



Centennial Conference Series

The Plaza Hotel, New York City

The Future of Capital Markets

March 10

- 6:30PM-7:30PM Cocktail Reception
- 8:00PM Dinner and Welcome Remarks
Hosts: Dean Dipak C. Jain & Mr. Jerome Kenney '67, *Former Vice Chairman and Board Member, Merrill Lynch and Senior Advisor, BlackRock*

March 11

- 8:00AM Continental Breakfast
- 8:30AM-9:45AM *Keynote Address*
Market-Based Solutions to Environmental Problems
Dr. Richard Sandor, CEO, *Chicago Climate Exchange*
- 9:45AM-10:15AM Morning Break
- 10:15AM-11:45PM Panel Discussion
Wall Street, Hedge Funds, and Private Equity
Kellogg Faculty Facilitator: Professor David Stowell, *Clinical Professor of Finance*
Panelists:
 - Kent Daniel, *Managing Director, Goldman Sachs Asset Management, former Kellogg faculty*
 - Frank Jordan, *Partner of GoldenTree Asset Management*
 - James Neary '92, *Managing Director and co-head of the Technology, Media and Telecommunications group at Warburg Pincus*
 - Catherine Vaughn '02, *Managing Director and Head of European Business Development for Highbridge Capital Management*
- 11:45PM-1:45PM Lunch and Concurrent Sessions

Rethinking Pensions in the 21st Century

Professor Deborah Lucas, *Donald C. Clark/HSBC Professor of Consumer Finance*

The U.S. workforce is aging, savings rates are low, and the pension system -- public and private -- is underfunded and in flux. The recent crash in financial and housing markets has exacerbated pressures on the retirement system, causing a further rethinking of appropriate role of risky investments in retirement portfolios. How these issues are addressed will have far-reaching implications: from the competitiveness of U.S. industry and its ability to retain the skills of older workers; to opportunities to develop innovative new financial products; to the financial well-being of tens of millions of retirees.

In this talk I will provide an overview of where the pension system stands; a brief history of how it got to this point; and recent trends and their causes. The talk will highlight a growing body of research that offers clues to how rules and practices could be improved. I will also describe some of the leading proposals for more comprehensive reforms, and their potential implications for business and society.



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Did the Sarbanes Oxley Act Make U.S. Capital Markets Less Competitive?

Professor Thomas Lys, *Eric L. Kohler Chair in Accounting and Professor of Accounting Information and Management and Professor of Law, Northwestern University*

In the fall of 2002, following several high-profile governance failures around the turn of the century, congress passed the Sarbanes Oxley Act. The purpose of this Act was to restore confidence in U.S. capital markets. The act focused on internal controls (requiring corporations to comply with stringent internal control procedure including requiring CEOs and CFOs to certify the adequacy of internal controls), governance (regulating, for example, the role of corporate insiders on key committees such as audit, compensation, and governance and requiring that board members be financially literate), and limited auditors ability to act both as auditors and consultants.

While well intended, these additional requirements imposed significant costs on U.S. registered corporations. In fact, in response to the passage of the act, U.S. corporations lost, on average, approximately \$100 million in market capitalization. This response indicates that investors believed that on average, the costs of the act exceeded its benefits. These sentiments were echoed in numerous statements that the act made U.S. capital markets less competitive.

In this session we will discuss the events that lead to the passage of the Sarbanes Oxley Act, its major provisions, and then focus on whether the act has made U.S. Markets less competitive.

Risk Management: Lessons Learned

Professor Mitchell Petersen, *Glen Vasel Professor of Finance*

Both financial and non-financial firms face a myriad of risks. Managing those risks is one of the challenges senior managers face. The tools available to manage risk have exploded in the last decade as the size and complexity of the derivatives markets have grown. Unfortunately, there hasn't been a commensurate growth in the intuition that underlies how and why firms should manage risk.

The history of finance, however, is littered with the wreckage of firms which were taken down by errant trades, a lack of risk management, or a miss understanding of what risk management was doing – that is only revealed after the fact. Mr. Nick Leeson and the collapse of Barings Bank is but one example. The losses in the sub-prime lending market may be another. Many firms have someone responsible for risk management. This office (or person) is often labeled as a cost center not as a profit center. Risk managers don't bring in business, they only tell other profit centers what they can not do.

In this session we will discuss examples of risk management gone awry and ask what lessons can we learn from these examples – and equally important – why have we not learned this lesson before now. The session will likely discuss three broad issues:

- 1) Objectives. What is (or should be) the objective of a firm's risk management program. One of the most common problems with firm's risk management strategy, is they don't have one. They have never sat down and articulated what they are trying to accomplish with their risk management strategy, and why this adds value. If you don't know what you are trying to accomplish with a risk management program, how can you possibly execute the strategy?
- 2) Tools and Exposures. Firms are exposed to many risks. To know how to manage them the firm must first decide which risk to manage or hedge and which ones to accept. The first step in this process is to measure the firm's exposure to the risk. It is difficult to manage a risk if you don't know how big it is. The next step is to decide how to manage the risk, or what financial and non-financial tools to use. There are many ways to alter the risk profile of a firm. The most obvious set of tools are financial derivatives.¹ Not all risks, however, can be or should be managed by derivatives. What other tools do firms have for managing their risks?



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3) Evaluation. How should a risk management program be evaluated? We live in a risky world where the future is uncertain and unknowable. We can't expect our firms or our managers to be clairvoyant, yet sometimes we do. Instead, we must expect them to make the best possible decision, given the information they have at the time the decision is made. Unfortunately, risk management programs are often evaluated after the fact – using information which was not available to our managers. This can lead to adverse incentives for future risk management decisions.

Update on the Kellogg Finance Department

Professor Robert A. Korajczyk, *Harry G. Guthmann Professor of Finance and Director of the Zell Center for Risk Research*

We will discuss some of the history of the Kellogg Finance Department as well as the department's recent curricular innovations. In addition to a large collection of courses in financial theory, the finance department has recently focused on the development of "action-learning" or experiential courses, such as the Asset Management Practicum, the Buyout Lab, and the Venture Lab. Other recent offerings include courses in Due Diligence, Microfinance, and Environmental Finance.

1:45PM

Adjourn