Abstract of the articles

ALGORITHMIC TRADING – A TREND IN INDUSTRY OR THE MARKETS TURNING INTO BUBBLE?

Mihály Erik Tatár

As the attention of the general public and regulators turned towards complex derivatives and banks capital during the financial crisis, in the background, a powerful industrial trend transformed the trading world: algorithmic trading. Today, the bulk of transactions is done by computer programs which can close a deal in 1/1000th of a second, strengthening or turning around pricing trends, without any human activity involved. The article shows the evolution of trading algorithms, from single orders to complex decision-making systems, their presence on the markets and how they can effect pricing mechanisms. Finally their influence on foreign exchange markets, and the prospects of regulation, are discussed.

BANKING BOOK INTEREST RATE RISK MANAGEMENT

Péter Roób

In case of the quantitative risk management the banking book interest risk management is not a highlighted area compared with the any other part of portfolio risk management. Last years the VaR, PD, LGD were the „star" features needing a sophisticated calculation engine in the background to measure and highlight risks. Right now the capital adequacy calculation is in focus in accordance with Basel II. The banking book has the highest underlying volume, but the applied model in accordance with the requirements is very simple and does not provide efficient value about the risk. Indeed any other dimension of risk management is not clear. In order to manage our position, a more comprehensive model is needed.

THE INTERACTION BETWEEN INVESTMENT AND FINANCING DECISIONS

Mónika Kuti

The study is a literature survey on the interaction between investment and financing decisions. Capital market frictions distort investments and suboptimal investments also have a negative impact on the internal capital formation and the access to external financing. Optimal level of investment requires both future growth opportunities and the lack of financial constraint. The loss of either investment flexibility or financial flexibility imposes opportunity costs not only on companies but also on fund providers. Biases from the optimal level make hedging techniques more important for companies to mitigate project cash flow volatility on the assets side, and to build up debt capacity on the other side. Managerial cognitive traits also prove to be a special channel for the interface between investment and financing decisions.

DIMENSIONS OF LIQUIDITY

Attila Ács

The 2007-08 financial turmoil has been labelled as liquidity crisis as liquidity abruptly dried up for many firms and securities markets. But we can hardly find any overall definition for liquidity. Not by chance. Liquidity is a very complex phenomena and the aim of this writing is to shed light on the versatile source of liquidity. Following an evolutionary approach the article starts with the notion of trust as the very source of liquidity. Trust in the market, market participants, authorities, legal system, business plan and the political system itself. Different type of liquidity as market, funding and monetary liquidity and their measurement comes as next.

Nowadays market-based institutions overtook the dominant role in the supply of credit from commercial banks. These market-based financial institutions were deeply involved in securitisation and actively used capital and financial markets to satisfy their funding needs. This changing nature of finance is reflected by the aggregate balance sheet of market-based financial intermediaries which is a good barometer of liquidity conditions in general. Funding needs are determined and conditioned by – apart from market conditions – mark-to-market accounting rules, VaR risk management, REPO haircut, monetary policy.

It is also important to understand the pro-cyclical nature of leverage. The source of the liquidity glut was the "collateral bubble" originating from the pro-cyclicality of the financial word. In the run-up to the financial crisis securities markets were characterised by price bubbles as the real value of the securities deviated away from fundamental values. The products of securitisation were greatly used as collaterals in the REPO transactions. But the value of these collaterals was unrealised capital gain originating from securities price bubble. The combination of this "collateral bubble" proved lethal to the financial system.

NEW REGULATIONS THE CREDIT AGREEMENTS FOR CONSUMERS

Balázs Bodzási

The consumer protection law is governed by Directive 2008/48/EC of the European Parliament and of the Council and was implemented to the Hungarian legal system through the Act on Credit Provided for Consumers (162/2009).

This article aims at observing the relevant provisions on mortgage as well as the commercials and advertisements of mortgages. This article will show that there are many conflicts within the relevant legal provisions and will further examine the obligation to information and the institution of early repayment.

The author of this article believes that the protection created by the new directive should have been extended to guarantee contracts as well, but not to hypothec contracts as the latter are expected to be governed through future EU legislation.