

Turning over a New Leaf

Saying goodbye to the Duisenberg class of 2010 and ushering in a new class of talent for 2011



Miswin Mahesh, 2010 DSF Graduate

The seasons are changing and so are the students at Duisenberg school of finance. The class of 2010 has finished their classes, internships, theses and graduated on Friday, 8 October. Just a month earlier, the class of 2011 got underway with the new school year.

In this issue of the Duisenberg Review, we take a brief look back at the class of 2010 through an interview with two bright students, Miswin Mahesh and Michiel Knoers, about their internships.

The rest of the Review focuses on the new academic year and what 2011 holds in store.

...check out the interview as well as "Chiming in the 2011 Academic Year" on pages 2-3

Duisenberg school of finance gets € 1.9 million for Research

DSF to play an important role in making Amsterdam attractive for IFI's

On 1 September, the Dutch Ministry of Economic Affairs and the City of Amsterdam announced a grant of € 1.9 million to DSF to fund a new research department. The new department will focus on examining the psychology of economic decisions (behavioural finance) and on international rules

for the financial regulation. The grant is part of the Federal and City governments' strategy to make the city of Amsterdam more attractive for international financial institutions, in which DSF is expected to play a vital role in the coming years.

"Look High and Aim Higher"

A profile of Netherlands-America Foundation (NAF) – Duisenberg school of finance (DSF) Scholarship Winner, Linda Demiraj.

"I was born and raised in Tirana, Albania. I left home at the age of 18 to start a new beginning in New York City. The American Dream? Well, I wanted to make that dream a living example. I first went to high school, then college and I graduated with honours from Baruch College this past June."

...continue reading her story on page 6



Linda Demiraj

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Turning over a New Leaf

An Insight into the World of DSF Internships



Michiel Knoers (left) and Miswin Mahesh (right)

Their time as DSF students came to an end this October, yet what they accomplished while at DSF cannot be overlooked. In an interview, we showcase two talented students from the Class of 2010 and their forays into the 'real world' through internships – a culminating point of the DSF Master's programmes. In this article, we hear from: Michiel Knoers, 2010 graduate of the MSc in Risk Management programme, and Miswin Mahesh, 2010 graduate of the MSc in Corporate Finance and Banking programme.

Type a Cover Letter? That's so Conventional...

That's what Miswin Mahesh thought when applying for internships. "I was determined to express my creative and lateral thinking capacity to my future employer; therefore I drew, coloured and even scribbled on my cover letter. I don't type my cover letters – I hand write them and most often use crayons and pencils. My cover letters were never ever conventional!" While admitting this is a risky strategy when applying for an internship or job, Miswin wanted to work for a company which encouraged 'out of the box behaviour'. Other techniques he used when interviewing for internships was to engage the interviewers in debates or make bold, perhaps controversial, statements in the cover letters. He claimed in one cover letter that he "did not believe in half the corporate finance models that the industry used," and, in an interview that, "all of the current banking models and practices are ridiculous". Miswin's motive was to work with a company that would let him be a free thinker, allow him to experiment and be as creative as possible on the job. He was successful in getting an internship with Barclays Capital in London where he interned for 2 months.

The Traditional Route still has its Merits

Michiel Knoers, on the other hand, took the more traditional networking and application route and also successfully attained a good internship – at ING in Amsterdam. He made use of the networking opportunities DSF provided and approached Dr. Antoine van der Ploeg, who is a Risk Management Quant at ING, when he gave a professional seminar at DSF. As Michiel notes, "the contact culminated in my internship at the CMRM Trading Quants department at ING".

Real Time Tasks

In his internship Michiel "did research on improving the model calibration of the Heston stochastic volatility model ING uses for the pricing of exotic derivatives, as well as investigated the possibility and merits of implementing a stochastic volatility jump-diffusion model, primarily for risk management purposes." He was responsible for "providing an in-depth analysis of the implementation and calibration of both models," which also resulted in his Master's Thesis.

In Miswin's internship at Barclay's Capital in London, he analysed the biofuels market. Specifically, he was tasked with looking "at various generations of biofuels, existing production levels, trade routes and demand side and supply side subsidies in different countries." Miswin "built scenario models on various uptake scenarios for biofuels and, as the internship progressed, the team started placing greater trust on me and gave me tasks that involved greater responsibility." He got real time tasks with important deadlines from the other analysts in the team.

Both Michiel and Miswin enjoyed several highlights during their respective internships – both inside and outside the office. Michiel recounted how he was excited about being able to "contribute to the effectiveness of the risk management" at ING. He liked that he could take the skills he acquired during his studies and directly apply them to issues relevant to real financial institutions.

His particular experiment took over 500 hours of computer time to perform. "Analysing the results and writing conclusions based on these results was a challenge." Miswin shared the sentiments adding that "balancing work life and social life during an internship is a challenge."

DSF Preparation Tested in the 'Real World'

The courses and technical skills that DSF instills in its students in its Master's programmes are indeed valuable on-the-job, as both Michiel and Miswin acknowledged. Michiel commented how "a large part of the curriculum of the MSc in Risk Management programme was instrumental for his internship."

"Measuring and gathering information is never as straightforward as someone thinks. Moreover communicating a concept to others, such as convincing someone of the validity of a method is an important part of doing good risk management. Doing a thorough analysis is important but you should also be able to explain the methods to your peers."

Michiel Knoers

Communication is Everything

There are some things that cannot be taught in the classroom. Moreover, though, even some things which are learned in the classroom don't really make sense until you are on-the-job and dealing with it in reality.

In the case of Michiel, he learned a lot about "practical limitations" when implementing the academic skills gained from his studies. For instance, "Measuring and gathering information is never as straightforward as someone thinks. Moreover communicating a concept to others, such as convincing someone of the validity of a method is an important part of doing good risk management. Doing a thorough analysis is important but you should also be able to explain the methods to your peers." Miswin echoed the same, saying that a key lesson learned for him was: "communication is everything".

Both Michiel and Miswin secured positions with the companies where they interned – Miswin with Barclays Capital in London, where he is now a commodities analyst, specialising in global freight markets, iron ore markets, coal and oil; and Michiel, who is now working as a risk trainee in the CMRM Quant trading department in the ING Talent Programme in Amsterdam.

Chiming in the 2011 Academic Year

DSF Dean, Dirk Schoenmaker, and students from the 2011 class mark the opening of DSF's 3rd academic year at NYSE Euronext

While the official academic year began on 13 September, DSF already welcomed the new class of students to the school on 19 August. Prior to starting classes, students participated in a series of refresher courses, an intense finance 'bootcamp', and a variety of social events.

One of the new students, Ian Menezes, who studies MSc in Risk Management programme, commented that the "year has gotten off to a fantastic start, although it has been quite busy". Ian especially enjoyed the Introduction Days and particularly the boat trip during the SAIL Amsterdam event.

LLM in Finance and Law student, Marlise Seckel, echoes Ian's enthusiasm for the start of the school year. She highlighted the puzzle tour through Amsterdam with fellow students during the Introduction Days, as well as the ease with which "such a diverse group of people with many different nationalities" have gotten to know one another. Marlise is also impressed with the way "the professors have taken a real personal interest in their students and in their subjects."

The 2011 class is very international and full of promise. The students represent 18 nationalities. In addition, 40% of these students are female.



Moreover, although a Bachelor's degree is a minimum requirement, more than 50% of the 2011 class holds a Master's degree. Wim Touber, Programme Manager at DSF, remarked that it is "a privilege to welcome such a diverse group of young professionals on campus who come from Canada, South Africa, Mongolia, Armenia, Russia and Portugal, just to mention a few...".

How Do Big Banks Fail and What To Do About It?

DSF Hosts Eminent Stanford University Professor of Finance, Dr. Darrell Duffie, DSF's Dr. Prof. Enrico Perotti challenges him



Dr. Prof. Darrell Duffie

Attracting finance industry professionals and students from all over Europe to the WTC in Amsterdam on 8 September 2010 was leading financial economist, Dr. Prof. Darrell Duffie, Dean Witter Distinguished Professor of Finance at Stanford University. In an event hosted by DSF, Dr. Prof. Duffie spoke on the topic of 'How Big Banks Fail and What to Do About It' followed by a discussion with DSF's Dr. Prof. Enrico Perotti, Research Director at DSF, Professor of International Finance at the University of Amsterdam and a Research Fellow at CEPR in London.

Major Dealer Banks and the Issue of Liquidity

In his speech, Professor Duffie focused on the major dealer banks describing them as the centre of the "plumbing" of the financial system. He explained that his focus is currently on Big Banks, because they present a new phenomenon that hasn't been previously addressed.

The main question that professor Darrell Duffie addressed in his talk was "how liquidity of banks and other large financial institutions can dry up in a very short time, sometimes overnight." Professor Duffie estimated that anything between five and US\$20 trillion could be needed if there was a "run on the banks", and that the larger dealer banks remain one of the major points of weakness in the financial system. In their discussion following Duffie's presentation, Dr. Prof. Enrico Perotti paralleled Duffie's observations emphasising the crucial significance of increasing this lacking liquidity and capital in the financial system.

"The Devil is in the Detail"

Duffie and Perotti both acknowledged the need for the Basel 3 reforms and Duffie also noted the reforms currently proposed in the US Restoring American Financial Stability Bill are required, but Duffie also pointed out that a general lack of information remains a significant problem.

So, while Basel 3 proposals include setting liquidity coverage ratios, "banks don't know the 30-day liquidity coverage buffers needed, let alone overnight levels, which are becoming increasingly important. They also can't agree on what should be covered. Moreover, banks are reluctant to reveal the information they do have," Professor Duffie added. "The devil is in the detail."

New Ways Forward?

In Duffie's view, a new way forward is needed to mitigate what he described as "disruptive fire sales." He presented a number of policy implications, some of which he will include in his advice to financial leaders and government representatives, to be presented in New York later this year.

In outlining some of the areas for improvement, Professor Duffie specifically highlighted the role that central clearing could play in reducing risk as well as the risk posed by the increasing dependence on information technology (IT). In Duffie's opinion, this IT dependence causes the financial system to be extremely vulnerable to failures in hardware and software.

In his conclusion, Dr. Prof. Duffie acknowledged that, while the banking lobby would be extremely reluctant to accept any form of tax or charge to restrict short-term financing, clear safety standards need to be set in order to limit risk, without discouraging innovation in good products. His main policy proposals are to create a central clearing house for OTC derivatives, a dedicated repo lender, and improved segregation of client assets to mitigate runs by these counterparties. In addition, he advocated higher liquidity regulatory standards and the use of contingent capital, i.e. debt that is converted into equity when distress is triggered.



Dr. Prof. Darrell Duffie (left) and DSF Research Director, Dr. Prof. Enrico Perotti (right)

Improve Banks' Survival with Living Wills

By Charles Goodhart and Dirk Schoenmaker*



Charles Goodhart Emeritus Professor of Banking and Finance at the London School of Economics

In the aftermath of the financial crisis, there has been much concern about the massive bail-out costs. We believe that the authorities, under the exceptional circumstances in late 2008, had no choice but to support the financial system.

But, if anything, the handling of the current financial crisis has reinforced the-too-big-to-fail doctrine. So how can one reduce moral hazard and reduce expectations of future bail-outs?

We propose the use of living wills to curtail too-big-to-fail, perhaps even thereby allowing systemically important banks, such as Citigroup, Goldman Sachs or Barclays, to fail or, at least, to be unwound. The aim is to put in place, ex ante, conditions that would allow a wider range of options beyond having the whole bank rescued.

A Glaring Weakness

Living wills can play a vital role in the post-crisis world. Take the definition of a systemically important financial intermediary (SIFI). The set of systemic financial intermediaries overlap the set of cross-border financial intermediaries. So, a need to resolve a systemic financial institution in difficulties will imply an equivalent requirement for handling cross-border problems. Yet, when there was a need for such resolution in the recent crisis – for example, Lehman, RBS, Fortis and the Icelandic banks – the authorities, almost without exception, acted purely on the basis of narrow national interest. This gross incompatibility represents a glaring weakness in the world's financial system. So how do we proceed to reconcile the global, cross-border reality of SIFIs with national focus of regulation? Perhaps the solution is for cross-border SIFIs to complete a living will.

Key Elements of Living Wills

First, there should be discussions between the senior management of a bank and its supervisors about requiring a cross-border SIFI to simplify its often opaque structure, particularly to facilitate it being wound down in a really serious crisis. The living will will also require the bank to make contingent funding and de-risking plans to recover. Next, if that should fail, credible resolution plans should be drawn up to keep a bank alive, if needed. In the case of international banks, these plans could include a burden sharing mechanism for central banks (liquidity support) and ministries of finance (capital support). Third, a bankruptcy scenario might help to bring possible shortcomings to the forefront of attention.

Are Living Wills Sufficient Alone?

But we believe that living wills, though an essential future component of a satisfactory global financial system, will not be enough by themselves. In addition, there needs to be a common insolvency framework, should (parts of) an institution need to be put into liquidation. A major barrier, at present, is the patchwork of different legal structures, controlling such insolvencies, in all such countries. The insolvency procedure for international banks is currently a nightmare for depositors, creditors, and shareholders, but a paradise for insolvency lawyers.

A Cross-Border Insolvency Legal Regime

Could we not take this opportunity to devise, introduce and enact identical laws in all major countries? There are precedents; the acceptance in the law of many countries of the close-out netting clauses of an International Swaps and Derivatives Association master agreement for settling outstanding derivative contracts in the event of one of the parties' failure to make a payment or bankruptcy is one.

Even so, countries should dig into the legal nitty-gritty and design a common and credible cross-border insolvency regime for systemic banks, that is if countries really want to curtail the current too big – or, too complex – to fail practice.

Charles Goodhart is Emeritus Professor of Banking and Finance at the London School of Economics. This piece was co-authored by Dirk Schoenmaker, Dean of the Duisenberg school of finance.

*This article is presented as it appeared in The Financial Times on 9 August 2010

Agenda

Upcoming and Not to Miss

Upcoming Research Seminars/ Speaking Events:

The DSF seminar series this fall is very high profile. Here are some of the renowned international financial and economic academics you can expect to see and hear.



November 10, 2010:
David Laibson, Harvard

December 1, 2010:
Tarun Ramadorai, Oxford

December 2, 2010:
DSF Information Session & Mini-Master's Class

December 15, 2010:
Dirk Jenter, Stanford

For more information about the Duisenberg school of finance events, please visit our website: www.dsf.nl/home/events/upcoming_events

...continued from page 1 "Look High and Aim Higher"

Linda Demiraj is the winner of the NAF-DSF scholarship and a Master's student at DSF, pursuing the MSc in Corporate Finance and Banking.

Why DSF? Linda "wanted to explore more about European culture and its financial world." So, she set her sights on DSF, "because it perfectly fitted my profile of an ideal grad school: impressive faculty where each professor is an authority in his particular field, an intensive programme that embodies students with a competitive advantage in a competitive and ambitious financial world, with students of a high calibre of mind...as well as an exceptional staff always willing to help." After having started classes now, she admits that DSF has outdone her expectations.

Role Model

Linda has two role models, one being her mother. "She is a doctor and being a female doctor in Albania is a challenge - even nowadays - but by not giving up she has only achieved higher and higher." "Look high and aim higher" is one of Linda's mantras. She adds that "when you do look, make sure you see everyone as equally challenging. Building up differences is only for the weak. Knowledge knows no boundaries and people who understand this also understand that in a merit-based position, everyone is equal."

Linda speaks 5 languages and is an avid traveller, and prior to reaching DSF, Linda completed an internship at UBS Wealth Management in New York. She was at UBS for one year and professes it was the best work experience she had in New York.

Ambassador

When asked what she would kind of career she would like to pursue following completion of her studies at DSF, she remarked that she would like to perhaps go into sales and trading. Although, her plan is to first get an internship in this field, so that she can see how this career path fits with her expectations and needs.

Linda hopes to be able to take as much out of this year as she can; knowledge-wise, as well as experience or culture-wise. She also hopes this year is a path to success and fulfilment - not only for herself - but also for her classmates.

Angela Molenaar, Executive Director of the Netherlands-America Foundation wishes Ms. Demiraj much success in her studies and looks forward to a time when, on the basis of such, she will serve as ambassador for both the Duisenberg school of finance and the Netherlands-America Foundation.



NAF Exec. Director, Angela Molenaar (left)



Founded in 1921, the NAF is the leading bilateral foundation initiating and supporting high-impact exchange between the Netherlands and the United States. The NAF-DSF Scholarship is a result of NAF and DSF combining forces to offer an outstanding candidate the opportunity to study in one of its Master's in Finance programmes. The selected candidate receives a full tuition fee waiver worth € 26.000.

Are Corporate Boards Black Boxes?

According to DSF Professor and Chair of Corporate Governance, Jaap Winter, yes, they are indeed 'black boxes'. Yet, CEO of Akzo Nobel, Hans Wijers, disagrees.

At the opening of the 2011 Academic Year, held at ABN Amro Bank, Jaap Winter and Hans Wijers debated this point and herein is a summary of that stimulating September discussion.



According to DSF Professor and Chair of Corporate Governance, Jaap Winter.

Opening the Black Box

Professor Jaap Winter described the current state of corporate boards as complex, resembling a black box and called for the need to "open up the black box" to better understand their complexity. According to Jaap Winter, there are several key challenges facing corporate boards:

- **Board competence and financial expertise are closely related** as demonstrated in the recent financial crisis.
- **Group dynamics:** cohesion between board members and a sense of belonging to the group may lead to lesser divergent views.
- **Shared information bias:** the tendency to discuss information that all members know in common.
- **Anchoring:** chairmen usually frame discussions, and thereby exert much influence on the dynamics and outcomes of discussions.
- **The tradeoffs inherent in the CEO & Chairman duality:** unrestricted discretion vs. non-commitment of the Chairman.
- Board reviews should answer the question on whether **"there are undiscussables that are discussable"**.
- **Board performance reviews** are viewed as unsettling and threatening.

How can Academic Research provide Solutions?

Jaap Winter went on to say that academic research can provide solutions to the key challenges faced by corporate boards by conducting analysis aimed at understanding the complexity facing corporate boards. For instance, academics can jointly conduct board simulations with corporations which will serve as an observation environment. These simulations must create a realistic environment in order to mimic the complexity of real-world business issues. The results of such studies can then help to enforce board reviews in practice.



And according to Akzo Nobel CEO, Hans Wijers.

Boards are no Black Boxes

To dr. Hans Wijers boards are no Black Boxes and there is a bigger picture to consider. Companies are institutions and their success impacts on shareholders, society and employees. Therefore, few people are excited about using shareholder value as the single criterion of success. While good governance is necessary, it is not a sufficient condition for success. According to Hans Wijers, companies with good corporate governance can still fail and go bankrupt, and society will have to accept that.

Principles crucial to addressing the question whether boards are black boxes:

- Boards are effective when there is a shared vision, strategy, mutual trust.
- Key roles of non-executives are the appointment of key people.
- Cultural hygiene is important and, therefore, the opening of the company to non-executives is crucial.
- Diversity needs the right balance.
- Many key processes in companies are very transparent due to enormous reporting.
- Some level of restriction is required (even the soccer coach closes the door before a game).
- Maximum transparency can create the opposite of what is intended to be achieved.

To see the PowerPoint presentations of Jaap Winter and Hans Wijers, visit the Previous Events link on the DSF Events page from 13 September 2010: http://www.dsf.nl/home/events/previous_events

DSF's Expanding Synergistic Network with Industry

Houthoff Buruma and RBS become corporate partners of
Duisenberg school of finance

HOUTHOFF BURUMA

With over 300 lawyers, notaries and tax advisors, Houthoff Buruma is one of the largest legal service providers in the Netherlands and the first large legal service provider that becomes a corporate sponsor of DSF. Houthoff Buruma is leading in the area of Corporate and Finance, with its primary clients being banks and insurance companies.

According to Eddie Meijer, Managing Partner at Houthoff Buruma, "Duisenberg school of finance fits perfectly to our legal practise, of which Banking and Finance are a substantial part. The cooperation gives us the opportunity to contribute to the development of financial professionals." Not only does the partnership allow Houthoff Buruma the opportunity to influence programme design and development of joint activities at DSF, but the collaboration also enables Houthoff Buruma to recruit from the pool of Duisenberg students. The collaboration also raises awareness of Houthoff Buruma with the participation of its lawyers and executives in guest lectures hosted at the school.

Professor Dirk Schoenmaker, Dean of Duisenberg school of finance remarked that "in our pursuit of educating new leaders in finance, cooperation with companies is very important to us. We are therefore pleased we can announce our collaboration with a legal expert like Houthoff Buruma." DSF and the law firm signed a partnership for a period of three years.



Duisenberg school of finance is also very pleased to announce that, at the end of September, The Royal Bank of Scotland (RBS) confirmed that it will also become a corporate sponsor of DSF.

The Royal Bank of Scotland Group plc, through its subsidiaries, offers an extensive range of banking, investment and financial services to personal, commercial, corporate, and institutional customers in the United Kingdom, the United States, and internationally. The Royal Bank of Scotland Group plc was founded in 1727 and is headquartered in Edinburgh, the United Kingdom. DSF looks forward to cooperating with RBS in the coming years!

Introducing Florian Peters

New to DSF and Planning to Make a Visible Impact



Florian Peters is the new Research Fellow and Project Manager at DSF. He is the person behind the scenes, getting world renowned academics to speak at DSF. Additionally, he is responsible for producing top academic research at DSF, teaching some of the Master's classes, and facilitating broad communication of DSF's research activities and expertise.

Florian has a PhD in Finance from the University of Zurich (2009) and spent the past 2½ years as a visiting scholar and post-doctoral fellow in the Economics Department of UC Berkeley. Florian's research interests are in the fields of Corporate Finance, more specifically in Behavioural Corporate Finance, Corporate Governance and Executive Compensation.

He was attracted to DSF "because of its unique position at the intersection of academia and industry. In addition, DSF offers a young and dynamic environment that allows me to have a visible impact."

Join the New Student Communication Team on our Social Media Sites and share in the DSF Experience

View our **Facebook** page for regular updates on DSF activities and student commentary or see what our students experience everyday in the class room by joining us on **Twitter**.

Engage in forum discussions via **LinkedIn** or view our public debates and lectures on the Duisenberg **YouTube** Channel. You will also find our image gallery on the DSF **Flickr** account.

We look forward to seeing you there,

Srinivas Nemani, Lisette Beekman and Adelina Toader, DSF Class of 2011



Duisenberg school of finance

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