# 15th Paris December Finance Meeting


December 21, 2017

www.eurofidai.org/fr/paris-december-2017

# Meeting's organization

As part of the French National Center for Scientific Research (CNRS), EUROFIDAI is a public academic institute **developing daily and high frequency European financial databases for researchers.**

EUROFIDAI works in creating **verified, controlled and homogeneous daily databases over long periods.** The daily databases cover stocks, indices, mutual funds, exchange rates and corporate events, all over Europe. The high frequency database (BEDOFIH) includes trades and orders with the highest frequency (millisecond, microsecond) and covers the most important European stock markets.

EUROFIDAI is the only European academic organization providing this type of data.

**www.eurofidai.org**

A pioneer of business-related learning since 1907, ESSEC's mission is to respond to the challenges of the future. In an interconnected, technological, and uncertain world, where the tasks are increasingly complex, ESSEC offers a unique pedagogical approach. This approach is founded on the creation and dissemination of cutting-edge knowledge, a blend of academic learning and practical experience, and a multicultural openness and dialogue.

**www.essec.edu**

The organization committee would like to acknowledge the support provided by the French Finance Association (AFFI).

Since 1979, the French Finance Association (AFFI) has brought together researchers, teachers and practitioners interested in financial management.
AFFI sets up meetings, publishes a specialized review (Finance) and supports financial research (AFFI-EUROFIDAI price, AFFI-FNEGE price...).

**www.affi.asso.fr**

# Numbers

**302 papers were submitted for presentation at the meeting and only one out of five papers was accepted, indicating rigorous selection criteria.**

In 2017, the 302 submissions were received from the U.S. (79), France (44), Germany (36), the U.K. (25), Switzerland (18), Australia (15), Canada (11), the Netherlands (7), Italy (7), Portugal (6), Denmark (5), Sweden (5), Spain (5), Singapore (4), Belgium (4), Finland (4), Norway (4), Taiwan (3), Republic of South Korea (2), China (2), Greece (2), Japan (2), Turkey (2), Luxembourg (1), Hong Kong (1), Austria (1), Chile (1), India (1), Ireland (1), Israel (1), Jamaica (1), Kuwait (1), Tunisia (1).

**The Paris December Finance Meeting is considered as one of the top 2 European conferences in terms of the quality of the papers presented.**

# Contents

# Program Chairs

Patrice Fontaine (EUROFIDAI, CNRS); Jocelyn Martel (ESSEC Business School)

# 2017 Scientific Committee

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Aminas Zaldokas
HKUST

# Program – Overview

*Groundfloor: rooms "Halles 1" and "Halles 2"*
*1st floor: rooms "Edison", "Berliner", "Bell" and "Daguerre"*

*08:00 Registrations & Welcome coffee break*

**09:00 Asset Pricing 1** — Berliner
Chairman: Philippe Bertrand (Université Aix-Marseille)

**09:00 Banking 1 (sponsored by ACPR Chair)** — Halles 2
Chairman: Christophe Pérignon (HEC Paris)

Initiative de recherche
Régulation et Risques Systémiques
regulation and systemic risks

**09:00 Corporate Governance 1** — Halles 1
Chairman: Sridhar Arcot (ESSEC Business School)

**09:00 Market Microstructure 1 (sponsored by BEDOFIH)** — Edison
Chairman: Patrice Fontaine (EUROFIDAI-CNRS)

BEDOFIH
Base Européenne de Données Financières à Haute Fréquence

*10:30 Coffee break*

**11:00 Asset Pricing 2** — Berliner
Chairman: Abraham Lioui (EDHEC)

**11:00 Banking 2** — Halles 2
Chairman: Sonia Jimenez (Université Grenoble Alpes)

**11:00 Behavioral Finance 1** — Halles 1
Chairman: Jean-François Gajewski (IAE Lyon)

**11:00 Investment** — Edison
Chairman: Boris Vallée (Harvard Business School)

*12:30 Lunch – Restaurant "La Place", Novotel*

# Program – Overview

*Groundfloor: rooms “Halles 1” and “Halles 2”*
*1st floor: rooms “Edison”, “Berliner”, “Bell” and “Daguerre”*

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|---|---|---|
| 13:45 | **Hedge Funds / Portfolio Management (sponsored by AMUNDI)**<br>Chairman: Jocelyn Martel (ESSEC Business School) | Halles 1 |
| 14:00 | **Behavioral Finance 2**<br>Chairman: Zwetelina Iliewa (Centre for European Economic Research) | Berliner |
| 14:00 | **Corporate Governance 2**<br>Chairman: Edith Ginglinger (Université Paris Dauphine) | Halles 2 |
| 14:00 | **Financial Econometrics & Mathematics**<br>Chairman: Yannick Malevergne (Université Paris I – Panthéon Assas) | Bell |
| 14:00 | **Interest Rates**<br>Chairman: Patrice Poncet (ESSEC Business School) | Daguerre |
| 14:00 | **Market Microstructure 2**<br>Chairman: Laurence Lescourret (ESSEC Business School) | Edison |
| *16:00* | *Coffee break* | |
| 16:30 | **Banking 3**<br>Chairman: Joël Petey (Université de Strasbourg) | Halles 2 |
| 16:30 | **Capital Structure**<br>Chairman: Elisa Luciano (University of Torino) | Edison |
| 16:30 | **Derivatives**<br>Chairman: Franck Moraux (Université de Rennes 1) | Berliner |
| 16:30 | **M&A / Private Equity (sponsored by ARDIAN)**<br>Chairman: Nihat Aktas (WHU Otto Beisheim School of Management) | Halles 1 |
| *18:00* | *Cocktail & Best Paper Award – “La Rotonde”, Novotel* | |

# Job Market Papers

*Groundfloor: rooms "Halles 1" and "Halles 2"*
*1st floor: rooms "Edison", "Berliner", "Bell" and "Daguerre"*

This year, the Paris December Finance Meeting hosts job market papers, featuring carefully selected candidates. Please find below an overview of the papers with information on each candidate:

9:00 – Asset Pricing 1 (Berliner)
**The Volatility-of-Volatility Term Structure**
**Hendrik Hülsbusch** (University of Muenster)
Research Interests: Asset Pricing; Derivatives; Financial Crisis

9:00 – Banking 1 (Halles 2)
**Credit Supply Shocks and Human Capital: Evidence from a Change in Accounting Norms**
**Andrada Bilan** (Swiss Finance Institute)
Research Interests: Banking; Financial Intermediation

9:00 – Banking 1 (Halles 2)
**The Optimal Capital Structure in Presence of Financial Assets**
**Raphael Flore** (University of Cologne - Center for Macroeconomic Research (CMR))
Research Interests: Banking Regulation and Systemic Risk; Capital Structure

9:00 – Market Microstructure 1 (Edison)
**When to Introduce Electronic Trading Platforms in Over-The-Counter Markets?**
**Sebastian Vogel** (Ecole Polytechnique Fédérale de Lausanne)
Research Interests: Market Microstructure; Liquidity

11:00 – Asset Pricing 2 (Berliner)
**ESG Risks and the Cross-Section of Stock Returns**
**Simon Gloßner** (Catholic University of Eichstaett-Ingolstadt)
Research Interests: Asset Pricing; Ethical Finance

11:00 – Investment (Edison)
**The Real Effects of Short Selling Restrictions**
**Christoph M. Schiller** (University of Toronto)
Research Interests: International Finance; Investment Policy; Capital Budgeting

14:00 – Corporate Governance 2 (Halles 2)
**Peer Pressure in Corporate Earnings Management**
**Constantin Charles** (University of Southern California)
Research Interests: Corporate Governance

14:00 – Corporate Governance 2 (Halles 2)
**Are Independent Directors with Industry Expertise More Informed?**
**Sumingyue Wang** (ESSEC Business School)
Research Interests: Corporate Governance

14:00 – Corporate Governance 2 (Halles 2)
**Active Versus Speculative Monitoring: Evidence from Pre-WWI Paris-Listed Firms**
**Emilie Bonhoure** (Toulouse Business School)
Research Interests: Historical Finance; Payout Policy

14:00 – Financial Econometrics & Mathematics (Bell)
**The Dynamics of Price Jumps in the Stock Market: An Empirical Study on Europe and U.S.**
**Fabrizio Ferriani** (Bank of Italy)
Research Interests: Financial Crisis; Financial Econometrics

16:30 – Banking 3 (Halles 2)
**The Value of Bond Underwriter Relationships**
**Stine Louise Daetz** (Copenhagen Business School)
Research Interests: Banking/ Financial Intermediation; Capital Structure; Financial Risks

16:30 – Capital Structure (Edison)
**Information Dynamics and Debt Maturity**
**Thomas Geelen** (Ecole Polytechnique Fédérale de Lausanne)
Research Interests: Capital Structure

16:30 – Derivatives (Berliner)
**Option Implied Dividends**
**Jac Kragt** (Tilburg University)
Research Interests: Asset Pricing; Derivatives

*Notes*

# Sessions

**Asset Pricing 1** — 9:00, **Berliner**
Chairman: Philippe Bertrand (Université Aix-Marseille)

- THE VOLATILITY-OF-VOLATILITY TERM STRUCTURE

Branger Nicole (University of Muenster - Finance Center Muenster); Hülsbusch Hendrik (University of Muenster - Finance Center Muenster); Kraftschik Alexander (University of Muenster - Finance Center Muenster)
Presenter: Hendrik Hülsbusch
Discussant: Sumudu W. Watugala (Cornell University - Dyson School of Applied Economics and Management)

- THE TIME-VARYING RISK OF MACROECONOMIC DISASTERS

Marfè Roberto (University of Torino - Collegio Carlo Alberto); Pénasse Julien (University of Luxembourg)
Presenter: Roberto Marfè
Discussant: Hendrik Hülsbusch (University of Muenster - Finance Center Muenster)

- ECONOMIC UNCERTAINTY AND COMMODITY FUTURES VOLATILITY

Watugala Sumudu W. (Cornell University - Dyson School of Applied Economics and Management)
Presenter: Sumudu W. Watugala
Discussant: Roberto Marfè (University of Torino)

**Banking 1 (sponsored by ACPR Chair)** — 9:00, **Halles 2**
Chairman: Christophe Pérignon (HEC Paris)

- CREDIT SUPPLY SHOCKS AND HUMAN CAPITAL: EVIDENCE FROM A CHANGE IN ACCOUNTING NORMS

Barbosa Luciana (Bank of Portugal - Economic Research Department); Bilan Andrada (Swiss Finance Institute); Celerier Claire (University of Toronto - Rotman School of Management)
Presenter: Andrada Bilan
Discussant: Corey Garriott (Bank of Canada)

- BANKING REGULATION AND MARKET MAKING

Cimon David A. (Bank of Canada); Garriott Corey (Bank of Canada)
Presenter: Garriott Corey
Discussant: Raphael Flore (University of Cologne)

- THE OPTIMAL CAPITAL STRUCTURE IN PRESENCE OF FINANCIAL ASSETS

Flore Raphael (University of Cologne - Center for Macroeconomic Research (CMR))
Presenter: Raphael Flore
Discussant: Andrada Bilan (Swiss Finance Institute)

## Corporate Governance 1 — 9:00
Chairman: Sridhar Arcot (ESSEC Business School) — Halles 1

- **IS THERE A LOCAL CULTURE OF CORRUPTION IN THE U.S.?**

Dass Nishant (Georgia Institute of Technology - Scheller College of Business); Nanda Vikram K. (University of Texas at Dallas - School of Management - Department of Finance & Managerial Economics); Xiao Steven Chong (University of Texas at Dallas - Naveen Jindal School of Management)
Presenter: Steven Chong Xiao
Discussant: Alexei V. Ovtchinnikov (HEC Paris)

- **ELEPHANTS (OR DONKEYS) AT THE GATE: POLITICAL IDEOLOGY IN M&A**

Alhashel Bader (Kuwait University); Alnahedh Saad (University of Colorado at Boulder - Department of Finance)
Presenter: Saad Alnahedh
Discussant: Steven Chong Xiao (University of Texas)

- **DEBT AND INCENTIVES IN POLITICAL CAMPAIGNS**

Ovtchinnikov Alexei V. (HEC Paris (Groupe HEC) - Finance Department); Valta Philip (University of Bern)
Presenter: Alexei V. Ovtchinnikov
Discussant: Saad Alnahedh (University of Colorado)

## Market Microstructure 1 (sponsored by BEDOFIH) — 9:00
Chairman: Patrice Fontaine (EUROFIDAI-CNRS) — Edison

- **THE ROLE OF PRE-OPENING MECHANISMS IN FRAGMENTED MARKETS**

Boussetta Selma (University of Toulouse 1 - Université Toulouse 1 Capitole); Lescourret Laurence (ESSEC Business School); Moinas Sophie (Toulouse School of Economics)
Presenter: Selma Boussetta
Discussant: Sebastian Vogel (Ecole Polytechnique Fédérale de Lausanne)

- **WHEN TO INTRODUCE ELECTRONIC TRADING PLATFORMS IN OVER-THE-COUNTER MARKETS?**

Vogel Sebastian (Ecole Polytechnique Fédérale de Lausanne)
Presenter: Sebastian Vogel
Discussant: Norman Seeger (VU University Amsterdam)

- **INFORMED TRADING IN THE INDEX OPTION MARKET**

Kaeck Andreas (University of Sussex); van Kervel Vincent (Pontifical Catholic University of Chile); Seeger Norman (VU University Amsterdam)
Presenter: Norman Seeger
Discussant: Selma Boussetta (University of Toulouse 1)

*10:30-11:00 Coffee break*

## Asset Pricing 2 — 11:00
Chairman: Abraham Lioui (EDHEC) — Berliner

- THE LOST CAPITAL ASSET PRICING MODEL

Andrei Daniel (University of California, Los Angeles (UCLA) - Anderson School of Management); Cujean Julien (University of Maryland - Robert H. Smith School of Business); Wilson Mungo Ivor (University of Oxford - Said Business School)
Presenter: Julien Cujean
Discussant: José Afonso Faias (Universidade Catolica Portuguesa)

- TIME-VARYING PREDICTABILITY OF CONSUMPTION GROWTH, MACRO-UNCERTAINTY, AND RISK PREMIUMS

Barroso Pedro (UNSW Australia Business School, School of Banking and Finance); Boons Martijn (New University of Lisbon - Nova School of Business and Economics); Karehnke Paul (UNSW Australia Business School, School of Banking and Finance)
Presenter: Martijn Boons
Discussant: Julien Cujean (University of Maryland)

- ESG RISKS AND THE CROSS-SECTION OF STOCK RETURNS

Gloßner Simon (Catholic University of Eichstaett-Ingolstadt)
Presenter: Simon Gloßner
Discussant: Martijn Boons (New University of Lisbon)

## Banking 2 — 11:00
Chairman: Sonia Jimenez (Université Grenoble Alpes) — Halles 2

- SHOULD THE GOVERNMENT BE PAYING INVESTMENT FEES ON $3 TRILLION OF TAX-DEFERRED RETIREMENT ASSETS?

Landoni Mattia (Southern Methodist University (SMU) - Finance Department); Zeldes Stephen P. (Columbia Business School - Finance and Economics)
Presenter: Mattia Landoni
Discussant: Simon Straumann (University of Saint Gallen)

- DYNAMIC FIRE-SALE EXTERNALITIES AND ROLLOVER RISK SPILLOVERS

Doh Hyunsoo (Nanyang Technological University)
Presenter: Hyunsoo Doh
Discussant: Mattia Landoni (Southern Methodist University)

- ILLUMINATING THE DARK SIDE OF FINANCIAL INNOVATION: THE ROLE OF INVESTOR INFORMATION

Ammann Manuel (University of Saint Gallen - School of Finance); Arnold Marc (University of Saint Gallen - School of Finance); Straumann Simon (University of Saint Gallen - School of Finance)
Presenter: Straumann Simon
Discussant: Hyunsoo Doh (Nanyang Technological University)

## Behavioral Finance 1 — 11:00, Halles 1
Chairman: Jean-François Gajewski (IAE Lyon)

- **WALL STREET CROSSES MEMORY LANE: HOW WITNESSED RETURNS AFFECT PROFESSIONALS' EXPECTED RETURNS**

Hoffmann Arvid O. I. (University of Adelaide - Business School); Iliewa Zwetelina (Centre for European Economic Research (ZEW)); Jaroszek Lena (Copenhagen Business School - Department of Finance)
Presenter: Zwetelina Iliewa
Discussant: Erik Theissen (University of Mannheim)

- **ALL IS NOT LOST THAT IS DELAYED: OVERCONFIDENCE AND INVESTMENT FAILURE**

Betzer André (BUW- Schumpeter School of Business and Economics); van den Bongard Inga (University of Mannheim - Finance Area); Theissen Erik (University of Mannheim - Finance Area); Volkmann Christine (University of Wuppertal)
Presenter: Erik Theissen
Discussant: Alexander Klos (University of Kiel)

- **OVERPRICED WINNERS**

Daniel Kent D. (Columbia Business School - Finance and Economics); Klos Alexander (University of Kiel - Institute for Quantitative Business and Economics Research (QBER)); Rottke Simon (University of Muenster)
Presenter: Alexander Klos
Discussant: Zwetelina Iliewa (Centre for European Economic Research)

## Investment — 11:00, Edison
Chairman: Boris Vallée (Harvard Business School)

- **THE REAL EFFECTS OF SHORT SELLING RESTRICTIONS**

Schiller Christoph M. (University of Toronto - Rotman School of Management)
Presenter: Christoph M. Schiller
Discussant: Marc Deloof (University of Antwerp)

- **THE FLIGHT HOME EFFECT IN MULTINATIONAL INTERNAL CAPITAL MARKETS DURING THE GREAT RECESSION**

Deloof Marc (University of Antwerp); Montalto Fabiola (University of Antwerp)
Presenter: Marc Deloof
Discussant: Thorsten Martin (HEC Paris)

- **THE EFFECT OF HOLD-UP PROBLEMS ON CORPORATE INVESTMENT: EVIDENCE FROM IMPORT TARIFF REDUCTIONS**

Martin Thorsten (HEC Paris - Finance Department); Otto Clemens A. (Singapore Management University)
Presenter: Thorsten Martin
Discussant: Christoph M. Schiller (University of Toronto)

*12:30-14:00 Lunch – Restaurant "La Place", Novotel*

## Hedge Funds / Portfolio Management (sponsored by Amundi)
Chairman: Jocelyn Martel (ESSEC Business School)

13:45
Halles 1

- THE PREDOMINANCE OF REAL ESTATE IN THE HOUSEHOLD PORTFOLIO

Barras Laurent (McGill University - Desautels Faculty of Management); Betermier Sebastien (McGill University - Desautels Faculty of Management)
Presenter: Laurent Barras
Discussant: Roméo Tédongap (ESSEC Business School)

- KNOWING ME, KNOWING YOU? SIMILARITY TO THE CEO AND FUND MANAGERS' INVESTMENT DECISIONS

Jaspersen Stefan (University of Cologne - Centre for Financial Research (CFR)); Limbach Peter (University of Cologne and Centre for Financial Research (CFR))
Presenter: Stefan Jaspersen
Discussant: David Le Bris (Toulouse Business School)

- LIMITS OF ARBITRAGE UNDER THE MICROSCOPE: EVIDENCE FROM DETAILED HEDGE FUND TRANSACTION DATA

von Beschwitz Bastian (Board of Governors of the Federal Reserve System); Lunghi Sandro (Inalytics Limited); Schmidt Daniel (HEC Paris (Groupe HEC) - Finance Department)
Presenter: Bastian von Beschwitz
Discussant: Laurent Barras (McGill University)

- IS VARIATION ON VALUATION TOO EXCESSIVE? A STUDY OF MUTUAL FUND HOLDINGS

Chen Hsiu-Lang (University of Illinois at Chicago - Department of Finance)
Presenter: Hsiu-Lang Chen
Discussant: Daniel Schmidt (HEC Paris)

- TESTING THE TAX-LOSS SELLING EXPLANATION OF THE JANUARY EFFECT: EVIDENCE FROM A 'CONFISCATORY' TAX IMPLEMENTED IN FRANCE IN 1921

Le Bris David (Toulouse Business School); Tobelem Sandrine (London School of Economics & Political Science (LSE))
Presenter: David Le Bris
Discussant: Hsiu-Lang Chen (University of Illinois)

## Behavioral Finance 2
Chairman: Zwetelina Iliewa (Centre for European Economic Research)

14:00
Berliner

- PRICING SIN STOCKS: ETHICAL PREFERENCE VS. RISK AVERSION

Colonnello Stefano (Otto-von-Guericke Universitat Magdeburg); Curatola Giuliano (Goethe University Frankfurt - Research Center SAFE); Gioffre Alessandro (Goethe University Frankfurt - Research Center SAFE)
Presenter: Giuliano Curatola
Discussant: Patrick Roger (Strasbourg University)

- DEALER TRADING AT THE FIX

Osler Carol L. (Brandeis University - International Business School); Turnbull D. Alasdair S. (Clarkson University - School of Business)
Presenter: Carol L. Osler
Discussant: Adam Winegar (BI Norwegian Business School)

- ANOTHER LAW OF SMALL NUMBERS: PATTERNS OF TRADING PRICES IN EXPERIMENTAL MARKETS

Bousselmi Wael (Université Montpellier I); Roger Patrick (Strasbourg University - LARGE Research Center - EM Strasbourg Business School); Roger Tristan (Université Paris-Dauphine, PSL Research University); Willinger Marc (LAMETA, University of Montpellier 1)
Presenter: Patrick Roger
Discussant: Carol L. Osler (Brandeis University)

- A SIGNALING THEORY OF DERIVATIVES-BASED HEDGING

Anjos Fernando (NOVA School of Business and Economics); Winegar Adam (BI Norwegian Business School)
Presenter: Adam Winegar
Discussant: Giuliano Curatola (Goethe University Frankfurt)

## Corporate Governance 2 — 14:00, Halles 2

Chairman: Edith Ginglinger (Université Paris IX – Dauphine)

- PEER PRESSURE IN CORPORATE EARNINGS MANAGEMENT

Charles Constantin (University of Southern California - Marshall School of Business); Schmid Markus M. (University of Saint Gallen - Swiss Institute of Banking and Finance); von Meyerinck Felix (University of Saint Gallen - School of Finance)
Presenter: Constantin Charles
Discussant: Ryan Williams (University of Arizona)

- ACTIVE VERSUS SPECULATIVE MONITORING: EVIDENCE FROM PRE-WWI PARIS-LISTED FIRMS

Bonhoure Emilie (Toulouse Business School); Germain Laurent (Toulouse University, Toulouse Business School); Le Bris David (Toulouse Business School)
Presenter: Emilie Bonhoure
Discussant: Lea Henny Stern (University of Washington)

- A LEARNING-BASED APPROACH TO EVALUATING BOARDS OF DIRECTORS

Stern Lea Henny (University of Washington - Foster School of Business)
Presenter: Lea Henny Stern
Discussant: Sumingyue Wang (ESSEC Business School)

- ARE INDEPENDENT DIRECTORS WITH INDUSTRY EXPERTISE MORE INFORMED?

Wang Sumingyue (ESSEC Business School - Finance Department, Students)
Presenter: Sumingyue Wang
Discussant: Sara Ain Tommar (Université Paris IX - Dauphine)

## Financial Econometrics & Mathematics
Chairman: Yannick Malevergne (Université Paris I – Panthéon Assas)
14:00
Bell

- **WHAT DRIVES THE TREND AND BEHAVIOR IN AGGREGATE (IDIOSYNCRATIC) VARIANCE? FOLLOW THE BID-ASK BOUNCE**

Lesmond David A. (Tulane University - A.B. Freeman School of Business); Pan Xuhui (Nick) (Tulane University); Zhao Yihua (Tulane University - A.B. Freeman School of Business)
Presenter: David Lesmond
Discussant: Jeroen Rombouts (ESSEC Business School)

- **VARIANCE SWAP PAYOFFS, RISK PREMIA AND EXTREME MARKET CONDITIONS**

Rombouts Jeroen (ESSEC Business School); Stentoft Lars (Department of Economics, University of Western Ontario); Violante Francesco (Maastricht University - Department of Economics)
Presenter: Jeroen Rombouts
Discussant: Fabrizio Ferriani (Bank of Italy)

- **EFFICIENT PARAMETER ESTIMATION FOR MULTIVARIATE JUMP-DIFFUSIONS**

Guay Francois (Boston University); Schwenkler Gustavo (Boston University - Department of Finance & Economics)
Presenter: Gustavo Schwenkler
Discussant: David Lesmond (Tulane University)

- **THE DYNAMICS OF PRICE JUMPS IN THE STOCK MARKET: AN EMPIRICAL STUDY ON EUROPE AND U.S.**

Ferriani Fabrizio (Bank of Italy); Zoi Patrick (Bank of Italy)
Presenter: Fabrizio Ferriani
Discussant: Gustavo Schwenkler (Boston University)

## Interest Rates
Chairman: Patrice Poncet (ESSEC Business School)
14:00
Daguerre

- **INTERNATIONAL REAL YIELDS**

Ermolov Andrey (Fordham University - Gabelli School of Business)
Presenter: Andrey Ermolov
Discussant: Paul Whelan (Copenhagen Business School)

- **EXPECTATIONS OR SURPRISES: WHAT REALLY MOVES THE U.S. TREASURY MARKET?**

van der Wel Michel (Erasmus University Rotterdam); Erdemlioglu Deniz (IESEG School of Management and CNRS - France)
Presenter: Deniz Erdemlioglu
Discussant: Alberto Plazzi (USI-Lugano)

- DOES MONETARY POLICY IMPACT MARKET INTEGRATION? EVIDENCE FROM DEVELOPED AND EMERGING MARKETS

Caporin Massimiliano (University of Padua - Department of Statistical Sciences); Pelizzon Loriana (Goethe University Frankfurt - Faculty of Economics and Business Administration); Plazzi Alberto (USI-Lugano)
Presenter: Alberto Plazzi
Discussant: Andrey Ermolov (Fordham University)

- CENTRAL BANK COMMUNICATION AND THE YIELD CURVE

Leombroni Matteo (Stanford University); Vedolin Andrea (Boston University - Department of Finance & Economics); Venter Gyuri (Copenhagen Business School); Whelan Paul (Copenhagen Business School)
Presenter: Paul Whelan
Discussant: Deniz Erdemliglu (IESEG School of Management and CNRS)

## Market Microstructure 2 — 14:00 Edison

Chairman: Laurence Lescourret (ESSEC Business School)

- SHOCK PROPAGATION THROUGH CROSS-LEARNING IN OPAQUE NETWORKS

Schneemeier Jan (Indiana University - Kelley School of Business)
Presenter: Jan Schneemeier
Discussant: Jun Uno (Waseda University)

- SCARCITY AND SPOTLIGHT EFFECTS ON TERM STRUCTURE: QUANTITATIVE EASING IN JAPAN

Pelizzon Loriana (Goethe University Frankfurt - Faculty of Economics and Business Administration); Subrahmanyam Marti G. (New York University - Stern School of Business); Tobe Reiko (Waseda University - Graduate School of Finance, Accounting & Law); Uno Jun (Waseda University)
Presenter: Jun Uno
Discussant: Alina Arefeva (Johns Hopkins University)

- QUOTES, TRADES AND THE COST OF CAPITAL

Rosu Ioanid (HEC Paris (Groupe HEC) - Finance Department); Sojli Elvira (UNSW Business School, School of Banking and Finance); Tham Wing Wah (University of New South Wales (UNSW))
Presenter: Rosu Ioanid
Discussant: Jan Schneemeier (Indiana University)

- HOW AUCTIONS AMPLIFY HOUSE-PRICE FLUCTUATIONS

Arefeva Alina (Johns Hopkins University - Carey Business School)
Presenter: Arefeva Alina
Discussant: Rosu Ioanid (HEC Paris)

*16:00-16:30 Coffee Break*

## Banking 3 — 16:30
Chairman: Joël Petey (Université de Strasbourg) — Halles 2

▪ THE RELEVANCE OF CREDIT RATINGS IN TRANSPARENT BOND MARKETS
Badoer Dominique C. (University of Missouri at Columbia - Department of Finance); Demiroglu Cem (Koc University, College of Administrative Sciences and Economics)
Presenter: Dominique Badoer
Discussant: Narayan Bulusu (Bank of Canada)

▪ THE VALUE OF BOND UNDERWRITER RELATIONSHIPS
Daetz Stine Louise (Copenhagen Business School); Dick-Nielsen Jens (Copenhagen Business School - Department of Finance); Nielsen Mads Stenbo (Copenhagen Business School - Department of Finance)
Presenter: Stine Louise Daetz
Discussant: Dominique Badoer (University of Missouri)

▪ WHAT DRIVES INTERBANK LOANS? EVIDENCE FROM CANADA
Bulusu Narayan (Bank of Canada); Guerin Pierre (OECD)
Presenter: Narayan Bulusu
Discussant: Stine Louise Daetz (Copenhagen Business School)

## Capital Structure — 16:30
Chairman: Elisa Luciano (University of Torino) — Edison

▪ RENEGOTIATION COSTS, FINANCIAL CONTRACTING, AND LENDER CHOICE
Ferracuti Elia (University of Utah - School of Accounting and Information Systems); Morris Arthur (University of Utah - School of Accounting and Information Systems)
Presenter: Elia Ferracuti
Discussant: Sujiao Zhao (Banco de Portugal)

▪ INFORMATION DYNAMICS AND DEBT MATURITY
Geelen Thomas (Ecole Polytechnique Fédérale de Lausanne)
Presenter: Thomas Geelen
Discussant: Elia Ferracuti (University of Utah)

▪ INVESTOR RELATIONS AND IPO PERFORMANCE
Chahine Salim (American University of Beirut - Olayan School of Business); Colak Gonul (Hanken School of Economics); Hasan Iftekhar (Gabelli School of Business, Fordham University); Mazboudi Mohamad (American University of Beirut)
Presenter: Gonul Colak
Discussant: Thomas Geelen (Ecole Polytechnique Fédérale de Lausanne)

## Derivatives
Chairman: Franck Moraux (Université de Rennes I)

16:30
Berliner

- **TERM STRUCTURE OF INTEREST RATES WITH SHORT-RUN AND LONG-RUN RISKS**

Grishchenko Olesya V. (Board of Governors of the Federal Reserve System); Song Zhaogang (Johns Hopkins University - Carey Business School); Zhou Hao (Tsinghua University - PBC School of Finance)
Presenter: Olesya Grishchenko
Discussant: Ilya Dergunov (Goethe University Frankfurt)

- **OPTION IMPLIED DIVIDENDS**

Kragt Jac (Tilburg University - Department of Finance)
Presenter: Jac Kragt
Discussant: Olesya Grishchenko (Board of Governors of the Federal Reserve System)

- **EXTREME INFLATION AND TIME-VARYING DISASTER RISK**

Dergunov Ilya (Goethe University Frankfurt - Research Center SAF); Meinerding Christoph (Deutsche Bundesbank); Schlag Christian (Goethe University Frankfurt - Research Center SAFE)
Presenter: Ilya Dergunov
Discussant: Jac Kragt (Tilburg University)

## M&A / Private Equity (sponsored by Ardian)
ARDIAN
Chairman: Nihat Aktas (WHU Otto Beisheim School of Management)

16:30
Halles 1

- **WEAK CREDIT COVENANTS**

Ivashina Victoria (Harvard University); Vallee Boris (Harvard Business School - Finance Unit)
Presenter: Boris Vallee
Discussant: Ettore Croci (Catholic University of the Sacred Hearth of Milan)

- **TAKEOVER DURATION AND NEGOTIATION PROCESS**

Calcagno Riccardo (EMLYON Business School); de Bodt Eric (Université de Lille); Demidova Irina (Ecole des sciences de la gestion - Université du Québec à Montréal)
Presenter: Irina Demidova
Discussant: Guosong Xu (WHU Otto Beisheim School of Management)

- **FACILITATING TAKEOVERS AND TAKEOVER PREMIA: THE CASE OF COORDINATED MONITORING**

Croci Ettore (Catholic University of the Sacred Heart of Milan); Mazur Mieszko (Catholic University of Lille - IESEG School of Management); Salganik-Shoshan Galla (Ben-Gurion University of the Negev)
Presenter: Mieszko Mazur
Discussant: Stefan Jaspersen (University of Cologne)

*18:00 Cocktail & Best Paper Award – "La Rotonde", Novotel*

## Asset Pricing 1
Chairman: Philippe Bertrand (Université Aix-Marseille)

9:00
Berliner

### ▪ THE VOLATILITY-OF-VOLATILITY TERM STRUCTURE


Branger Nicole (University of Muenster - Finance Center Muenster); Hülsbusch Hendrik (University of Muenster - Finance Center Muenster); Kraftschik Alexander (University of Muenster - Finance Center Muenster)

Presenter: Hendrik Hülsbusch

Discussant: Sumudu W. Watugala (Cornell University - Dyson School of Applied Economics and Management)



This paper investigates the volatility-of-volatility (VVIX) term structure. The term structure is in nearly all cases downward sloping. We find that the slope of the VVIX (SlopeVVIX), defined as VVIX' second principal component, predicts excess returns of S&P500 and VIX straddles. Its informational content is incremental to the VIX term structure and to the variance risk premium. To analyze which type of risk is captured by SlopeVVIX, we develop an affine approximation for the VVIX based on a VIX option pricing model. We find that the contributions of continuous vol-of-vol and jump risk to the term structure vary systematically with the state of the economy. When the latest major crises hit, continuous vol-of-vol took the lion's share over all maturities. As its relative contribution is similarly high across all maturities at these times, our results suggest that investors expected a prolonged period of high uncertainty in volatility.


### ▪ THE TIME-VARYING RISK OF MACROECONOMIC DISASTERS


Marfè Roberto (University of Torino - Collegio Carlo Alberto); Pénasse Julien (University of Luxembourg)

Presenter: Roberto Marfè

Discussant: Hendrik Hülsbusch (University of Muenster - Finance Center Muenster)



The rare disasters model of asset prices suggests stock market variations reflect persistent fluctuations in the probability of a large decline in consumption. This paper estimates this probability from macroeconomic data alone, using a dataset of 42 countries over more than a century. We find that disaster risk is volatile and persistent, strongly correlates with the dividend-price ratio, and forecasts stock returns. Our evidence suggests that disaster risk can rationalize the equity premium and risk-free rate puzzles, the excess volatility puzzle, and the predictability of aggregate stock market returns by the dividend-price ratio. A variable disaster model calibrated with our risk estimates confirms these results under standard assumptions. While former works support the plausibility of disaster risk hypothesis, we provide direct evidence that disaster risk can rationalize price fluctuations.

▪ ECONOMIC UNCERTAINTY AND COMMODITY FUTURES VOLATILITY

Watugala Sumudu W. (Cornell University - Dyson School of Applied Economics and Management)

Presenter: Sumudu W. Watugala

Discussant: Roberto Marfè (University of Torino)

This paper investigates the dynamics of commodity futures volatility. I derive the variance decomposition for the futures basis to show how unexpected excess returns result from new information about the expected future interest rates, convenience yields, and risk premia. This motivates my empirical analysis of the volatility impact of economic and inflation regimes and commodity supply-demand shocks. Using data on major commodity futures markets and global bilateral commodity trade, I analyze the extent to which commodity volatility is related to fundamental uncertainty arising from increased emerging market demand and macroeconomic uncertainty, and control for the potential impact of financial frictions introduced by changing market structure and index trading. I find that a higher concentration in the emerging market importers of a commodity is associated with higher futures volatility. Commodity futures volatility is significantly predictable using variables capturing macroeconomic uncertainty. I examine the conditional variation in the asymmetric relationship between returns and volatility, and how this relates to the futures basis and sensitivity to consumer and producer shocks.

**Banking 1 (sponsored by ACPR Chair)** — **9:00**

Chairman: Christophe Pérignon (HEC Paris) — **Halles 2**

▪ CREDIT SUPPLY SHOCKS AND HUMAN CAPITAL: EVIDENCE FROM A CHANGE IN ACCOUNTING NORMS

Barbosa Luciana (Bank of Portugal - Economic Research Department); Bilan Andrada (Swiss Finance Institute); Celerier Claire (University of Toronto - Rotman School of Management)

Presenter: Andrada Bilan

Discussant: Corey Garriott (Bank of Canada)

This paper investigates the effect of an exogenous credit supply shock triggered by a change in accounting norms on firm accumulation of human capital. In 2005, the introduction of new reporting norms for defined-benefit pension plans in Portugal led to large increases in the value of bank pension liabilities. Affected banks increased both direct contributions to pension plans and prudential deductions from Tier 1 capital, subsequently reducing their supply of credit. We first document that firms in a relationship with affected banks do not perfectly substitute credit. Second, we find that affected firms reduce employment. We show that these employment effects are stronger among unskilled workers, but also among the highly educated ones. Workers holding a college degree, or holding complex occupations, are more likely to leave affected firms. These results suggest that credit supply shocks can affect firm accumulation of human capital, with implications for firm long-term productivity.

▪ BANKING REGULATION AND MARKET MAKING

Cimon David A. (Bank of Canada); Garriott Corey (Bank of Canada)
Presenter: Garriott Corey
Discussant: Raphael Flore (University of Cologne)

Recent banking regulation can harm bond market liquidity by motivating a shift to agency intermediation. In a model, theoretical market makers are made to satisfy balance-sheet constraints that are stylizations of the banking rules from Basel III and the U.S. Volcker Rule. The regulations cause market makers to reduce their inter-mediation by refusing principal positions and instead matching clients on an agency basis. As a result, asset prices exhibit greater price impact and greater price pressure. However, the regulations can improve the bid-ask spread because they induce entry bynew market makers.

▪ THE OPTIMAL CAPITAL STRUCTURE IN PRESENCE OF FINANCIAL ASSETS

Flore Raphael (University of Cologne - Center for Macroeconomic Research (CMR))
Presenter: Raphael Flore
Discussant: Andrada Bilan (Swiss Finance Institute)

Trade-off theories of capital structure describe how a firm chooses its leverage for a given set of assets. This paper studies how the predictions of such trade-off theories change if one accounts for the possibility that firms can invest in financial markets. In that case, the set of available assets is not given on the firm level, but depends on the characteristics of the market. In particular, new assets can be created by writing financial contracts. For arbitrary initial sets of assets and the corresponding optimal capital structures, I determine conditions under which the firm can decrease its leverage and its bankruptcy probability without a loss of value by use of 'integrated funds', which means by passively holding simple financial assets. This paper thus shows that, contrary to the usual notion, the trade-off theories of capital structure do not imply that capital requirements are (socially or privately) costly in the long run.

| Corporate Governance 1<br>Chairman: Sridhar Arcot (ESSEC Business School) | 9:00<br>Halles 1 |
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▪ IS THERE A LOCAL CULTURE OF CORRUPTION IN THE U.S.?

Dass Nishant (Georgia Institute of Technology - Scheller College of Business); Nanda Vikram K. (University of Texas at Dallas - School of Management - Department of Finance & Managerial Economics); Xiao Steven Chong (University of Texas at Dallas - Naveen Jindal School of Management)
Presenter: Steven Chong Xiao
Discussant: Alexei V. Ovtchinnikov (HEC Paris)

U.S. corporations headquartered in states with greater public corruption are prone to more unethical behavior, reflective of a state-level "culture-of-corruption". We test for state-level differences by exploiting passage of Foreign Corrupt Practices Act (FCPA) that curtailed bribery of foreign officials. Firms in corrupt states, especially firms trading with more corrupt countries, suffer greater value (Tobin's Q) and performance (ROA) decline following FCPA, indicating larger losses from restrictions on bribery. Culture-of-corruption is also manifest in greater agency problems: Firms in corrupt states are more likely to manage earnings, face securities fraud litigation and be adversely affected by state-level anti-takeover laws.

## ▪ ELEPHANTS (OR DONKEYS) AT THE GATE: POLITICAL IDEOLOGY IN M&A

Alhashel Bader (Kuwait University); Alnahedh Saad (University of Colorado at Boulder - Department of Finance)

Presenter: Saad Alnahedh

Discussant: Steven Chong Xiao (University of Texas)

We study the effect of shared political identity between acquirers and targets on merger outcomes. In a sample of publicly traded U.S. mergers, we find that targets are more likely to be acquired by an acquirer of a similar political orientation. We document that acquirers in politically matched mergers experience significantly worse cumulative abnormal returns around the merger announcement compared to their non-politically matched counterparts. Acquirers in those mergers pay less takeover premiums, less advisory fees, and experience worse post-merger operating performance. We also find that target executive retention rates are higher, and that the top management team receives a larger bonus post-merger in politically matched mergers. Our results indicate that politically matched mergers create less value to shareholders.

## ▪ DEBT AND INCENTIVES IN POLITICAL CAMPAIGNS

Ovtchinnikov Alexei V. (HEC Paris (Groupe HEC) - Finance Department); Valta Philip (University of Bern)

Presenter: Alexei V. Ovtchinnikov

Discussant: Saad Alnahedh (University of Colorado)

Debt is a significant source of funding of political campaigns, with almost half of all campaigns relying on some form of debt. In this paper, we analyze the legislative incentives created by this type of debt financing. We find that indebted politicians raise more funds in subsequent elections, especially from special interest groups. We also show evidence of votes-for-money arrangements, especially among indebted politicians, whereby politicians vote for the benefit of those interest groups that help funding their reelection campaigns. The results are consistent with the view that debt creates legislative distortions and exacerbates the principal-agent problem because it forces indebted politicians to take policy positions that are not aligned with the local constituents' interests.

- THE ROLE OF PRE-OPENING MECHANISMS IN FRAGMENTED MARKETS

Boussetta Selma (University of Toulouse 1 - Université Toulouse 1 Capitole); Lescourret Laurence (ESSEC Business School); Moinas Sophie (Toulouse School of Economics)
Presenter: Selma Boussetta
Discussant: Sebastian Vogel (Ecole Polytechnique Fédérale de Lausanne)

To facilitate price discovery, Euronext Paris has always relied on a transparent pre-opening phase and on a call auction to open continuous markets. Fast trading, competition from alternative trading venues and the poor volume at the open (2%) however question the role of these non-trading sessions. Using a unique dataset of stocks cross-traded on Euronext Paris, BATS and Chi-X, we explore the behavior of traders during the preopen based on their speed and nature of orders (proprietary, agency or market-making). We show that slow brokers submit orders very early, and most of them are executed within the day. In contrast, fast prop traders or dedicated liquidity providers only participate in the last half-hour. Interestingly the pre-opening activity of slow brokers is strongly related to the price discovery process across trading venues. Finally, we show that although tentative clearing prices of the preopen contain information, they are followed by a reversal in the following 15 minutes across the different platforms, reflecting price pressure and liquidity issues around the open.

- WHEN TO INTRODUCE ELECTRONIC TRADING PLATFORMS IN OVER-THE-COUNTER MARKETS?

Vogel Sebastian (Ecole Polytechnique Fédérale de Lausanne)
Presenter: Sebastian Vogel
Discussant: Norman Seeger (VU University Amsterdam)

I study a hybrid over-the-counter (OTC) market structure in which traders have the choice of obtaining an asset either in a bilateral market or on an electronic trading platform. In a hybrid market (HM), turnover is higher and expected prices are lower than in a pure bilateral market (PBM). I present sufficient conditions under which dealers' profits are higher in the HM than in the PBM and vice versa. Dealers can increase their profits in the HM by colluding to keep their activity on the platform at a certain level. The model also delivers several other empirical implications regarding prices, trading volume and the traders' choices of trading venue under the two different market structures.

- INFORMED TRADING IN THE INDEX OPTION MARKET

Kaeck Andreas (University of Sussex); van Kervel Vincent (Pontifical Catholic University of Chile); Seeger Norman (VU University Amsterdam)
Presenter: Norman Seeger
Discussant: Selma Boussetta (University of Toulouse 1)

We estimate a structural model of informed trading in option markets. We decompose option order flow into exposures to the underlying asset (through the option delta) and its volatility (through the option vega). We then use these order flow exposures to predict changes in the underlying asset and volatility in a vector autoregressive (VAR) model. The model measures informed trading in the aggregate option market, as option order flows can be meaningfully combined across options with different strike prices and maturities. Further, the order flow aggregation increases statistical power, which is necessary to identify informed trading on the two components. The model also yields a novel price impact parameter of volatility speculation. Estimates using options on the S&P500 confirm that option trades are indeed informed about changes in both the underlying and volatility, although the magnitude of the former is substantially larger.

## *10:30-11:00 Coffee break*

**Asset Pricing 2** — **11:00**
Chairman: Abraham Lioui (EDHEC) — **Berliner**

- THE LOST CAPITAL ASSET PRICING MODEL

Andrei Daniel (University of California, Los Angeles (UCLA) - Anderson School of Management); Cujean Julien (University of Maryland - Robert H. Smith School of Business); Wilson Mungo Ivor (University of Oxford - Said Business School)
Presenter: Julien Cujean
Discussant: José Afonso Faias (Universidade Catolica Portuguesa)

A flat Securities Market Line is not evidence against the CAPM. Under the Roll (1977) critique, the CAPM is a “lost city of Atlantis,” empirically invisible. In a noisy rational-expectations economy, there exists an information gap between the average investor who holds the market and the empiricist who does not observe the market portfolio. The CAPM holds for the investor, but appears flat to the empiricist. This distortion is empirically substantial and explains, for instance, why “Betting Against Beta” works; BAB really bets on true beta. Macroeconomic announcements reduce the distortion—for a fleeting moment the empiricist catches a glimpse of the CAPM.

- TIME-VARYING PREDICTABILITY OF CONSUMPTION GROWTH, MACRO-UNCERTAINTY, AND RISK PREMIUMS

Barroso Pedro (UNSW Australia Business School, School of Banking and Finance); Boons Martijn (New University of Lisbon - Nova School of Business and Economics); Karehnke Paul (UNSW Australia Business School, School of Banking and Finance)
Presenter: Martijn Boons
Discussant: Julien Cujean (University of Maryland)

We show that the relation between state variables, such as the t-bill rate and term spread, and consumption growth varies significantly over time. Consistent with an Intertemporal CAPM, we find that state variable risk premiums (in the cross section of individual stocks) vary over time accordingly: Risk premiums increase by 5% (an-nualized) when a state variable predicts consumption growth strongly relative to its own history. This effect is magnified by time-variation in the variance of the state variables, which we argue to be associated to general macroeconomic uncertainty. Our conditional evidence contributes to recent literature that focuses on the unconditional pricing of state variable risk and finds mixed results.

- ESG RISKS AND THE CROSS-SECTION OF STOCK RETURNS

Gloßner Simon (Catholic University of Eichstaett-Ingolstadt)

Presenter: Simon Gloßner
Discussant: Martijn Boons (New University of Lisbon)

This paper finds that environmental, social, and governance (ESG) risks generate negative long-run stock returns. A value-weighted U.S. portfolio with high ESG risks exhibits a four-factor alpha of −3.5% per year, even when controlling for other risk factors, industries, or firm characteristics. The negative alpha stems from unexpected costly ESG issues and from negative earnings surprises. These findings make three contributions. First, weak corporate social responsibility destroys shareholder value. Second, stock markets fail to incorporate the consequences of intangible risks. Third, shorting firms with high ESG risks is a profitable socially responsible investment strategy.

## Banking 2 | 11:00
Chairman: Sonia Jimenez (Université Grenoble Alpes) | Halles 2

- SHOULD THE GOVERNMENT BE PAYING INVESTMENT FEES ON $3 TRILLION OF TAX-DEFERRED RETIREMENT ASSETS?

Landoni Mattia (Southern Methodist University (SMU) - Finance Department); Zeldes Stephen P. (Columbia Business School - Finance and Economics)

Presenter: Mattia Landoni
Discussant: Simon Straumann (University of Saint Gallen)

Governments incentivize retirement saving by allowing individuals to contribute to tax-advantaged accounts where the returns to financial assets receive special tax treatment. In accounts with "back-loaded" taxation, the individual contributes pretax money and pays taxes when the money is withdrawn. In accounts with "front-loaded" taxation, the individual contributes aftertax money and pays no future taxes. Under some simplifying assumptions, a standard benchmark result is that both the individual and the government are indifferent between the two types of accounts. We add investment management fees to the benchmark model and show that the neutrality result breaks down. Assuming fees are fixed as a percent of assets under management (AUM), we show that individuals are still indifferent to the timing of taxation but the government is not. Under back-loaded taxation, the government implicitly owns a share of all retirement accounts and is effectively paying investment fees on this share, something it avoids under front-loaded taxation. We estimate this to cost the government $15 billion per year, representing a subsidy to the asset management industry. We then ask whether this result holds in general equilibrium, where fees as a percent of AUM are allowed to vary. The answer depends both on the nature of the cost function for asset management services, and on the nature of market competition, but we find that the result will in general continue to hold: back-loaded taxation is more expensive for the government and produces a larger asset-management industry. Finally, we use the general equilibrium model to examine welfare implications. In a rough calibration of the model, we find that this increase in the size of the asset management industry reduces consumer welfare.

- DYNAMIC FIRE-SALE EXTERNALITIES AND ROLLOVER RISK SPILLOVERS

Doh Hyunsoo (Nanyang Technological University)
Presenter: Hyunsoo Doh
Discussant: Mattia Landoni (Southern Methodist University)

This paper studies financial contagion in a short-term debt market by developing a dynamic model with heterogeneous banks in which outside investors of assets are financially constrained and have different asset-management skills. Each bank's creditors make withdrawal decisions at their maturity dates. Each outside investor chooses an optimal time to purchase failed assets. The rollover risks of distressed banks propagate to other banks through the expected changes in a market-clearing liquidation price of assets. In contrast to He and Xiong (2012), the model implies providing more credit support or extending debt maturities alleviates a crisis by increasing the liquidation price.

- ILLUMINATING THE DARK SIDE OF FINANCIAL INNOVATION: THE ROLE OF INVESTOR INFORMATION

Ammann Manuel (University of Saint Gallen - School of Finance); Arnold Marc (University of Saint Gallen - School of Finance); Straumann Simon (University of Saint Gallen - School of Finance)
Presenter: Simon Straumann
Discussant: Hyunsoo Doh (Nanyang Technological University)

This paper investigates the impact of imperfect investor information on financial innovation. We identify volatility and dividends as specific information sources for which issuers of financially engineered products have an information advantage over retail investors. Issuers' information advantage is crucial to explaining the overpricing and design of financially engineered products. We confirm our conjecture that issuers exploit this information channel by analyzing a discontinuity in issuers' information advantage. The insights are of systemic importance because they suggest that product issuers' behavior in the financial innovation market aggravates investor information frictions in the financial system.

- WALL STREET CROSSES MEMORY LANE: HOW WITNESSED RETURNS AFFECT PROFESSIONALS' EXPECTED RETURNS

Hoffmann Arvid O. I. (University of Adelaide - Business School); Iliewa Zwetelina (Centre for European Economic Research (ZEW)); Jaroszek Lena (Copenhagen Business School - Department of Finance)
Presenter: Zwetelina Iliewa
Discussant: Erik Theissen (University of Mannheim)

Witnessing stock market history in the making leaves behind a vivid story, but does not provide valuable information. Nevertheless, well-versed finance professionals extrapolate from witnessed returns when forming beliefs about expected returns which we show by using a unique dataset regarding professionals' career start in the finance industry. This result is robust to controlling for all publicly available information and interpersonal differences. Additionally, we find that returns witnessed early on in a career are more formative than those witnessed recently. Among the potential channels through which witnessed returns might affect professionals' expectations, a judgmental bias appears the most plausible.

- ALL IS NOT LOST THAT IS DELAYED: OVERCONFIDENCE AND INVESTMENT FAILURE

Betzer André (BUW- Schumpeter School of Business and Economics); van den Bongard Inga (University of Mannheim - Finance Area); Theissen Erik (University of Mannheim - Finance Area); Volkmann Christine (University of Wuppertal)
Presenter: Erik Theissen
Discussant: Alexander Klos (University of Kiel)

Using a unique panel data set of private German firms over the period 2002 to 2013 we analyze the relation between managerial overconfidence and investment policy in small and medium-sized firms. We construct direct estimates of managerial overconfidence that are based on sales forecasts. We find that overconfident managers are more likely to invest, and that this relation is driven by expansion investments (as opposed to replacement investments). Most importantly, we provide empirical evidence on the determinants of failed (downsized, delayed or abandoned) corporate investment projects. Controlling for socio-demographic variables and firm characteristics, we find that investment projects planned by overconfident managers are more likely to fail. When we differentiate between the three categories of failure (abandoning, delaying, and downsizing) we find that overconfident managers are more likely to delay, rather than to abandon or downsize, an investment project. We offer an explanation that is based on the theory of cognitive dissonance.

▪ OVERPRICED WINNERS

Daniel Kent D. (Columbia Business School - Finance and Economics); Klos Alexander (University of Kiel - Institute for Quantitative Business and Economics Research (QBER)); Rottke Simon (University of Muenster - Finance Center Muenster)
Presenter: Alexander Klos
Discussant: Zwetelina Iliewa (Centre for European Economic Research)

A strong increase in a firm's market price over the past year is generally associated with higher future abnormal returns, consistent with the momentum anomaly. However, for a small set of firms for which arbitrage is limited, high past returns forecast strongly negative future abnormal returns. We propose a dynamic model in which increased unwarranted optimism by a set of speculators leads to dynamic mispricing effects. Consistent with this model, we show a set of firms with high past returns, low institutional ownership, and high recent changes in short interest earns persistently low returns going forward. A strategy that goes short the overpriced winners and long other winners generates a Sharpe-ratio of 1.12; its returns cannot be explained by commonly used risk-factors.

| Investment<br>Chairman: Boris Vallée (Harvard Business School) | 11:00<br>Edison |
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▪ THE REAL EFFECTS OF SHORT SELLING RESTRICTIONS

Schiller Christoph M. (University of Toronto - Rotman School of Management)
Presenter: Christoph M. Schiller
Discussant: Marc Deloof (University of Antwerp)

Short selling enhances the price feedback mechanism for corporate investment decisions. Using the staggered introduction and repeal of short selling restrictions around the world, we show that the sensitivity of investment to Tobin's Q is 25% higher when short selling is permitted. Further, short selling strengthens the link between the completion of announced M&A deals and the price reaction on announcement day. The positive impact of short selling on investment-Q sensitivity is higher for firms with low analyst coverage and institutional ownership, mitigated for cross-listed firms, and subsequently results in improved firm performance. The effects do not appear to be driven by a higher total amount of information in prices, faster price discovery, improved firm disclosure, or differences in governance. Our results suggest that short selling incentivizes traders to acquire private information new to firm managers, thus enhancing managers' reliance on stock prices as an information signal for investment decisions.

▪ THE FLIGHT HOME EFFECT IN MULTINATIONAL INTERNAL CAPITAL MARKETS DURING THE GREAT RECESSION

Deloof Marc (University of Antwerp); Montalto Fabiola (University of Antwerp)
Presenter: Marc Deloof
Discussant: Thorsten Martin (HEC Paris)

We investigate whether the Great Recession induced a flight home effect in internal capital markets of European multinational firms. Using a difference-in-difference approach, we find a significant reduction in group borrowings by subsidiaries of European multinationals in Italy since 2008, compared to a propensity score matched sample of subsidiaries of local business groups. While the reduction in group borrowings by multinational subsidiaries is partially counterbalanced by an increase in bank borrowings, multinational subsidiaries reduced their investments more than local group subsidiaries. These effects are significantly stronger for subsidiaries of multinationals headquartered in a European country that has been hit harder by the Great Recession. The reduction in group borrowings is larger when the foreign parent is located at a greater distance from subsidiary.

▪ THE EFFECT OF HOLD-UP PROBLEMS ON CORPORATE INVESTMENT: EVIDENCE FROM IMPORT TARIFF REDUCTIONS

Martin Thorsten (HEC Paris - Finance Department); Otto Clemens A. (Singapore Management University)
Presenter: Thorsten Martin
Discussant: Christoph M. Schiller (University of Toronto)

We provide empirical evidence of the importance of hold-up problems for investment decisions in a large number of U.S. manufacturing industries. We exploit variation in the severity of hold-up problems between upstream suppliers and downstream customers resulting from import tariff reductions in upstream industries. We find that downstream customers respond by increasing investment. As theory predicts, the effect is stronger if the customers are not vertically integrated with their suppliers, if they have little bargaining power, if their suppliers produce differentiated inputs, and if high uncertainty inhibits the use of long-term contracts.

## *12:30-14:00 Lunch – Restaurant "La Place", Novotel*

**Hedge Funds / Portfolio Management** (sponsored by Amundi) 13:45
Chairman: Jocelyn Martel (ESSEC Business School) Halles 1

▪ THE PREDOMINANCE OF REAL ESTATE IN THE HOUSEHOLD PORTFOLIO

Barras Laurent (McGill University - Desautels Faculty of Management); Betermier Sebastien (McGill University - Desautels Faculty of Management)
Presenter: Laurent Barras
Discussant: Roméo Tédongap (ESSEC Business School)

This paper investigates why household portfolios are heavily skewed toward real estate. Previous studies suggest that the large portfolio share of real estate primarily stems from non-investment-related motives as homeowners are often forced to invest heavily to buy the home they want to consume. In contrast, we show that homeowners would still invest the bulk of their wealth in real estate in a frictionless setting where they could own and consume separate amounts of housing. We provide empirical support to this argument and derive a dynamic portfolio model to study why real estate has such a strong investment appeal.

▪ KNOWING ME, KNOWING YOU? SIMILARITY TO THE CEO AND FUND MANAGERS' INVESTMENT DECISIONS

Jaspersen Stefan (University of Cologne - Centre for Financial Research (CFR)); Limbach Peter (University of Cologne and Centre for Financial Research (CFR))

Presenter: Stefan Jaspersen
Discussant: David Le Bris (Toulouse Business School)

We study whether investors' demographic similarity to CEOs affects their investment decisions. Mutual fund managers are found to overweight firms led by CEOs who resemble them in terms of age, ethnicity and gender. This finding is robust to excluding educational and local ties and is supported by variation in similarity caused by CEO departures. Investing in firms run by similar CEOs, on average, is associated with superior performance and is more pronounced when uncertainty is higher. Results suggest that demographic similarity to CEOs facilitates informed trading. They further suggest that CEOs matter to investors.

▪ LIMITS OF ARBITRAGE UNDER THE MICROSCOPE: EVIDENCE FROM DETAILED HEDGE FUND TRANSACTION DATA

von Beschwitz Bastian (Board of Governors of the Federal Reserve System); Lunghi Sandro (Inalytics Limited); Schmidt Daniel (HEC Paris (Groupe HEC) - Finance Department)

Presenter: Bastian von Beschwitz
Discussant: Laurent Barras (McGill University)

We exploit detailed transaction and position data for a sample of long-short equity hedge funds to document new facts about the trading activity of sophisticated investors. We find that the initiation of both long and short positions is associated with significant abnormal returns, suggesting that the hedge funds in our sample possess investment skill. In contrast, the closing of long and short positions is followed by return continuation, implying that hedge funds close their positions too early and leave money on the table. As we demonstrate with a simple model, this behaviour can be explained by hedge funds being (risk) capital constrained and facing position monitoring costs. Consistent with our model, we document that the return continuation following closing orders is more pronounced when these constraints become more binding (e.g., after negative fund returns or increases in volatility).

▪ IS VARIATION ON VALUATION TOO EXCESSIVE? A STUDY OF MUTUAL FUND HOLDINGS

Chen Hsiu-Lang (University of Illinois at Chicago - Department of Finance)

Presenter: Hsiu-Lang Chen
Discussant: Daniel Schmidt (HEC Paris)

I first examine whether or not the fair value of financial instruments is priced consistently across mutual funds. Mutual funds price fair value differently for illiquid stocks, value stocks, and not-IPO-yet startups. I find that U.S. equity funds with an inclination for upbeat fair value tend to underperform others particularly in months following up-markets. When an equity fund performs poorly, has positive price dispersion in its holdings, or holds more illiquid stocks, the fund tends to have positive price dispersion again in the next quarter. This behavior is more significant when the stock market is more volatile. If the fair value of securities varies due to inconsistent valuation policies across mutual funds, a comparison of the portfolio weights on their securities could be problematic. I further present the economic impact of inconsistent fair value policies by U.S. equity funds.

▪ TESTING THE TAX-LOSS SELLING EXPLANATION OF THE JANUARY EFFECT: EVIDENCE FROM A 'CONFISCATORY' TAX IMPLEMENTED IN FRANCE IN 1921

Le Bris David (Toulouse Business School); Tobelem Sandrine (London School of Economics & Political Science (LSE))

Presenter: David Le Bris

Discussant: Hsiu-Lang Chen (University of Illinois)

Using 160 years of data, we document a significant January effect on the French equity market. We find strong evidence in favor of the tax-loss selling explanation for this phenomenon. Indeed, the January effect was insignificant before the introduction of a “confiscatory tax” on capital gains in 1921, and became strongly significant afterward. Moreover, the rate of taxation is a statistically significant explanation of the strength of the January effect over time. Studying individual stock returns, a Differences-In-Differences investigation shows that past losers, outperform past winners at the turn of the year but only after 1921, which reinforces further the tax-loss selling explanation of the January effect.

## Behavioral Finance 2 — 14:00

Chairman: Zwetelina Iliewa (Centre for European Economic Research) — Berliner

▪ PRICING SIN STOCKS: ETHICAL PREFERENCE VS. RISK AVERSION

Colonnello Stefano (Otto-von-Guericke Universitat Magdeburg); Curatola Giuliano (Goethe University Frankfurt - Research Center SAFE); Gioffre Alessandro (Goethe University Frankfurt - Research Center SAFE)

Presenter: Giuliano Curatola

Discussant: Patrick Roger (Strasbourg University)

We develop a model that explains the average return and volatility spread between sin stocks and non-sin comparable stocks. We endow agents' preferences with a sensitivity factor to firms' ethicalness. A positive marginal rate of substitution between dividends and ethicalness explains the higher average returns that sin stocks exhibit over non-sin comparable stocks. This result can be obtained either when (i) dividends and ethicalness are substitute goods and investors are less riskaverse than log utility, or (ii) when dividends and ethicalness are complementary goods and investors are more risk-averse than log utility. We empirically show that only the latter case can explain the patterns of the conditional return and volatility spreads between sin and non-sin comparable stocks.

## ▪ DEALER TRADING AT THE FIX

Osler Carol L. (Brandeis University - International Business School); Turnbull D. Alasdair S. (Clarkson University - School of Business)
Presenter: Carol L. Osler
Discussant: Adam Winegar (BI Norwegian Business School)

This paper develops a model of dealer conduct and misconduct at the London 4 pm fix, a major currency-market benchmark. The analysis clarifies the dealers' incentives and strategies, explains why price dynamics appear unchanged despite reforms, and provides insights relevant to benchmark design. Prices will be unusually volatile before the fix without collusion. Collusion is profitable because it shuts down a form of free-riding in which dealers front-run each other. With collusion the price trend accelerates more as the fix moment approaches than when dealers trade independently. Statistical tests detect this shift around 2008, when major banks admit their dealers began colluding.

## ▪ ANOTHER LAW OF SMALL NUMBERS: PATTERNS OF TRADING PRICES IN EXPERIMENTAL MARKETS

Bousselmi Wael (Université Montpellier I); Roger Patrick (Strasbourg University - LARGE Research Center - EM Strasbourg Business School); Roger Tristan (Université Paris-Dauphine, PSL Research University); Willinger Marc (LAMETA, University of Montpellier 1)
Presenter: Patrick Roger
Discussant: Carol L. Osler (Brandeis University)

Studies in neuropsychology show that the human brain processes small and large numbers differently. Small numbers are processed on a linear scale, while large numbers are processed on a logarithmic scale. In this paper, we report the results of an experiment showing that trading prices on experimental markets are processed differently by participants, depending on their magnitude. Deviations from fundamental values are larger in small price markets than in large price markets. Our experimental design allows us to confirm the result at the individual level. For a given participant, the deviation from the fundamental value is 27.27% on average when she trades on a small price market compared to about 0% on a large price market. Our results show that price magnitude influences the way people perceive the distribution of future returns. This result is at odds with standard finance theory but is consistent with: (1) a number of observations in the empirical finance and accounting literature; and, (2) the use of different mental scales for small and large prices.

## ▪ A SIGNALING THEORY OF DERIVATIVES-BASED HEDGING

Anjos Fernando (NOVA School of Business and Economics); Winegar Adam (BI Norwegian Business School)
Presenter: Adam Winegar
Discussant: Giuliano Curatola (Goethe University Frankfurt)

We model a commodity producing firm that has private information about future volume and requires outside financing to fund a growth opportunity. Due to costly financial distress, a firm's first-best strategy is to sell forward its future production, avoiding any price risk. Low-volume firms, however, have an

incentive to mimic, which in equilibrium distorts the hedging strategy of high-volume firms. Under certain conditions, high-volume firms signal their type by hedging more than they would under their first-best strategy. In general, high-volume firms signal by taking on excess risk through derivative positions. When allowing firms to use multiple types of derivatives, we show that high-volume firms use both options and forwards, while low-volume firms only use forwards. The model suggests that heterogeneous and prima facie non-optimal hedging policies may be due to signaling and not speculation or risk shifting.

## Corporate Governance 2 — 14:00
Chairman: Edith Ginglinger (Université Paris IX – Dauphine) — Halles 2

### ▪ PEER PRESSURE IN CORPORATE EARNINGS MANAGEMENT

Charles Constantin (University of Southern California - Marshall School of Business); Schmid Markus M. (University of Saint Gallen - Swiss Institute of Banking and Finance); von Meyerinck Felix (University of Saint Gallen - School of Finance)

Presenter: Constantin Charles

Discussant: Ryan Williams (University of Arizona)

We show that peer firms play an important role in shaping corporate earnings management decisions. To overcome identification issues in isolating peer effects, we use fund flow-induced selling pressure by passive open-end equity mutual funds as exogenous shocks to firms' stock prices. Managers respond to such exogenous price shocks by adjusting earnings management policies. We then measure individual firms' reactions to changes in earnings management at peer firms as a result of such exogenous price shocks. The documented peer effect in earnings management is not only statistically, but also economically significant. Our results are robust to alternative measures of fund flow-induced selling pressure and earnings management, and to estimating instrumental variables regressions in which we instrument peer firms' earnings management with mutual fund flow-induced selling pressure.

### ▪ ACTIVE VERSUS SPECULATIVE MONITORING: EVIDENCE FROM PRE-WWI PARIS-LISTED FIRMS

Bonhoure Emilie (Toulouse Business School); Germain Laurent (Toulouse University, Toulouse Business School); Le Bris David (Toulouse Business School)

Presenter: Emilie Bonhoure

Discussant: Lea Henny Stern (University of Washington)

The corporate statutes of the five hundred firms listed on the unofficial Paris market before WWI stated the amount of dividends as a fixed percentage of profits: as a result, managers could not use dividends as a market signal. This setting offers the opportunity to study the agency explanation of dividends, while clearly excluding the signaling theory. Moreover, we investigate speculative (active) monitoring costs as proxied by distance between investors and the company's main activities (or head office). We confirm the effect of agency costs and find that speculative monitoring costs are more important in explaining dividend yield.

▪ A LEARNING-BASED APPROACH TO EVALUATING BOARDS OF DIRECTORS

Stern Lea Henny (University of Washington - Foster School of Business)

Presenter: Lea Henny Stern

Discussant: Sumingyue Wang (ESSEC Business School)

Using predictions from a learning model, this paper exploits the cross-sectional variation in the learning-induced decline in stock return volatility over director tenure to infer the marginal value of different kinds of directors. This new framework confirms prior empirical findings and documents new results. For example, directors joining better compensated boards have higher marginal value while the marginal value of a director joining an entrenched board is muted. Furthermore, the estimates imply that governance related uncertainty associated with the arrival of a new director accounts for 7% of return volatility, shedding light on the extent to which governance matters.

▪ ARE INDEPENDENT DIRECTORS WITH INDUSTRY EXPERTISE MORE INFORMED?

Wang Sumingyue (ESSEC Business School - Finance Department, Students)

Presenter: Sumingyue Wang

Discussant: Sara Ain Tommar (Université Paris IX - Dauphine)

This paper examines the informational advantage of independent directors with industry expertise compared to independent directors without such expertise. I find that independent directors with industry expertise earn significantly higher trading returns when purchasing their firms' stocks than do independent directors without industry expertise. The impact of industry expertise on independent directors' trading profits is more pronounced for firms with higher information asymmetry, for more complex firms, and for firms with higher business risk. Trades made by independent directors with industry expertise have greater predictive power regarding future stock price changes. Moreover, an increase in the proportion of independent directors with relevant industry expertise on the board is associated with better alliance performance, a higher probability of M&A deal completion, and a lower investment-to-price sensitivity. Overall, the results suggest that independent directors with industry expertise have superior knowledge about the firm and enhance board effectiveness in performing both monitoring and advisory roles.

## Financial Econometrics & Mathematics — 14:00
Chairman: Yannick Malevergne (Université Paris I – Panthéon Assas) — Bell

▪ WHAT DRIVES THE TREND AND BEHAVIOR IN AGGREGATE (IDIOSYNCRATIC) VARIANCE? FOLLOW THE BID-ASK BOUNCE

Lesmond David A. (Tulane University - A.B. Freeman School of Business); Pan Xuhui (Nick) (Tulane University); Zhao Yihua (Tulane University - A.B. Freeman School of Business)

Presenter: David Lesmond

Discussant: Jeroen Rombouts (ESSEC Business School)

A number of competing explanations have been offered as a rationale for the trend in idiosyncratic variance that has been experienced over the past four decades. We establish a theoretical model linking a market microstructure bias with the industry-adjusted idiosyncratic variance (Campbell, Lettau, Malkiel, and Xu, 2001) or the risk-adjusted idiosyncratic variance. Using this model's predictions, we empirically show that the bid-ask spread eliminates the time trend in aggregate idiosyncratic variance. These results are robust across various exchanges, across various risk-based measures of idiosyncratic variance, and through time. Two natural experiments demonstrate that an exogenous shock to the bid-ask spread is associated with a subsequent decline in the aggregate idiosyncratic variance. The microstructure hypothesis dominates any of the alternative explanations, including uncertainty about profitability, earnings shocks, or growth options, for the trend in idiosyncratic variance.

- VARIANCE SWAP PAYOFFS, RISK PREMIA AND EXTREME MARKET CONDITIONS

Rombouts Jeroen (ESSEC Business School); Stentoft Lars (Department of Economics, University of Western Ontario); Violante Francesco (Maastricht University - Department of Economics)
Presenter: Jeroen Rombouts
Discussant: Fabrizio Ferriani (Bank of Italy)

This paper estimates the Variance Risk Premium (VRP) directly from synthetic variance swap payoffs. Since variance swap payoffs are highly volatile, we extract the VRP by using signal extraction techniques based on a state-space representation of our model in combination with a simple economic constraint. Our approach, only requiring option implied volatilities and daily returns for the underlying, provides measurement error free estimates of the part of the VRP related to normal market conditions, and allows constructing variables indicating agents' expectations under extreme market conditions. The latter variables and the VRP generate different return predictability on the major US indices. A factor model is proposed to extract a market VRP which turns out to be priced when considering Fama and French portfolios.

- EFFICIENT PARAMETER ESTIMATION FOR MULTIVARIATE JUMP-DIFFUSIONS

Guay Francois (Boston University); Schwenkler Gustavo (Boston University - Department of Finance & Economics)
Presenter: Gustavo Schwenkler
Discussant: David Lesmond (Tulane University)

This paper develops estimators of the transition density, filters, and parameters of multivariate jump-diffusion models. The drift, volatility, jump intensity, and jump magnitude are allowed to be state-dependent and non-affine. It is not necessary to diagonalize the volatility matrix. Our density and filter estimators achieve the canonical rate of convergence typically associated with exact Monte Carlo estimation. Our parameter estimators have the same asymptotic distribution as maximum likelihood estimators, which are often intractable for the class of models we consider. The results of this paper enable the empirical

analysis of previously intractable models of asset prices and economic time series.

- THE DYNAMICS OF PRICE JUMPS IN THE STOCK MARKET: AN EMPIRICAL STUDY ON EUROPE AND U.S.

Ferriani Fabrizio (Bank of Italy); Zoi Patrick (Bank of Italy)

Presenter: Fabrizio Ferriani

Discussant: Gustavo Schwenkler (Boston University)

We study the bivariate jump process involving the S&P 500 and the Euro Stoxx 50 with jumps extracted from high frequency data using non-parametric methods. Our analysis, based on a generalized Hawkes process, reveals the presence of self-excitation in the jump activity which is responsible for jump clustering but has a very small persistence in time. Concerning cross-market effects, we find statistically significant co-jumps occurring when both markets are simultaneously operating but no evidence of contagion in the jump activity, suggesting that the role of jumps in volatility transmission is negligible. Moreover, we find a negative relationship between the jump activity and the continuous volatility indicating that jumps are mostly detected during tranquil market conditions rather than in periods of stress. Importantly, our empirical results are robust under different jump detection methods.

| Interest Rates<br>Chairman: Patrice Poncet (ESSEC Business School) | 14:00<br>Daguerre |
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- INTERNATIONAL REAL YIELDS

Ermolov Andrey (Fordham University - Gabelli School of Business)

Presenter: Andrey Ermolov

Discussant: Paul Whelan (Copenhagen Business School)

I study market-implied real yields extracted from prices of inflation-linked government bonds for nine developed countries. The liquidity premium is an important component of breakeven inflation rates. Unconditional real yield curves are upward-sloping, providing empirical support for habit models. The cross-country real rate equality is rejected. Across countries, real yields are strongly positively correlated while liquidity premia are moderately positively correlated. Low nominal yields following the Great Recession are mainly due to low real yields, although the inflation risk premia have also decreased.

- EXPECTATIONS OR SURPRISES: WHAT REALLY MOVES THE U.S. TREASURY MARKET?

van der Wel Michel (Erasmus University Rotterdam); Erdemlioglu Deniz (IESEG School of Management and CNRS - France)

Presenter: Deniz Erdemlioglu

Discussant: Alberto Plazzi (USI-Lugano)

The standard approach in asset pricing is to use information shocks to determine how markets react to news. We examine this paradigm empirically by decomposing high-frequency bond responses into ex-ante (expected) and ex-post (surprise) news components. Our analysis shows that the magnitude, direction and duration of reactions depend on the choice of measurement component. While bond returns barely react to news, volatility is closely linked to fundamentals. Ex-ante forecasts of investors generate significant jump (tail) clustering in the data, but we find no evidence for such effects with (ex-post) surprise measures. This suggests that considering ex-post surprises solely as proxy for shocks undermines the realized announcement impact, particularly for characterizing jump-type tail behavior in crisis periods. The news-implied reaction dispersion between expectations and shocks is sizable, related to trading volume and time-varying over the business cycle. Our findings provide relevant implications for macro-finance modeling and bond market microstructure.

▪ DOES MONETARY POLICY IMPACT MARKET INTEGRATION? EVIDENCE FROM DEVELOPED AND EMERGING MARKETS

Caporin Massimiliano (University of Padua - Department of Statistical Sciences); Pelizzon Loriana (Goethe University Frankfurt - Faculty of Economics and Business Administration); Plazzi Alberto (USI-Lugano)

Presenter: Alberto Plazzi
Discussant: Andrey Ermolov (Fordham University)

We investigate the impact of monetary announcements of the ECB and the FED on integration in the equity and sovereign CDS markets for a large cross-section of 18 Developed and 21 Emerging countries over 2006 to 2015. The effect of both announcements is negative or muted in the pre-crisis period, while it turns strongly positive during the financial crisis of 2007-2009. ECB interventions lead to more integration in the equity market during 2010 to 2012, but dis-integration in the CDS market in the ECB Quantitative Easing period (2013 to 2015), especially for emerging countries. In contrast, FED announcements are perceived as global factors in the CDS emerging market and are accompanied with an increase in integration both when the FED implements and unwinds its unconventional measures. The relation between the global factor and the U.S. market increases during FED interventions, the same does hold for the European market during ECB announcements. The exposure of emerging markets to outside monetary policy shocks can be explained in terms of their degree of trade and financial openness.

▪ CENTRAL BANK COMMUNICATION AND THE YIELD CURVE

Leombroni Matteo (Stanford University); Vedolin Andrea (Boston University - Department of Finance & Economics); Venter Gyuri (Copenhagen Business School); Whelan Paul (Copenhagen Business School)

Presenter: Paul Whelan
Discussant: Deniz Erdemliglu (IESEG School of Management and CNRS)

We decompose ECB monetary policy surprises into target and communication shocks and document a number of novel findings. First, consistent with the idea that concurrent implementation of monetary policy is largely anticipated, we find that target shocks only have a limited effect on yields. However, we show that communication shocks have a large and economically significant impact on swap rates and sovereign yields, displaying a hump-shaped pattern across

maturity. Second, we document that around the European debt crisis communication had the effect of driving a wedge between yields on core versus peripheral countries. We study two explanations for this finding, revelation of the ECB's private information and credit risk, and argue that neither channel can explain the effect on yield spreads. Motivated by this, we consider an alternative explanation in which central bank communication can induce demand shocks for bonds due to the presence of reaching-for-yield investors. We show that a resulting risk premium channel helps to rationalize our findings.

| Market Microstructure 2 | 14:00 |
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| Chairman: Laurence Lescourret (ESSEC Business School) | Edison |

- SHOCK PROPAGATION THROUGH CROSS-LEARNING IN OPAQUE NETWORKS

Schneemeier Jan (Indiana University - Kelley School of Business)

Presenter: Jan Schneemeier

Discussant: Jun Uno (Waseda University)

This paper shows that cross-learning from other firms' stock prices leads to the propagation of unrelated shocks. Located in a circular network, neighboring firms share a productivity shock. Stock prices are informative about future productivity and managers learn from them to improve investment efficiency. With costly price acquisition, each firm only learns from its closest neighbors and is thus exposed to movements in their prices reflecting their own cross-learning from more distant firms. This non-local noise is then reflected in each firm's stock price and transmitted further to other firms, particularly in uncertain times and highly correlated networks.

- SCARCITY AND SPOTLIGHT EFFECTS ON TERM STRUCTURE: QUANTITATIVE EASING IN JAPAN

Pelizzon Loriana (Goethe University Frankfurt - Faculty of Economics and Business Administration); Subrahmanyam Marti G. (New York University - Stern School of Business); Tobe Reiko (Waseda University - Graduate School of Finance, Accounting & Law); Uno Jun (Waseda University)

Presenter: Jun Uno

Discussant: Alina Arefeva (Johns Hopkins University)

We investigate the determinants of the term structures of bond yield and market liquidity in the context of the Quantitative Easing (QE) programs implemented by the Bank of Japan. Between 2011 and 2016, we find that Japanese government bonds (JGBs) show an improvement in liquidity through the spotlight effect but also experience a deterioration in liquidity through the scarcity effect. As for the yield, both the spotlight and scarcity effects work in the same direction (i.e., they raise bond prices). Overall, the prices of JGBs rise by reflecting only the strong demand from the QE, despite the deterioration in liquidity.

▪ QUOTES, TRADES AND THE COST OF CAPITAL

Rosu Ioanid (HEC Paris (Groupe HEC) - Finance Department); Sojli Elvira (UNSW Business School, School of Banking and Finance); Tham Wing Wah (University of New South Wales (UNSW))

Presenter: Rosu Ioanid
Discussant: Jan Schneemeier (Indiana University)

We study the quoting activity of market makers in relation with trading, liquidity, and expected returns. Empirically, we find larger quote-to-trade (QT) ratios in small, illiquid or neglected firms, yet large QT ratios are associated with low expected returns. The last result is driven by quotes, not by trades. We propose a model of quoting activity consistent with these facts. In equilibrium, market makers monitor the market faster (and thus increase the QT ratio) in neglected, difficult-to-understand stocks. They also monitor faster when their clients are less risk averse, which reduces mispricing and lowers expected returns.

▪ HOW AUCTIONS AMPLIFY HOUSE-PRICE FLUCTUATIONS

Arefeva Alina (Johns Hopkins University - Carey Business School)

Presenter: Arefeva Alina
Discussant: Rosu Ioanid (HEC Paris)

I develop a dynamic search model of the housing market where house prices are determined in auctions rather than by Nash bargaining as in the housing search model from the literature. The model with auctions generates fluctuations between booms and busts. During the boom multiple buyers compete for one house, while in the bust buyers are choosing among several houses. The model improves on the performance of the model with Nash bargaining by producing highly volatile house prices which helps to solve the puzzle of excess volatility of house prices. Higher volatility arises because of the competition between buyers with heterogeneous values. With heterogeneous valuations, the price determinations becomes important for the quantitative properties of the model. With Nash bargaining, the buyer is chosen randomly among all interested buyers. Then the average of buyers' house values determines the house price. In the auction model, the buyer is chosen by the maximum bid among all interested buyers, so the highest value determines the house prices. During the boom, the highest values increase more than the average values, making the sales price more volatile. This high volatility is constrained efficient since the equilibrium in the model decentralizes the solution of the social planner problem, constrained by the search frictions.

## *16:00-16:30 Coffee Break*

## ▪ THE RELEVANCE OF CREDIT RATINGS IN TRANSPARENT BOND MARKETS

Badoer Dominique C. (University of Missouri at Columbia - Department of Finance); Demiroglu Cem (Koc University, College of Administrative Sciences and Economics)

Presenter: Dominique Badoer
Discussant: Narayan Bulusu (Bank of Canada)

We examine the effect of bond price transparency on the information content of credit ratings. To identify the causal impact of transparency, we use a recent regulation in the U.S. that mandates real-time public dissemination (or disclosure) of over-the-counter transactions in corporate debt securities via the Trade Reporting and Compliance Engine (TRACE). We find that dissemination dramatically reduces the average short-term stock and bond price impact of rating downgrades, suggesting that ratings fill information gaps arising from lack of price transparency. The reduction does not arise from changes in investor confidence in, or the ex post quality of, issuer-paid ratings. Dissemination matters less where the issuer is a CDS reference entity or has outstanding bonds traded on an exchange or where stock analysts issue more reliable forecasts of the issuer's future earnings. We also find that rating downgrades become more sensitive to changes in market-based measures of credit risk after dissemination, consistent with transparent prices making rating inflation more transparent, and therefore increasing the incentives for rating agencies to update ratings in a more timely manner. Finally, we document that credit spreads better predict future defaults after dissemination, consistent with more efficient information aggregation in transparent markets.

## ▪ THE VALUE OF BOND UNDERWRITER RELATIONSHIPS

Daetz Stine Louise (Copenhagen Business School); Dick-Nielsen Jens (Copenhagen Business School - Department of Finance); Nielsen Mads Stenbo (Copenhagen Business School - Department of Finance)

Presenter: Stine Louise Daetz
Discussant: Dominique Badoer (University of Missouri)

We show that corporate bond issuers benefit from utilizing existing underwriter relationships when rolling over bonds, but at the same time become exposed to underwriter distress. A strong relationship enables the underwriter to credibly certify the issuer resulting in lower direct issuance costs and lower underpricing. However, if the underwriter becomes distressed, this spills over to the issuer's credit risk, because it weakens the relationship and increases the risk of involuntary relationship termination. The credit risk spillover is more pronounced for risky, opaque issuers with high rollover exposure, i.e., those issuers most in need of certification by an underwriter.

▪ WHAT DRIVES INTERBANK LOANS? EVIDENCE FROM CANADA

Bulusu Narayan (Bank of Canada); Guerin Pierre (OECD)

Presenter: Narayan Bulusu

Discussant: Stine Louise Daetz (Copenhagen Business School)

We analyse the drivers of the Canadian interbank market using a novel dataset of uncollateralised and collateralised overnight loans, and applying a Bayesian model averaging approach to deal with model uncertainty. We find three important classes of drivers of the terms of interbank loans: (i) the price of substitutes, (ii) financial stress, and (iii) systemic liquidity needs. These drivers have a heterogeneous impact on interbank loans, depending on the collateral quality. We then present the results of a structural VAR analysis, which shows a persistent impact of financial stress and systemic liquidity shocks on the overnight interbank funding market.

| Capital Structure<br>Chairman: Elisa Luciano (University of Torino) | 16:30<br>Edison |
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▪ RENEGOTIATION COSTS, FINANCIAL CONTRACTING, AND LENDER CHOICE

Ferracuti Elia (University of Utah - School of Accounting and Information Systems); Morris Arthur (University of Utah - School of Accounting and Information Systems)

Presenter: Elia Ferracuti

Discussant: Sujiao Zhao (Banco de Portugal)

This study presents evidence consistent with incomplete contracting theory in the relationship between renegotiation costs and the initial terms of debt contracts. We exploit plausibly exogenous variation in the taxation of U.S. syndicated loan renegotiation and isolate the effect of changes in renegotiation costs on initial contract terms. We conjecture and find that if contracts are incomplete, then as renegotiation costs fall the maturity of debt contracts lengthens, the likelihood of covenant violation increases, and performance pricing provisions become less common. We also expect and find that this tax change makes private debt more attractive to lenders and borrowers.

▪ INFORMATION DYNAMICS AND DEBT MATURITY

Geelen Thomas (Ecole Polytechnique Fédérale de Lausanne)

Presenter: Thomas Geelen

Discussant: Elia Ferracuti (University of Utah)

I develop a dynamic model of financing decisions and optimal debt maturity choice in which creditors face adverse selection and learn about the firm's quality from news. In equilibrium, shareholders may choose to postpone debt issuance to reduce adverse selection and improve the pricing of newly issued debt. Over time, the benefits of learning decrease and zero-leverage firms eventually decide to issue debt. Because shorter maturity debt is less sensitive to information, younger firms issue shorter maturity debt to alleviate adverse selection while mature firms issue longer maturity debt, leading to a life-cycle theory of debt maturity.

▪ INVESTOR RELATIONS AND IPO PERFORMANCE

Chahine Salim (American University of Beirut - Olayan School of Business); Colak Gonul (Hanken School of Economics); Hasan Iftekhar (Gabelli School of Business, Fordham University); Mazboudi Mohamad (American University of Beirut)

Presenter: Gonul Colak

Discussant: Thomas Geelen (Ecole Polytechnique Fédérale de Lausanne)

We analyze the value of investor relations (IR) strategies to IPO firms. Firms that are less visible and have inexperienced management tend to hire IR consultants prior to the issue date. IR consultants help create positive news coverage before an IPO event as reflected in a more optimistic tone of published media. Their presence is associated with a better (worse) IPO performance in the short-term (long-term). Furthermore, IR consultants' efforts attract some distant institutions into the issue, however a large percentage of post-IPO ownership still belongs to individual investors. Finally, IR-backed IPOs exhibit a disproportionately higher participation by the insiders. These findings suggest that IPO firm's IR programs are short-term oriented and they aim to facilitate the insiders' exit strategies.

| Derivatives<br>Chairman: Franck Moraux (Université de Rennes I) | 16:30<br>Berliner |
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▪ TERM STRUCTURE OF INTEREST RATES WITH SHORT-RUN AND LONG-RUN RISKS

Grishchenko Olesya V. (Board of Governors of the Federal Reserve System); Song Zhaogang (Johns Hopkins University - Carey Business School); Zhou Hao (Tsinghua University - PBC School of Finance)

Presenter: Olesya Grishchenko

Discussant: Ilya Dergunov (Goethe University Frankfurt)

Interest rate variance risk premium (IRVRP), the difference between implied and realized variances of interest rates, emerges as a strong predictor of Treasury bond returns of maturities ranging between one and ten years for return horizons up to six months. IRVRP is not subsumed by other predictors such as forward rate spread or equity variance risk premium. These results are robust in a number of dimensions. We rationalize our findings within a consumption-based model with long-run risk, economic uncertainty, and inflation non-neutrality. In the model interest rate variance risk premium is related to short-run risk only, while standard forward-rate-based factors are associated with both short-run and long-run risks in the economy. Our model qualitatively replicates the predictability pattern of IRVRP for bond returns.

▪ OPTION IMPLIED DIVIDENDS

Kragt Jac (Tilburg University - Department of Finance)

Presenter: Jac Kragt

Discussant: Olesya Grishchenko (Board of Governors of the Federal Reserve System)

I determine the valuation of future dividends for US companies as implied by option prices. This is the first paper in which the early exercise premium included

in these prices is explicitly accounted for as part of finding these dividend valuations. From these implied dividend data, I build company-specific term structures of dividend growth relative to actual dividends. These term structures show substantial variation in slope over time as well as in the cross-section. Implied dividends predict actual dividends, particularly upward dividend changes. But if a dividend cut is correctly predicted by implied dividends, the average 2.3% stock price response to the announcement becomes negligible.

▪ EXTREME INFLATION AND TIME-VARYING DISASTER RISK

Dergunov Ilya (Goethe University Frankfurt - Research Center SAF); Meinerding Christoph (Deutsche Bundesbank); Schlag Christian (Goethe University Frankfurt - Research Center SAFE)

Presenter: Ilya Dergunov

Discussant: Jac Kragt (Tilburg University)

Low consumption growth tends to occur together with either very high or very low inflation. The probability of low expected consumption growth estimated from a Markov chain for consumption growth and inflation is highly correlated with a measure for the likelihood of consumption disasters suggested by Wachter (2013). A simple asset pricing model with recursive utility and unobservable states reproduces the time variation in volatilities and correlations of stock and bond returns very well.

M&A / Private Equity (sponsored by Ardian) ARDIAN 16:30
Chairman: Nihat Aktas (WHU Otto Beisheim School of Management) Halles 1

▪ WEAK CREDIT COVENANTS

Ivashina Victoria (Harvard University); Vallee Boris (Harvard Business School - Finance Unit)

Presenter: Boris Vallee

Discussant: Ettore Croci (Catholic University of the Sacred Hearth of Milan)

Using novel data on 1,240 credit agreements for large corporate loans, we show that while inclusion of negative covenants that restrict new debt issuance, payments, asset sales, affiliate transactions and investments is widespread, clauses that weaken these restrictions are almost as common. We measure the deductions for the core covenants in terms of their potential impact on overall leverage and show that they are large, and concentrated in already highly levered transactions. We analyze the cross-sectional variation in contractual weaknesses introduced through deductions and exclusions to negative covenants and show that such contractual provisions are characteristic of leveraged buyouts.

- TAKEOVER DURATION AND NEGOTIATION PROCESS

Calcagno Riccardo (EMLYON Business School); de Bodt Eric (Université de Lille); Demidova Irina (Ecole des sciences de la gestion - Université du Québec à Montréal)
Presenter: Irina Demidova
Discussant: Guosong Xu (WHU Otto Beisheim School of Management)

We study the determinants of the takeover processes duration. Risk averse bidders submit bids to targets. Targets either accept, and the transaction is completed, or negotiate one more period. As time goes on, bidders and targets learn about true synergies thanks to the due diligence process. But rival bidders can show up and compete to acquire targets, a desirable event from targets point of view, but costly for bidders. Our simulations characterize the relation between negotiation duration, pressure of potential competition and the learning process. Our empirical exercise is based on a large sample of merger negotiations identified through the manual examination of SEC filings. We use the simulated method of moments to match the frequency distribution of private negotiation duration in a calibration exercise. Our results show that a 10% ex-ante probability of new bidders entering in the M&A process each month is consistent with the data.

- FACILITATING TAKEOVERS AND TAKEOVER PREMIA: THE CASE OF COORDINATED MONITORING

Croci Ettore (Catholic University of the Sacred Heart of Milan); Mazur Mieszko (Catholic University of Lille - IESEG School of Management); Salganik-Shoshan Galla (Ben-Gurion University of the Negev)
Presenter: Mieszko Mazur
Discussant: Stefan Jaspersen (University of Cologne)

This paper shows that coordinated monitoring by institutional investors affect how firms behave in the M&A market. We employ spatial dimension of geographic links between major investors as a proxy for interaction and information exchange which determines the effectiveness of investor monitoring over firm management. Using US data over 25 years, we show that M&A activity is significantly more intense and that gains for acquiring shareholders are significantly higher, when institutions coordinate better their monitoring efforts. We also find that this effect is particularly prominent for firms with weakened shareholder rights and for those whose information environment is more opaque. Our results are robust to an array of controls, various econometric specifications, and alternative measurements of the main variables.

## *18:00 Cocktail & Best Paper Award – “La Rotonde”, Novotel*

Notes

# ABOUT EUROFIDAI

## Financial databases for academic researchers

EUROFIDAI (UPS 3390) is an academic institute funded by CNRS (French National Center for Scientific Research). Through a subscription, EUROFIDAI offers direct on-line access to its data from any computer. Free trial accounts or samples are available on demand.

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- **European daily stock data**
  The daily stock database covers France (1977-2016), and 36 other countries in Europe (1980-2016). This global stocks database provides verified and proven data for more than 70,000 securities over a long timeframe.
- **Daily stock indices**
  Indices calculated by EUROFIDAI, based on its high quality stock data: EUROFIDAI country, regional & sectoral indices; EUROFIDAI factors & portfolios formed on size, book-to-market & momentum (more than 1,600), as well as more than 200,000 other stock market indices from data providers.
- **Daily exchange rates**
  About 15,000 spot exchange rates (1975-2016).
- **Daily mutual fund data**
  Mutual funds over a long period (1980-2016) and for a large sample of funds (more than 383 401 funds). Funds traded over the counter or on organized markets are available in the database, which provides information on prices (net asset value, subscription and redemption prices, dividend...) and background information on a daily basis (fund manager, name, website, brochure, fees, benchmark, taxability, investment policy, fund asset allocation...).
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- AMF Euronext Paris
- London Stock Exchange
- Deutsche Boerse Xetra

BEDOFIH

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