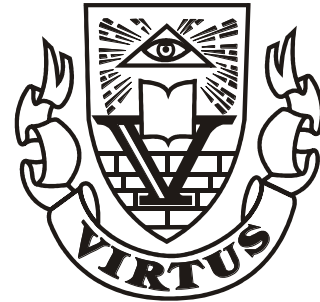


RISK GOVERNANCE & CONTROL: Financial markets and institutions

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**THE EFFECTIVENESS OF R&D SUPPORT IN ITALY.
SOME EVIDENCE FROM MATCHING METHODS** 7

Francesco Aiello

In this study several matching procedures have been used to evaluate the impact of public R&D support received by Italian manufacturing firms over the three-year period 2004-2006. Data are from the Capitalia-UniCredit survey and estimations refer to a sample of 605 treated firms (untreated are 2414). The evidence is mixed and depends on the objective-variable under consideration. As far as the total amount of R&D investments is concerned, the role of public support to innovation is positive and significant, while no impact has been found when considering the R&D intensity and the share of sales due to innovative-products. These differences in results are quite regular, whatever the matching method applied in the evaluation.

**BANKS' INTERNAL CONTROLS AND RISK
MANAGEMENT: VALUE-ADDED FUNCTIONS IN
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Rosaria Cerrone

A critical component of safe and sound bank management is constituted by an effective and efficient system of internal controls, which help to ensure that the goals and objectives of a bank will be met, that long-term profitability targets will be achieved, and maintain reliable financial and managerial reporting. Such a system can also ensure that the bank will comply with laws and regulations as well as policies, plans, internal rules and procedures, and decrease the risk of unexpected losses or damage to the bank's reputation.

The paper describes the essential elements of a sound internal control system and through a qualitative approach, it shows how is tied to the rules attaining capital requirements and, above all, to the purpose of the Internal Capital Adequacy Assessment Process (ICAAP) which aims at determining the adequate capitalisation of a bank given the risks endured as well as future risks arising from growth, and new business lines. After the recent financial crisis ICAAP is becoming more and more relevant and a central component of an effective strategy for managing risk and creating value. All principles and considerations are referred to Italian Credit Cooperative Banks particular both for dimension and for governance and risk management. They have been contacted through local federations and the results confirm the existing of weakness in internal controls.

CASH TO ACCRUAL ACCOUNTING: DOES IT MEAN MORE CONTROL FOR THE PUBLIC SECTOR? THE CASE OF REVENUE FROM NON-EXCHANGE TRANSACTIONS 28

Francesco Capalbo, Marco Sorrentino

Within the New Public Management, a fundamental role is played by changes in accounting measurement and recognition systems (in this case, the literature speaks specifically of New Public Financial Management). It has been substantially characterized by a gradual shift from cash to accrual accounting. In light of it, this paper aims to analyse some of the most significant conceptual and practical implications associated with the use of accrual accounting in the public sector – such as Italy’s, where most entities still use cash accounting – by looking closely at that full-accrual standard that seem to best show the system’s innovative reach: *IPSAS 23 – Revenue from Non-Exchange Transactions (Taxes and Transfers)*. The switch-over broadens the scope of the accounting system, thereby leading to the *recognition* and *consequent valuation* of all the resources of any public-sector entity in its financial statements. As is often the case, though, greater utility implies greater complexity and innumerable elements of uncertainty are evidently still present.

INTRODUCING RISK MODELING IN CORPORATE FINANCE 36

Domingo Castelo Joaquin, Han Bin Kang

This paper aims to introduce a simulation modeling in the context of a simplified capital budgeting problem. It walks the reader from creating and running a simulation in a spreadsheet environment to interpreting simulation results to gain insight and understanding about the problem. The uncertainty lies primarily in the level of sales in the first year of the project and in the growth rate of sales thereafter, manufacturing cost as a percentage of sales, and the salvage value of fixed assets. The simulation is carried out within a spreadsheet environment using @Risk.

AN ECONOMIC ANALYSIS OF THE EUROPEAN COMMISSION’S PROPOSAL FOR A EUROPEAN ACCOUNT 45

Nicolas Kyriakides

This paper performs an economic analysis of the European Commission’s proposal for a European-wide preservation order. Bentham’s utilitarianism theory suggests that legislators must take into mind the pleasures and pains associated with any legislation and to form laws in order to create the greatest good for the greatest number. These ideas are reflected in the modern economic theories of welfare economics. But are these principles sufficient to create effective legal rules and achieve justice? Section 2 of this work analyzes the difficulties in obtaining a provisional measure to preserve another party’s assets in another Member State of the European Union (“EU”). Section 3 sets out the Commission’s proposal for a European Account Preservation Order (“EAPO”). Section 4 applies welfare economics principles in order to identify the effect of legal rules related to this proposal, while it proposes an alternative approach to these principles. Lastly, section 4 makes suggestions on the proposal based on this alternative approach.

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