
Contents

<i>List of Conference Participants</i>	<i>ix</i>
<i>List of Tables</i>	<i>xxi</i>
<i>List of Figures</i>	<i>xiii</i>
<i>List of Boxes</i>	<i>xiv</i>
<i>Acknowledgements</i>	<i>xv</i>
<i>Foreword</i>	<i>xvii</i>
<i>Executive Summary</i>	<i>xix</i>
1 Risk and Transparency	
1.1 Risk and derivatives	1
1.2 Transparency and accounting principles	3
2 Risk and (Lack of) Transparency in US Balance Sheets: the Economic Effects of the Accounting Treatment of Defined-Benefit Pension Plans	5
2.1 GAAP Rules and companies' exposure to risk via the pension plans they sponsor	5
2.2 Pension plans, income statements and bonuses	6
2.3 The transfer of risks onto the government	10
3 Balance Sheets and Financial Guarantees	13
3.1 Loans and guarantees	13
3.2 Transferring risk onto the government	14
3.3 Using option theory to measure the exposure to risk	16
3.4 The non-linear transmission of risk from corporate balance sheets to the government	20
3.5 Financial guarantees and negative feedback loops	20
4 Sovereign Spreads, Macroeconomic Volatility and Debt Maturity	21
5 Observations for the Correct Evaluation of a Country's Exposure to Risk and for the Design of Prudential Rules for Financial Institutions and their Shareholders	27
5.1 Balance sheets and financial crises	27
5.2 Government exposure to the financial system: computing a country's value-at-risk	29
5.3 The valuation of banks' assets	31
5.4 Can equity and/or subordinated debt substitute for risk monitoring?	32
5.5 Hedging macro risks	32

viii *Transparency, Risk Management and International Financial Fragility*

5.6	Foreign ownership of an emerging country's banks	33
5.7	Guarantees and governments' financial policies	34
5.8	Observations on Basel II	35
5.9	Capital controls	35
6	Managing Risk to Reduce Financial Fragility	37
6.1	Equity swaps as an instrument to diversify risk internationally	38
7	Conclusions	45
	Discussion	47
1	Discussion of the Report	47
2	First Panel Discussion - What is the problem? What can be done about it?	53
3	Second Panel Discussion - Risk assessment in balance sheets: Basel and other approaches	60
	<i>Bibliography</i>	<i>69</i>