

PDM NETWORK *Newsletter*

JUNE 2009

Dear Partner, this *Newsletter* contains a list of the latest uploaded resources both in the documentation and in the event areas of the PDM Network website (www.publicdebtnet.org). The PDM Network has its main objective in the joint cooperation among its participants regarding the quantity and quality of information available on the website. So far, **it is very appreciated a stronger collaboration in this field, signalling to the Network Secretariat** any documents, news and events of interest at publicdebtnet.dt@tesoro.it.

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New Documents

PAPERS

Some Aspects Regarding the Role of Fair Value Accounting During the Current Financial Crisis (2009)

Huian Maria Carmen (University of Iasi)

The financial crisis that hit the American economy to its heart in September 2008, rapidly spreading all around the world, has generated strong debates on the use of exotic derivatives financial instruments and of fair value accounting. These themes that made front-page news all over again raised divergent opinions among bankers, insurance executives, auditors or politicians more or less affected by the crisis. This paper aims at reviewing the situation of financial markets, identifying the role and [...]

Review of Discrete and Continuous Processes in Finance: Theory and Applications (2009)

Meucci Attilio (Bloomberg ALPHA)

The author reviews the main processes used to model financial variables. He emphasizes the parallel between discrete-time processes, mainly used by econometricians for risk- and portfolio-management, and their continuous-time counterparts, mainly used by mathematicians to price derivatives. The author highlights the relationship of such processes with the building blocks of stochastic dynamics and statistical inference, namely the invariants. Figures and practical examples support intuition. Fully [...]

Risk Management Lessons from the Global Financial Crisis for Derivative Exchanges (2009)

Varma Jayanth Rama (Indian Institute of Management - IIM)

During the global financial turmoil of 2007 and 2008, no major derivative clearing house in the world encountered distress while many banks were pushed to the brink and beyond. An important reason for this is that derivative exchanges have avoided using value at risk, normal distributions and linear correlations. This is an important lesson. The global financial crisis has also taught us that in risk management, robustness is more important than sophistication and that it is dangerous to use [...]

Vega Control (2009)

Denson Nick, Joshi Mark S. (University of Melbourne)

The calculation of prices and sensitivities of exotic interest rate derivatives in the LIBOR market model is often very time consuming. One approach that has been previously suggested is to use a Markov-functional model as a control variate for prices and deltas but not vegas. The authors present a new approach that is effective for prices, deltas and vegas. It achieves a standard error reduction by a factor of 10 for the price of a five-factor, twenty-year Bermudan swaption, and of 5 for its [...]

Approximating Correlated Defaults for Credit Default Options and Swaps (2009)

W. R. Rosenthal Dale (University of Illinois at Chicago)

Modeling defaults is critical to pricing debt portfolio derivatives such as credit default options, collateralized debt obligation tranches and credit default swaps written on those tranches. However, correlated defaults have proven difficult to model. Improper or non-existent modeling of default correlations has caused multi-billion-dollar losses at numerous financial firms. The author proposes statistical approximations to model correlated defaults. The approximations are consistent and [...]

Secret Liens and the Financial Crisis of 2008 (2009)

Simkovic Michael (Harvard Law School)

This article explains the roots of financial crises in one of the oldest and most fundamental problems of commercial law: hidden leverage. Common law courts wrestled with this problem for centuries and developed a time-tested solution: the doctrine of secret liens. If the debtor becomes insolvent, the doctrine of secret liens punishes secret lien holders by subordinating their claims to those of other creditors. In other words, by overriding privately negotiated payment priorities, the [...]

India's Bond Market - Developments and Challenges Ahead (2009)

Schou-Zibell Lotte (Asian Development Bank), Wells Stephen (ICMA)

While India boasts a world-class equity market and increasingly important bank assets, its bond market has not kept up. The government bond market remains illiquid. The corporate bond market, in addition, remains restrictive to participants and largely arbitrage-driven. Securitization, which once had the jump on other Asian markets, has failed to take off. [...]

What Future for Disclosure as a Regulatory Technique? Lessons from the Global Financial Crisis and Beyond (2009)

Avgouleas Emiliios (University of Manchester)

Inadequate disclosure has been at the heart of most policy analysis of the global financial crisis. According to the inadequate disclosure critique, investors had insufficient information regarding the risks involved in structured securities, the flaws of credit ratings, and the impact of excessive executive compensation, all among the main causes of the recent financial market collapse. However, the global financial crisis has also exposed the many limits of disclosure as an effective regulatory tool in the context [...]

Handling the Global Financial Crisis: Chinese Strategy and Policy Response (2009)

Zhang Zhichao (Durham University), Li Wei (East China Normal University -ECNU), Shi Nan (Durham University)

The global financial crisis is hitting China hard with great adversity. In response, China start to formulated the plan for dealing with the financial crisis and its possible fallout in June 2008 when China was in the critical stage of putting up the Olympic Games. The Chinese leadership judges the crisis is going to be a serious disaster but not as bad as the great depression of the 1930s. An America-type crisis is unlikely to happen in the country and the main threat would be the Chinese real sector being dragged down [...]

Practical Policy Iteration: Generic Methods for Obtaining Rapid and Tight Bounds for Bermudan Exotic Derivatives Using Monte Carlo Simulation (2009)

Beveridge Christopher (University of Melbourne), Joshi Mark S. (University of Melbourne)

The authors introduce a set of improvements which allow the calculation of very tight lower bounds for Bermudan derivatives using Monte Carlo simulation. These lower bounds can be computed quickly, and with minimal hand-crafting. Their focus is on accelerating policy iteration to the point where it can be used in similar computation times to the basic least-squares approach, but in doing so introduce a number of improvements which can be applied to both the least-squares approach and the the Andersen-Broadie 2007. [...]

Government Intervention in Response to the Subprime Financial Crisis: The Good into the Pot, the Bad into the Crop (2009)

**Breitenfellner Bastian (Passau University),
Wagner Niklas (Passau University)**

The recent global financial crisis represents a major economic challenge. In order to prevent such market failure, it is vital to understand what caused the crisis and what are the lessons to be learned. Given the tremendous bailout packages worldwide, the author discuss the role of governments as lenders of last resort. In their view, it is important not to suspend the market mechanism of bankruptcy via granting rescue packages. Only those institutions which are illiquid but solvent should be rescued, and this should occur at a significant cost [...]

Does a Central Clearing Counterparty Reduce Counterparty Risk? (2009)

**Duffie Darrell (Stanford University),
Zhu Haoxiang (Stanford University)**

The authors show whether adding a central clearing counterparty (CCP) for a particular asset class, such as credit derivatives, improves the efficiency of counterparty risk mitigation and collateral demands, relative to bilateral netting between pairs of dealers. They show that, for plausible cases, adding a CCP for one class of derivatives such as credit default swaps (CDS) can actually reduce netting efficiency and thereby lead to an increase in collateral demands and average exposure to counterparty default. The authors also show that whenever it is efficient to introduce a central clearing counterparty, it cannot be [...]

Guilty by Association? Regulating Credit Default Swaps (2009)

Shadab Houman B. (New York Law School)

In response to what seems to be a need for greater regulation and oversight of credit default swaps (CDS), recently the Securities and Exchange Commission (SEC) promulgated exemptions and the House Agricultural Committee introduced a bill to have CDS cleared by a central counterparty. In addition, the SEC took action to facilitate the trading of CDS on an exchange and the House bill additionally seeks to enable the Commodity Futures Trading Commission (CFTC) to suspend [...]

An Overview of Credit Derivatives (2009)

Giesecke Kay (Stanford University)

Credit risk is the distribution of financial loss due to a broken financial agreement, for example failure to pay interest or principal on a loan or bond. It pervades virtually all financial

transactions, and therefore plays a significant role in financial markets. A credit derivative is a security that allows investors to transfer credit risk to other investors who are willing to take it. By facilitating the distribution of risk, these instruments have an important economic function. Yet they have hit the headlines [...]

Derivati e Enti Locali: Commissioni o Ipotesi Implicite? Il caso del Long Term Collar Swap (2008)

Mottura Carlo D. (Università degli Studi Roma Tre)

I contratti del tipo Collar Swap con scadenza a lungo termine rappresentano una tipologia di contratti derivati che è stata oggetto, in questi ultimi anni, di numerose operazioni di finanza derivata da parte di enti locali italiani. Nel lavoro si studia, dal punto di vista tecnico, il problema dell'esistenza e del valore della commissione implicita nel Mark-to-Market del Derivato quotato inizialmente dalla Banca e risultante dal contratto. [...]

IMF Public Financial Management Technical Guidance Note - Cash Management (2008)

Lienert Ian (International Monetary Fund – IMF)

The five sections of this note addresses the following main issues:

- What are the main objectives of modern cash management?
- What are good cash management practices in developed countries?
- What are the main features of the framework for short-term cash planning?
- What are the main challenges for improving cash management in low and middle-income countries?
- How should cash management reforms be sequenced [...]

Government Cash Management: International Practice (2009)

Williams Mike (Independent consultant)

Government cash management is important: poor practices and structures waste money, add to risk and complicate other financial policies. This paper reviews, against the background of practice in more developed countries, how emerging market and developing countries can strengthen their cash management arrangements. Cash management is distinct from budget management and execution. It is instead about ensuring that the government has the liquidity to execute its payments, [...]

The Emerging of A Multilateral Forum For Debt Restructuring: The Paris Club (2008)

Cosio-Pascal Enrique (UNCTAD)

The paper describes the evolution of intergovernmental relationships on debt rescheduling. It starts describing some experiences that aroused in the 18th Century and which negotiations were carried out, in many occasions, with the help of gunboat diplomacy. The settlement of liabilities that were created at the aftermath of the two 20th Century World Wars, which were – at least for some countries -- not exactly [...]

The Economics and Law of Sovereign Debt and Default (2008)

Panizza Ugo (UNCTAD), Sturzenegger Federico (Universidad Torcuato di Tella and Banco Ciudad), Zettelmeyer Jeromin (IMF and European Bank for Reconstruction and Development)

The paper surveys the recent literature on sovereign debt, and relates it to the evolution of the legal principles underlying the sovereign debt market and the experience of the most recent debt crises and defaults. It finds limited support for theories that focus on either external sanctions or exclusion from the international capital market and more support for explanations which emphasize domestic costs of default. The paper concludes that there remains a case for establishing institutions that reduce the cost of default, but the design of such [...]

OTHER WEB RESOURCES

Sovereign Debt Crises and Early Warning Indicators: The Role of the Primary Bond Market (2009)

OECD Development Centre

IMF Opens Central American Technical Assistance Center (2009)

IMF

World Bank teams up with Commonwealth Secretariat to help indebted countries (2009)

The World Bank and The Commonwealth

Indicative Calendar of Bonds and Bills Issuance in the EU 2009 (January - June) (2009)

Annual Reports & Guidelines: please go to the "Information Corner" on www.publicdebtnet.org

European Commission - Economic and Financial Affairs

NETWORK NEWS

Danmarks Nationalbank adjusts the temporary credit facilities by 1 October 2009

From Danmarks Nationalbank website
<http://www.nationalbanken.dk/dnuk/specialdocuments.nsf>

Capital Markets Weekly - 19 June 2009

From Crown Agents website
<http://www.crownagents.com/News/Item/Default.aspx?contentID=214>

Economic Bulletin 2/2009 by Ministry of Finance is published

From Treasury Finland website
<http://www.treasuryfinland.fi/Public/default.aspx?contentid=30288>

G8 and Africa

From G8 Summit 2009 website
http://www.g8italia2009.it/G8/Home/G8-G8_Layout_locale-1199882116809_G8_africa.htm%20da%20sito%20G8

Sovereign Debt Management Newsletter

From Storkey & Co website
http://www.storkeyandco.com/Newsletter/Newsletter_No33.pdf

Asia Capital Markets Monitor, a new annual publication from the ADB that assesses the status and challenges for the region's markets

From Asia Development Bank website
asianbondsonline.adb.org

Launch of the new European Primary Dealers Association (EPDA) website

From EPDA website
<http://epda.sifma.org/>

Events, Courses

UPCOMING

NEW

15 July 2009 - 15 July 2009; Rome
Cross-Country Causes and Consequences of the Crisis: Early Warning

27 July 2009 - 30 July 2009; Dhaka, Bangladesh
Regional Workshop on "Strengthening the Response to the Global Financial Crisis in Asia-Pacific: the Role of Monetary, Fiscal and External Debt Policies"

7 September 2009 - 16 September 2009; Slovenia, Ljubljana, Cankarjeva 18, Center of Excellence in Finance
Course - Monetary Policy and Exchange Rate Issues

18 October 2009 - 20 October 2009; Emirates Tower Hotel, Dubai, UAE
Middle East Capital Markets

PREVIOUSLY SIGNALLED

6 July 2009 - 17 July 2009; Freetown, Sierra Leone
Analysis for Sierra Leone

20 July 2009 - 30 July 2009; Banjul, The Gambia
Post-HIPC Debt Sustainability Analysis for The Gambia

20 July 2009 – 31 July 2009; Worthing, UK
New Challenges in Debt Management

20 July 2009 – 5 August 2009; Maseru, Lesotho
Application of Assets/Liabilities Management (ALM) framework for Debt and Reserves Management

3 August 2009 - 7 August 2009; Lagos, Nigeria
Comprehensive CS-DRMS 2000 + User Training Featuring latest version 1.3 & Security Auction System

7 September 2009 – 18 September 2009; Worthing, UK

Managing Risk and Developing a Debt Strategy

7 September 2009 - 15 October 2009; Online/Internet-based

Advance Risk Management

7 September 2009 - 16 October 2009; Online/Internet-based

Legal Aspects of Public Debt Management

10 September 2009 – 11 September 2009; Basel, Switzerland

Monetary Policy and Financial Stability

14 September 2009 - 30 October 2009; Online Course

Effective Public Debt Management

14 September 2009 - 30 October 2009; Online/Internet-based

Debt Rescheduling with the Paris Club

5 October 2009 – 19 October 2009; Worthing, UK

Advanced CS-DRMS User Training

12 October 2009 - 13 November 2009; Online/Internet-based

Fundamentals of the Bond Market

12 October 2009 - 16 October 2009; Lagos, Nigeria
Debt Recording for Sub-national Debt Management in Nigeria

26 October 2009 - 27 November 2009; On line/Internet-based

Audit of Public Debt

30 October 2009; Washington, D.C., USA
Estrategias para el manejo de la Deuda Pública durante la Crisis

2 November 2009 - 11 December 2009; Online/Internet-based

Basic Course on Public Debt Management

6 November 2009; Brussels, Belgium
EPDA's 4th Annual European Government Bond Conference

9 November 2009 – 18 November 2009; Lusaka, Zambia

Regional Dissemination and Training on UNCTAD - DMFAS 6.0

9 November 2009 – 11 November 2009; Palais des Nations, Geneva
Seventh International Debt Management Conference

16 November 2009 - 17 November 2009; Washington DC
Joint BIS/ECB/ World Bank Public Investors Conference 2009

30 November 2009 – 11 December 2009; Worthing, UK
Effective Domestic Debt Management

14 December 2009 - 18 December 2009; Joint Vienna Institute
Workshop on Debt Management Performance Assessment Tool and Debt Sustainability Framework

Article in Review

OECD Sovereign Borrowing Outlook 2009 (2009)
Blommestein Hans J., Gok Arzu

New Challenges in the Use of Government Debt Issuance Procedures, Techniques and Policies in OECD Markets (2009)
Blommestein Hans J.

The PDM Secretariat is grateful to Emmanuelle Roux (SIFMA), Enrique Cosio-Pascal (consultant, Public Debt Finance), Michele Robinson (consultant, Debt Watch – Caribbean) and Hans Blommestein (OCDE) for their resource contribution.

Communication Corner

e-LEARNIG COURSE MATERIALS

It is a pleasure for us to inform our partners that the PDM network website is hosting material from **e-learning course “Audit of Public Debt”** organized by UNITAR thanks to Enrique Cosio-Pascal contribution. This course is downloadable from the learning area in the “Information corner” and is oriented toward those auditors that would be participating to internal or external audit of public debt management.

NEW WEBSITE AREA

The Network’s website home page (public version) includes a *new area* called **“Information corner”**. In this section, all Partners and other internet users can find organised information on specific topics of public debt management: Statistics, Bond Auctions, DMOs Programmes and Reports, Learning area, Monthly Newsletters.

E-MAIL NOTIFICATION SERVICE FOR PARTNERS

We are glad to remind that a **notification service** is provided on the Network website for Partners. By this service, they will receive an e-mail when a new document or event is uploaded onto the website in the category of their choice (i.e. primary market, secondary market, or other categories or macro-categories). To activate the service Partners should access in the *private area* of the website and choose the “GO” button in the “Mailing List” box. They can click on the categories they are interested in and, after clicking again on “subscribe” they will receive an email whenever a new document is uploaded in the preferred category. For any assistance contact the PDM Secretariat at Publicdebtnet.dt@tesoro.it

Participating Institutions in PDM Network

OECD: Australian OFM, Austrian DMA, Belgian DMA, Belgian Central Bank, Canadian Foreign Affairs and International Trade, Czech Central Bank, Czech MoF, Danish DMO, Danish Central Bank, Dutch Central Bank, Dutch DMA, Dutch MoF, Finnish Treasury, Finnish MoF, French Central Bank, French DMA, French MoF, German Central Bank, German MoF, German FA, Greek DMA, Greek MoF, Greek Central Bank, Hungarian DMA, Hungarian MoF, Icelandic DMA, Irish NTMA, Irish MoF, Italian Central Bank, Italian MoF, Italian Development Co-operation Office, Japanese MoF, Japanese Central Bank, Luxembourg MoF, Mexican MoF, New Zealander DMO, Norwegian MoF, Polish MoF, Polish Central Bank, Portuguese Central Bank, Portuguese DMA, Slovak MoF, Slovak DMA, Spanish Central Bank, Spanish MoF, Swedish DMO, Swedish MoF, Swiss State Secretary for Economic Affairs SECO, Turkish Treasury, US GAO, , UK Central Bank, UK DMO, UK Treasury.

Non OECD: Albanian MoF, Angolan National Bank, Brazilian MoF, Brazilian Central Bank, Bulgarian MoF, Chilean Central Bank, Chinese MoF, Colombian MHCP, Cyprian Central Bank, Cyprian MoF, Dubai DMO, Dubai Government, Egyptian MoF, Estonian MoF, Ethiopian MoF, Ghanaian Central Bank, Ghanaian MoF, Hong Kong Monetary Auth., Indian Reserve Bank, Indian NIPF, Israeli MoF, Israeli Central Bank, Kenyan MoF, Latvian DMO, Lebanese MoF, Lesotho MoF, Lithuanian MoF, Macedonian MoF, Malawian Reserve Bank, Maltese Treasury, Maltese Central Bank, Moldovan MoF, Moroccan MoF, Nigerian DMO, Pakistani MoF, Papua New Guinean Treasury, Romanian MoF, Romanian Central Bank, Rwandan MoF, Singaporean MoF, Slovenian MoF, Solomon Islands MoF, South African National Treasury, Sri Lanka Central Bank, Thai MoF, Ugandan Central Bank, Uruguayan MoF.

Multilateral Institutions: OECD, European Commission, ADB, African Development Bank Group, Asian Development Bank Institute, Debt Relief International, Commonwealth Secretariat, European Central Bank, European Bank EBRD, Inter-American Development Bank, IFC, International Monetary Fund, MEFMI, WAIFEM, World Bank, UNCTAD.

Universities: Columbia University, George Washington University, Harvard University, London Business School, Stanford University, University of Bologna, University of Brussels, University of Cambridge, University of California, University of Milan, University of Molise, University of Padua, University of Rome "La Sapienza", CRIEP (Italy), University of Rome "Tor Vergata".

Others : Barclays Capital, Center of Excellence in Finance, Devfin Advisers AB, Finance for Development-FMO, ICMA, ISEDA, KFW Bankengruppe, Japan Bank for International Cooperation, McKinsey & Company, Inc. International, Michele Robinson Consult, Oxford Policy Management, Pragma Corporation, Public Debt Finance, Reykjavik Academy, Sifma-Epda, Storkey & Co. Ltd. ,

Some Figures...

On 6th July 2009, the number of documents available on the PDM Network website is 742.