RISK GOVERNANCE & CONTROL: Financial markets and institutions

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CONTENTS

Editorial 4

CURRENT EXPOSURE METHOD FOR CCP'S UNDER BASEL III 7

Antonie Kotzé, Paul du Preez The paper was extracted

Exposure-at-default is one of the most interesting and most difficult parameters to estimate in counterparty credit risk. Basel I offered only the non-internal Current Exposure Method for estimating this quantity whilst Basel II further introduced the Standardized Method and an Internal Model Method. Under new Basel III rules a central counterparty is defined as being a financial institution. New principles set out by the Basel Committee on Banking Supervision forces Central Counterparties in using the Current Exposure Method when estimating the credit exposures to Clearing Member banks notwithstanding its shortcomings. The Current Exposure Method relies on the Value-at-Risk methodology and its characteristics are discussed in this note. We will particularly investigate exposures to SAFCOM, the South African clearing house and point to a mathematical discrepancy on how netting is effected through the Basel accord.

IMPLEMENTATION OF SOUTH AFRICAN NATIONAL CREDIT ACT AND ITS IMPACT ON HOME LOANS MARKET: THE CASE OF FIRST NATIONAL BANK 18

Bathmanathan Vasie Naicker, Md. Humayun Kabir

Since it has been observed that credit granting is a serious problem across the entire credit market, South Africa introduced National Credit Act 34 of 2005 in order to regulate the credit industry and protect credit consumers from becoming over-indebted. The study highlights and examines the implementation of the Act in relation to the South African home loans market, focussing on First National Bank home loans portfolio. The study documents that the current state of consumer indebtedness shows that both credit institutions and consumers were responsible for over extending retail credit. The study noticed that credit industry has significantly managed to regulate the retail credit through the implementation of the Act. Furthermore, the study finds that a new stakeholder such as a debt counsellor has been introduced into the retail credit value chain for debt counselling for over-indebted clients. However, the study recommends that internal forums within banks as well as industry-wide forums should be used in order to ensure that the implementation of a regulation that impacts the entire credit industry is implemented with all stakeholders to limit any possible misinterpretation of key sections of a new regulation.

CORPORATE GOVERNANCE IN BALKAN FINANCIAL INSTITUTION, CASE OF ALBANIA **30**

Rezart Dibra, Jetmir Bodini

This paper focuses on one line of investigation—the corporate governance of banks. It examines why governance of banks differs from governance of nonfinancial firms and where the governance of banks failed during the crisis; it also offers recommendations for improving the governance system. The purpose of this paper is to make such connections and ground the policy debate on scientific evidence.

THE AUSTRALIAN STOCK MARKET DEVELOPMENT: PROSPECTS AND CHALLENGES **39**

Sheilla Nyasha, NM Odhiambo

This paper highlights the origin and development of the Australian stock market. The country has three major stock exchanges, namely: the Australian Securities Exchange Group, the National Stock Exchange of Australia, and the Asia-Pacific Stock Exchange. These stock exchanges were born out of a string of stock exchanges that merged over time. Stock-market reforms have been implemented since the period of deregulation, during the 1980s; and the Exchanges responded largely positively to these reforms. As a result of the reforms, the Australian stock market has developed in terms of the number of listed companies, the market capitalisation, the total value of stocks traded, and the turnover ratio. Although the stock market in Australia has developed remarkably over the years, and was spared by the global financial crisis of the late 2000s, it still faces some challenges. These include the increased economic uncertainty overseas, the downtrend in global financial markets, and the restrained consumer confidence in Australia.

FINANCIAL CONTROLLING IN NON-PROFIT ORGANIZATIONS. THE CASE OF SLOVAK REPUBLIC **49**

Gabriela Vaceková

The aim of financial controlling is to secure liquidity and financial stability of an organization. It is very important especially for NPOs. They are not founded primarily for the purpose of making profit, so their financial policy gives priority to continuously provide liquidity. The paper presents partial results of a pilot primary research of utilization of financial controlling tools in governmental and non-governmental non-profit organizations in the conditions of Slovak Republic. Primary data were obtained by the sociological method of a structured questionnaire. The analysis was carried out by adequate mathematical and statistical methods for processing qualitative data and ordinal variables. The presented paper provides a new insight into the studied problem while generating a primary information basis for further scientific study and research work in this field.

EXCHANGE CREDIT RISK: MEASUREMENT AND IMPLICATIONS ON THE STABILITY OF PARTIALLY DOLLARIZED FINANCIAL SYSTEMS **58**

Ernesto Mordecki, Alejandro Pena, Andrés Sosa

Some emergent economies present a high financial dollarization in loans and deposits, generating a specific risk in the banking activity. We quantify this exchange credit risk as the price of an option equivalent to this loan, and discuss the financial stability implications due to the (implicit) issuance of these options. The exchange rate is modeled through a Levy process. The depth of the market depends on the type of the currencies involved. Whenever possible, we depart from option prices to calibrate a model, like in the EUR/USD market. But if the market is not liquid, as the USD/UYU market, we provide alternative pricing methodologies.

SUBSCRIPTION DETAILS **73**