

## Abstract of the articles

### **REGULATIVE INITIATIVES ON THE CDS MARKET**

GÁBOR SUTA

The lifecycle of the CDS market reached its maturity by the millennium. Since then the liquidity of the market has improved considerably thanks to the standardization in contract features and documentation. However, with the current worldwide recession, this popular OTC-traded risk management tool and its exponentially growing market, have been scrutinized by regulators and market participants paving the way for a more standardized and centralized market.

In my article, I introduce the recent initiatives with a linkage to three concepts: transparency, standardization and a reduction in risks inherent in CDS contracts. Specifically, I introduce DTCC's (Depository Trust and Clearing Corporations ) service that provides information regarding the volume and net notional of CDS trades by its Trade Information Warehouse as an initiative to increase transparency on the CDS market. Moreover, as for standardization, I analyze the new protocols introduced this year by ISDA (International Swaps & Derivatives Association) that could enhance contract standardization within the market. Finally, I describe how an OTC market with central counterparties works and analyze the introduction of clearing houses to the CDS market as an initiative to reduce counterparty risk.

### **THE FAILED ATTEMPT TO CREATE THE „COUNTRYSIDE BANK” IN HUNGARY?**

GY. KÁLMÁN KISS

Stability of equity is vital for any company and even more so for banks. The fact that banks today exist as networks on a national or international scale further accentuates this. However, cooperatives are characterized by open membership and varying capital, as members are free to come and go, and by a vested interest to serve local or regional needs.

The 150 year-long stability of cooperatives required the development of a legal and organizational framework, by which they became decisive players in many European countries. Secrets to success were sharing risk and business interests by limiting members to leave, preventing ownership concentration and guaranteeing network operational conformity.

However, local and particular interests of Hungarian cooperatives' management blocked the introduction of such rules in the past twenty years' market economy evolution, thus, cooperatives have become targets of free market take-overs and their significance has been steadily eroding.

## **A MULTIFACTOR APPROACH IN UNDERSTANDING ASSET PRICING ANOMALIES**

HELENA NAFFA

In this paper, we introduce multifactor asset pricing models. The birth of these models came hand in hand with a theory bolstering informational efficiency. When market prices deviate from their theoretical pricing, they are dubbed as anomalies and investors rush to take advantage of the state of disequilibrium. Fama and French devised a multifactor model that is quite successful in incorporating anomalies in their asset pricing formula. We test to see whether the anomalies are actually premiums of distress. Characteristics of stocks such as market capitalisation and book-to-market equity are appropriate proxies for distress. Distressed firms may be more sensitive to certain business cycle factors, like changes in credit conditions, than firms that are financially less vulnerable. This means that investors are willing to give up on some expected return in exchange for investments that are resilient to market turbulences. This causes the premium in small size and high BE/ME stocks.

We find that the returns of small and high BE/ME stocks yield a premium in the Hungarian market for the period examined. When regressed on the single stocks, the SMB and HML factors are positive on average, i.e. the three factor model produced significant loadings, indicating the model's validity for the period tested. On the other hand, the specifics of the Hungarian market suggest that excess returns account for liquidity premiums rather than compensation for distress.

## **LEGAL REGULATION AND ECONOMIC CONDITION OF REAL ESTATE FUNDS**

JÓZSEF SZÜCS

The case of real estate funds is a classic example for a typical Hungarian investment „success stories”. It will enter the analysts' book of crisis as a field that fell prey of the greed and ignorance of the market participants. The legal regulations of 1991 then 2001 on the real estates established the appropriate legal frames that defined the room to move for the fund management companies and the investors.

The crisis revealed the contradictions between the short-term investment goals and the asset portfolio financed by real estate funds and this would have led to serious liquidity problems if the Authority had failed to make a quick decision. Concerning the period of time we face, we must draw the consequences even if we expect a crisis of similar volume only in the distant future.

The legislator and the market participants must mutually find the solutions and operational ways that assure that the real estate funds can be competitive and steady participants of the Hungarian financial market.

**THE MISSING DEBT COLLECTION ACT**

BÉLA PETRIK

One of the largest failures of Hungarian legislation is the lack of the debt collection regulation (the other is the lack of the debt's settlement of natural persons). But while introducing the institution of private bankrupt would be just a 'suicide' during the crisis, then creating the debt collection act could be an effective tool for handling the crisis. It would concern not only the professional participants of the economy but also the common people. The present study tries to draw attention to the problems caused by the missing debt collection act through presenting the Hungarian practice and the international regulation. It also tries to suggest possible methods of legislation. The economic crisis and the state of Hungarian economy resulted that creating debt collection act seems to be inevitable, and the earlier techniques proved to be insufficient. Due to the regulation of this field, new business corporations dealing with debt collection start to appear. They misuse their situation, they violate the regulations concerning the protection of debtors with their unfair behaviour. They generate serious social tension and deteriorate the reputation of the debt collection sector, and in particular, that of the credit institutions. According to international observations and Hungarian legal system, the procedure can be solved by a two-level regulation. Appropriate laws should regulate: the basic concepts of the subject, the basic principles, the rules of licensing, the persons not affected by the compulsory licensing procedure, the competent authority, the basic requirements of the procedure, its personal and material conditions, the particular obligations of persons dealing with it (e.g. the requirements of opening a deposit account, applying for an audit); Government decree should regulate the executory directions, the rules of procedures, the basic standards of behaviour, the orders of creating, maintaining relations with the debtor and the settlement. Creating the law depends only on the intention of legislators since the participants of the economy find it indispensable.