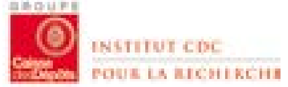
# 16th Paris December Finance Meeting

December 20, 2018

www.eurofidai.org/fr/conference/paris-december-2018



# Meeting's organization

**www.eurofidai.org**

EUROFIDAI is a public academic institute developing daily and high frequency European financial databases for researchers. EUROFIDAI works in creating verified, controlled and homogeneous databases over long periods.

The daily databases cover stocks, indices, mutual funds, exchange rates and corporate events, all over Europe.

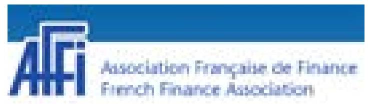
The high frequency database (BEDOFIH) includes trades and orders with the highest frequency (millisecond, microsecond) and covers the most important European stock markets (AMF Euronext Paris, LSE, BATS/Chi-X, Deutsche Boerse Xetra).

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

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).




**www.affi.asso.fr**

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...).

# Numbers

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

In 2018, the submissions were received from the U.S. (90), France (56), Germany (46), the U.K. (30), Canada (21), Switzerland (21), Austria (14), the Netherlands (13), China (9), Belgium (8), Hong-Kong (8), Norway (5), Singapore (5), Denmark (3), Spain (3), Finland (2), Lebanon (2), Sweden (2), Brazil (1), Czech Republic (1), Greece (1), Hungary (1), Italy (1), Ireland (1), Luxembourg (1), New Zealand (1), Portugal (1), South Korea (1), Tunisia (1), Turkey (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.**

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# Program Chairs

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

# 2018 Scientific Committee

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Princeton University
**Hervé Alexandre**
Université Paris Dauphine
**Nihat Atkas**
WHU Otto Beisheim School of Management
**Patrick Augustin**
McGill University
**Anne Balter**
Tilburg University
**Laurent Bach**
ESSEC Business School
**Jean-Noël Barrot**
MIT Sloan School of Management
**Philippe Bertrand**
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**Bruno Biais**
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**Romain Boulland**
ESSEC Business School
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Amundi, Université Paris Dauphine, Université Libre de Bruxelles
**Marie-Hélène Broihanne**
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EPFL
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University of Mannheim
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Grenoble INP
**Maria Kasch**
Humboldt University of Berlin
**Alexandros Kostakis**
University of Manchester
**Olivier Lecourtois**
EM Lyon
**Jongsub Lee**
University of Florida
**Laurence Lescourret**
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**Abraham Lioui**
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**Guillaume Vuillemey**
HEC Paris
**Ryan Williams**
University of Arizona
**Rafal Wojakowski**
Surrey Business School
**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*

**09:00 Capital Structure** — Halles 2
Chairman: Edith Ginglinger (Université Paris-Dauphine)

**09:00 Financial Econometrics / Mathematical Finance** — Bell
Chairman: Yacine Ait-Sahalia (Princeton University)

**09:00 Behavioral Finance 1** — Berliner
Chairman: Olivier Dessaint (University of Toronto)

**09:00 Asset Pricing 1** — Halles 1
Chairman: Andras Fulop (ESSEC Business School)

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

*10:30 Coffee break*

**11:00 Corporate Governance 1** — Edison
Chairman: Adrien Matray (Princeton University)

**11:00 Banking / Systematic Risk (sponsored by ACPR Chair)** — Halles 2
Chairman: Christophe Pérignon (HEC Paris)

**11:00 Asset Pricing 2** — Halles 1
Chairman: Patrice Poncet (ESSEC Business School)

**11:00 Banking / Financial Intermediation 1** — Bell
Chairman: Michael Troege (ESCP Europe)

**11:00 International Finance** — Daguerre
Chairman: Jack Strauss (University of Denver)

**11:00 Portfolio Management 1** — Berliner
Chairman: Philippe Bertrand (Aix-Marseille Université)

*12:30 Lunch – Restaurant “La Place”, Novotel*

# Program – Overview

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

14:00 **Portfolio Management 2 (sponsored by AMUNDI)** — Berliner
Chairman: Jocelyn Martel (ESSEC Business School)

14:00 **Market Microstructure 2 (sponsored by BEDOFIH)** — Edison
Chairman: Sonia Jimenez (Grenoble INP)

14:00 **Asset Pricing 3** — Halles 1
Chairman: Franck Moraux (Université de Rennes 1)

14:00 **Banking / Financial Intermediation 2** — Halles 2
Chairman: Joël Petey (Université de Strasbourg)

14:00 **Corporate Finance** — Bell
Chairman: Eric de Bodt (Université de Lille 2)

*16:00 Coffee break*

16:30 **Entrepreneurial Finance (sponsored by ARDIAN)** — Bell
Chairman: Jean-François Gajewski (IAE Lyon)

16:30 **Corporate Governance 2** — Berliner
Chairman: Elisabeth Kempf (University of Chicago)

16:30 **Market Microstructure 3 (sponsored by BEDOFIH)** — Edison
Chairman: Sabrina Buti (Université Paris-Dauphine)

16:30 **Banking / Financial Intermediation 3** — Halles 2
Chairman: Boris Vallée (Harvard Business School)

16:30 **Asset Pricing 4** — Halles 1
Chairman: Abraham Lioui (EDHEC)

16:30 **Interest Rates** — Daguerre
Chairman: Yannick Malevergne (Université Paris I Panthéon Sorbonne)

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

# Job Market / PhD 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 / PhD papers, featuring carefully selected candidates. Please find below an overview of the papers with information on each candidate:

9:00 – Behavioral Finance 1 (Berliner)
"Friends at WSJ: Journalist Connection, News Tone, and Stock Returns"
**Guosong Xu** (WHU - Otto Beisheim School of Management)
Research Interests: Behavioral Finance, Merger and Acquisition

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11:00 – Asset Pricing 2 (Halles 1)
"Idiosyncratic Volatility, Its Expected Variation, and the Cross-Section of Stock Returns"
**T. Frederik Middelhoff** (University of Muenster)
Research Interests: Asset Pricing

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14:00 – Portfolio Management 2 (Berliner)
"Fifty Shades of Active and Index Alpha"
**Markus Leippold** (University of Zurich)
Research Interests: Hedge Funds/ Mutual Funds

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14:00 – Market Microstructure 2 (Edison)
"Electronic Trading in OTC Markets vs. Centralized Exchange"
**Sebastian Vogel** (Ecole Polytechnique Fédérale de Lausanne)
Research Interests: Asset Pricing, Banking/ Financial Intermediation, Market Microstructure/ Liquidity

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14:00 – Asset Pricing 3 (Halles 1)
"Bank Loan Undrawn Spreads and the Predictability of Stock Returns"
**Tong Li** (The University of Hong Kong)
Research Interests: Asset Pricing, Banking/ Financial Intermediation

14:00 – Asset Pricing 3 (Halles 1)

**“Rediscover Predictability: Information from the Relative Prices of Long-Term and Short-Term Dividends”**

**Yi Li** (Ohio State University)

Research Interests: Asset Pricing, Financial Risks, Portfolio Management

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14:00 – Asset Pricing 3 (Halles 1)

**“The Contribution of Mispricing to Expected Returns”**

**Kazuhiro Hiraki** (Queen Mary, University of London)

Research Interests: Asset Pricing, Derivatives, Market Microstructure/ Liquidity

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14:00 – Corporate Finance (Bell)

**“Noise from Other Industries: Overgeneralization and Analyst Belief”**

**Renjie Wang** (University of Cambridge)

Research Interests: Behavioral Finance, Financial Analyst, Product Market Relationships

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16:30 – Entrepreneurial Finance – Ardian (Bell)

**“Mind the Gap: Gender Stereotypes and Entrepreneurs' Financing”**

**Camille Hébert** (Université Paris-Dauphine & Tilburg University)

Research Interests: Entrepreneurial Finance, Ethical Finance, Private Equity/ Venture Capital

*Notes*

# Sessions

**Capital Structure** 9:00
Chairman: Edith Ginglinger (Université Paris-Dauphine) Halles 2

- **MANAGERIAL COMPENSATION INCENTIVES AND CORPORATE DEBT MATURITY: EVIDENCE FROM FAS 123R**

Hong Jieying (ESSEC Business School)
Presenter: Hong Jieying
Discussant: Petit-Romec Arthur (Skema Business School)

- **DEBT AS THREAT: EVIDENCE FROM UNION-SPONSORED SHAREHOLDER PROPOSALS**

Di Giuli Alberta (ESCP Europe - Department of Finance); Petit-Romec Arthur (Skema Business School)
Presenter: Petit-Romec Arthur
Discussant: Arnold Marc (University of Saint Gallen - School of Finance)

- **THE IMPACT OF RENEGOTIABLE DEBT ON FIRMS**

Arnold Marc (University of Saint Gallen - School of Finance); Westermann Ramona (Copenhagen Business School)
Presenter: Arnold Marc
Discussant: Hong Jieying (ESSEC Business School)

**Financial Econometrics / Mathematical Finance** 9:00
Chairman: Yacine Ait-Sahalia (Princeton University) Bell

- **THE CROSS-SECTIONAL DISTRIBUTION OF FUND SKILL MEASURES**

Barras Laurent (McGill University - Desautels Faculty of Management); Gagliardini Patrick (University of Lugano); Scaillet O. (University of Geneva GSEM and GFRI)
Presenter: Barras Laurent
Discussant: Le Fol Gaëlle (Université Paris-Dauphine)

- **A SELF-EXCITING MODEL FOR MUTUAL FUND FLOWS: INVESTOR BEHAVIOUR AND LIABILITY RISK**

Darolles Serge (Paris Dauphine University - DRM-CEREG); Le Fol Gaëlle (Université Paris-Dauphine); Lu Yang (University of Paris 13); Sun Theo Ran (Université Paris-Dauphine, PSL Research University)
Presenter: Le Fol Gaëlle
Discussant: Geraci Marco Valerio (University of Cambridge - Cambridge-INET Institute)

▪ SHORT SELLING AND EXCESS RETURN CORRELATION
Geraci Marco Valerio (University of Cambridge - Cambridge-INET Institute); Gnabo Jean-Yves (Facultés Universitaires Notre-Dame de la Paix (FUNDP)); Veredas David (Vlerick Business School)
Presenter: Geraci Marco Valerio
Discussant: Barras Laurent (McGill University - Desautels Faculty of Management)

## Behavioral Finance 1 — 9:00 Berliner
Chairman: Olivier Dessaint (University of Toronto)

▪ THE IMPACT OF RECENCY EFFECTS ON STOCK MARKET PRICES
Mohrschladt Hannes (University of Muenster - Finance Center)
Presenter: Mohrschladt Hannes
Discussant: Xu Guosong (WHU - Otto Beisheim School of Management)

▪ FRIENDS AT WSJ: JOURNALIST CONNECTION, NEWS TONE, AND STOCK RETURNS
Xu Guosong (WHU - Otto Beisheim School of Management)
Presenter: Xu Guosong
Discussant: Loualiche Erik (University of Minnesota, Finance)

▪ EFFICIENT BUBBLES?
Haddad Valentin (University of California, Los Angeles (UCLA) - Anderson School of Management); Ho Paul (Princeton University - Department of Economics); Loualiche Erik (University of Minnesota, Finance)
Presenter: Loualiche Erik
Discussant: Mohrschladt Hannes (University of Muenster - Finance Center)

## Asset Pricing 1 — 9:00 Halles 1
Chairman: Andras Fulop (Essec Business School)

▪ OIL AND EQUITY RETURN PREDICTABILITY: THE IMPORTANCE OF DISSECTING OIL PRICE CHANGES
Jiang Haibo (Tulane University); Skoulakis Georgios (University of British Columbia (UBC)) - Division of Finance); Xue Jinming (University of Maryland - Department of Finance)
Presenter: Skoulakis Georgios
Discussant: Strauss Jack (University of Denver - Reiman School of Finance)

▪ BETA RISK IN THE CROSS-SECTION OF EQUITIES
Boloorforoosh Ali (Concordia University); Christoffersen Peter (University of Toronto - Rotman School of Management); Gourieroux Christian (University of Toronto - Department of Economics); Fournier Mathieu (HEC Montreal)
Presenter: Fournier Mathieu
Discussant: Skoulakis Georgios (University of British Columbia (UBC) - Division of Finance)

- BITCOIN: LEARNING, PREDICTABILITY AND PROFITABILITY VIA TECHNICAL ANALYSIS

Detzel Andrew L. (University of Denver - Daniels College of Business); Liu Hong (Washington University in St. Louis - Olin Business School); Strauss Jack (University of Denver - Reiman School of Finance); Zhou Guofu (Washington University in St. Louis - John M. Olin Business School)
Presenter: Strauss Jack
Discussant: Fournier Mathieu (HEC Montreal)

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

9:00
Edison

- DYNAMIC ADVERSE SELECTION AND LIQUIDITY

Rosu Ioanid (HEC Paris (Groupe HEC) - Finance Department)
Presenter: Rosu Ioanid
Discussant: Chaieb Ines (University of Geneva and Swiss Finance Institute)

- IS LIQUIDITY RISK PRICED IN PARTIALLY SEGMENTED MARKETS?

Chaieb Ines (University of Geneva and Swiss Finance Institute); Errunza Vihang R. (McGill University - Desautels Faculty of Management); Langlois Hugues (HEC Paris (Groupe HEC) - Finance Department)
Presenter: Chaieb Ines
Discussant: Ligot Stéphanie (Université Paris I Panthéon-Sorbonne (PRISM Sorbonne and Labex REFi)

- FRAGMENTATION AND PRICE DISCOVERY DYNAMICS: THE CONTRIBUTIONS OF MULTILATERAL TRADING FACILITIES AND REGULATED MARKET

Gillet Roland L. (Université Paris I Panthéon-Sorbonne); Ligot Stéphanie (Université Paris I Panthéon-Sorbonne (PRISM Sorbonne and Labex RéFi))
Presenter: Ligot Stéphanie
Discussant: Rosu Ioanid (HEC Paris (Groupe HEC) - Finance Department)

*10:30-11:00 Coffee break*

**Corporate Governance 1**
Chairman: Adrien Matray (Princeton University)

11:00
Edison

- IS THE CHINESE CORPORATE ANTI-CORRUPTION CAMPAIGN AUTHENTIC?

Griffin John M. (University of Texas at Austin - Department of Finance); Liu Clark (Tsinghua University - PBC School of Finance); Shu Tao (University of Georgia - Department of Finance)
Presenter: Shu Tao
Discussant: Kempf Elisabeth (University of Chicago - Booth School of Business)

▪ LITIGATING INNOVATION: EVIDENCE FROM SECURITIES CLASS ACTION LAWSUITS
Kempf Elisabeth (University of Chicago - Booth School of Business); Spalt Oliver G. (Tilburg University - Department of Finance)
Presenter: Kempf Elisabeth
Discussant: De Cesari Amedeo (University of Manchester - Alliance Manchester Business School - Finance & Accounting Group)

▪ EMPLOYMENT PROTECTION AND SHARE REPURCHASES: EVIDENCE FROM WRONGFUL DISCHARGE LAWS
Dang Viet Anh (Alliance Manchester Business School); De Cesari Amedeo (University of Manchester - Alliance Manchester Business School - Finance & Accounting Group); Phan Hieu V. (University of Massachusetts Lowell)
Presenter: De Cesari Amedeo
Discussant: Shu Tao (University of Georgia - Department of Finance)

**Banking / Systematic Risk** (sponsored by ACPR Chair)
Chairman: Christophe Pérignon (HEC Paris)

11:00
Halles 2

▪ EMPIRICALLY EVALUATING SYSTEMIC RISKS IN CCPS: THE CASE OF TWO CDS CCPS
Campbell Sean D. (U.S. Division of Monetary Affairs); Ivanov Ivan (Board of Governors of the Federal Reserve System)
Presenter: Ivanov Ivan
Discussant: Garcia-Posada Miguel (Banco de España)

▪ ADAPTING LENDING POLICIES WHEN NEGATIVE INTEREST RATES HIT BANKS' PROFITS
Arce Oscar (Banco de Espagna); Garcia-Posada Miguel (Banco de Espagna); Mayordomo Sergio (Banco de Espagna); Ongena Steven (University of Zurich - Department of Banking and Finance)
Presenter: Garcia-Posada Miguel
Discussant: Ma Kebin (University of Warwick - Finance Group)

▪ CONTAGIOUS BANK RUNS AND DEALER OF LAST RESORT
Li Zhao (University of International Business and Economics (UIBE) - School of Banking and Finance); Ma Kebin (University of Warwick - Finance Group)
Presenter: Ma Kebin
Discussant: Ivanov Ivan (Board of Governors of the Federal Reserve System)

**Asset Pricing 2**
Chairman: Patrice Poncet (ESSEC Business School)

11:00
Halles 1

▪ VARIANCE PREMIUM, DOWNSIDE RISK, AND EXPECTED STOCK RETURNS
Feunou Bruno (Bank of Canada); Lopez Aliouchkin Ricardo (Syracuse University); Tédongap Roméo (ESSEC Business School); Xu Lai (Syracuse University)
Presenter: Lopez Aliouchkin Ricardo

Discussant: Middelhoff T. Frederik (University of Muenster - Finance Center Muenster)

- IDIOSYNCRATIC VOLATILITY, ITS EXPECTED VARIATION, AND THE CROSS-SECTION OF STOCK RETURNS

Branger Nicole (University of Muenster - Finance Center Muenster); Hülsbusch Hendrik (University of Muenster - Finance Center Muenster); Middelhoff T. Frederik (University of Muenster - Finance Center Muenster)
Presenter: Middelhoff T. Frederik
Discussant: Langlois Hugues (HEC Paris (Groupe HEC) - Finance Department)

- MEASURING SKEWNESS PREMIA

Langlois Hugues (HEC Paris (Groupe HEC) - Finance Department)
Presenter: Langlois Hugues
Discussant: Lopez Aliouchkin Ricardo (Syracuse University)

## Banking / Financial Intermediation 1 — 11:00 Bell

Chairman: Michael Troege (ESCP Europe)

- CAN RISK BE SHARED ACROSS INVESTOR COHORTS? EVIDENCE FROM A POPULAR SAVINGS PRODUCT

Hombert Johan (HEC Paris (Groupe HEC) - Finance Department); Lyonnet Victor (Ohio State University)
Presenter: Lyonnet Victor
Discussant: Delatte Anne-Laure (CNRS)

- CONNECTED FIRMS: THE PROPAGATION OF IDIOSYNCRATIC SHOCKS IN BORROWING NETWORKS

He Ai (Emory University, Goizueta Business School, Department of Finance)
Presenter: He Ai
Discussant: Lyonnet Victor (Ohio State University)

- BANKS DEFY GRAVITY

Delatte Anne-Laure (CNRS); Bouvatier Vincent (Université Paris Ouest - Nanterre, La Défense); Capelle-Blancard Gunther (University of Paris 1 Pantheon-Sorbonne - Centre d'Economie de la Sorbonne (CES))
Presenter: Delatte Anne-Laure
Discussant: He Ai (Emory University, Goizueta Business School, Department of Finance)

## International Finance — 11:00 Daguerre

Chairman: Jack Strauss (University of Denver)

- MODEL-FREE INTERNATIONAL STOCHASTIC DISCOUNT FACTORS

Sandulescu Mirela (University of Lugano); Trojani Fabio (University of Geneva); Vedolin Andrea (Boston University - Department of Finance & Economics)
Presenter: Trojani Fabio
Discussant: Camanho Nelson (Queen Mary University of London)

- INTERNATIONAL CAPITAL MARKETS WITH TIME-VARYING PREFERENCES

Curatola Giuliano (Goethe University Frankfurt - Research Center SAFE); Dergunov Ilya (Goethe University Frankfurt)
Presenter: Curatola Giuliano
Discussant: Trojani Fabio (University of Geneva)

- GLOBAL PORTFOLIO REBALANCING AND EXCHANGE RATES

Camanho Nelson (Queen Mary University of London); Hau Harald (Geneva Finance Research Institute); Rey Hélène (London Business School)
Presenter: Camanho Nelson
Discussant: Curatola Giuliano (Goethe University Frankfurt - Research Center SAFE)

## Portfolio Management 1 — 11:00 Berliner

Chairman: Philippe Bertrand (Aix-Marseille Université)

- CORRECTING ALPHA MISATTRIBUTION IN PORTFOLIO SORTS

Hoechle Daniel (FHNW School of Business - Institute for Finance); Schmid Markus (University of Saint Gallen - Swiss Institute of Banking and Finance); Zimmermann Heinz (University of Basel - Center for Economic Science (WWZ) - Department of Finance)
Presenter: Hoechle Daniel
Discussant: Honkanen Pekka (HEC Paris)

- LEARNING FROM NOISE? PRICE AND LIQUIDITY SPILLOVERS AROUND MUTUAL FUND FIRE SALES

Honkanen Pekka (HEC Paris); Schmidt Daniel (HEC Paris (Groupe HEC) - Finance Department)
Presenter: Honkanen Pekka
Discussant: Mougeot Nicolas (John Molson School of Business, Concordia University)

- MONETARY POLICY AND EQUITY VALUATION

Mougeot Nicolas (John Molson School of Business, Concordia University)
Presenter: Mougeot Nicolas
Discussant: Hoechle Daniel (FHNW School of Business - Institute for Finance)

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

## Portfolio Management 2 (sponsored by Amundi)
Chairman: Jocelyn Martel (ESSEC Business School)

14:00
Berliner

- WHAT DO MUTUAL FUND MANAGERS' PRIVATE PORTFOLIOS TELL US ABOUT THEIR SKILLS?

Ibert Markus (Federal Reserve Board of Governors)
Presenter: Ibert Markus
Discussant: Leippold Markus (University of Zurich - Department of Banking and Finance)

- IS THERE SMART MONEY? HOW INFORMATION IN THE FUTURES MARKET IS PRICED INTO THE CROSS-SECTION OF STOCK RETURNS WITH DELAY

Ho Steven Wei (Columbia University, Graduate School of Arts and Sciences, Department of Economics); Lauwers Alexandre R. (University of Geneva - Graduate Institute, Geneva (IHEID))
Presenter: Lauwers Alexandre R.
Discussant: Zaldokas Alminas (Hong Kong University of Science & Technology (HKUST) - Department of Finance)

- IS ACTIVE INVESTING A ZERO-SUM GAME?

Leippold Markus (University of Zurich - Department of Banking and Finance); Rüegg Roger (University of Zurich - Department of Banking and Finance)
Presenter: Leippold Markus
Discussant: Lauwers Alexandre R. (University of Geneva - Graduate Institute, Geneva (IHEID))

- BACKGROUND NOISE? TV ADVERTISING AFFECTS REAL TIME INVESTOR BEHAVIOR

Zaldokas Alminas (Hong Kong University of Science & Technology (HKUST) - Department of Finance); Liaukonyte Jura (Cornell University)
Presenter: Zaldokas Alminas
Discussant: Ibert Markus (Federal Reserve Board of Governors)

## Market Microstructure 2 (sponsored by BEDOFIH)
Chairman: Sonia Jimenez (Université Grenoble INP)

14:00
Edison

- OTC DISCOUNT

de Roure Calebe (Reserve Bank of Australia); Moench Emanuel (Deutsche Bundesbank); Pelizzon Loriana (Goethe University Frankfurt - Faculty of Economics and Business Administration); Schneider Michael (Deutsche Bundesbank)
Presenter: Moench Emanuel
Discussant: Lee Tomy (Central European University)

- ELECTRONIC TRADING IN OTC MARKETS VS. CENTRALIZED EXCHANGE

Liu Ying (University of Lausanne - Institute of Banking and Finance (IBF)); Vogel Sebastian (Ecole Polytechnique Fédérale de Lausanne); Zhang Yuan (Ecole Polytechnique Fédérale de Lausanne)
Presenter: Vogel Sebastian
Discussant: Ergun Lerby Murat (London School of Economics & Political Science (LSE))

- WHY TRADE OVER-THE-COUNTER? WHEN INVESTORS WANT PRICE DISCRIMINATION

Lee Tomy (Central European University); Wang Chaojun (University of Pennsylvania - The Wharton School)
Presenter: Lee Tomy
Discussant: Vogel Sebastian (Ecole Polytechnique Fédérale de Lausanne)

- THE INFORMATIONAL VALUE OF CONSENSUS PRICES: EVIDENCE FROM THE OTC DERIVATIVES MARKET

Ergun Lerby Murat (London School of Economics & Political Science (LSE)); Uthemann Andreas (London School of Economics & Political Science (LSE))
Presenter: Ergun Lerby Murat
Discussant: Moench Emanuel (Deutsche Bundesbank)

## Asset Pricing 3 — 14:00
Chairman: Franck Moraux (Université de Rennes 1) — Halles 1

- CAPITAL HETEROGENEITY, TIME-TO-BUILD, AND RETURN PREDICTABILITY

Luo Ding (City University of Hong Kong)
Presenter: Luo Ding
Discussant: Li Tong (University of Hong Kong)

- BANK LOAN UNDRAWN SPREADS AND THE PREDICTABILITY OF STOCK RETURNS

Gu Lifeng (The University of Hong Kong); Ho Steven Wei (Columbia University, Graduate School of Arts and Sciences, Department of Economics); Li Tong (The University of Hong Kong)
Presenter: Li Tong
Discussant: Li Ye (Ohio State University)

- REDISCOVER PREDICTABILITY: INFORMATION FROM THE RELATIVE PRICES OF LONG-TERM AND SHORT-TERM DIVIDENDS

Li Ye (Ohio State University); Wang Chen (Yale School of Management)
Presenter: Li Ye
Discussant: Hiraki Kazuhiro (Queen Mary, University of London, School of Economics and Finance)

- THE CONTRIBUTION OF FRICTIONS TO EXPECTED RETURNS

Hiraki Kazuhiro (Queen Mary, University of London, School of Economics and Finance); Skiadopoulos George S. (Queen Mary, University of London, School of Economics and Finance)
Presenter: Hiraki Kazuhiro
Discussant: Luo Ding (City University of Hong Kong)

## Banking / Financial Intermediation 2 — 14:00, Halles 2

Chairman: Joël Petey (Strasbourg University)

- MARKETPLACE LENDING: A NEW BANKING PARADIGM?

Vallée Boris (Harvard Business School - Finance Unit); Zeng Yao (University of Washington - Michael G. Foster School of Business)
Presenter: Vallée Boris
Discussant: Celerier Claire (University of Toronto - Rotman School of Management)

- LENDING TECHNOLOGIES AND LENDING RELATIONSHIPS

Karapetyan Artashes (ESSEC Business School); Stacescu Bogdan (BI Norwegian Business School)
Presenter: Stacescu Bogdan
Discussant: Vallée Boris (Harvard Business School - Finance Unit)

- TAXING BANK LEVERAGE: THE EFFECTS ON BANK CAPITAL STRUCTURE, CREDIT SUPPLY AND RISK-TAKING

Celerier Claire (University of Toronto - Rotman School of Management); Kick Thomas K. (Deutsche Bundesbank); Ongena Steven (University of Zurich - Department of Banking and Finance)
Presenter: Celerier Claire
Discussant: Stacescu Bogdan (BI Norwegian Business School)

## Corporate Finance — 14:00, Bell

Chairman: Eric de Bodt (Université de Lille 2)

- SHADOW PILLS AND LONG-TERM FIRM VALUE

Cremers Martijn (University of Notre Dame); Guernsey Scott B. (University of Cambridge); Litov Lubomir P. (University of Oklahoma - Michael F. Price College of Business); Sepe Simone M. (University of Arizona - James E. Rogers College of Law)
Presenter: Guernsey Scott B.
Discussant: Wang Renjie (Erasmus University Rotterdam (EUR), Erasmus School of Economics (ESE))

- NOISE FROM OTHER INDUSTRIES: OVERGENERALIZATION AND ANALYST BELIEF

Wang Renjie (Erasmus University Rotterdam (EUR), Erasmus School of Economics (ESE))
Presenter: Wang Renjie
Discussant: Isakov Dusan (University of Fribourg (Switzerland) - Faculty of Economics and Social Science)

- LABOR MARKET COMPETITOR NETWORK AND THE TRANSMISSION OF SHOCKS

Liu Yukun (Yale University, Department of Economics); Wu Xi (New York University (NYU) - Leonard N. Stern School of Business)
Presenter: Liu Yukun
Discussant: Guernsey Scott B. (University of Cambridge)

- WHAT IF DIVIDENDS WERE TAX-EXEMPT? EVIDENCE FROM A NATURAL EXPERIMENT

Isakov Dusan (University of Fribourg (Switzerland) - Faculty of Economics and Social Science); Perignon Christophe (HEC Paris (Groupe HEC) - Finance Department); Weisskopf Jean-Philippe (Ecole Hôtelière de Lausanne)
Presenter: Isakov Dusan
Discussant: Liu Yukun (Yale University, Department of Economics)

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

**Entrepreneurial Finance** (sponsored by Ardian)
Chairman: Jean-François Gajewski (Université de Lyon)
ARDIAN
16:30
Bell

- MIND THE GAP: GENDER STEREOTYPES AND ENTREPRENEUR FINANCING

Hébert Camille (Université Paris-Dauphine & Tilburg University)
Presenter: Hébert Camille
Discussant: Matray Adrien (Princeton University)

- THE LONG-TERM CONSEQUENCES OF THE TECH BUBBLE ON SKILLED WORKERS' EARNINGS

Hombert Johan (HEC Paris (Groupe HEC) - Finance Department); Matray Adrien (Princeton University)
Presenter: Matray Adrien
Discussant: Lovo Stefano (HEC Paris (Groupe HEC) - Finance Department)

- HERDING IN EQUITY CROWDFUNDING

Astebro Thomas B. (HEC Paris - Economics and Decision Sciences); Fernandez Sierra Manuel (University of Essex); Lovo Stefano (HEC Paris (Groupe HEC) - Finance Department); Vulkan Nir (University of Oxford - Said Business School)
Presenter: Lovo Stefano
Discussant: Hébert Camille (Université Paris-Dauphine & Tilburg University)

## Corporate Governance 2 — 16:30 Berliner
Chairman: Elisabeth Kempf (University of Chicago)

- THE ORIGINS AND REAL EFFECTS OF THE GENDER GAP: EVIDENCE FROM CEOS' FORMATIVE YEARS

Duchin Ran (University of Washington - Michael G. Foster School of Business); Simutin Mikhail (University of Toronto - Rotman School of Management); Sosyura Denis (Arizona State University)
Presenter: Sosyura Denis
Discussant: Bates Thomas W. (Arizona State University - Department of Finance)

- PERFORMANCE-BASED TURNOVER ON CORPORATE BOARDS

Bates Thomas W. (Arizona State University - Department of Finance); Becher David A. (Drexel University); Wilson Jared I. (Indiana University - Kelley School of Business)
Presenter: Bates Thomas W.
Discussant: Laguna Marie-Aude (Université Paris-Dauphine)

- ARE INVESTORS AWARE OF OWNERSHIP CONNECTIONS?

Ginglinger Edith (Université Paris Dauphine); Hébert Camille (Université Paris-Dauphine & Tilburg University); Renneboog Luc (Tilburg University - Department of Finance)
Presenter: Ginglinger Edith
Discussant: Sosyura Denis (Arizona State University)

## Market Microstructure 3 (sponsored by BEDOFIH) — 16:30 Edison
Chairman: Sabrina Buti (Université Paris-Dauphine)

- DEMAND FOR INFORMATION, MACROECONOMIC UNCERTAINTY, AND THE RESPONSE OF U.S. TREASURY SECURITIES TO NEWS

Benamar Hedi (Board of Governors of the Federal Reserve System); Foucault Thierry (HEC Paris (Groupe HEC) - Finance Department); Vega Clara (Board of Governors of the Federal Reserve System)
Presenter: Benamar Hedi
Discussant: Bellia Mario (Goethe University Frankfurt - Research Center SAFE)

- HIGH-FREQUENCY TRADING DURING FLASH CRASHES: WALK OF FAME OR HALL OF SHAME?

Bellia Mario (Goethe University Frankfurt - Research Center SAFE); Christensen Kim (University of Aarhus - CREATES); Kolokolov Alexey (Goethe University Frankfurt - Research Center SAFE); Pelizzon Loriana (Goethe University Frankfurt - Faculty of Economics and Business Administration); Reno Roberto (Department of Economics, University of Verona)
Presenter: Bellia Mario
Discussant: Fattinger Felix (The University of Melbourne - Department of Finance)

- TRADING COMPLEX RISKS

Fattinger Felix (The University of Melbourne - Department of Finance)
Presenter: Fattinger Felix
Discussant: Benamar Hedi (Board of Governors of the Federal Reserve System)

| Banking / Financial Intermediation 3<br>Chairman: Boris Vallée (Harvard Business School) | 16:30<br>Halles 2 |
|---|---|

- DEPOSIT WINDFALLS AND BANK REPORTING QUALITY: EVIDENCE FROM SHALE BOOMS

Wu Xi (New York University (NYU) - Leonard N. Stern School of Business)
Presenter: Wu Xi
Discussant: Bouvard Matthieu (McGill University - Desautels Faculty of Management)

- OPERATING LEVERAGE, RISK TAKING AND COORDINATION FAILURES

Bouvard Matthieu (McGill University - Desautels Faculty of Management); De Motta Adolfo (McGill University - Desautels Faculty of Management)
Presenter: Bouvard Matthieu
Discussant: Girotti Mattia (Banque de France)

- EXTERNAL CREDIT RATINGS AND BANK LENDING

Cahn Christophe (Banque de France - Direction des Entreprises); Girotti Mattia (Banque de France); Salvade Federica (PSB Paris School of Business)
Presenter: Girotti Mattia
Discussant: Wu Xi (New York University (NYU) - Leonard N. Stern School of Business)

| Asset Pricing 4<br>Chairman: Abraham Lioui (EDHEC) | 16:30<br>Halles 1 |
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- CRASH RISK IN INDIVIDUAL STOCKS

Pederzoli Paola (University of Houston)
Presenter: Pederzoli Paola
Discussant: Renne Jean-Paul (University of Lausanne - School of Economics and Business Administration (HEC-Lausanne))

- DISASTROUS DEFAULTS

Gourieroux Christian (University of Toronto - Department of Economics); Renne Jean-Paul (University of Lausanne - School of Economics and Business Administration (HEC-Lausanne)); Mouabbi Sarah (Banque de France); Monfort Alain (National Institute of Statistics and Economic Studies (INSEE) - Center for Research in Economics and Statistics (CREST))
Presenter: Renne Jean-Paul
Discussant: Ouzan Samuel (Neoma Business School)

- SYSTEM 1, SYSTEM 2, AND SPECULATIVE TRADING

Boyer M. Martin (HEC Montreal - Department of Finance); Ouzan Samuel (Neoma Business School)
Presenter: Ouzan Samuel
Discussant: Pederzoli Paola (University of Houston)

## Interest Rates — 16:30 Daguerre

Chairman: Yannick Malevergne (Université Paris I Panthéon Sorbonne)

- MACRO RISKS AND THE TERM STRUCTURE OF INTEREST RATES

Bekaert Geert (Columbia Business School - Finance and Economics); Engstrom Eric (U.S. Board of Governors of the Federal Reserve System - Division of Research and Statistics, Capital Markets); Ermolov Andrey (Gabelli School of Business, Fordham University)
Presenter: Ermolov Andrey
Discussant: Pancost N. Aaron (University of Texas at Austin McCombs School of Business)

- SPECIAL REPO RATES AND THE CROSS-SECTION OF BOND PRICES

D'Amico Stefania (Federal Reserve Bank of Chicago); Pancost N. Aaron (University of Texas at Austin McCombs School of Business)
Presenter: Pancost N. Aaron
Discussant: Zimmermann Paul (Catholic University of Lille - IESEG School of Management, Lille Campus)

- IS NORMAL BACKWARDATION NORMAL? VALUING FINANCIAL FUTURES WITH A STOCHASTIC, ENDOGENOUS INDEX-RATE COVARIANCE

Raimbourg Philippe (Université Paris I Panthéon-Sorbonne); Zimmermann Paul (Catholic University of Lille - IESEG School of Management, Lille Campus)
Presenter: Zimmermann Paul
Discussant: Ermolov Andrey (Gabelli School of Business, Fordham University)

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

# Abstracts

**Capital Structure** — 9:00
Chairman: Edith Ginglinger (Université Paris-Dauphine) — Halles 2

- MANAGERIAL COMPENSATION INCENTIVES AND CORPORATE DEBT MATURITY: EVIDENCE FROM FAS 123R

Hong Jieying (ESSEC Business School)
Presenter: Hong Jieying
Discussant: Petit-Romec Arthur (Skema Business School)

This paper studies the effect of risk-taking incentives provided in managerial compensation on corporate debt maturity choices. The Financial Accounting Standard (FAS) 123R is used as a quasi-natural experiment to establish causality. FAS 123R requires firms to expense stock options at fair value, which has resulted in a dramatic reduction in both option compensation and managerial risk-taking incentives. We find that treated firms significantly increased debt maturity relative to control firms. Further tests identify that the alleviation of creditor-shareholder agency conflicts due to the adoption of FAS 123R is the underlying mechanism driving the result.

- DEBT AS THREAT: EVIDENCE FROM UNION-SPONSORED SHAREHOLDER PROPOSALS

Di Giuli Alberta (ESCP Europe - Department of Finance); Petit-Romec Arthur (Skema Business School)
Presenter: Petit-Romec Arthur
Discussant: Arnold Marc (University of Saint Gallen - School of Finance)

This paper uses data on shareholder proposals to study how leverage affects the interaction between firms and labor unions. We find a negative association between financial leverage and shareholder proposals sponsored by unions. Our results are consistent with the idea that capital structure affects labor unions' behavior and suggest that debt deters labor unions from engaging in negotiation tactics. Additional tests indicate that the negative association between debt and union proposals is driven by governance proposals, in particular proposals on executive compensation and board elections, and more pronounced in firms in poorer financial condition.

- THE IMPACT OF RENEGOTIABLE DEBT ON FIRMS

Arnold Marc (University of Saint Gallen - School of Finance); Westermann Ramona (Copenhagen Business School)
Presenter: Arnold Marc
Discussant: Hong Jieying (ESSEC Business School)

This paper develops a model to investigate the impact of renegotiable debt on firms. The novel feature is that firms can renegotiate debt both in distress and outside distress, which allows us to rationalize empirical timing patterns of debt renegotiations. We show that this feature is crucial to explain the cross-section

of observed credit spreads and the joint distribution of corporate events and the debt control premium. These debt pricing patterns are not captured by existing models. Incorporating both renegotiation events also generates novel testable implications for the impact of renegotiable debt on corporate policies.

## Financial Econometrics / Mathematical Finance — 9:00, Bell

Chairman: Yacine Ait-Sahalia (Princeton University)

### ▪ THE CROSS-SECTIONAL DISTRIBUTION OF FUND SKILL MEASURES

Barras Laurent (McGill University - Desautels Faculty of Management); Gagliardini Patrick (University of Lugano); Scaillet O. (University of Geneva GSEM and GFRI)

Presenter: Barras Laurent

Discussant: Le Fol Gaëlle (Université Paris-Dauphine)

We develop a novel non-parametric approach to estimate the entire distribution of skill across mutual funds. Our approach is simple, fast, and immune to misspecification errors that plague traditional parametric approaches. As such, it provides a unified and consistent framework for jointly studying the two dimensions of skill, namely the ability to: (i) detect profitable trades; (ii) mitigate capacity constraints. Our empirical analysis reveals that while 88.6% of the managers can detect profitable trades, 86.1% are also subject to capacity constraints. The two skill dimensions exhibit strong heterogeneity both within and across fund groups. Importantly, they are also negatively correlated. Combining them into a single skill measure - the value added -, we find that 70% of the funds create a positive value equal to $9 mio. per year on average.

### ▪ A SELF-EXCITING MODEL FOR MUTUAL FUND FLOWS: INVESTOR BEHAVIOUR AND LIABILITY RISK

Darolles Serge (Paris Dauphine University - DRM-CEREG); Le Fol Gaëlle (Université Paris-Dauphine); Lu Yang (University of Paris 13); Sun Theo Ran (Université Paris-Dauphine, PSL Research University)

Presenter: Le Fol Gaëlle

Discussant: Geraci Marco Valerio (University of Cambridge - Cambridge-INET Institute)

This paper analyses the purchase and redemption behaviour of mutual fund investors and its implications on fund liquidity risk. We collect a novel set of proprietary data which contains a large number of French investors holding funds with various degrees of asset liquidity. We build a Self-Exciting Poisson model capturing fund flows' clustering effects and over-dispersion. The model improves the forecast accuracy of future flows and provides a reliable risk indicator (Flow Value at Risk.) Accordingly, we introduce the notion of liability risk where investor's behaviour increases mutual fund liquidity risk. We further decompose fund flows into investor categories. We find that investors exhibit high heterogeneous behaviour, and a lead-lag relation exists between them. Finally, we control flow dynamics for various economic conditions. We show that although flows evolve with economic conditions, investor's behaviour stays the

main significant determinant of flows' randomness. Our findings encourage fund manager to adopt an ALM approach.

▪ SHORT SELLING AND EXCESS RETURN CORRELATION

Geraci Marco Valerio (University of Cambridge - Cambridge-INET Institute);
Gnabo Jean-Yves (Facultés Universitaires Notre-Dame de la Paix (FUNDP));
Veredas David (Vlerick Business School)
Presenter: Geraci Marco Valerio
Discussant: Barras Laurent (McGill University - Desautels Faculty of Management)

We show that the number of common short sellers shorting two stocks can predict their four-factor excess return correlation one month ahead, controlling for many pair characteristics, including similarities in size, book-to-market, and momentum. We verify that this result holds out-of-sample and show that it can be used to establish a trading strategy that yields positive cumulative returns over 12 months. We explore the possible mechanisms that could give rise to this relationship. We find that neither the price-impact mechanism nor the liquidity-provision mechanism can explain the uncovered relationship. Rather, it seems that the relationship is due to informed short selling, which we identify using several indicators of value obtained from financial statement analyses.

## Behavioral Finance 1 — 9:00 Berliner

Chairman: Oliver Dessaint (University of Toronto)

▪ THE IMPACT OF RECENCY EFFECTS ON STOCK MARKET PRICES

Mohrschladt Hannes (University of Muenster - Finance Center)
Presenter: Mohrschladt Hannes
Discussant: Xu Guosong (WHU - Otto Beisheim School of Management)

Experimental evidence shows that recent observations have a stronger impact on the formation of beliefs than observations from the more distant past. Thus, if investors judge upon a stock's attractiveness based on historical return data, they presumably overweight the most recent returns. Based on this simple idea, we propose a new empirical measure of recency adjustment that reflects the ordering of previous returns. Based on the conjectured behavioral mechanisms, recency adjustment should be systematically related to stock mispricing. We use US stock market data from 1926 to 2016 to support this hypothesis empirically and show that recency adjustment is a strong predictor for the cross-section of subsequent returns.

▪ FRIENDS AT WSJ: JOURNALIST CONNECTION, NEWS TONE, AND STOCK RETURNS

Xu Guosong (WHU - Otto Beisheim School of Management)
Presenter: Xu Guosong
Discussant: Loualiche Erik (University of Minnesota, Finance)

This paper studies the effect of the firm-journalist network on news tone and stock returns. Using a proprietary dataset on the firm's and the CEO's

connections to the Wall Street Journal (WSJ) reporters, I find that such connections lead to markedly more favorable coverage of corporate M&A news and to better associated market re-actions. The effect on the financial market is larger for the deals featured on the front page of the Journal. Evidence suggests that the relationship is causal: First, using the reporters' turnover as an instrument for the connected coverage, I observe that the news slant and market effects remain significant. Additionally, using Rupert Murdoch's acquisition of the WSJ as an exogenous shock to journalistic independence, I find that firms previously connected to Mr. Murdoch received better coverage and more positive stock returns after the ownership change.

- EFFICIENT BUBBLES?

Haddad Valentin (University of California, Los Angeles (UCLA) - Anderson School of Management); Ho Paul (Princeton University - Department of Economics); Loualiche Erik (University of Minnesota, Finance)
Presenter: Loualiche Erik
Discussant: Mohrschladt Hannes (University of Muenster - Finance Center)

Episodes of booming firm creation often coincide with intense speculation on financial markets. Disagreement among investors transforms the economics of optimal firm creation. We characterize the interaction between speculation and classic entry externalities from growth theory through a general entry tax formula for a non-paternalistic planner. The business-stealing effect is mitigated when investors believe they can identify the best firms. Speculation thus increases firm entry but reduces the optimal tax, potentially resulting in under-entry. The appropriability effect also vanishes, leaving only general equilibrium effects on input prices, aggregate demand, or knowledge. As a result, speculation reverses the role of many industry characteristics for efficiency. For instance, as the labor share increases, the optimal tax decreases under agreement but increases under disagreement. Further, economies with identical aggregate properties but a different market structure have the same efficiency with agreement, but call for different policies once financial market speculation is taken into account.

| Asset Pricing 1 | 9:00 |
|---|---|
| Chairman: Andras Fulop (ESSEC Business School) | Halles 1 |

- OIL AND EQUITY RETURN PREDICTABILITY: THE IMPORTANCE OF DISSECTING OIL PRICE CHANGES

Jiang Haibo (Tulane University); Skoulakis Georgios (University of British Columbia (UBC)) - Division of Finance); Xue Jinming (University of Maryland - Department of Finance)
Presenter: Skoulakis Georgios
Discussant: Strauss Jack (University of Denver - Reiman School of Finance)

Based on data until the mid 2000s, oil price changes were shown to predict international equity index returns with a negative predictive slope. Extending the sample to 2015, we document that this relationship has been reversed over the last ten years and therefore has not been stable over time. We then posit that oil

price changes are still useful for forecasting equity returns once complemented with relevant information about oil supply and global economic activity. Using a structural VAR approach, we decompose oil price changes into oil supply shocks, global demand shocks, and oil-specific demand shocks. The hypothesis that oil supply shocks and oil-specific demand shocks (global demand shocks) predict equity returns with a negative (positive) slope is supported by the empirical evidence over the 1986-2015 period. The results are statistically and economically significant and do not appear to be consistent with time-varying risk premia.

- BETA RISK IN THE CROSS-SECTION OF EQUITIES

Boloorforoosh Ali (Concordia University); Christoffersen Peter (University of Toronto - Rotman School of Management); Gourieroux Christian (University of Toronto - Department of Economics); Fournier Mathieu (HEC Montreal)
Presenter: Fournier Mathieu
Discussant: Skoulakis Georgios (University of British Columbia (UBC) - Division of Finance)

We develop a continuous-time intertemporal CAPM model that allows for risky beta exposure, which we explicitly specify. In the model, the expected return on a stock depends on beta's co-movement with market variance and more generally with the stochastic discount factor and deviates from the standard security market line when beta risk is priced. When estimating the model on returns and options we find that allowing for beta risk helps explain the expected returns on the low and high beta stocks, which are challenging for standard factor models.

- BITCOIN: LEARNING, PREDICTABILITY AND PROFITABILITY VIA TECHNICAL ANALYSIS

Detzel Andrew L. (University of Denver - Daniels College of Business); Liu Hong (Washington University in St. Louis - Olin Business School); Strauss Jack (University of Denver - Reiman School of Finance); Zhou Guofu (Washington University in St. Louis - John M. Olin Business School)
Presenter: Strauss Jack
Discussant: Fournier Mathieu (HEC Montreal)

We document that Bitcoin returns, while unpredictable by macroeconomic variables, are predictable by 1- to 20-week moving averages (MAs) of daily prices, both in- and out-of-sample. Trading strategies based on MAs generate substantial alpha, utility and Sharpe ratios gains, and significantly reduce the severity of drawdowns relative to a buyand-hold position in Bitcoin, which already has a Sharpe ratio of 1.8. We explain these facts with a novel equilibrium model that demonstrates, with uncertainty about growth in fundamentals, rational learning by investors with different priors yields predictability of returns by MAs.

- DYNAMIC ADVERSE SELECTION AND LIQUIDITY

Rosu Ioanid (HEC Paris (Groupe HEC) - Finance Department)
Presenter: Rosu Ioanid
Discussant: Chaieb Ines (University of Geneva and Swiss Finance Institute)

Does a larger fraction of informed trading generate more illiquidity, as measured by the bid-ask spread? We answer this question in the negative in the context of a dynamic dealer market where the fundamental value follows a random walk, provided we consider the long run (stationary) equilibrium. More informed traders tend to generate more adverse selection and hence larger spreads, but at the same time cause faster learning by the market makers and hence smaller spreads. These two effects offset each other in the long run.

- IS LIQUIDITY RISK PRICED IN PARTIALLY SEGMENTED MARKETS?

Chaieb Ines (University of Geneva and Swiss Finance Institute); Errunza Vihang R. (McGill University - Desautels Faculty of Management); Langlois Hugues (HEC Paris (Groupe HEC) - Finance Department)
Presenter: Chaieb Ines
Discussant: Ligot Stéphanie (Université Paris I Panthéon-Sorbonne (PRISM Sorbonne and Labex REFi)

We develop an asset pricing model to analyze the joint impact of liquidity costs and market segmentation. The freely traded securities command a premium for liquidity level and global market and liquidity risk premiums whereas securities that can only be held by a subset of investors additionally command a local market and liquidity risk premiums. Based on a new methodology, we find that the liquidity level premium dominates the liquidity risk premiums for our sample of 24 emerging markets. Whereas the local liquidity risk premium is empirically small, the global market liquidity risk premium dramatically increases during crises and market corrections.

- FRAGMENTATION AND PRICE DISCOVERY DYNAMICS: THE CONTRIBUTIONS OF MULTILATERAL TRADING FACILITIES AND REGULATED MARKET

Gillet Roland L. (Université Paris I Panthéon-Sorbonne); Ligot Stéphanie (Université Paris I Panthéon-Sorbonne (PRISM Sorbonne and Labex RéFi))
Presenter: Ligot Stéphanie
Discussant: Rosu Ioanid (HEC Paris (Groupe HEC) - Finance Department)

Since 2007, the European Markets in Financial Instruments Directive (MiFID) has ended the national rule of order concentration and the directive has increased the fragmentation among the trading venues. This paper examines the price discovery dynamics for cross-listed CAC40 stocks, through the Information Shares metric, over the years 2012 and 2013 for three key places: NYSE Euronext Paris, BATS Europe and Chi-X Europe. We use the highfrequency order flow on individual stocks to study the monthly contribution of the Regulated Market (Euronext Paris) and Multilateral Trading Facilities (BATS and Chi-X Europe) to

the price discovery by using the spread midpoint on the best limits at one-second intervals. We observe that the Multilateral trading facilities contribute significantly to the price discovery dynamics. The revision of MiFID should enhance the trade-through protections, and unified trade and price reporting protocols to avoid that fragmentation is detrimental on the market quality after the Brexit.

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

| Corporate Governance 1<br>Chairman: Adrien Matray (Princeton University) | 11:00<br>Edison |
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- IS THE CHINESE CORPORATE ANTI-CORRUPTION CAMPAIGN AUTHENTIC?

Griffin John M. (University of Texas at Austin - Department of Finance); Liu Clark (Tsinghua University - PBC School of Finance); Shu Tao (University of Georgia - Department of Finance)

Presenter: Shu Tao
Discussant: Kempf Elisabeth (University of Chicago - Booth School of Business)

This paper examines whether the massive Chinese anti-corruption campaign is ensnaring corrupt firms, contains a political component, and is reducing corporate corruption. Consistent with the campaign's stated objectives, Chinese firms with characteristics commonly associated with measures of poor governance, self-dealing, and inefficiencies are more likely to have investigated executives. However, affiliations with prominent investigated leaders increase investigation likelihood and executives with connections to top current central leadership is less likely to be investigated, possibly indicating political favoritism. Over time, there has been a sizeable decline in entertainment expenditures but little overall signs of decreases in measures of potential corporate corruption.

- LITIGATING INNOVATION: EVIDENCE FROM SECURITIES CLASS ACTION LAWSUITS

Kempf Elisabeth (University of Chicago - Booth School of Business); Spalt Oliver G. (Tilburg University - Department of Finance)

Presenter: Kempf Elisabeth
Discussant: De Cesari Amedeo (University of Manchester - Alliance Manchester Business School - Finance & Accounting Group)

Low-quality securities class action lawsuits disproportionally target firms with valuable innovation. We establish this fact using data on lawsuits against U.S. corporations between 1996 and 2011 and the private economic value of a firm's newly granted patents as a measure of valuable innovation. We find that securities class actions impose a substantial implicit "tax" on highly innovative firms. Regarding the channel, our findings suggest that changes in investment opportunities and corporate disclosure induced by the innovation make successful innovators attractive targets of low-quality litigation. Overall, our results provide new evidence consistent with the view that the current class action litigation system has adverse effects on the competitiveness of the U.S. economy.

- EMPLOYMENT PROTECTION AND SHARE REPURCHASES: EVIDENCE FROM WRONGFUL DISCHARGE LAWS

Dang Viet Anh (Alliance Manchester Business School); De Cesari Amedeo (University of Manchester - Alliance Manchester Business School - Finance & Accounting Group); Phan Hieu V. (University of Massachusetts Lowell)
Presenter: De Cesari Amedeo
Discussant: Shu Tao (University of Georgia - Department of Finance)

We use the staggered adoption of Wrongful Discharge Laws (WDLs) by different U.S. state courts as a quasi-natural experiment to examine the causal relation between employee firing costs and corporate payout policy. We find that greater employment protection imposed by WDLs leads to higher stock repurchases, and that this impact is concentrated among financially unconstrained and well governed firms. Our analysis indicates that since higher firing costs exacerbate the conflict of interests between shareholders and workers and potentially lead to rent extraction by the latter, firms increase share buybacks to reduce the risk of wealth transfer from shareholders to workers.

## Banking / Systematic Risk (sponsored by ACPR Chair)
Chairman: Christophe Pérignon (HEC Paris)

11:00
Halles 2

- EMPIRICALLY EVALUATING SYSTEMIC RISKS IN CCPS: THE CASE OF TWO CDS CCPS

Campbell Sean D. (U.S. Division of Monetary Affairs); Ivanov Ivan (Board of Governors of the Federal Reserve System)
Presenter: Ivanov Ivan
Discussant: Garcia-Posada Miguel (Banco de España)

We empirically evaluate the systemic stability of two large CDS CCPs. We show that positive correlations between the exposures of large dealers could lead to substantially larger combined stress losses to a CCP than if we consider dealers in isolation. These results highlight crowded trade concerns. We then study the risk faced by a set of CCPs from the clearing activities of their common dealers. We that the high positive correlations in exposures of dealers across CCPs can lead to dealers experiencing large losses to both CCP simultaneously. Our study illustrates the potential for contagion of stress through CCPs.

- ADAPTING LENDING POLICIES WHEN NEGATIVE INTEREST RATES HIT BANKS' PROFITS

Arce Oscar (Banco de Espagna); Garcia-Posada Miguel (Banco de Espagna); Mayordomo Sergio (Banco de Espagna); Ongena Steven (University of Zurich - Department of Banking and Finance)
Presenter: Garcia-Posada Miguel
Discussant: Ma Kebin (University of Warwick - Finance Group)

What is the impact of negative interest rates on bank lending and risk-taking? To answer this question we study the changes in lending policies using the Euro area Bank Lending Survey and the Spanish Credit Register. Banks whose net interest income is adversely affected by negative rates are concurrently lowly

capitalized, take less risk and adjust loan terms and conditions to shore up their risk weighted assets and capitalization. These banks also increase non-interest charges more. Importantly, we find no differences in banks' credit supply and credit standard setting, neither in Euro area nor in Spain, suggesting that negative rates do not necessarily contract the supply of credit, which can be interpreted in the sense that the so-called "reversal rate" has not been reached yet.

▪ CONTAGIOUS BANK RUNS AND DEALER OF LAST RESORT
Li Zhao (University of International Business and Economics (UIBE) - School of Banking and Finance); Ma Kebin (University of Warwick - Finance Group)
Presenter: Ma Kebin
Discussant: Ivanov Ivan (Board of Governors of the Federal Reserve System)

In a global-games framework, we show how a dealer-of-last-resort policy can promote financial stability while traditional lender-of-last-resort policies are informationally constrained: Central banks and private investors can be uncertain whether banks selling assets to fend off runs are insolvent or illiquid. Such uncertainty leads to asset price collapses and runs and restricts central banks' role as a lender of last resort. In the presence of aggregate uncertainty, contagion and price volatility emerge as a multiple-equilibria phenomenon despite the global-games refinement. A dealer-of-last-resort policy that requires no information on individual banks' solvency can contain contagion and stabilize prices at zero-expected costs.

**Asset Pricing 2** — **11:00**
Chairman: Patrice Poncet (ESSEC Business School) — **Halles 1**

▪ VARIANCE PREMIUM, DOWNSIDE RISK, AND EXPECTED STOCK RETURNS
Feunou Bruno (Bank of Canada); Lopez Aliouchkin Ricardo (Syracuse University); Tédongap Roméo (ESSEC Business School); Xu Lai (Syracuse University)
Presenter: Lopez Aliouchkin Ricardo
Discussant: Middelhoff T. Frederik (University of Muenster - Finance Center Muenster)

We decompose total variance into its bad and good components and measure the premia associated with their fluctuations using stock and option data from a large cross-section of firms. The total variance risk premium (VRP) represents the premium paid to insure against fluctuations in bad variance (called bad VRP), net of the premium received to compensate for fluctuations in good variance (called good VRP). Bad VRP provides a direct assessment of the degree to which asset downside risk may become extreme, while good VRP proxies for the degree to which asset upside potential may shrink. We find that bad VRP is important economically; in the cross-section, a one-standard-deviation increase is associated with an increase of up to 13% in annualized expected excess returns. Simultaneously going long on stocks with high bad VRP and short on stocks with low bad VRP yields an annualized risk-adjusted expected excess return of 18%.

## ▪ IDIOSYNCRATIC VOLATILITY, ITS EXPECTED VARIATION, AND THE CROSS-SECTION OF STOCK RETURNS

Branger Nicole (University of Muenster - Finance Center Muenster); Hülsbusch Hendrik (University of Muenster - Finance Center Muenster); Middelhoff T. Frederik (University of Muenster - Finance Center Muenster)
Presenter: Middelhoff T. Frederik
Discussant: Langlois Hugues (HEC Paris (Groupe HEC) - Finance Department)

We offer a novel perspective on the negative relation between idiosyncratic volatility (IVOL) and expected returns. We show that the IVOL puzzle is largely driven by a mean-reversion behavior of the stocks' volatilities, which is not captured by a simple historic measure of IVOL. In doing so, we make use of option implied information to extract the expected mean-reversion speed of IVOL in an almost model-free fashion. Together with the current level of IVOL this method allows us to identify stocks' expected IVOL changes in a very general setting. Under the assumption of IVOL carrying a positive price of risk (Merton (1987)) we offer a explanation for the puzzle. In a horse race we show that the mean-reversion speed is superior to the most prominent competing explanations. All our findings are robust to different measures of IVOL and various stock characteristics.

## ▪ MEASURING SKEWNESS PREMIA

Langlois Hugues (HEC Paris (Groupe HEC) - Finance Department)
Presenter: Langlois Hugues
Discussant: Lopez Aliouchkin Ricardo (Syracuse University)

We provide a new methodology to empirically investigate the respective roles of systematic and idiosyncratic skewness in explaining expected stock returns. Forming a risk factor that captures systematic skewness risk and forming idiosyncratic skewness sorted portfolios only require the ordering of stocks with respect to each skewness measure. Accordingly, we use a large number of predictors to forecast the cross-sectional ranks of systematic and idiosyncratic skewness which are considerably easier to predict than their actual values. Compared to other measures of ex ante systematic skewness, our forecasts create a significant spread in ex post systematic skewness. A predicted systematic skewness risk factor carries a significant risk premium that ranges from 7% to 12% per year and is robust to the inclusion of downside beta, size, value, momentum, profitability, and investment factors. In contrast to systematic skewness, the role of idiosyncratic skewness in pricing stocks is less robust. Finally, we document how the determinants of systematic skewness differ from those of idiosyncratic skewness.

- **CAN RISK BE SHARED ACROSS INVESTOR COHORTS? EVIDENCE FROM A POPULAR SAVINGS PRODUCT**

Hombert Johan (HEC Paris (Groupe HEC) - Finance Department); Lyonnet Victor (Ohio State University)
Presenter: Lyonnet Victor
Discussant: Delatte Anne-Laure (CNRS)

This paper shows how one of the largest sources of savings in Europe - life insurance investment products - shares market risk across investor cohorts. Insurers smooth returns by varying reserves in order to offset fluctuations in asset returns. Reserves are shared with new investors so changes in reserves imply changes in future returns, causing redistribution across cohorts. Using regulatory and survey data on the 1.4 trillion-euro French market, we estimate redistribution to be quantitatively large: 1.4% of savings value per year on average, i.e., 17 billion euros or 0.8% of GDP. Even though returns smoothing creates predictability, investor flows barely react to predictable returns. These findings challenge a large theoretical literature that assumes cross-cohort risk sharing is impossible. We provide evidence that investors' lack of sophistication explains the inelasticity of flows to predictable returns, sustaining the risk sharing mechanism.

- **CONNECTED FIRMS: THE PROPAGATION OF IDIOSYNCRATIC SHOCKS IN BORROWING NETWORKS**

He Ai (Emory University, Goizueta Business School, Department of Finance)
Presenter: He Ai
Discussant: Lyonnet Victor (Ohio State University)

Firms are connected if they borrow from the same lenders in the credit market. This study examines whether firm-level idiosyncratic shocks propagate in borrowing networks which are built on this type of firm link. Through increasing credit demand or loan defaults, borrower-level idiosyncratic shocks may drag the lenders into credit constraints, and then will negatively affect the subsequent credit supply to other borrowers that share the same lenders but not directly affected by these shocks. I identify idiosyncratic shocks with the occurrence of major natural disasters in the U.S. for almost 30 years. I find that disaster-affected relationship-borrowers receive more loans after the disaster, and impose substantial loan declines, output losses and equity value drops on their connected peers who are not affected by the natural disasters. This spillover effect is more severe for these connected peers in weaker relationship with the common lenders. My estimates are economically large, suggesting that firm linkages in the credit markets are an important determinant of the propagation of idiosyncratic shocks in the economy.

- BANKS DEFY GRAVITY

Delatte Anne-Laure (CNRS); Bouvatier Vincent (Université Paris Ouest - Nanterre, La Défense); Capelle-Blancard Gunther (University of Paris 1 Pantheon-Sorbonne - Centre d'Economie de la Sorbonne (CES))
Presenter: Delatte Anne-Laure
Discussant: He Ai (Emory University, Goizueta Business School, Department of Finance)

This paper provides the first quantitative assessment of the contribution of global banks in intermediating tax evasion. Applying gravity equations on a unique regulatory dataset based on comprehensive individual country-by-country reporting from all the Systemically Important Institutions in the European Union, we find that: 1) Tax havens generate an 200% extra presence of foreign banks; 2) The favorite destinations of tax evasion intermediated by European banks are Luxembourg and Monaco 3) British and German banks display the most aggressive strategies in tax havens ; 4) New transparency requirements imposed in 2015 have not changed European banks commercial presence in tax havens; 5) Banks intermediate Eur 565.2 billion of off-shore assets, that is 5% of their origin countries' GDP; 6) Banks contribute to one third of global off-shore wealth intermediation.

| International Finance | 11:00 |
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| Chairman: Jack Strauss (University of Denver) | Daguerre |

- MODEL-FREE INTERNATIONAL STOCHASTIC DISCOUNT FACTORS

Sandulescu Mirela (University of Lugano); Trojani Fabio (University of Geneva); Vedolin Andrea (Boston University - Department of Finance & Economics)
Presenter: Trojani Fabio
Discussant: Camanho Nelson (Queen Mary University of London)

We provide a theoretical characterization of international stochastic discount factors (SDFs) in incomplete markets under different degrees of market segmentation. Using 40 years of data on a cross-section of countries, we estimate model-free SDFs and factorize them into permanent and transitory components. We find that large permanent SDF components help to reconcile the low exchange rate volatility, the exchange rate cyclicality, and the forward premium anomaly. However, integrated markets entail highly volatile and almost perfectly comoving international SDFs. In contrast, segmented markets can generate less volatile and more dissimilar SDFs. In quest of relating the SDFs to economic fundamentals, we document strong links between proxies of financial intermediaries' risk-bearing capacity and model-free international SDFs. We interpret this evidence through the lens of an economy with two building blocks: limited participation by households and financiers who face an intermediation friction.

- INTERNATIONAL CAPITAL MARKETS WITH TIME-VARYING PREFERENCES

Curatola Giuliano (Goethe University Frankfurt - Research Center SAFE); Dergunov Ilya (Goethe University Frankfurt)

Presenter: Curatola Giuliano

Discussant: Trojani Fabio (University of Geneva)

We propose a 2-country asset-pricing model where agents' preferences change endogenously as a function of the popularity of internationally traded goods. We determine the effect of the time-variation of preferences on equity markets, consumption and portfolio choices. When agents are more sensitive to the popularity of domestic consumption goods, the local stock market reacts more strongly to the preferences of local agents than to the preferences of foreign agents. Therefore, home bias arises because home-country stock represents a better investment opportunity for hedging against future fluctuations in preferences. We test our model and find that preference evolution is a plausible driver of key macroeconomic variables and stock returns.

- GLOBAL PORTFOLIO REBALANCING AND EXCHANGE RATES

Camanho Nelson (Queen Mary University of London); Hau Harald (Geneva Finance Research Institute); Rey Hélène (London Business School)

Presenter: Camanho Nelson

Discussant: Curatola Giuliano (Goethe University Frankfurt - Research Center SAFE)

We examine international equity allocations at the fund level and show how different returns on the foreign and domestic proportion of portfolios determine rebalancing behavior and trigger capital flows. We document the heterogeneity of rebalancing across fund types, its greater intensity under higher exchange rate volatility, and the exchange rate effect of such rebalancing. The observed dynamics of equity returns, exchange rates, and fund-level capital flows are compatible with a model of incomplete FX risk trading in which exchange rate risk partially segments international equity markets.

## Portfolio Management 1 — 11:00

Chairman: Philippe Bertrand (Aix-Marseille Université) — Berliner

- CORRECTING ALPHA MISATTRIBUTION IN PORTFOLIO SORTS

Hoechle Daniel (FHNW School of Business - Institute for Finance); Schmid Markus (University of Saint Gallen - Swiss Institute of Banking and Finance); Zimmermann Heinz (University of Basel - Center for Economic Science (WWZ) - Department of Finance)

Presenter: Hoechle Daniel

Discussant: Honkanen Pekka (HEC Paris)

Portfolio sorts, as commonly employed in empirical asset pricing applications, are at risk of accidentally misattributing parts of the risk-adjusted return (or "alpha") to the firm characteristic underlying the sort. Such misattribution occurs if the firm characteristic is correlated with an unobservable yet time-persistent factor. We propose a novel, regression-based methodology for analyzing asset

returns. Besides handling multiple and continuous firm characteristics, our technique can also reproduce the alpha and factor exposure estimates from all variants of sorting assets into (e.g., decile) portfolios as a special case. In our empirical analysis, we find that several well-known characteristics-based factors indeed lose their predictive power when we account for firm-specific (fixed) effects.

- LEARNING FROM NOISE? PRICE AND LIQUIDITY SPILLOVERS AROUND MUTUAL FUND FIRE SALES

Honkanen Pekka (HEC Paris); Schmidt Daniel (HEC Paris (Groupe HEC) - Finance Department)
Presenter: Honkanen Pekka
Discussant: Mougeot Nicolas (John Molson School of Business, Concordia University)

We study the extent of cross-asset learning in financial markets by examining spillover effects around mutual fund fire sales. We find that the well-documented impact-reversal pattern for the returns of fire sale stocks (e.g., Coval and Stafford, 2007) spills over onto the stock returns of economic peers with a magnitude that is around one fifth of the original effect. These spillovers extend to liquidity and are not explained by common funding shocks or the hedging activity of liquidity providers. We conclude that they represent information spillovers due to learning from prices, thus identifying cross-asset learning as an important driver for the commonality in returns and liquidity.

- MONETARY POLICY AND EQUITY VALUATION

Mougeot Nicolas (John Molson School of Business, Concordia University)
Presenter: Mougeot Nicolas
Discussant: Hoechle Daniel (FHNW School of Business - Institute for Finance)

I use a general form of the Taylor rule to show the effect of monetary policies on equity valuation. If equity investors infer their long-term discount rate based upon guidance from the Fed using the Taylor rule, I show that when the sensitivity of Fed funds rates to inflation is greater than one, then earnongs yield should also display a positive relationship with inflation. This would provide a rational explanation to the empirically observed relationship between earnings yield and inflation. Equity investors therefore discount nominal cash flows at nominal discount rate, accounting for the Fed's policy response to inflation changes, refuting the Money Illusion Hypothesis of Modigliani and Cohn. An empirical analysis on US data over the 1915-2017 period confirms the proposition.

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

- WHAT DO MUTUAL FUND MANAGERS' PRIVATE PORTFOLIOS TELL US ABOUT THEIR SKILLS?

Ibert Markus (Federal Reserve Board of Governors)
Presenter: Ibert Markus
Discussant: Leippold Markus (University of Zurich - Department of Banking and Finance)

I collect a registry-based dataset on the personal portfolios of Swedish mutual fund managers. The managers who invest (a lot of) personal money in their own funds generate positive abnormal returns. Some managers are betting on their best ideas by investing personal money in individual securities that are simultaneously held by their funds. The majority do not invest in their funds nor in their funds' constituents, and hold more cash and more passive funds in their personal portfolios. Overall, the results suggest that fund managers are highly certain about their ability - or more often lack thereof - and invest their personal wealth accordingly.

- IS THERE SMART MONEY? HOW INFORMATION IN THE FUTURES MARKET IS PRICED INTO THE CROSS-SECTION OF STOCK RETURNS WITH DELAY

Ho Steven Wei (Columbia University, Graduate School of Arts and Sciences, Department of Economics); Lauwers Alexandre R. (University of Geneva - Graduate Institute, Geneva (IHEID))
Presenter: Lauwers Alexandre R.
Discussant: Zaldokas Alminas (Hong Kong University of Science & Technology (HKUST) - Department of Finance)

We document a new empirical phenomenon in which the positions of managed money (MM) traders, who are sophisticated speculators in the commodity futures market, as disclosed by the CFTC Disaggregated Commitment of Traders (DCOT) reports, can predict the cross-section of commodity producers' stock returns in the subsequent week. Specifically, if the DCOT reports an increase in long position, a decrease in short position, an increase in net position, or an increase in the ratio of long over short position of MM, then the stock price of producers of the same commodity would increase in the following week, and the finding is robust to a variety of choices of measures and weighting schemes. The results are more pronounced in firms with higher information asymmetry. Our finding further challenges the efficient market hypothesis. We find that the positions of MM have predictive power, though positions of producers (commercial hedgers) do not.

▪ IS ACTIVE INVESTING A ZERO-SUM GAME?

Leippold Markus (University of Zurich - Department of Banking and Finance); Rüegg Roger (University of Zurich - Department of Banking and Finance)

Presenter: Leippold Markus

Discussant: Lauwers Alexandre R. (University of Geneva - Graduate Institute, Geneva (IHEID))

To study the hypothesis whether active investing is a zero-sum game, we analyze the alpha of active and index mutual funds from a global sample of more than 60,000 equity and fixed income funds. Using a new robust statistical test, we cannot reject this hypothesis for the vast majority of investment categories. We also find that the average active fund has less exposure to traditional risk factors, but higher sensitivity to alternative risk premia. Fund persistence and the impact of size and fees adds further support to the hypothesis.

▪ BACKGROUND NOISE? TV ADVERTISING AFFECTS REAL TIME INVESTOR BEHAVIOR

Zaldokas Alminas (Hong Kong University of Science & Technology (HKUST) - Department of Finance); Liaukonyte Jura (Cornell University)

Presenter: Zaldokas Alminas

Discussant: Ibert Markus (Federal Reserve Board of Governors)

Using minute-by-minute television advertising data covering approximately 326; 000 ads, 301 firms, and $20 billion in ad spending, we study the real-time effects of TV advertising on investor search for online financial information. Our identification strategy exploits the fact that viewers in different U.S. time zones are exposed to the same programming and national advertising at different times, allowing us to control for contemporaneous confounding events. We find that an average TV ad leads to a 3% increase in SEC EDGAR queries within 15 minutes of the airing of that ad. These ad-induced queries are linked to higher stock trading volume on the following trading day. In a smaller sample, we find similar increases in Google searches for financial information. Such advertising effects spill over through horizontal and vertical product market links to financial information searches on closest rivals and suppliers.

**Market Microstructure 2** (sponsored by BEDOFIH)
Chairman: Sonia Jimenez (Université Grenoble INP)

14:00
Edison

▪ OTC DISCOUNT

de Roure Calebe (Reserve Bank of Australia); Moench Emanuel (Deutsche Bundesbank); Pelizzon Loriana (Goethe University Frankfurt - Faculty of Economics and Business Administration); Schneider Michael (Deutsche Bundesbank)

Presenter: Moench Emanuel

Discussant: Lee Tomy (Central European University)

This paper studies price dispersion and venue choice in the market for German Bunds, the second most liquid sovereign bond market in the world, where exchange platforms with a central limit order book and over-the-counter (OTC)

segments coexist for interdealer transactions. We focus on the dealer-to-dealer segment of the market and show that the price differences between the OTC and exchange segments are significant. For the majority of trades the OTC price is favorable with respect to the corresponding quoted price on the exchange, indicating the presence of an OTC discount. The size of the OTC discount depends on dealers' search costs and trading relationships. Dealers are more likely to execute a trade on the exchange when the required immediacy is high or when search costs are high. Our findings highlight the complementary roles played by exchange and OTC segments with important implications for the design and regulation of fixed-income trading.

- ELECTRONIC TRADING IN OTC MARKETS VS. CENTRALIZED EXCHANGE

Liu Ying (University of Lausanne - Institute of Banking and Finance (IBF)); Vogel Sebastian (Ecole Polytechnique Fédérale de Lausanne); Zhang Yuan (Ecole Polytechnique Fédérale de Lausanne)
Presenter: Vogel Sebastian
Discussant: Ergun Lerby Murat (London School of Economics & Political Science (LSE))

We model a two-tiered market structure in which an investor can trade an asset on a trading platform with a set of dealers who in turn have access to an interdealer market. The investor's order is informative about the asset's payoff and dealers who were contacted by the investor use this information in the interdealer market. Increasing the number of contacted dealers lowers markups through competition but increases the dealers' costs of providing the asset through information leakage. We then compare a centralized market in which investors can trade among themselves in a central limit order book to a market in which investors have to use the electronic platform to trade the asset. With imperfect competition among dealers, investor welfare is higher in the centralized market if private values are strongly dispersed or if the mass of investors is large.

- WHY TRADE OVER-THE-COUNTER? WHEN INVESTORS WANT PRICE DISCRIMINATION

Lee Tomy (Central European University); Wang Chaojun (University of Pennsylvania - The Wharton School)
Presenter: Lee Tomy
Discussant: Vogel Sebastian (Ecole Polytechnique Fédérale de Lausanne)

Despite the availability of low-cost exchanges, over-the-counter (OTC) trading is pervasive for most assets. We explain the prevalence of OTC trading using a model of adverse selection, in which informed and uninformed investors choose to trade over-the-counter or on an exchange. OTC dealers' ability to price discriminate allows them to imperfectly cream-skim the uninformed investors from the exchange. Assets with a higher share of trades executed on exchanges are predicted to have wider bid-ask spreads on those exchanges, as supported by evidence from US stocks. Having an OTC market can reduce welfare while increasing total trade volume and decreasing average bid-ask spread. Specifically, for assets that are mostly traded over-the-counter (such as swaps

and bonds), having the OTC market actually harms welfare. Our results justify recent policies that seek to end OTC trading in such assets.

- THE INFORMATIONAL VALUE OF CONSENSUS PRICES: EVIDENCE FROM THE OTC DERIVATIVES MARKET

Ergun Lerby Murat (London School of Economics & Political Science (LSE));
Uthemann Andreas (London School of Economics & Political Science (LSE))
Presenter: Ergun Lerby Murat
Discussant: Moench Emanuel (Deutsche Bundesbank)

This paper provides empirical evidence on the ability of consensus prices to reduce valuation uncertainty in the over-the-counter market for financial derivatives. The analysis is based on a proprietary data set of price estimates for S&P500 index options provided by major broker-dealers to a consensus pricing service. We develop and estimate a model of learning about fundamental asset values from consensus prices. The panel dimension of the data set allows us to estimate Bayesian updating dynamics at the individual broker-dealer level. We find that uncertainty about index option values, as measured by the variance of broker-dealers' posterior beliefs about the options' fundamental value, is substantial across the volatility surface of S&P500 index options that are traded over-the-counter. The 95% confidence intervals around posterior means can be as large as 10 volatility points for index options with strike prices that correspond to extreme moves of the S&P500 index. Having access to consensus pricing data is found to significantly reduce broker-dealers' strategic uncertainty, that is uncertainty about the positioning of their option valuations in relation to other market participants' valuations.

## Asset Pricing 3 — 14:00
Chairman: Franck Moraux (Université de Rennes 1) — Halles 2

- CAPITAL HETEROGENEITY, TIME-TO-BUILD, AND RETURN PREDICTABILITY

Luo Ding (City University of Hong Kong)
Presenter: Luo Ding
Discussant: Li Tong (University of Hong Kong)

I study how the two major types of business investment, equipment investment and structures investment, are differently linked to stock returns. I empirically show that equipment investment has a significantly stronger predictive power for stock returns than structures investment, both in-sample and out-of-sample, using US aggregate-, US asset-, US industry-, and UK aggregate-level data. To explain this empirical finding, I build a general equilibrium production model in which it takes a shorter time-to-build for equipment investment than for structures investment to transform into productive capital. In the model, equipment investment reacts to productivity shocks in a more timely manner, and thus it reflects more of the information contained in stock prices. In addition, the model provides theoretical support for previous empirical findings of return predictability uncovered from planned investment.

- BANK LOAN UNDRAWN SPREADS AND THE PREDICTABILITY OF STOCK RETURNS

Gu Lifeng (The University of Hong Kong); Ho Steven Wei (Columbia University, Graduate School of Arts and Sciences, Department of Economics); Li Tong (The University of Hong Kong)
Presenter: Li Tong
Discussant: Li Ye (Ohio State University)

We document a new empirical finding that, in the cross-section, the information contained in bank loans' forward-looking uncertainty measure can predict firms' returns across a range of time horizons, in that firms having loans with high uncertainty measure will under-perform firms having loans with low uncertainty measure. This effect is separate from previously documented asset pricing puzzles related to idiosyncratic volatility, analyst forecast dispersion, and credit risk. We believe return predictability arises because banks have private information regarding firms' future prospects including operating performance and cash flow uncertainty, and we indeed find the predictability of proxies of these two variables. A long-short strategy based on this finding can generate a significant alpha of over 7% per annum. In addition, the return effect is more pronounced for firms with fewer analyst coverage and lower institutional ownership.

- REDISCOVER PREDICTABILITY: INFORMATION FROM THE RELATIVE PRICES OF LONG-TERM AND SHORT-TERM DIVIDENDS

Li Ye (Ohio State University); Wang Chen (Yale School of Management)
Presenter: Li Ye
Discussant: Hiraki Kazuhiro (Queen Mary, University of London, School of Economics and Finance)

The prices of dividends at alternative horizons contain critical information on the behavior of aggregate stock market. The ratio between prices of long- and short-term dividends, "price ratio" (pr), predicts annual market return with an out-of-sample R2 of 19%. pr subsumes the predictive power of traditional price-dividend ratio (pd). After orthogonalized to pr, the residuals of pd strongly predict dividend growth. Using an exponential-affine model, we show a one-to-one mapping between pr and the expected market return when the expectation of future cash flow is transient. Moreover, we find that return predictability is stronger after market downturns, and holds outside the U.S. As an economic test, shocks to pr are priced in the cross-section of stocks, consistent with ICAPM. Our measure of expected return declines during monetary expansions, and varies strongly with the conditions of macroeconomy, financial intermediaries, and sentiment.

- THE CONTRIBUTION OF FRICTIONS TO EXPECTED RETURNS

Hiraki Kazuhiro (Queen Mary, University of London, School of Economics and Finance); Skiadopoulos George S. (Queen Mary, University of London, School of Economics and Finance)
Presenter: Hiraki Kazuhiro
Discussant: Luo Ding (City University of Hong Kong)

We derive a model-free option-based formula to estimate the contribution of market frictions to expected returns (CFER) within an asset pricing setting. We estimate CFER for the U.S. optionable stocks. We document that CFER is sizable, it predicts stock returns and it subsumes the effect of frictions on expected returns as expected theoretically. The sizable alpha of a long-short portfolio formed on CFER is consistent with the size of market frictions and it is not due to model mis-specification. Moreover, we show that various option-implied measures proxy CFER, thus providing a theoretical explanation for their ability to predict stock returns.

## Banking / Financial Intermediation 2 — 14:00

Chairman: Joël Petey (Strasbourg University) — Halles 2

- MARKETPLACE LENDING: A NEW BANKING PARADIGM?

Vallée Boris (Harvard Business School - Finance Unit); Zeng Yao (University of Washington - Michael G. Foster School of Business)

Presenter: Vallée Boris

Discussant: Celerier Claire (University of Toronto - Rotman School of Management)

Marketplace lending relies on screening and information production by investors, a major deviation from the traditional banking paradigm. Theoretically, the participation of sophisticated investors improves screening outcomes but also creates adverse selection among investors. In maximizing loan volume, the platform trades off these two forces. As the platform develops, it optimally increases platform pre-screening intensity but decreases information provision to investors. Using novel investor-level data, we find that sophisticated investors systematically outperform, and this outperformance shrinks when the platform reduces information provision to investors. Our findings shed light on the optimal distribution of information production in this new lending model.

- LENDING TECHNOLOGIES AND LENDING RELATIONSHIPS

Karapetyan Artashes (ESSEC Business School); Stacescu Bogdan (BI Norwegian Business School)

Presenter: Stacescu Bogdan

Discussant: Vallée Boris (Harvard Business School - Finance Unit)

We examine banks' choice between two costly instruments used to identify good loan applicants: direct screening by acquiring borrower-specific information and collateral requirements. We show that with longer relationships the preference for screening increases both in initial and in later periods. Total welfare is enhanced as a result of more efficient selection, and access to credit can be improved. The model explains the reduced incidence of collateral, and potentially higher interest rates in later periods for safer borrowers. The results are stronger under more intense bank competition. Our findings support policies conducive to enduring lending relationships.

- TAXING BANK LEVERAGE: THE EFFECTS ON BANK CAPITAL STRUCTURE, CREDIT SUPPLY AND RISK-TAKING

Celerier Claire (University of Toronto - Rotman School of Management); Kick Thomas K. (Deutsche Bundesbank); Ongena Steven (University of Zurich - Department of Banking and Finance)
Presenter: Celerier Claire
Discussant: Stacescu Bogdan (BI Norwegian Business School)

We investigate whether taxation can be used to contain bank leverage, while leaving the supply of credit unaffected. We exploit the staggered introduction between 1996 and 2012 across Europe of tax reforms that increase the fiscal cost of leverage. Employing both bank- and loan-level data, we estimate the impact of the reforms on the leverage of banks and their supply of credit. We find that tax reforms that increase the cost of leverage lead banks to rely more on equity, to shift the composition of their assets towards loans, and to expand their lending to firms without incurring more risk.

| Corporate Finance<br>Chairman: Eric de Bodt (Université de Lille 2) | 14:00<br>Bell |
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- SHADOW PILLS AND LONG-TERM FIRM VALUE

Cremers Martijn (University of Notre Dame); Guernsey Scott B. (University of Cambridge); Litov Lubomir P. (University of Oklahoma - Michael F. Price College of Business); Sepe Simone M. (University of Arizona - James E. Rogers College of Law)
Presenter: Guernsey Scott B.
Discussant: Wang Renjie (Erasmus University Rotterdam (EUR), Erasmus School of Economics (ESE))

This paper analyzes the value impact of the right to adopt a poison pill – or "shadow pill" – on long-term firm value, exploiting the quasi-natural experiment provided by the staggered adoption of poison pill laws that validated the use of the pill in 35 U.S. states over the period 1986 to 2009. We document that the availability of a shadow pill results in an economically and statistically significant increase in firm value, especially for firms more engaged in innovation or with stronger stakeholder relationships. Our findings are robust to matching, higher dimensional fixed effects and portfolio analysis, and support the bonding hypothesis of takeover defenses.

- NOISE FROM OTHER INDUSTRIES: OVERGENERALIZATION AND ANALYST BELIEF

Wang Renjie (Erasmus University Rotterdam (EUR), Erasmus School of Economics (ESE))
Presenter: Wang Renjie
Discussant: Isakov Dusan (University of Fribourg (Switzerland) - Faculty of Economics and Social Science)

How do analysts form earnings expectations? This paper documents that analysts' beliefs are influenced by the recent performance of other industries

that they cover. I show that negative shocks to one coverage industry lead analysts to make more pessimistic earnings forecasts for firms in another industry. Those pessimistic forecasts are less accurate and lower than the actual earnings. Analysts are affected even if the focal firms have no relationship with the shocked industry. These findings are consistent with the notion that analysts heuristically overgeneralize other industries' performance and incorrectly lower their expectations based on noise rather than information. Moreover, I demonstrate that analyst overgeneralization has significant effects on financial markets: the resulting increase in analyst disagreement induces higher trading volumes and larger return volatilities, and the resulting analysts' pessimism leads to temporary underpricing.

- LABOR MARKET COMPETITOR NETWORK AND THE TRANSMISSION OF SHOCKS

Liu Yukun (Yale University, Department of Economics); Wu Xi (New York University (NYU) - Leonard N. Stern School of Business)
Presenter: Liu Yukun
Discussant: Guernsey Scott B. (University of Cambridge)

We study how firms differ from their competitors in the labor market by constructing a time-varying labor market competitor network. Using a novel dataset covering the near-universe of online job postings, we measure the spatial distance of labor demand between every two firms. We show that firms' labor market competitors are distinct from their product market rivals: the overlap is less than 20%. Our network explains a substantial amount of cross-sectional variations in firms' labor characteristics and performances. We show that labor and industry shocks transmit along the network. Firstly, news about a firm's labor market, proxied by the returns of its labor-linked firms, has strong predictive power for the focal firm's subsequent returns - a long-short strategy generates monthly alpha of 92 basis points. Secondly, using the financial crisis as a shock to the financial industry, we show that it affected non-financial firms through the labor network.

- WHAT IF DIVIDENDS WERE TAX-EXEMPT? EVIDENCE FROM A NATURAL EXPERIMENT

Isakov Dusan (University of Fribourg (Switzerland) - Faculty of Economics and Social Science); Perignon Christophe (HEC Paris (Groupe HEC) - Finance Department); Weisskopf Jean-Philippe (Ecole Hôtelière de Lausanne)
Presenter: Isakov Dusan
Discussant: Liu Yukun (Yale University, Department of Economics)

We study the effect of dividend taxes on the payout and investment policy of listed firms and discuss their implications for agency problems. To do so, we exploit a unique setting in Switzerland where some, but not all, firms were suddenly able to pay tax-exempted dividends to their shareholders following the corporate tax reform of 2011. Using a difference-indifferences specification, we show that treated firms increased their payout much more than control firms after the tax cut. Differently, treated firms did not concurrently or subsequently increase investment. We show that the tax-inelasticity of investment was due to a significant drop in retained earnings – as the rise in dividends was not

compensated by an equally-sized reduction in share repurchases. Furthermore, treated firms did not raise more equity and/or did not reduce their cash holdings to compensate for the contraction in retained earnings. Finally, we show that an unintended consequence of cutting dividend taxes is to mitigate the agency problems that arise between insiders and minority hareholders.

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

**Entrepreneurial Finance** (sponsored by Ardian)
Chairman: Jean-François Gajewski (Université de Lyon)
ARDIAN
16:30
Bell

### ▪ MIND THE GAP: GENDER STEREOTYPES AND ENTREPRENEUR FINANCING

Hébert Camille (Université Paris-Dauphine & Tilburg University)

Presenter: Hébert Camille
Discussant: Matray Adrien (Princeton University)

Using administrative data on the population of start-ups in France and their financing sources, I provide evidence consistent with the existence of stereotypes among equity investors. First, I find that female-founded start-ups are 25-35% less likely to raise external equity including venture capital. However, in female-dominated sectors, female-founded start-ups are no longer at a disadvantage. They are equally to more likely to be backed with equity relative to male-founded start-ups in those sectors and to female-founded start-ups in male-dominated sectors. My empirical design ensures that the observed gender funding gaps are not driven by the composition of founding teams or by differences across individuals regarding ex ante motivations, optimism, or initial corporate performance. Second, consistent with the idea that the bar is set higher for minorities, I find that conditionally on being backed with equity, female entrepreneurs perform better in male-dominated sectors relative to female-dominated sectors. The evidence is consistent with a model in which investors have context-dependent stereotypes.

### ▪ THE LONG-TERM CONSEQUENCES OF THE TECH BUBBLE ON SKILLED WORKERS' EARNINGS

Hombert Johan (HEC Paris (Groupe HEC) - Finance Department); Matray Adrien (Princeton University)

Presenter: Matray Adrien
Discussant: Lovo Stefano (HEC Paris (Groupe HEC) - Finance Department)

We use French matched employer-employee data to track skilled individuals entering the labor market during the late 1990s tech bubble. The boom led to a sharp increase in the share of skilled entrants in the tech sector, which offers relative higher wages at the time. When the boom ends, however, the wage premium reverses and these skilled workers end up with a 5.5% wage discount ten years out, relative to similar peers who started in a non-tech sector. Other moments of the wage distribution of the boom, pre-boom, and post-boom cohorts are inconsistent with explanations based on a selection effect or a cycle effect. Instead, we provide suggestive evidence that workers allocated to the

booming tech sector accumulate human capital early in their career that rapidly becomes obsolete.

- **HERDING IN EQUITY CROWDFUNDING**

Astebro Thomas B. (HEC Paris - Economics and Decision Sciences); Fernandez Sierra Manuel (University of Essex); Lovo Stefano (HEC Paris (Groupe HEC) - Finance Department); Vulkan Nir (University of Oxford - Said Business School)
Presenter: Lovo Stefano
Discussant: Hébert Camille (Université Paris-Dauphine & Tilburg University)

Do equity crowdfunding investors herd? We build a model where informed and uninformed investors arrive sequentially and choose whether and how much to invest. We test the model using data of investments on a leading European equity crowdfunding platform. We show theoretically and find empirically that the size and likelihood of a pledge is affected positively by the size of the most recent pledges, and negatively by the time elapsed since the most recent pledge. The empirical analysis is inconsistent with naïve herding, independent investments, or exogenously correlated investments.

## Corporate Governance 2 — 16:30 Berliner

Chairman: Elisabeth Kempf (University of Chicago)

- **THE ORIGINS AND REAL EFFECTS OF THE GENDER GAP: EVIDENCE FROM CEOS' FORMATIVE YEARS**

Duchin Ran (University of Washington - Michael G. Foster School of Business); Simutin Mikhail (University of Toronto - Rotman School of Management); Sosyura Denis (Arizona State University)
Presenter: Sosyura Denis
Discussant: Bates Thomas W. (Arizona State University - Department of Finance)

CEOs allocate more investment capital to male managers than to female managers in the same divisions. Using data from individual Census records, we find that this gender gap is driven by CEOs who grew up in male-dominated families - those where the father was the only income earner and had more education than the mother. The gender gap also increases for CEOs who attended all-male high schools and grew up in neighborhoods with greater gender inequality. The effect of gender on capital budgeting introduces frictions and erodes investment efficiency. Overall, the gender gap originates in CEO preferences developed during formative years and produces significant real effects.

- **PERFORMANCE-BASED TURNOVER ON CORPORATE BOARDS**

Bates Thomas W. (Arizona State University - Department of Finance); Becher David A. (Drexel University); Wilson Jared I. (Indiana University - Kelley School of Business)
Presenter: Bates Thomas W.
Discussant: Laguna Marie-Aude (Université Paris-Dauphine)

We document an economically significant relation between director turnover and prior firm performance. This relation manifests in idiosyncratic stock returns consistent with relative performance evaluation and the monitoring of actions attributable to directors. The director turnover-performance sensitivity increases substantially throughout the 2000s, and varies with a number of governance characteristics, most notably with the presence of an active external blockholder. Directors who leave firms following poor performance are significantly less likely to obtain new directorships in the future. In sum, the threat of replacement for poor firm performance has become an increasingly significant incentive for the directors of public corporations.

- ARE INVESTORS AWARE OF OWNERSHIP CONNECTIONS?

Ginglinger Edith (Université Paris Dauphine); Hébert Camille (Université Paris-Dauphine & Tilburg University); Renneboog Luc (Tilburg University - Department of Finance)

Presenter: Ginglinger Edith
Discussant: Sosyura Denis (Arizona State University)

We examine the market reactions to earnings announcements within a parent-subsidiary ownership structure. We find that the parents' investors react to all announcements within the group either immediately or with delay, whereas subsidiaries' investors only react to their own firm's announcements, ignoring predictive information released by the parent. Multiple announcements within a group lead to enhanced transparency for parents' investors, who benefit from detailed information on the origin of their firm's earnings. In contrast, subsidiaries' investors appear unaware of ownership links, and behave as inattentive investors. Inattention is worsened by geographical diversification of affiliated firms and by indirect ownership, but cannot be explained by strategic timing of the disclosure of earnings surprises, day-of-the-week effect or seasonality, internal capital markets, or synergy-related explanations across industries. Institutional investors do not seem to be smarter at understanding group structures, with the exception of active investors owning shares in both parent and subsidiary companies.

## Market Microstructure 3 (sponsored by BEDOFIH)
Chairman: Sabrina Buti (Université Paris-Dauphine)

16:30
Edison

- DEMAND FOR INFORMATION, MACROECONOMIC UNCERTAINTY, AND THE RESPONSE OF U.S. TREASURY SECURITIES TO NEWS

Benamar Hedi (Board of Governors of the Federal Reserve System); Foucault Thierry (HEC Paris (Groupe HEC) - Finance Department); Vega Clara (Board of Governors of the Federal Reserve System)

Presenter: Benamar Hedi
Discussant: Bellia Mario (Goethe University Frankfurt - Research Center SAFE)

We measure demand for information prior to nonfarm payroll announcements using a novel dataset consisting of clicks on news articles. We find that when information demand is high shortly before the release of the nonfarm payroll announcement, the price response of U.S. Treasury note futures to nonfarm

payroll news surprises doubles. We argue that this relationship stems from the fact that market participants have more incentive to collect information when uncertainty about asset payoffs is higher, as implied by Bayesian learning models. Thus, high information demand about macroeconomic news is a proxy for high macroeconomic uncertainty.

- HIGH-FREQUENCY TRADING DURING FLASH CRASHES: WALK OF FAME OR HALL OF SHAME?

Bellia Mario (Goethe University Frankfurt - Research Center SAFE); Christensen Kim (University of Aarhus - CREATES); Kolokolov Alexey (Goethe University Frankfurt - Research Center SAFE); Pelizzon Loriana (Goethe University Frankfurt - Faculty of Economics and Business Administration); Reno Roberto (Department of Economics, University of Verona)
Presenter: Bellia Mario
Discussant: Fattinger Felix (The University of Melbourne - Department of Finance)

We investigate the role of High Frequency Traders (HFTs) during flash crashes. By using a new methodology to identify flash crashes, defined as sudden and extreme price movements which occur in relatively short time and then reverts to the initial level, we identify 65 flash crashes episodes among 37 stocks that belong to the CAC40 traded in the NYSE-Euronext Paris market in 2013. We show that HFTs are responsible for initiating the crash in roughly 70% of the considered events, and that they strongly contribute to exacerbating the consequences of the crash, especially at his climax. In most of the cases, instead of providing liquidity, they start selling more as the crash develops. HFTs do not even contribute to recovery after the end of the crash, but they continue to initiate selling orders. This is worryingly true even for HFTs which agreed to provide liquidity under a market making agreement, especially if flash crashes occur simultaneously on several stocks. Among the HFTs, Investment Banks HFTs played the largest role and are those that are the most aggressive in selling during flash crashes.

- TRADING COMPLEX RISKS

Fattinger Felix (The University of Melbourne - Department of Finance)
Presenter: Fattinger Felix
Discussant: Benamar Hedi (Board of Governors of the Federal Reserve System)

Complex risks differ from simple risks in that agents facing them only possess imperfect information about the underlying objective probabilities. This paper studies how complex risks are priced by and shared among heterogeneous investors in a Walrasian market. I apply decision theory under ambiguity to derive robust predictions regarding the trading of complex risks in the absence of aggregate uncertainty. I test these predictions in the laboratory. The experimental data provides strong evidence for theory's predicted reduction in subjects' price sensitivity under complex risks. While complexity induces more noise in individual trading decisions, market outcomes remain theory-consistent. This striking feature can be reconciled with a random choice model, where the bounds on rationality are reinforced by complexity. When moving from simple to complex risks, equilibrium prices become more sensitive whereas risk allocations

turn less sensitive to noise introduced by imperfectly rational subjects. Markets' effectiveness in aggregating beliefs about complex risks is determined by the trade-off between reduced price sensitivity and reinforced bounded rationality. Moreover, my results imply that complexity has similar but more pronounced effects on market outcomes than ambiguity induced by conventional Ellsberg urns.

## Banking / Financial Intermediation 3 — 16:30

Chairman: Boris Vallée (Harvard Business School) — Halles 2

### ▪ DEPOSIT WINDFALLS AND BANK REPORTING QUALITY: EVIDENCE FROM SHALE BOOMS

Wu Xi (New York University (NYU) - Leonard N. Stern School of Business)

Presenter: Wu Xi

Discussant: Bouvard Matthieu (McGill University - Desautels Faculty of Management)

This paper investigates how depositor information problems affect bank reporting quality. Using plausibly exogenous deposit windfalls coming from shale and oil leases, I find that banks exposed to shale booms provide higher reporting quality, measured as loan loss provision timeliness, compared to other banks. Improved loan provisioning timeliness is concentrated in banks with stronger incentives to attract deposits-smaller banks and banks with fewer uninsured deposits. Moreover, banks that improve the most tend to experience a larger increase in their subsequent deposit levels, suggesting that depositors value timely information. Collectively, my results suggest that information asymmetry between depositors and banks is an important determinant of banks' reporting incentives.

### ▪ OPERATING LEVERAGE, RISK TAKING AND COORDINATION FAILURES

Bouvard Matthieu (McGill University - Desautels Faculty of Management); De Motta Adolfo (McGill University - Desautels Faculty of Management)

Presenter: Bouvard Matthieu

Discussant: Girotti Mattia (Banque de France)

We study an economy with demand spillovers where firms' decisions to produce are strategic complements. Firms have access to an increasing returns to scale technology and choose their operating leverage trading off higher fixed costs for lower variable costs. The choice of operating leverage determines the firm's systematic risk, that is, determines how responsive the firm's profits are to an aggregate labor productivity shock, which is the only risk factor in this economy. We show that firms take excessive risk as they do not internalize that higher operating leverage increases the likelihood of a coordination failure where output is inefficiently depressed across the economy. More generally, our analysis suggests that individual risk-taking decisions aggregate into excessive output volatility in the presence of strategic complementarities among agents.

▪ EXTERNAL CREDIT RATINGS AND BANK LENDING

Cahn Christophe (Banque de France - Direction des Entreprises); Girotti Mattia (Banque de France); Salvade Federica (PSB Paris School of Business)
Presenter: Girotti Mattia
Discussant: Wu Xi (New York University (NYU) - Leonard N. Stern School of Business)

We study how external, not-for-profit, credit ratings influence banks' lending decisions and firms' real outcomes. We exploit a refinement in this rating information, which makes some firms receive a rating surprise. Although this surprise does not alter firms' risk weights in banks' required capital calculation, we find that affected firms enjoy greater and cheaper access to bank credit, start new bank relationships more easily, and invest more. Banks react to the rating surprise more strongly the less they already have information on the borrower. Overall, this suggests that banks use credit ratings for their informational content. Consequently, ratings help reducing the information gap between them.

## Asset Pricing 4 — 16:30
Chairman: Abraham Lioui (EDHEC) — Halles 1

▪ CRASH RISK IN INDIVIDUAL STOCKS

Pederzoli Paola (University of Houston)
Presenter: Pederzoli Paola
Discussant: Renne Jean-Paul (University of Lausanne - School of Economics and Business Administration (HEC-Lausanne))

In this study, I implement a novel methodology to extract crash risk premia from options and stock markets. I document a dramatic increase in crash risk premia after the 2008/2009 financial crisis, indicating that investors are willing to pay high insurance to hedge against crashes in individual stocks. My results apply to all sectors but are most pronounced for the financial sector. At the same time, crash risk premia on the market index remained at pre-crisis levels. I theoretically explain this puzzling feature in an economy where investors face short-sale constraints. Under short-sale constraints, prices are less informationally efficient which can explain the increase in downside risk in individual stocks. In the data, I document a strong link between proxies of short-sale constraints and crash risk premia.

▪ DISASTROUS DEFAULTS

Gourieroux Christian (University of Toronto - Department of Economics); Renne Jean-Paul (University of Lausanne - School of Economics and Business Administration (HEC-Lausanne)); Mouabbi Sarah (Banque de France); Monfort Alain (National Institute of Statistics and Economic Studies (INSEE) - Center for Research in Economics and Statistics (CREST))
Presenter: Renne Jean-Paul
Discussant: Ouzan Samuel (Neoma Business School)

As the recent financial crisis illustrated, the default of certain entities can have disastrous effects on the economy. This paper presents a framework aimed at

analysing the asset pricing and macro implications of the existence of "systemic defaults". This framework is flexible and tractable enough to simultaneously replicate the price fluctuations of various far-out-of-the-money (disaster-exposed) credit and equity derivatives. According to our estimation results, market data imply that the default of a systemic entity is anticipated to be followed by a 4% decrease in consumption. The recessionary influence of systemic defaults implies that financial instruments whose payoffs are exposed to such credit events carry substantial risk premiums.

- SYSTEM 1, SYSTEM 2, AND SPECULATIVE TRADING

Boyer M. Martin (HEC Montreal - Department of Finance); Ouzan Samuel (Neoma Business School)

Presenter: Ouzan Samuel

Discussant: Pederzoli Paola (University of Houston)

Loss aversion and overconfidence are arguably the two most studied behavioral biases in finance, and yet often considered having contradictory effects on risk taking. Overconfident investors are generally more prone to take-on risk, whereas loss averse investors tend to be more cautious. We study their marginal impacts on trading. We propose a model in which rational investors and investors who are jointly loss averse and overconfident, disagree over public signals. The proposed theory succeeds to rationalize asymmetries in returns: It generates a positive correlation between volume and aggregate information, a high-volume return premium, positive unconditional skewness and explains cross-sectional variation in skewness at the firm level.

| Interest Rates<br>Chairman: Yannick Malevergne (Université Paris I Panthéon Sorbonne) | 16:30<br>Daguerre |
| --- | --- |

- MACRO RISKS AND THE TERM STRUCTURE OF INTEREST RATES

Bekaert Geert (Columbia Business School - Finance and Economics); Engstrom Eric (U.S. Board of Governors of the Federal Reserve System - Division of Research and Statistics, Capital Markets); Ermolov Andrey (Gabelli School of Business, Fordham University)

Presenter: Ermolov Andrey

Discussant: Pancost N. Aaron (University of Texas at Austin McCombs School of Business)

We use non-Gaussian features in U.S. macroeconomic data to identify aggregate supply and demand shocks while imposing minimal economic assumptions. Recessions in the 1970s and 1980s were driven primarily by supply shocks; later recessions by demand shocks. We estimate macro risk factors that drive "bad" (negatively skewed) and "good" (positively skewed) variation for supply and demand shocks. We document that macro risks significantly contribute to the variation of yields, risk premiums and return variances for nominal bonds. While overall bond risk premiums are counter-cyclical, an increase in aggregate demand variance significantly lowers risk premiums.

- SPECIAL REPO RATES AND THE CROSS-SECTION OF BOND PRICES

D'Amico Stefania (Federal Reserve Bank of Chicago); Pancost N. Aaron (University of Texas at Austin McCombs School of Business)

Presenter: Pancost N. Aaron

Discussant: Zimmermann Paul (Catholic University of Lille - IESEG School of Management, Lille Campus)

We estimate a dynamic no-arbitrage term structure model that jointly prices the cross-section of Treasury bonds and special repo rates. We show that special repo rates on on-the-run Treasuries can explain almost 80% of the on-the-run premium, but only after incorporating a time-varying risk premium on the special spreads of both on- and off-the-run bonds. We show that the repo risk premium is priced in the cross-section of off-the-run bonds with very low special spreads.

- IS NORMAL BACKWARDATION NORMAL? VALUING FINANCIAL FUTURES WITH A STOCHASTIC, ENDOGENOUS INDEX-RATE COVARIANCE

Raimbourg Philippe (Université Paris I Panthéon-Sorbonne); Zimmermann Paul (Catholic University of Lille - IESEG School of Management, Lille Campus)

Presenter: Zimmermann Paul

Discussant: Ermolov Andrey (Gabelli School of Business, Fordham University)

Revisiting the two-factor valuation of financial futures contracts and their derivatives, we propose a new approach in which the covariance process between the underlying asset price and the money market interest rate is set endogenously according to investors' arbitrage operations. The asset-rate covariance turns out to be stochastic, thereby explicitly capturing futures contracts' marking-to-market feature. Our numerical simulations show significant deviations from the traditional cost-of-carry model of futures prices, in line with Cox, Ingersoll and Ross's (1981) theory and a large corpus of past empirical research. Our empirical tests show an impact of several index points magnitude from the recent US Federal Reserve interest rate hikes on the S&P 500 daily spot-futures basis, highlighting the effect of monetary policy at low frequencies on the backwardation vs. contango regime, and shedding new light on Keynes's (1930) theory of normal backwardation.

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

# Notes

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