

# Department of Finance

## Faculty of Economics and Commerce

## Editorial

Welcome to a new year and another edition of Taking Stock, the biannual newsletter for finance honours and postgraduate alumni. In this edition: we farewell outgoing Head of Department Prof Rob Brown and welcome Prof Paul Kofman to the role; we acknowledge the high achievers from our 2005 graduating cohort; and welcome our 2006 cohort of enthusiastic postgraduate students.

The Department of Finance encourages the development of valuable professional and personal networks by fostering our Department's alumni. Membership of the Department's alumni is automatic for students graduating with Honours in Finance as part of a Bachelor of Commerce or completing Postgraduate studies in finance. To ensure you continue to be a part of this growing professional network providing access to current developments across the finance industry both locally and worldwide, ensure your contact details are kept up to date. You can revise your contact details at any time by sending an email to [fin-alumni@unimelb.edu.au](mailto:fin-alumni@unimelb.edu.au)

We hope you find this issue a worthwhile and enjoyable read. Essentially, this publication is targeted to you as an alumnus and we encourage you to forward us a story of interest or your professional profile to feature in an issue. Any ideas or suggestions for future publications are welcomed, and can be sent to [fin-acadserv@unimelb.edu.au](mailto:fin-acadserv@unimelb.edu.au)

Kind regards,

Silvia Barberoglou and AnnMaree Murray,  
Academic Liaison Officers

## Department Update



Paul Kofman

Head of Department

A new face to welcome you to this first newsletter for 2006. After four and a half years of steering the Department through turbulent waters, Professor Rob Brown decided to return to his academic research interests and pass on the headship. Rob has overseen tremendous growth in student and in staff numbers. At the same time, our undergraduate curriculum was significantly expanded offering new streams in personal finance and real estate finance, but perhaps most importantly, we now offer a first year introductory finance subject. Our

BCom students finally have an opportunity to sample the delights of our discipline before embarking on a finance specialisation. In its first full year on offer, Finance I attracted over 1,100 students - despite the fact that this is an elective subject. Other notable features of Rob's tenure as Head include substantial growth in research output, research grant success, and very positive outcomes from successive department audits and an external expert review by Professor Stephen Brown (NYU). On behalf of the Department of Finance, I would therefore like to thank Rob for these outstanding achievements and his unrelenting pursuit of excellence in our teaching and research of finance.

By now, you may have heard about the University of Melbourne's strategic plans (also known as Growing Esteem). These plans impose significant challenges to our Faculty, and more directly to our Department. Intended changes to the undergraduate courses are likely to affect the choices available to our students and the specialisation we can offer them. An increased emphasis on postgraduate teaching may affect the current suite of professional programs and possibly even our Honours program. Little detail is known yet, but rest assured that the Department (and the Faculty) will do all it can to retain our prestigious programs, designed to deliver the very best educated finance professionals. The strategic plans also have research implications. Every department is expected to demonstrate its research leadership in its discipline. Our Department is well placed to satisfy this requirement as we have been benchmarking ourselves for the past three years against our direct competitors in Melbourne, Australia, and the Asia-Pacific region. The final strand of Growing Esteem involves the transfer of knowledge (also dubbed: Gown comes to Town). Our Department welcomes this initiative, as we have been making significant strides to bridge the gap between finance practice and academia in the past few years. Our joint venture, the recently established Melbourne Centre for Financial Studies (MCFS), has been tremendously successful in hosting events that were attended by large numbers of practitioners as well as academic researchers. Recent MCFS events included workshops on topical issues like operational risk, credit risk, corporate finance and funds management.

Other, somewhat less confronting, news includes a string of recent prestigious visitors to our Department. During February and March, we were particularly pleased to host Professors Richard Stapleton (University of Manchester), Marti Subrahmanyam (NYU - Stern), Kose John (NYU - Stern), Allan Timmermann (UC San Diego), Paul Embrechts (ETH - Zurich), and Renee Adams (Stockholm School of Economics). They each presented papers, discussed research with our staff and research students and participated in downtown activities. Such high calibre visitors certainly make for a vibrant and exciting research environment.

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# Honours Update



**Ian O'Connor**

2006 is the busiest year ever for Finance Honours. With 46 students enrolled in the program, development of research proposals has kept staff busy discussing ideas, and students under pressure writing drafts of the proposal. Most students had the triple challenge of 4 first semester subjects, development of the research proposal, and 2 or 3 weeks of continuous job interviews. Proposal presentations were made over 2 days in late May.

After the presentations, a number of students were keen to obtain nomination to the University of New South Wales Honours Colloquium to be held in August.

On the research side, Tak Jun Tan, Finance Honours 2004, has achieved forthcoming publication of "The Effects of Financial Constraints on Corporate Policies in Australia" in Accounting and Finance. This work was assisted by the Kinsman Program and is coauthored by Xin Chang, George Wong, and Hongfeng Zhang.

Later in the year, look out for more information on the 2006 Honours Alumni annual dinner to be held on a Friday evening in August. Further details will be mailed to Alumni, and available from the Finance Honours web site.



**2005 Honours medal winner: Regina Sari Basuki**



**Some of our Honours 2005 class**



# Professional Programs Update

## MAF and MFM - our dynamic duo



**John Handley**



**Sean Pinder**

Demand for the department's suite of professional programs, including the Postgraduate Diploma in Finance, Master of Financial Management and the Master of Applied Finance, continues to be strong, particularly from international applicants. Whilst this is at least partly attributable to the Times Higher Education Supplement's ranking of the University of Melbourne as the number one university in Australia, we are also encouraged to learn from many of our new students that it is the feedback they had received from alumni from our own department that encouraged them to choose Melbourne. It is timely then for us firstly to thank you for supporting us in this way, and also to assure you that we will continue to safeguard the quality and reputation of the degrees we offer. A point of difference of each of our professional degrees is that they have significantly greater entrance requirements than any other comparable degree in the region; with the Master of Financial Management requiring significant prior studies in finance at the undergraduate level and the Master of Applied Finance requiring at least two years of work experience in a position of financial decision-making or

financial analysis. The application of these standards ensures that we can commence our programs at a much more advanced academic level whilst providing a more professional rewarding experience than would otherwise be the case.

A pleasing development this year has been the department's continuing interaction with industry practitioners. As an example of this, students from a suite of corporate finance-orientated subjects were recently invited to attend the Corporate Finance in Action lecture series. Representatives of Deutsche Bank AG were on hand on Thursday 11th May to present Demergers - the theory and the practice in which they highlighted the theory/practice interface by walking the audience through a number of different deals that the presenters had been personally involved in. This was followed up by another presentation on the 25th May by representatives of JPMorgan (who also happened to be Department of Finance alumni!). This presentation provided an overview of the operation of M&A markets, debt capital markets and equity capital markets with an emphasis, once again, on actual deals worked on by the presenters. Another development that we have been pleased with is the greater involvement of our existing cohort with the Financial Management Association of Australia, which is a student organization with very strong links to many of the major potential employers in the finance sector.

We thank you all once again for your continuing support for our programs and will keep you informed of future developments.

John Handley and Sean Pinder

# Research Programs Update



**Greg Schwann**

While I often use this space to write about the state of the MCom and PhD programs in finance, in this issue I would like to do a little shameless self-promotion of our PhD program. This is because we are rather proud of it. The department has one of the best PhD programs in finance in Australia. It attracts applicants from around the world and we accept only the best applicants. This is reflected in the high proportion of our PhD candidates, about 50%, who receive top scholarships from the University of Melbourne.

There is one area we should do better in - attracting Australian students for the PhD. Our difficulty in attracting Australian PhD students is a reflection of the success of our undergraduate and masters students in finding exciting and well paying positions in the finance industry. This is as it should be. Yet, for the few who might want a scholastic career, we are making it easier by offering The University of Melbourne, Australian Finance PhD Scholarship. The scholarship is valued at \$40,000 per year and is open to Australian and New Zealand students or permanent residents to study full-time towards a PhD in finance at The University of Melbourne. We expect our scholarship holders to be future academic leaders. They must demonstrate high scholastic achievement and be driven to answer questions at the frontier of finance.

In addition to this scholarship, the department offers financial aid to all PhD students in the form of the Melbourne Finance Guarantee:

Students studying full-time toward a PhD in Finance at the University of Melbourne, Australia are guaranteed a minimum living stipend of A\$18,660 (2006) per year. For international students, the Department of Finance also guarantees the payment of their University of Melbourne PhD tuition fees (A\$23,520 per year in 2006).

For more information on all out financial aid packages for PhD students, see our website:  
<http://www.finance.unimelb.edu.au/research/PhD/financialphd.html>.

## Staff

We warmly welcome the following staff who have visited the Department of Finance in 2006 so far.

**Michael Ch'ng** Melbourne PhD alumnus currently employed at Monash University. His research interests are in market microstructure and market design.

**Dr Sean Cleary** from Sobey School of Business, Saint Mary's University in Canada. A visitor of the Melbourne Centre for Financial Studies, Dr Cleary has published in major journals, published a number of text books and teaches numerous finance courses. His research expertise is in corporate finance.

**Dr Daniel Rösch** from the University of Regensburg in Germany.

**Dick Stapleton** from Manchester University in the UK.

**Marti Subrahmanyam** Charles E. Merrill Professor of Economics and Finance from New York University, Leonard N. Stern School of Business.

# Research in Focus

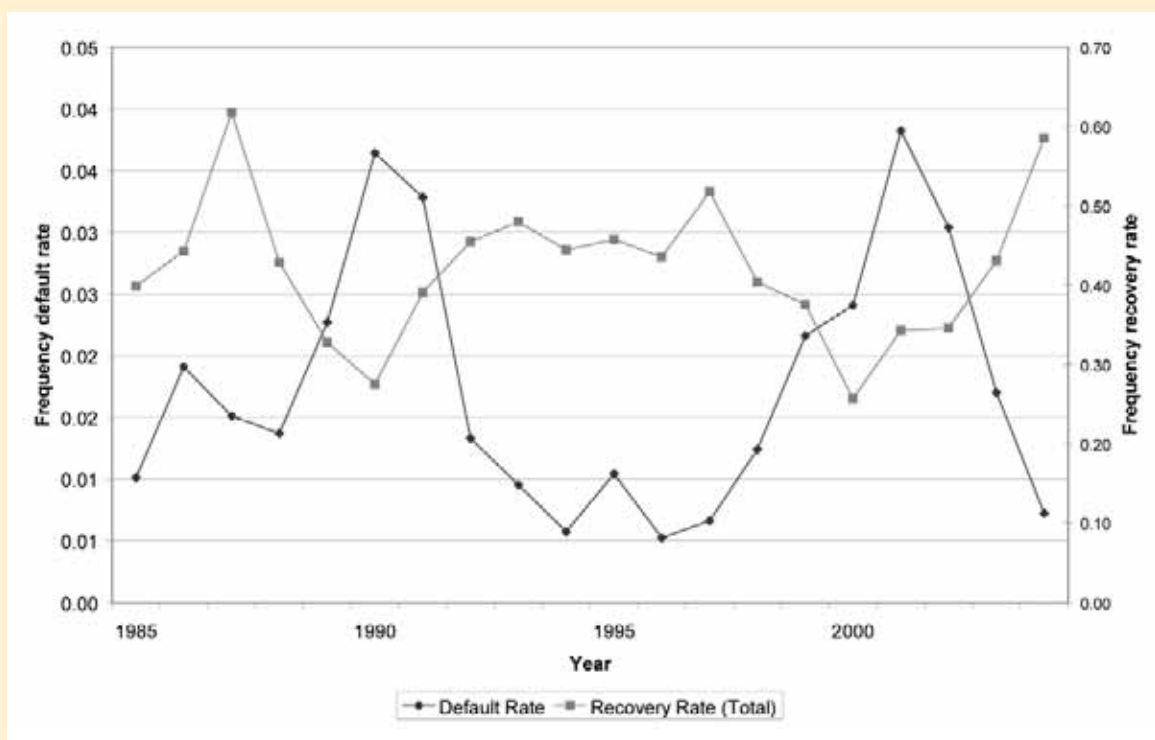
A Multi-Factor Approach for Systematic Default and Recovery Risk

(2005, Journal of Fixed Income, 15 (2), pp. 63-75)

Daniel Rösch and Harald Scheule

Banks face the challenge of forecasting losses in relation to their loan exposures. It can be observed that most banks quantify the likelihood and severity of loss (default) events in independent modules. Likelihood may be measured by the default rate and severity by the recovery rate of a risk segment. A recovery rate can be interpreted as the value of a loan after the occurrence of a default event. The following chart shows that both parameters are driven by the economy and therefore change overtime with the business cycle:

Exhibit: likelihood vs. severity of credit losses (source Moody's Investor Service)



It can be seen that in years with low (high) default rates, banks can recover a higher (lower) proportion of the outstanding loans to their defaulted customers. The observation has important implications with regard to the 'state of the art' assumption of independence between the parameters, since it fails to take the business cycle driven dependencies into account. Future losses and the economically required capital to compensate these losses will be underestimated which may translate in a higher risk of bank failures. The latter is a major concern of banking supervisors such as the Australian Prudential Regulatory Authority (APRA).

The research was based on a collaboration between the University of Regensburg in Germany and The University of Melbourne. Using an empirical data set for US corporate bond issuers the research proved our earlier observation that likelihood and severity are negatively correlated. Models which take the state of the economy into account as well as a general incorporation of the correlation between the risk measures increase a bank's economically required capital to more accurate levels. These models are known as point-in-time models and will most likely increase in popularity.

Dr Harald Scheule

# Recent PhD Completions

## En Te Chen

Completed 7th March 2006

Initial Public Offering and Use of Funds

## George Lap-Bun Wong

Completed 31st January 2006

Risk Aversion and Conservatism

# Department of Finance Welcome Function

Friday March 3, 2006

The Department of Finance recently welcomed commencing postgraduate students at a function at University House. The event was an opportunity to recognise outstanding achievement and for staff and new students to meet informally before embarking on their studies. Visiting Professorial Fellow Richard Stapleton presented awards to our top 2005 students in Honours, Master of Financial Management and Master of Applied Finance. The function was attended by Departmental staff as well as present and past research and coursework postgraduate students.



**MAF medal recipient  
Chris Trevillyan  
receiving his award from  
Professor Dick Stapleton**

**MFM medal recipient  
Dina Marietta,  
MFM Program Director  
Dr Sean Pinder (left)  
and Head of  
Department  
Professor Paul Kofman**



# Alumni



**Kevin Yeo**

## Where are they now?

As a Performance Analyst with the National Bank of Australia, my current role entails aspects of investment evaluation such as measurement, attribution, risk analysis, and mandate compliance of superannuation funds. Prior to my employment with NAB, I was a Consulting Tutor with the Department of Finance.

I chose to undertake the Master of Financial Management (MFM) after a year working with Citibank to extend my career in the finance industry and The University of Melbourne was my preferred choice given its international reputation of teaching and research excellence.

The flexibility of the program has allowed me to tailor my course specialization to my career choice. The range of subjects offered was diverse and up-to-date with strong emphasis on industry practice. Group work was a large part of the coursework and this provided me with the opportunity to work with fellow students from a diverse range of backgrounds.

The Department caters well for part-time students with many night classes and provides extensive financial database (such as Bloomberg and IRESS) in facilitation of research.

Furthermore, concepts acquired from subjects such as Financial Spreadsheets, Quantitative Analysis and Fixed Interest & Options was an invaluable input in my day-to-day role of evaluating fund manager performance.

Completing the MFM at The University of Melbourne truly was a rewarding experience. I believe that the MFM qualification has increased my marketability in the competitive field of financial services and would highly recommend this course to anyone wishing to develop their career in the field of banking and finance.



The Financial Management Association of Australia (FMAA) would like to extend an invitation to past Melbourne committee and sub-committee members to join the FMAA Alumni.

If you are a past committee or sub-committee member, could you please contact Vivien Chan at [vivien.chan@fmaa.com.au](mailto:vivien.chan@fmaa.com.au) or ring on 8344 4981. For more information, please visit our website at [www.fmaa.com.au/melbourne](http://www.fmaa.com.au/melbourne).

We look forward to hearing from you.

# Department of Finance Awards

## 2005 Department of Finance Excellence Awards

### Honours Medal

Regina Sari Basuki

### Master of Financial Management Medal

Ms Dina Marietta

### Master of Applied Finance Medal

Mr Chris Andrew Trevillyan



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