 10)
 22. Emotions & activités à risques: Responsabilité croissante dans la finance (Agefi 26 Oct. 10)
 23. L'IT a contribué au développement de la finance (ICT Journal, 27 Oct. 10)
 24. L'enseignement de la finance fait débat (LeTemps.ch, 8 Nov. 10)
 25. Les Actionnaires montent en puissance (La Tribune de Genève, 17 Nov. 10)
 26. The Geneva Finance Research Institute - Quantitative Finance, Vol 10 (GFRI - Quantitative Finance, Vol 10, n9, Nov. 01, 953-056)
 27. Rajna Gibson étudie le poids économique de l'éthique en finance (Le Matin, 12 Dec. 10)
 28. Demystifying hedge funds (Why Geneva, Winter 10)
 29. Finance et Société (Banque et Finance – Le Magazine de la Place Financière Suisse, Dec 10)
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