19th Paris December Finance Meeting

December 16, 2021

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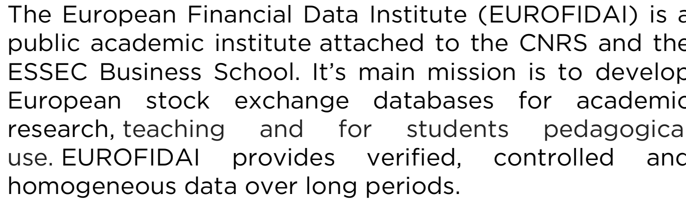
Meeting's organization



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The 2021 Conference in Numbers

- **Number of papers submitted: 484**
- **Number of papers accepted: 85**
- **Acceptance rate: 17.5%**
- **Number of sessions: 27**
- **Number of members on the scientific committee: 82**

In 2021, the distribution of submissions by submitting authors is: the U.S. (130), the U.K. (60), Germany (57), France (47), Canada (31), Switzerland (23), the Netherlands (22), China (20), Hong-Kong (17), Australia (14), Italy (11), Norway (8), Denmark (8), Sweden (4), Brazil (4), Portugal (4), Israel (3), Luxembourg (3), Singapore (3), Belgium (2), Finland (2), Russian Federation (2), Spain (1), Japan (1), Chile (1), Mexico (1), Turkey (1), Kazakhstan (1), Austria (1), Czech Republic (1), Liechtenstein (1).

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Program Chairs

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

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HKUST
Olivier-David Zerbib
Boston University
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Program – Overview

Online

13:30 **Asset Pricing 1**
Chairman: Alex Kostakis (University of Liverpool Management School)

13:30 **Banking & Financial Intermediation 1**
(Sponsored by CDC Institute for Economic Research)
Chairman: Matthias Efing (HEC Paris)

13:30 **Behavioral Finance 1**
Chairman: Jean-François Gajewski (University Lyon III)

13:30 **Financial Econometrics**
Chairman: Jeroen Rombouts (ESSEC Business School)

13:30 **Financial Risk**
Chairman: Loriana Pelizzon (Goethe University)

13:30: **FinTech and Cryptocurrencies**
(Sponsored by FinTech Chair)
Chairman: Hervé Alexandre (University Paris IX - Dauphine)

13:30 **Hedge Funds / Mutual Funds 1**
Chairman: Jocelyn Martel (ESSEC Business School)

13:30 **Investment Policy / Capital Budgeting**
Chairman: Jongsub Lee (Seoul National University)

13:30 **Mergers & Acquisitions**
Chairman: Ettore Croci (Universita Cattolica del Sacro Cuore)

15:00 Break

15:15 **Asset Pricing 2**
Chairman: Yannick Malevergne (Université de Paris 1 Panthéon-Assas)

15:15 **Asset Pricing 3**
Chairman: Abraham Lioui (EDHEC)

15:15 **Behavioral Finance 2**
Chairman: Laurent Bach (ESSEC Business School)

15:15 **Corporate Finance**
Chairman: Eric de Bodt (NHH Norwegian School of Economics)

15:15 **Market Microstructure 1**
(Sponsored by BEDOFIH)
Chairman: Patrice Fontaine (Eurofidai, CNRS)

15:15 **Portfolio Management**
(Sponsored by Amundi)
Chairman: Sara Ain Tommar (Neoma Business School)

15:15 **Private Equity & Venture Capital**
(Sponsored by ARDIAN)
Chairman: Jocelyn Martel (ESSEC Business School)

17:15 Break

17:30 **Asset Pricing 4**
Chairman: Peter Gruber (University of Lugano)

17:30 **Banking & Financial Intermediation 2**
Chairman: Michael Troege (ESCP Europe)

17:30 **Banking Regulation & Systemic Risk**
(Sponsored by ACPR Chair)
Chairman: Christophe Pérignon (HEC Paris)

17:30 **Corporate Governance**
Chairman: Sridhar Arcot (ESSEC Business School)

17:30 **Derivatives**
Chairman: Andras Fulop (ESSEC Business School)

17:30 **Ethical Finance**
(Sponsored by Amundi)
Chairman: Tamara Nefedova (Université Paris Dauphine - PSL)

17 :30 **Financial Crisis**
Chairman: René Garcia (University of Montréal)

17:30 **Hedge Funds / Mutual Funds 2**
Chairman: Serge Darolles (Université Paris IX - Dauphine)

17:30 **International Finance**
Chairman: Fabricio Perez (Wilfrid Laurier University)

17:30 **Market Microstructure 2**
(Sponsored by BEDOFIH)
Chairman: Felix Fattinger (WU Vienna University of Economic and Business)

19:00 Concluding Remarks & Best Paper Awards

Sessions & Abstracts

Asset Pricing 1 13.30
Chairman: Alex Kostakis (University of Liverpool Management School)

PRESIDENTIAL ECONOMIC APPROVAL RATING AND THE CROSS-SECTION OF STOCK RETURNS

Authors: Wang Liyao (Hong Kong Baptist University); Chen Zilin (Singapore Management University); Da Zhi (University of Notre Dame); Huang Dashan (Singapore Management University)
Presenter: Wang Liyao (Hong Kong Baptist University)
Discussant: Meyerhof Paul (University of Muenster)

We construct a monthly Presidential Economic Approval Rating (PEAR) index from 1981 to 2019, by averaging ratings on president's handling of the economy across various national polls. In the cross-section, stocks with high betas to changes in the PEAR index significantly under-perform those with low betas by 0.96% per month in the future, on a risk adjusted basis. The low-PEAR-beta premium persists up to one year, and is present in various sub-samples (based on industries, presidential cycles, transitions, and tenures) and even in other G7 countries. It is also robust to different risk adjustment models and controls for other related return predictors. PEAR beta dynamically reveals a firm's perceived alignment to the incumbent president's economic policies and investors seem to misprice such an alignment.

SECTORAL LABOR REALLOCATION AND RETURN PREDICTABILITY

Authors: Eiling Esther (University of Amsterdam); Kan Raymond (University of Toronto, Rotman School of Management); Sharifkhani Ali (Northeastern University)
Presenter: Eiling Esther (University of Amsterdam)
Discussant: Wang Liyao (Hong Kong Baptist University)

Sectoral labor reallocation shocks change the optimal allocation of workers across industries. We show that the cross-sectional dispersion in industry-specific stock returns (CSV) serves as a good proxy for this type of labor market shocks. CSV predicts aggregate unemployment growth and the ex-post mismatch between job seekers and vacancies across sectors. We find that CSV has strong and robust predictive power for future stock market returns. In predictive regressions, the one-year out-of-sample R2 is as high as 14.88%. We propose a production-based asset pricing model in which sectoral labor reallocation shocks generate return predictability through time–varying exposure to aggregate productivity risk. When the need for labor reallocation across industries arises, industries are more likely to hire workers from other industries. They therefore face higher adjustment costs, impeding them from fully responding to aggregate economic fluctuations and lowering their aggregate risk exposure. New testable implications are supported by the data.

OPTION-BASED INTERMEDIARY LEVERAGE

Authors: Meyerhof Paul (University of Muenster); Grünthaler Thomas (University of Muenster); Lorenz Friedrich (University of Muenster)

Presenter: Meyerhof Paul (University of Muenster)

Discussant: de Jong Frank (Tilburg University)

We introduce a new proxy for the health of financial intermediaries—the Leverage Bearing Capacity (LBC). LBC is the leverage of a fictitious intermediary that targets a fixed level of risk and rebalances its capital structure on an ongoing basis. Our measure is based on market values, available at any frequency, and naturally incorporates high-order risks. Building on an intermediary asset pricing model, we validate LBC theoretically and show that it proxies the marginal wealth of intermediaries. We conduct two event studies to highlight that LBC captures aggregate and financial sector-specific uncertainty. These features translate into superior asset pricing performance.

Banking and Financial Intermediation 1
(CDC Institute for Economic Research)
Chairman: Matthias Efing (HEC Paris)

13:30

PANDEMIC LENDING: THE UNINTENDED EFFECTS OF MODEL-BASED REGULATION

Authors: Fusi Giulia (University of Nottingham); Fiordelisi Franco (University of Essex); Maddaloni Angela (European Central Bank); Marques-Ibanez David (European Central Bank)

Presenter: Fusi Giulia (University of Nottingham)

Discussant: Kim Sehoon (University of Florida)

Does model-based bank regulation constrain lending when it matters the most? Using an extensive loan-level supervisory dataset on credit exposures of Euro Area banks, we document that during the Covid-19 pandemic, banks using their own (internal-rating based or IRB) models to measure credit risk, decreased their on-balance sheet credit exposures, especially lending, to Non-Financial Corporations more than banks using standard (fixed risk-weights) models to the same borrower. Lower capitalised IRB banks reduced their exposures more towards borrowers absorbing more regulatory capital and borrowers in the economic sectors most affected by the pandemic.

MEDIATING FINANCIAL INTERMEDIATION

Authors: Pinardon-Touati Noemie (HEC Paris); Bellon Aymeric (Wharton); Harpedanne de Belleville Louis-Marie (PSE/Banque de France)

Presenter: Harpedanne de Belleville Louis-Marie (PSE/Banque de France)

Discussant: Fusi Giulia (University of Nottingham)

This paper studies the resolution of disputes between firms and their lenders through external mediators, who suggest a non-legally binding solution to resolve a disagreement after communicating with all parties. We exploit an administrative database on firms' outcomes matched to the French credit registry and plausible exogenous variation in eligibility to public mediators across counties for identification. Credit, employment and investment increase following the mediation, causing an overall reduction in firms' liquidation of 34.6 percentage points. All the effects are driven by firms that borrow from more than one financial institution, supporting the view that mediators solve coordination problems between lenders.

ESG LENDING

Authors: Kim Sehoon (University of Florida); Kumar Nitish (University of Florida); Lee Jongsub (Seoul National University); Oh Junho (Hong Kong Polytechnic University)
Presenter: Kim Sehoon (University of Florida)
Discussant: Harpedanne de Belleville Louis-Marie (PSE/Banque de France)

The "ESG lending" market, where loan contract terms are contingent on borrower ESG performance (i.e., ESG-linked loans), or where loans are issued for specific green projects (i.e., Green loans), has grown exponentially from $6 billion in 2016 to $173 billion in 2019. Much of this growth is driven by ESG-linked loans which are widespread across various industries and well developed capital markets, especially in civil law countries. ESG-linked loans are issued in sizeable amounts by large and publicly listed borrowers, and are often structured through revolving credit facilities by large groups of syndicates led by reputable "ESG specialist" global banks, who keep tight relationships with borrowers. Green loans are smaller project finance vehicles, similar in format to green bonds, yet issued to mostly privately held borrowers. They do not tend to attract large cross-border syndicates. Interestingly, we find no evidence that ESG loan issuance improves borrower or lender ESG performance ex-post, but they tend to be written by those with superior ESG profiles ex-ante. Overall, our results are consistent with ESG-related reputational and signaling incentives among borrowers and lenders as key drivers of the emergence of ESG banking activities around the globe.

Behavioral Finance 1 — 13.30

Chairman: Jean-François Gajewski (University Lyon III)

INVESTING LIKE MY PARENTS: DO PARENTS AFFECT CHILDREN'S RISK TAKING BEHAVIOR?

Authors: Zhao Ziwei (University of Lausanne and Swiss Finance Institute); Cui Min (T. Rowe Price)
Presenter: Zhao Ziwei (University of Lausanne and Swiss Finance Institute)
Discussant: Xu Guosong (Erasmus University)

We find that learning from parents explains heterogeneity in financial decisions later in life. Using parents' stock market experiences before parenthood as

instrumental variables for parents' risk-taking, we show that parents' risk-taking positively affects children's stock market decisions. More importantly, exploiting a finding that parents spend more quality time with their first child, we find that this parental effect is mainly driven by learning from parents through one's childhood interactions with parents. We also examine the wealth outcomes implied. Our results contribute to the understanding of how family traits passed down over generations could lead to wealth inequality across families.

ENTREPRENEUR DEBT AVERSION AND FINANCING DECISIONS: EVIDENCE FROM COVID-19 SUPPORT PROGRAMS

Authors: Paaso Mikael (Erasmus University Rotterdam); Pursiainen Vesa (University of St. Gallen); Torstila Sami (Aalto University)
Presenter: Pursiainen Vesa (University of St. Gallen)
Discussant: Zhao Ziwei (University of Lausanne and Swiss Finance Institute)

An entrepreneur's negative attitude towards debt – debt aversion – affects the financing decisions of the businesses they run. Controlling for a range of observable traits, firms run by highly debt-averse entrepreneurs are about nine percentage points less likely to use debt. The same entrepreneurs are also almost 25% less likely to take up government-guaranteed debt during the COVID-19 crisis. These firms show less interest in COVID-19 support policies if they perceive them to involve debt, based on experiments randomizing the framing and labeling of otherwise nearly identical, hypothetical COVID-19 support policies as debt or grants

DO SALIENT CLIMATIC RISKS AFFECT SHAREHOLDER VOTING?

Authors: Xu Guosong (Erasmus University Rotterdam School of Management); Fich Eliezer (Drexel University LeBow College of Business)
Presenter: Xu Guosong (Erasmus University Rotterdam School of Management)
Discussant: Pursiainen Vesa (University of St. Gallen)

Shareholders in locations recently hit by hurricanes significantly increase their support for environmental proposals even if they never previously voted for similar initiatives. Our results show that changed beliefs about salient climate risks rather than firms' fundamentals drive the increased support. More favorable voting following a hurricane strike has real consequences: Climate-related proposals are more likely to pass, and when they do, firm performance weakens. These findings highlight the role of investor psychology in altering shareholders' perceptions about climate risks and, consequently, their support for corporate environmental policies.

A PENALIZED TWO-PASS REGRESSION TO PREDICT STOCK RETURNS WITH TIME-VARYING RISK PREMIA

Authors: Bakalli Gaetan (University of Geneva); Guerrier Stéphane (University of Geneva); Scaillet Olivier (University of Geneva and Swiss Finance Institutes)
Presenter: Bakalli Gaetan (University of Geneva)
Discussant: Thimme Julian (Karlsruhe Institute of Technology)

We develop a penalized two-pass regression with time-varying factor loadings. The penalization in the first pass enforces sparsity for the time-variation drivers while also maintaining compatibility with the no-arbitrage restrictions by regularizing appropriate groups of coefficients. The second pass delivers risk premia estimates to predict equity excess returns. Our Monte Carlo results and our empirical results on a large cross-sectional data set of US individual stocks show that penalization without grouping can yield to nearly all estimated time-varying models violating the no-arbitrage restrictions. Moreover, our results demonstrate that the proposed method reduces the prediction errors compared to a penalized approach without appropriate grouping or a time-invariant factor model.

FUNDING CONDITIONS, TRANSACTION COSTS AND THE PERFORMANCE OF ANOMALIES

Authors: Garcia René (Université de Montréal, Toulouse School of Economics (TSE)); Farouh Magnim (Ernst and Young)
Presenter: Garcia René (Université de Montréal, Toulouse School of Economics (TSE))
Discussant: Bakalli Gaetan (University of Geneva)

Transaction costs have declined over time but they can increase considerably when funding liquidity becomes scarce, investors' fears spike or other frictions limit arbitrage. We estimate bid-ask spreads of thousands of firms at a daily frequency and put forward these large movements for several of these episodes in the last 30 years. The trading cost of three-quarters of the firms is significantly impacted by funding liquidity and increases on average by 24%. While small firms and high volatility firms have larger transaction costs, the relative increase in trading costs in crisis times is more pronounced in large firms and low-volatility firms. The gap between the respective trading costs of these high- and low-quality groups also increases when financial conditions deteriorate, which provides evidence of flight to quality. We build anomaly-based long-short portfolios and estimate their average and dynamic alphas adjusted for rebalancing costs based on our security-level transaction cost estimates. Only three anomaly strategies related to unexpected earnings, sales growth and price per share yield a significant average positive profit but several dynamic performance configurations across periods and anomalies are featured.

A SKEPTICAL APPRAISAL OF ROBUST ASSET PRICING TESTS

Authors: Thimme Julian (Karlsruhe Institute of Technology); Kroencke Tim (University of Neuchâtel)
Presenter: Thimme Julian (Karlsruhe Institute of Technology)
Discussant: Garcia René (Université de Montréal, Toulouse School of Economics (TSE))

We analyze the size and power of a large number of \robust" asset pricing tests, investigating the hypothesis that the price of risk of a candidate factor is equal to zero. Different from earlier studies, our bootstrap approach puts all tests on an equal footing and focuses on sample sizes comparable to standard applications in asset pricing research. Thus, our paper provides guidance for researchers about which method to use. We find that the classic Fama-MacBeth/Shanken approach does not over-reject useless factors and provides a reasonable balance between size and power. In contrast, some of the "robust" methods suffer from poor power in realistic sample sizes, especially in situations where the asset pricing model is mildly misspecified.

Financial Risk 13.30
Chairman: Loriana Pelizzon (Goethe University)

DYNAMIC EQUITY SLOPE

Authors: Breugem Matthijs (Collegio Carlo Alberto and University of Turin); Marfe Roberto (Collegio Carlo Alberto and University of Turin); Colonello Stefano (University of Venice & Halle Institute For Economic Research); Zucchi Francesca (Federal Reserve Board of Governors)
Presenter: Breugem Matthijs (Collegio Carlo Alberto and University of Turin)
Discussant: Pironavo Matteo (Universita della Svizzera italiana and Swiss Finance Institute

We develop a general equilibrium model that jointly explains important features of the term structure of equity: (i) a negative unconditional term premium, (ii) countercyclical term premia, (iii) procyclical equity yields, (iv) premia to value and growth claims respectively increasing and decreasing with the horizon. The economic mechanism hinges on the interaction between heteroskedastic long-run growth—which steers countercyclical risk premia—and homoskedastic short-term shocks in the presence of limited market participation—which generate sizeable short-term risk premia. The slope dynamics hold irrespective of the sign of its unconditional average. We provide empirical support to our model assumptions and predictions.

SQUEEZING SHORTS THROUGH SOCIAL MEDIA PLATFORMS

Authors: Pirovano Matteo (Università della Svizzera italiana (USI) and Swiss Finance Institute (SFI)); Allen Franklin (Imperial College Business School); Nowak

Eric (Università della Svizzera italiana (USI) and Swiss Finance Institute (SFI)); Tengulov Angel (University of Kansas); Haas Marlene (Independent Scholar)
Presenter: Pirovano Matteo (Università della Svizzera italiana (USI) and Swiss Finance Institute (SFI))
Discussant: Le Guenedal Théo (ENSAE)

At the end of January 2021, a group of stocks listed on US stock exchanges experienced sudden surges in their stock prices, which - coupled with high short interest – led to short squeeze episodes. We argue that these short squeezes were the result of coordinated trading by retail investors, who discussed their trading strategies on social media platforms. Contrary to popular beliefs, bot activity on social media did not play a role. However, option markets played a central role in these events. Using hand-collected data we provide the first rigorous study of these short-squeezes and show that they significantly impeded market quality not only of the stocks at issue but also of their competitors. Thus, we contribute to the debate about the benefits and the risks associated with increased retail investor participation in capital markets. The evidence also calls for tighter monitoring of social media platforms and a better understanding of the inter-linkages between these platforms, derivatives markets and equity markets.

MEASURING AND PRICING CYCLONE-RELATED PHYSICAL RISK UNDER CHANGING CLIMATE

Authors: Le Guenedal Théo (ENSAE); Tankov Peter (ENSAE); Drobinski Philippe (Laboratoire de Meteorologie Dynamique)
Presenter: Le Guenedal Théo (ENSAE)
Discussant: Breugem Matthijs (Collegio Carlo Alberto and University of Turin)

We quantify the implications of tropical cyclone-related physical risks due to climate change. We generate synthetic cyclones consistent with climate scenarios of the Couple Model Intercomparison Project. Sovereign exposure and vulnerability assessments are based on projections of population densities in shared socioeconomic pathways coupled with downscaled physical asset values constructed using mixed data with local damage functions. We compute the direct climate impact on emerging countries' bond spreads using their sensitivity to the debt to GDP ratio, assuming that damage costs are financed by issuing new government debt. The 'business as usual' RCP8.5 scenario coupled with the 'middle road' pathway leads to global average annual damages 142% larger than in the scenario RCP2.6 allowing to remain under 2°C warming. In 2070-2100, we expect the impact of extreme cyclones on the bond spread of most vulnerable countries to be 200 bps higher in the RCP8.5 pathway than in the 2°C baseline.

FinTech and Cryptocurrencies (FinTech Chair)

Chairman: Hervé Alexandre (Université Paris IX - Dauphine)

13.30

TRUST IN FINANCE AND CONSUMER FINTECH ADOPTION

Authors: Paaso Mikael (Erasmus University Rotterdam); Okat Deniz (Hong Kong University of Science and Technology); Pursiainen Vesa (University of St. Gallen)

Presenter: Paaso Mikael (Erasmus University Rotterdam)
Discussant: Vallée Boris (Harvard Business School)

We study the impact of trust in traditional finance on the consumer adoption of various fintech products, including cryptocurrencies, peer-to-peer lending, other crowdfunding, roboadvisors, and alternative payment solutions. Using a representative survey of Dutch households, an experiment on Amazon's MTurk and an experiment on an investment website, we find no consistent evidence that trust in finance affects fintech adoption in any product category. Our results suggest that consumers consider fintech products to be distinct from traditional financial products.

MONETARY POLICY AND CRYPTOCURRENCIES

Authors: Karau Sören (Deutsche Bundesbank)
Presenter: Karau Sören (Deutsche Bundesbank)
Discussant: Paaso Mikael (Erasmus University Rotterdam)

I study the impact of monetary policy on cryptocurrency markets. Using high-frequency data and a weekly proxy VAR, the paper shows that monetary shocks have sizable effects on Bitcoin prices, but that these differ in sign: a monetary tightening by the ECB lowers valuations -- consistent with the notion of Bitcoin as a digital gold --, whereas a Fed tightening increases Bitcoin prices. I document similar differences with respect to various other aspects of the Bitcoin ecosystem and explore potential explanations. Exploiting both blockchain transaction data and differences in Bitcoin valuations across currencies, the paper shows that the increased demand for cryptocurrencies following a US monetary tightening seems to be primarily driven by emerging markets. I argue that this likely reflects the technological and institutional particularities of cryptocurrencies that make them sought after as international digital cash when global economic and financial conditions deteriorate.

FINTECH LENDING AND CASHLESS PAYMENTS

Authors: Vallee Boris (Harvard Business School); Ghosh Pulak (IIM Bengalore); Zeng Yao (Wharton)
Presenter: Vallee Boris (Harvard Business School)
Discussant: Karau Soren (Deutsche Bundesbank)

This study provides a new perspective to understand the rise and future potential of FinTech lending by linking it to the informational role of cashless payments. We uncover both theoretically and empirically a synergy between FinTech lending and cashless payments. FinTech lenders screen borrowers more efficiently when borrowers use more cashless payments that produce transferrable and verifiable information. Because borrowers expect lenders to rely on such payment information to screen them, a strategic consideration for a borrower to stand out of other borrowers then pushes more borrowers to adopt cashless payments. Using novel loan-level data from a large Indian FinTech lender who focuses on small-business lending, we find that a larger use of verifiable cashless payments (relative to cash) predicts a higher chance of loan approval, a lower interest rate, and lower default conditional on the interest rate obtained. These relationships are more pronounced for higher-quality firms. The uncovered synergy provides a plausible explanation for the joint rise of FinTech lending and cashless payments,

and suggests an alternative banking model without a balance sheet or traditional banking relationships. Our findings also provide new policy implications on data sharing and open banking.

Hedge Funds / Mutual Funds 1 13.30

Chairman: Jocelyn Martel (ESSEC Business School)

WHAT ALLEVIATES CROWDING IN FACTOR INVESTING?

Authors: Demiguel Victor (London Business School); Martin-Utrera Alberto (Iowa State University); Uppal Raman (EDHEC and CEPR)

Presenter: Martin-Utrera Alberto (Iowa State University)
Discussant: Feldman David (UNSW Sydney)

The growing number of institutions exploiting factor-investing strategies raises concerns that crowding may increase price-impact costs and erode profits. We identify a mechanism that alleviates crowding---trading diversification: institutions exploiting different characteristics can reduce each other's price-impact costs even when their rebalancing trades are not negatively correlated. Empirically, trading diversification increases capacity by 45%, optimal investment by 43%, and profits by 22%. Using a game-theoretic model, we show that, while competition to exploit a characteristic erodes its profits because of crowding, competition among institutions exploiting other characteristics alleviates crowding. Using mutual-fund holdings, we provide empirical support for the model's predictions.

WHEN PAID WORK GIVES IN TO UNPAID CARE WORK: EVIDENCE FROM THE HEDGE FUND INDUSTRY UNDER COVID-19

Authors: Ain Tommar Sara (NEOMA Business School); Kolokolova Olga (University of Manchester - Alliance Business School); Mura Roberto (University of Manchester - Alliance Business School)

Presenter: Ain Tommar Sara (NEOMA Business School)
Discussant: Martin-Utrera Alberto (Iowa State University)

This paper examines how childcare inequalities in the home affect the work productivity of women. Using unique data on hedge fund managers, we show that funds with female managers miss out on a 7% excess return per month on average compared to male-only funds, during the shock-months of the nation-wide school closures during COVID-19 lockdowns. This underperformance increases with the proportion of mothers in the fund, and is especially pronounced for mothers of young children. The performance of funds managed by fathers or women without children is not affected by school closures. With increasing calls for more women representation in all layers of the economy and the efforts exerted towards that goal, there is reason for concern that these efforts might not factor in, as the pandemic has uncovered how women bear both the burden of unpaid care work, and its subsequent cost to their paid work.

ONE GLOBAL VILLAGE? COMPETITION IN THE INTERNATIONAL ACTIVE FUND MANAGEMENT INDUSTRY

Authors: Feldman David (UNSW Sydney); Konark Saxena (UNSW Sydney); xu Jingrui (Xiamen University)
Presenter: Feldman David (UNSW Sydney)
Discussant: Ain Tommar Sara (NEOMA Business School)

We introduce an international active fund management industry model in which competing managers, each having heterogeneous incentives (effort productivities, costs) for searching domestic versus foreign investment opportunities. In equilibrium, incentive heterogeneity leads to a novel prediction: increasing foreign competitiveness, which improves (worsens) domestic manager incentives, induces an increase (decrease) of both domestic performance and size. Empirically, we find that 30 global markets' performance and size, on average, decrease with U.S. concentration. This evidence is consistent with our theoretical predictions but is inconsistent with extrapolation of single-country (implying homogeneous incentives) equilibria to one "global village" [e.g., Feldman, Saxena, and Xu (2020)].

Investment Policy / Capital Budgeting 13.30

Chairman: Jongsub Lee (Seoul National University)

THE EFFECT OF ESG DISCLOSURE ON CORPORATE INVESTMENT EFFICIENCY

Authors: Won Joonsung (Baruch College); Allman Elsa (Baruch College)
Presenter: Won Joonsung (Baruch College)
Discussant: Dreyer Christian (University of Muenster)

This paper examines the effects of environmental, social, and governance (ESG) disclosure on investment efficiency, using the adoption of Directive 2014/95/EU as a quasi-natural shock on disclosure quality. We document a significant and robust reduction of underinvestment for U.S. firms with significant activities in the EU, which exposes them to the Directive, relative to U.S. firms not affected. These firms are able to raise additional debt after the adoption of the Directive, although there is no evidence of any impact on new capital raised in equity markets. In addition, investment efficiency gains are strongest for firms with ex-ante lower ESG disclosure levels, that are financially constrained, and for firms with more entrenched managers. These results suggest that non-financial disclosure requirements can play a role in mitigating adverse selection problems for underinvesting firms, especially in debt markets, in a manner similar to disclosure of financial information.

MONETARY POLICY AND INTANGIBLE INVESTMENT

Authors: Döttling Robin (Erasmus University Rotterdam); Ratnovski Lev (European Central Bank)
Presenter: Döttling Robin (Erasmus University Rotterdam)
Discussant: Won Joonsung (Baruch College)

We document that the stock prices and investment of firms with more intangible assets respond less to monetary policy shocks. Similarly, intangible investment responds less to monetary policy compared to tangible investment. These effects are most pronounced among financially constrained firms, indicating that corporate intan- gible capital weakens the credit channel of monetary policy transmission. The evidence that higher depreciation rates or higher adjustment costs of intangible assets explain these effects is mixed, suggesting a smaller role for these channels.

MISPRICING, MISALLOCATION, AND CORPORATE INVESTMENT

Authors: Dreyer Christian (University of Muenster)
Presenter: Dreyer Christian (University of Muenster)
Discussant: Döttling Robin (Erasmus University Rotterdam)

This study investigates the effect of stock market overvaluation of non-peer firms on firm investment measured by capital expenditures. To test this effect, Stambaugh et al.' s (2015) misvaluation measure and Text-Based Network Industry Classification (TNIC) codes are used. The results indicate that firm investment is negatively associated with the overvaluation of non-peer firms. Using a path analysis, it is shown that the misvaluation of non-peer firms influences firm investment through financing and non-financing channels. The financing channel mainly works via debt issuance, but the predominant part of this effect is driven by the non-financing channel. Moreover, the empirical results suggest that the effect of non-peer misvalutaion on firm investment is stronger in bubble periods. The findings are consistent with the idea that overvalued firms are more attractive to investors and other stakeholders, which crowds out firm investment of non-peer firms in other industry sectors.

Mergers & Acquisitions 13.30

Chairman: Ettore Croci (Universita Cattolica del Sacro Cuore)

HOW DO ACQUISITIONS AFFECT THE MENTAL HEALTH OF EMPLOYEES?

Authors: Bach Laurent (ESSEC Business School); Bos Marieke (Swedish House of Finance); Baghai Ramin (Stockholm School of Economics); Silva Rui (Nova School of Business and Economics)
Presenter: Bach Laurent (ESSEC Business School)
Discussant: Cousin Jean-Gabriel (Université de Lille, IAE School of Management)

Using employer-employee level data linked to individual health records, we document that the incidence of stress, anxiety, depression, psychiatric medication usage, and even suicide increase following acquisitions. These effects are prevalent among employees from both targets and acquirers, in weak as well as in growing, profitable firms. Employees who experience negative career developments within the merging firms, 'blue-collar' workers, and employees with lower cognitive and non-cognitive skills are most affected. A variety of tests address endogeneity concerns, including an analysis exploiting failed mergers.

Our findings point to mental illness as a significant non-pecuniary cost of acquisitions.

THE (UN)INTENDED CONSEQUENCES OF M&A REGULATORY ENFORCEMENTS

Authors: Cousin Jean-Gabriel (IAE university school of management - Université de Lille); de Bodt Eric (NHH Norwegian School of Economics); Officer Micah S. (Loyola Marymount University); Roll Richard (California Institute of Technology)
Presenter: de Bodt Eric (NHH Norwegian School of Economics)
Discussant: Qiu Tian (University of Kentucky)

Economic (Bhagwat, Dam and Harford, 2016), political (Cao, Li and Liu, 2019), and policy (Nam and Hieu, 2017; Bonaime, Gulen and Ion, 2018) uncertainty affect merger and acquisition (M&A) activity. In this paper, we use Department of Justice (DOJ) and Federal Trade Commission (FTC) interventions in the M&A market to investigate whether uncertainty around regulatory enforcements also matters. Our results support this conjecture. Using the Hoberg and Phillips (2010) similarity scores to identify product market competitors, we confirm a clear and significant DOJ/FTC regulatory enforcements' deterrence effect on future M&A transaction attempts. This deterrence effect is driven a.o. by the length of the regulatory procedure, a factor that exacerbates enforcement uncertainty. Our results identify an (un)intended channel through which M&A regulation hampers efficient resources allocation.

SALIENCE, AWARENESS, AND THE REAL CONSEQUENCE OF INFORMATION BUNDLING

Authors: Qiu Tian (University of Kentucky)
Presenter: Qiu Tian (University of Kentucky)
Discussant: Bach Laurent (ESSEC Business School)

Firms often bundle announcements of corporate events, such as dividend changes and repurchases, together with quarterly earnings news. This paper studies the real consequence of this disclosure practice in the context of the market for corporate control. I find bundled repurchase announcements significantly increase the announcer's likelihood of becoming a takeover target. Daily Bloomberg news readership data confirms increased awareness is a channel for this effect. Consistent with this channel, targets in bundling-induced takeovers are ex ante less visible. To facilitate causal inference, I use difference-in-differences and instrumental variable estimations to alleviate omitted variables and self-selection concerns.

15:00 Break

A SUPPLY AND DEMAND APPROACH TO EQUITY PRICING

Authors: Calvet Laurent (EDHEC Business School); Betermier Sebastien (McGill University); Evan Jo (McGill University)
Presenter: Calvet Laurent (EDHEC Business School)
Discussant: Kriebel Johannes (University of Muenster)

We develop a tractable general equilibrium framework providing a direct mapping between (i) the supply and demand for capital at the firm level and (ii) the cross-section of stock returns. Investor behavioral tilts and hedging needs drive capital supply, while firm profitability drives demand. Heterogeneity in supply and demand factors determines the sign of the risk-return relation and generates anomalies such as betting-against-beta, betting-against-correlation, size, value, investment, and profitability. We estimate the supply and demand schedules of over 4,000 U.S. firms and verify that the model accurately predicts the sign of the risk-return relation conditional on characteristics.

MODELING CONDITIONAL FACTOR RISK PREMIA IMPLIED BY INDEX OPTION RETURNS

Authors: Orlowski Piotr (HEC Montréal); Fournier Mathieu (HEC Montreal); Jacobs Kris (University of Houston)
Presenter: Orlowski Piotr (HEC Montréal)
Discussant: Kostakis Alex (University of Liverpool Management School)

We propose a novel factor model for option returns. Option exposures are modeled nonparametrically and factor risk premia may vary non-linearly with states. The model allows for estimation of factor risk premia and factor exposures using regressions, with minimal assumptions on the dynamics of factors and/or option returns. We implement the model using index option returns. The model explains expected option returns across moneyness and maturities, and its hedging performance is impressive. We obtain estimates of the average risk premia on the market index, the market variance, as well as factors associated with tail risk and intermediary risk, and we characterize the time variation in these risk premia. The signs of the average risk premia are consistent with economic intuition for all factors and risk premia spike during crises. The magnitudes of the risk premia on the market and variance factors are reasonable and they have the expected sign throughout the sample.

THE CREDIT SPREAD PUZZLE - EVIDENCE FROM A QUASI-NATURAL EXPERIMENT

Authors: Kriebel Johannes (University of Muenster); Claußen Catharina (University of Muenster); Pfingsten Andreas (University of Muenster)
Presenter: Kriebel Johannes (University of Muenster)
Discussant: Orlowski Piotr (HEC Montréal)

Prior literature mostly finds bond yield spreads to be insufficiently explained by credit risk in structural models (the 'credit spread puzzle'). In contrast, several recent results consider credit spreads to consist of credit risk to a substantially

larger extent (if not even entirely). We address this dissent in the literature using a different empirical methodology. We utilize the removal of sovereign guarantees for savings banks and state banks in Germany as a unique quasi-natural experiment allowing identification of the credit risk component. During a transition period of over ten years, bonds of the same issuer with and without credit risk could be directly compared. Interestingly, less than 20% of the yield spread is due to credit risk for these bonds.

PRICING EVENT RISK: EVIDENCE FROM CONCAVE IMPLIED VOLATILITY CURVES

Authors: Kostakis Alex (University of Liverpool Management School); Alexiou Lykourgos (Athens University of Economics and Business); Goyal Amit (Swiss Finance Institute, University of Lausanne); Rompolis Leonidas (Athens University of Economics and Business)
Presenter: Kostakis Alex (University of Liverpool Management School)
Discussant: Calvet Laurent (EDHEC Business School)

We document that implied volatility (IV) curves extracted from short-term equity options frequently become concave prior to the earnings announcements day (EAD) reflecting a bimodal risk-neutral distribution for the underlying stock price. Firms with concave IV curves exhibit significantly higher absolute stock returns on EAD and higher realized volatility after the announcement, as compared to firms with non-concave IV curves. Hence, concavity in the IV curve constitutes an ex-ante option-based signal for event risk in the underlying stock. Returns on delta-neutral straddles around EADs are significantly lower in the presence of concave IV curves, showing that investors pay a high premium to hedge against this event risk.

Asset Pricing 3 15.15

Chairman: Abraham Lioui (EDHEC)

THE CO-MOVEMENT PUZZLE

Authors: Kuvshinov Dmitry (Universitat Pompeu Fabra)
Presenter: Kuvshinov Dmitry (Universitat Pompeu Fabra)
Discussant: Eiling Esther (University of Amsterdam)

This paper shows that the discount rates on three major risky asset classes – equity, housing and corporate bonds – do not co-move. Using new long-run data for 17 advanced economies, I show that asset-specific discount rates are uncorrelated, and that asset valuations and macro-financial risk factors predict returns on individual asset classes, but not across asset classes. This lack of co-movement presents a new asset pricing puzzle with important implications. Most theories in macro-finance assume a joint pricing kernel and attribute excess volatility across all asset classes to time variation in this common discount factor. My findings show that most excess volatility is, in fact, asset-specific and is therefore not driven by cross-asset risk factors such as risk aversion, long-run risk, disaster risk and intermediary risk appetite.

LABOR INCOME RISK AND STOCK RETURNS: THE ROLE OF HORIZON EFFECTS

Authors: Eiling Esther (University of Amsterdam); de Jong Frank (Tilburg University); Laeven Roger (University of Amsterdam); Sperna Weiland Rob (University of Amsterdam)
Presenter: de Jong Frank (Tilburg University)
Discussant: Cocoma Paula (Frankfurt School of Finance and Management)

This paper shows that the impact of labor income risk on the cross-section of expected stock returns depends crucially on the horizon. We develop a stylized labor asset pricing model in which investors earn labor income over their remaining career length, generating horizon–specific prices of labor income risk. Our empirical tests include horizons ranging from one quarter to several years to the very long horizon. We find robust evidence that labor income risk over the two– to four–year horizon is significantly priced while at other horizons it is not. The cross–sectional R2 for 25 size book–to–market and 25 size–investment portfolios increases remarkably from 7% to 71% after this simple horizon adjustment. Labor income risk is almost uncorrelated with consumption risk when measured over the same medium–term horizon. The two–to–four year horizon is consistent with evidence of wage rigidity.

HOUSING YIELDS

Authors: Colonnello Stefano (Ca' Foscari University of Venice); Marfè Roberto (University of Turin & Collegio Carlo Alberto); Xiong Qizhou (University of Oxford)
Presenter: Colonnello Stefano (Ca' Foscari University of Venice)
Discussant: Dmitry Kuvshinov (Universitat Pompeu Fabra)

This paper investigates heterogeneity in residential property yields using rental and sale listings from a major German online real estate platform between 2007 and 2017. Equipped with property-level rent-to-price ratios obtained by matching properties for sale and for rent, we show that these yields strongly co-move with regional factors, such as population age structure, industry structure, housing supply rigidities, and the liquidity and size of the housing market. Regional differences are particularly pronounced between globally relevant cities and other areas. However, a large fraction of the variation of yields can be explained neither by local factors nor by an extensive array of property-specific observable features, possibly pointing to the crucial role of idiosyncratic factors, as well as of within-city aggregation effects, informational frictions, and regulatory restrictions.

EXPLAINING THE REALIZED PRE-ANNOUNCEMENT DRIFT

Authors: Cocoma Paula (Frankfurt School of Finance and Management)
Presenter: Cocoma Paula (Frankfurt School of Finance and Management)
Discussant: Stefano Colonnello (Ca' Foscari University of Venice)

We propose a theoretical explanation for the puzzling positive pre-announcement drift that has been empirically documented to occur before scheduled announcements, using as a main example the drift before the Federal Open Market Committee (FOMC) meetings. We construct a general equilibrium model of

disagreement (difference-of-opinion) where two groups of investors react differently to the information released at the scheduled announcement and to costly signals available in the interval between two announcement releases. The model shows that the risk premium is not realized uniformly over time and matches consistently three key empirical facts: (1) an upward drift in prices just before the announcement, which does not revert afterwards, and that occurs regardless of the information released at the scheduled announcement, while it coexists with (2) low (high) volatility, and (3) low (high) trading volume before (after) the announcement.

Behavioral Finance 2 — 15.15

Chairman: Laurent Bach (ESSEC Business School)

DARK TRIAD PERSONALITY TRAITS AND SELECTIVE HEDGING

Authors: Pelster Matthias (Paderborn University); Hofmann Annette (St. John's University, Maurice R. Greenberg School of Risk Management, Insurance and Actuarial Science); Klocke Nina (Paderborn University); Warkulat Sonja (Paderborn University)
Presenter: Pelster Matthias (Paderborn University)
Discussant: Kieren Pascal (University of Mannheim)

We study the relationship between risk managers' dark triad personality traits (Machiavellianism, narcissism, and psychopathy) and their selective hedging activities. Using a primary survey of 412 professional risk managers, we find that managers with dark personality traits are more likely to engage in selective hedging than those without. This effect is particularly pronounced for older, male, and less experienced risk managers. The effect is also stronger in smaller firms, less centralized risk management departments, and family-owned firms, and it cannot be explained by managerial (over)confidence.

IN SHORT SUPPLY: EFFICIENCY IMPLICATIONS OF RATIONAL ATTENTION ALLOCATION

Authors: Schneemeier Jan (Indiana University); Kalda Ankit (Indiana University); Li Xiaoying (Indiana University)
Presenter: Schneemeier Jan (Indiana University)
Discussant: Hébert Camille (University of Toronto)

This paper examines the role of rational attention allocation in shaping private information acquisition, and its implications for price informativeness and real outcomes. Our setting exploits the listing of options on a stock as a source of variation in the relative value of acquiring information on its close industry peers. Consistent with the predictions of our theoretical model, we find that options listing is associated with a decline in attention, trading volume, and liquidity, and an increase in volatility for peer stocks. These peer firms further experience a decline in stock price informativeness, firm value, and profitability.

CAN AGENTS ADD AND SUBTRACT WHEN FORMING BELIEFS? EVIDENCE FROM THE LAB AND FIELD

Authors: Kieren Pascal (University of Mannheim); Müller-Dethard Jan (University of Mannheim); Weber Martin (University of Mannheim)
Presenter: Kieren Pascal (University of Mannheim)
Discussant: Schneemeier Jan (Indiana University)

We study an intrinsic property of Bayesian information processing which does not rely on individuals having rational absolute beliefs: two equally-diagnostic signals of opposite direction should cancel out. Using evidence from both the lab and field, we show that individuals not always follow this counting-based principle. Systematic violations occur whenever a sequence of identical evidence is interrupted by a signal of opposite direction, which produces strong and robust overreactions. Conversely, individuals correctly follow this counting-based principle whenever signals alternate while they underreact to sequences of same-directed evidence. Next, we empirically analyze announcement and post-announcement stock return reactions in financial markets. Consistent with our experimental evidence, we find that initial stock reactions are significantly stronger and subsequent price drifts weaker for opposite-directed earnings surprises than for same-directed earnings surprises. Our results provide novel insights to the paradoxical co-existence of over- and underreaction to new information at the individual and market level.

LEARNING FROM ERRORS IN ENTREPRENEURSHIP

Authors: Hebert Camille (University of Toronto)
Presenter: Hebert Camille (University of Toronto)
Discussant: Pelster Matthias (Paderborn University)

I use administrative and survey-based micro data to study the relationship between expectation errors, belief updates, and subsequent corporate decisions of a representative sample of French entrepreneurs. After overestimating their development and hiring prospects, optimistic entrepreneurs update downward, pessimistic entrepreneurs update upward. Although optimistic and pessimistic types are persistent over time, I show that expectation errors decline over time \textit{within} individuals, suggesting that entrepreneurs learn from their past errors. Making errors and learning from them have real effects. The ability to correctly forecast sales and employment and update after an error leads to better start-up performance and growth.

Corporate Finance 15.15

Chairman: Eric de Bodt (NHH Norwegian School of Economics)

SHAREHOLDER-CREDITOR CONFLICTS AND LIMITS TO ARBITRAGE: EVIDENCE FROM THE EQUITY LENDING MARKET

Authors: Saffi Pedro (University of Cambridge); Chu Yongqiang (University of North Carolina at Charlotte); Lin Luca (HEC Montreal); Sturgess Jason (Queen Mary University of London)

Presenter: Lin Luca (HEC Montreal)
Discussant: Bisetti Emilio (HKUST)

We show that conflicts of interest between shareholders and creditors affect prices in financial markets through the equity lending market and short selling constraints. Using mergers between financial institutions as exogenous variation in the presence of dual holders, that is, institutions holding equity and debt of the same firm, we find that shareholders increase equity lending supply when they face lower conflicts, which reduces short sale constraints and limits to arbitrage and increases price efficiency. The decrease in short sale constraints is more pronounced in firms with ex-ante greater conflicts of interest between shareholders and creditors. Our findings suggest that agency problems due to shareholder-creditor conflicts have a real impact on market efficiency and asset prices.

SMOKESTACKS AND THE SWAMP

Authors: Sarkar Arkodipta (HKUST); Lewellen Stefan (Pennsylvania State University); Bisetti Emilio (HKUST); Sarkar Arkodipta (HKUST)
Presenter: Bisetti Emilio (HKUST)
Discussant: Nogueira Gil (NYU Stern)

We examine how politicians' party affiliations causally impact the industrial pollution decisions of firms. Using a regression discontinuity design involving election outcomes in close U.S. congressional races, we show that plants pollute more per unit of production when they are represented by a closely-elected Republican than by a closely-elected Democrat. We also find evidence of reallocation: firms shift pollution away from areas newly represented by a Democrat. Increased regulatory enforcement actions--particularly informal enforcement actions--are more common in districts represented by Democrats. Pollution-related illnesses spike around plants in areas represented by Republicans, suggesting that firms' pass-through of ideological differences across politicians can have real consequences for local communities

CORPORATE REORGANIZATION AS LABOR INSURANCE IN BANKRUPTCY

Authors: Bonfim Diana (Banco de Portugal and Católica Lisbon); Nogueira Gil (NYU Stern)
Presenter: Nogueira Gil (NYU Stern)
Discussant: Zheng Yue (Hong Kong University of Science and Technology)

How does corporate reorganization affect labor reallocation in bankruptcy? In this paper, we provide evidence that reorganization is an important source of labor insurance against bankruptcy shocks, including for workers who eventually move to other firms. We measure the effect of reorganization on labor outcomes using data from Portugal and the random allocation of corporate reorganization cases to judges, which creates exogenous variation in the probability of reorganization. Reorganized firms only keep about 20\% of their workforce five years after reorganization and we find no evidence that reorganization affects the reallocation of workers to efficient of profitable firms. However, reorganization has a positive and persistent effect on wages. In the short term (first year after reorganization), workers are more likely to have jobs. In the longer term (subsequent five years), workers have higher paying jobs. Consistent with the

literature on the scarring effect of negative production shocks, reorganization reduces labor transitions to less skill intensive occupations with lower wage premia. Finally, we show that reorganization provides labor insurance to workers who move to new employers. Reorganization reduces the probability that workers move to low-paying jobs but increases the probability that they find high paying jobs in new employers.

JUDGE IDEOLOGY AND OPPORTUNISTIC INSIDER TRADING

Authors: Zheng Yue (The Hong Kong University of Science and Technology); Huang Allen (The Hong Kong University of Science and Technology); Hui Kai Wai (The University of Hong Kong)
Presenter: Zheng Yue (The Hong Kong University of Science and Technology)
Discussant: Lin Luca (HEC Montreal)

Extant evidence suggests that liberal judges prefer stricter securities enforcement to protect innocent investors. We find that firms located in circuits with more liberal judges perform fewer opportunistic insider sales, consistent with managers taking judges' political ideology into consideration. This deterrent effect is stronger when insiders are more likely to be sued. The SEC also considers judge ideology when selecting litigation venues. Finally, we validate that liberal judges are associated with heavier penalties in insider trading cases. Overall, we provide the first evidence demonstrating the importance of judicial discretion and judge political ideology in deterring opportunistic insider trading.

Market Microstructure 1 (BEDOFIH)

Chairman: Patrice Fontaine (Eurofidai, CNRS)

15.15

THE DESIGN OF A CENTRAL COUNTERPARTY

Authors: Kuong John (INSEAD); Maurin Vincent (Stockholm School of Economics)
Presenter: Kuong John (INSEAD)
Discussant: Poulsen Thomas (BI Norwegian Business School)

This paper analyzes the optimal allocation of losses via a Central Clearing Counterparty (CCP) in the presence of counterparty risk. A CCP can hedge this risk by providing loss-absorbing capital or by enabling loss mutualization among its members. This protection, however, weakens members' incentives for risk management. When the market is large, a third-party CCP alleviates this tension by acting as a centralized monitor. We endogenize the typical default waterfall of a CCP including the CCP's junior equity tranche. Privately optimal choices of skin-in-the-game capital can be socially inefficient. Our results have implications for the ownership structure of CCPs.

ASYMMETRIC INFORMATION AND THE DISTRIBUTION OF TRADING VOLUME

Authors: van Bommel Jos (University of Luxembourg); Lof Matthijs (Aalto University)
Presenter: van Bommel Jos (University of Luxembourg)
Discussant: Larsen Kasper (Rutgers University)

We propose the Volume Coefficient of Variation (VCV), the ratio of the standard deviation to the mean of trading volume, as a new and easily computable measure of information asymmetry in security markets. We use a microstructure model to demonstrate that VCV is strictly increasing in the proportion of informed trade. Empirically, we find that VCV, computed from daily observations of trading volume, is correlated with extant firmlevel measures of asymmetric information in the cross-section of US stocks. Moreover, VCV increases following exogenous reductions in analyst coverage induced by brokerage closures, and steeply decreases around earnings announcements and other information disclosures.

LEARNING ABOUT LATENT DYNAMIC TRADING DEMAND

Authors: Larsen Kasper (Rutgers University); Chen Xiao (Rutgers University); Choi Jin Hyuk (UNIST); Seppi Duane J. (Tepper School of Business)
Presenter: Larsen Kasper (Rutgers University)
Discussant: Kuong John (INSEAD)

This paper presents an equilibrium model of dynamic trading, learning, and pricing by strategic investors with trading targets and price impact. Since trading targets are private, rebalancers and liquidity providers filter the child order flow over time to estimate the latent underlying parent trading demand imbalance and its expected impact on subsequent price pressure dynamics. We prove existence of the equilibrium and solve for equilibrium trading strategies and prices in terms of the solution to a system of coupled ODEs. We show that trading strategies are combinations of trading towards investor targets, liquidity provision for other investors' demands, and front-running based on learning about latent underlying trading demand imbalances and future price pressure.

DEALER NETWORKS AND THE COST OF IMMEDIACY

Authors: Poulsen Thomas Kjær (BI Norwegian Business School); Dick-Nielsen Jens (Copenhagen Business School); Rehman Obaidur (BI Norwegian Business School)
Presenter: Poulsen Thomas Kjær (BI Norwegian Business School)
Discussant: van Bommel Jos (University of Luxembourg)

We show that uninformed corporate bond index trackers pay lower transaction costs when they request immediacy from dealers with central network positions. This centrality discount supports recent network models in which core dealers have a comparative advantage in carrying inventory. We show that core dealers provide more immediacy and revert deviations from their desired inventory faster. When dealers trade with other dealers, we find a centrality premium consistent with core dealers exploiting their comparative advantage to extract more surplus when bargaining with peripheral dealers. We rule out alternative explanations based on adverse selection and customer clienteles by using trades from uninformed index trackers.

THE DETERMINANTS OF ESG RATINGS: RATER OWNERSHIP MATTERS

Authors: Tang Dragon (Hong Kong University); Yan Jiali (University of Liverpool Management School); Yao Chelsea (Lancaster University Management School)
Presenter: Tang Dragon (Hong Kong University)
Discussant: Xu Huiting (Frankfurt School of Finance and Management)

Environmental, social, and governance (ESG) ratings are largely obscure, yet widely used by investors. We show that firms held by the same investors who own the rater ("sister firms") receive higher ESG ratings. Exogenously created sister firms through acquisitions reveals causality for the common ownership effect. Sister firms receive higher ratings when the common owners have larger stakes in the ESG rater. Notwithstanding their initial higher ratings, sister firms have poorer future ESG outcomes. These findings suggest that the quality of ESG ratings can be undermined by conflicts of interest and have important implications for practitioners and regulators.

MIFID II AND THE SIDE EFFECTS OF PRICE UNBUNDLING FOR INVESTMENT RESEARCH

Authors: XU Huiting (Frankfurt School of Finance and Management); Fecht Falko (Frankfurt School of Finance and Management); Weber Patrick (Deutsche Bundesbank)
Presenter: Xu Huiting (Frankfurt School of Finance and Management)
Discussant: Matthys Felix (ITAM)

The Markets in Financial Instruments Directive (MiFID II) requires European financial initiations to unbundle sell-side research costs from commission fees beginning in January 2018. Using a unique data set, we answer three important empirical questions regarding the effectiveness and the potential downside effects of this regulation update: First, did the information content of sell-side research reports improve after the cost unbundling was enacted? Second, conditional on a higher informativeness of sell-side research, do investors react more strongly to recommendations? Third, did banks use the potentially stronger responsiveness of investors to steer their clients more opportunistically? We find that with the implementation of MiFID II, the information content of analysts' reports did indeed improve. In addition, we find that clients buy larger quantities of a stock if their affiliated bank issued a buy recommendation on that stock, possibly due to the improved quality, whereas retail clients don't react anymore to changes in the market consensus of analysts' opinions after MiFID II. However, we also find that banks use this strong responsiveness to more opportunistically steer their affiliated retail clients to buy into stocks that their own bank intends to sell. Hence, while the price unbundling improved the quality of sell-side research reports it comes with the downside of amplifying implicit conflict of interest.

THE GENDER GAP IN HOUSEHOLD BARGAINING POWER: A PORTFOLIO-CHOICE APPROACH

Authors: Peng Cameron (LSE); Gu Ran (Essex); Zhang Weilong (Cambridge)
Presenter: Peng Cameron (LSE)
Discussant: Kim Jeong-Ho (Emory University)

We quantify how bargaining power is distributed when spouses make financial decisions together. We build a model in which each spouse has a risk preference and must bargain with each other to make asset decisions for the household. By structurally estimating the model with longitudinal data from Australian households, we show that the average household's as- set allocation reflects the husband's risk preference 44% more than the wife's. This gap in bargaining power is partially explained by gender differences in income and employment sta- tus, but is also due to gender effects. We provide further evidence that links the distribution of bargaining power to views on gender norms in the cross-section.

WHEN UNCERTAINTY AND VOLATILITY ARE DISCONNECTED: IMPLICATIONS FOR ASSET PRICING AND PORTFOLIO PERFORMANCE

Authors: Osambela Emilio (Board of Governors of the Federal Reserve System); Ait-Sahalia Yacine (Princeton University and NBER); Matthys Felix (ITAM); Sircar Ronnie (Princeton University)
Presenter: Matthys Felix (ITAM)
Discussant: Peng Cameron (London School of Economics)

We analyze an environment where the uncertainty in the equity market return and its volatility are both stochastic, and may be potentially disconnected. We solve a representative investor's optimal asset allocation and derive the resulting conditional equity premium and risk-free rate in equilibrium. Our empirical analysis shows that the equity premium appears to be earned for facing uncertainty, especially high uncertainty that is disconnected from lower volatility, rather than for facing volatility as traditionally assumed. Incorporating the possibility of a disconnect between volatility and uncertainty significantly improves portfolio performance, over and above the performance obtained by conditioning on volatility only.

Priviate Equity & Venture Capital (ARDIAN) — ARDIAN — 15.15

Chairman: Jocelyn Martel (ESSEC Business School)

RETAIL CUSTOMER REACTIONS TO PRIVATE EQUITY ACQUISITIONS

Authors: Tykvova Tereza (University of St.Gallen); Vesa Pursiainen (University of St.Gallen)
Presenter: Tykvova Tereza (University of St.Gallen)
Discussant: Nefedova Tamara (Université Paris IX-Dauphine)

We study short-term changes in customer visits to retail outlets around the an- nouncement of private equity (PE) acquisitions, using aggregated and

anonymized mo-bile phone data covering approximately ten percent of all mobile devices in the United States. Given the monthly frequency of the data, we can separate the announcement reaction of customers from the effect on operational improvements, which can only take place after the completion of the acquisition. There is a significant reduction in cus-tomer visits in retail outlets immediately following a PE acquisition. The decrease in visits is larger for larger PE firms and those previously involved in more lawsuits. The customer reaction also varies depending on income level, stock market participation, and self-employment rate, as well as religious and political orientation of the outlet location. It also depends on local competition.

ON THE ORIGIN OF IPO PROFITS

Authors: Nefedova Tamara (Université Paris IX-Dauphine); Brown David (University of Arizona, Eller College of Management); Kovbasyuk Sergei (The New Economic School)
Presenter: Nefedova Tamara (Université Paris IX-Dauphine)
Discussant: Ersahin Nuri (Michigan State University)

By combining investors' portfolio holdings and trading and commissions data, we analyze the relations between investor characteristics and IPO allocations. We distinguish among common explanations for investors' IPO profits: information revelation, quid pro quo arrangements (related to commissions), and post-IPO trading behaviors. We find that information proxies explain the majority of the variation in IPO profits, while commissions and post-IPO trading behaviors explain relatively little. Commissions and post-IPO trading matter at the extensive, but not intensive, margins, while information matters at both. Different explanations matter for allocations and IPO profits to Investment Managers, Hedge Funds, and Banks/Pensions/Insurers.

ANGELS AND DEMONS: THE NEGATIVE EFFECT OF EMPLOYEES' ANGEL INVESTMENTS ON CORPORATE INNOVATION

Authors: Mueller Clemens (University of Mannheim); Kundu Santanu (University of Mannheim)
Presenter: Kundu Santanu (University of Mannheim)
Discussant: Tykvova Tereza (University of St.Gallen)

Does a firm benefit if its employees personally invest in start-ups? To answer this question, we exploit novel data, which link angel investors in the US with their employment history. A firm's economic value of patents decreases by 3% - 5% when its employees personally invest in start-ups. We establish causality with matching and instrumental variable regressions, which rely on quasi-exogenous competition in the early-stage financing market. The negative relationship is stronger for angel investors in innovation-related roles, if the start-ups are more time consuming, and for exploratory patents. Compared to other angel investors, angel investors employed at corporations have a positive impact on future innovation and success of their invested start-ups. Our results indicate that angel investors divert time and effort from their employers to their personal

investments. We highlight a trade-off between the benefits of angel investors for start-ups and the costs for their employer.

COMPETITION, REPUTATION, AND VENTURE CAPITAL INVESTMENT

Authors: Huang Ruidi (Southern Methodist University); Ersahin Nuri (Michigan State University); Khanna Naveen (Michigan State University)
Presenter: Ersahin Nuri (Michigan State University)
Discussant: Kundu Santanu (University of Mannheim)

This paper examines the impact of competition on the investment behavior and outcomes of venture capital (VC) firms with differing reputations. Following the introduction of investor tax credit programs that increase competition, reputable VCs decrease the number and size of their investments. The results are more pronounced in states with lower investment requirements and lower VC supply. Reputable VCs also reduce their syndicate size and shrink the time between financing rounds. They become less likely to partner with serial founders and their performance deteriorates. Our results suggest that increasing competition depresses returns for reputable VCs, hurting their incentive to invest.

17:15 Break

Asset Pricing 4 — 17:30

Chairman: Peter Gruber (University of Lugano)

HOW COMPETITIVE IS THE STOCK MARKET? THEORY, EVIDENCE FROM PORTFOLIOS, AND IMPLICATIONS FOR THE RISE OF PASSIVE INVESTING

Authors: Haddad Valentin (UCLA); Huebner Paul (UCLA); Loualiche Erik (University of Minnesota)
Presenter: Haddad Valentin (UCLA)
Discussant: Davies Shaun (University of Colorado)

We develop a framework to theoretically and empirically analyze investor competition on financial markets. In the classic view, markets are very competitive: if a group of investors changes its behavior, others react such that nothing happens in equilibrium. We quantify the strength of the competitive response. We estimate a demand system for the US stock market accounting for two layers of equilibrium: investors compete with each other in setting their strategies and prices adjust to clear asset markets. Investors react to the behavior of others: when an investor is surrounded by less aggressive traders she trades more aggressively. This reaction reduces the equilibrium consequences of changes in individual behavior by 50%. However, it also implies that the stock market is far from the competitive ideal. Hence, the increase in passive investing over the last 20 years has led to substantially more inelastic demand curves for individual stocks, by 15%.

INDEX-LINKED TRADING AND STOCK RETURNS

Authors: Davies Shaun (University of Colorado, Boulder)
Presenter: Davies Shaun (University of Colorado, Boulder)
Discussant: Li Sophia Zhengzi (Rutgers Business School)

I consider a model of index-linked trading in which a fraction of investors trade an index product that holds the market portfolio (e.g., an ETF). The remaining investors build portfolios by evaluating stocks individually. Investors are equally informed and choose portfolios to maximize their expected utility. In equilibrium, price impact from trading the index product is not equal across stocks. Index-linked trade generates cross sectional differences in returns and volatilities. Furthermore, uncertainty about indexing demand generates risk premiums in expected returns and their magnitudes depend on firm fundamentals. The findings lend theoretical support to existing studies and provide new predictions.

GRANULAR INFORMATION AND SECTORAL MOVEMENTS

Authors: Li Sophia Zhengzi (Rutgers Business School); Jiang Hao (Michigan State University); Yuan Peixuan (Rutgers Business School)
Presenter: Li Sophia Zhengzi (Rutgers Business School)
Discussant: Haddad Valentin (University of California Los Angeles)

This paper shows a strong link between granular information contained in individual stock prices and sectoral movements. Using machine learning algorithms, we find that a predictor that aggregates the price movements of a broad cross-section of individual stocks predicts sector ETF returns out-of-sample. When we combine the structural information of economic links among firms with machine learning, the resulting information signals have even stronger return predictability. These results support the hypothesis of granular origins of aggregate shocks, and illustrate the advantages of structural machine learning.

Banking & Financial Intermediation 2 — 17.30

Chairman: Michael Troege (ESCP Europe)

THE LIFE CYCLE OF A BANK ENFORCEMENT ACTION AND ITS IMPACT ON MINORITY LENDING

Authors: Kleymenova Anya (Board of Governors of the Federal Reserve System); An Byeongchan (University of Chicago Booth School of Business); Bushman Robert (University of North Carolina); Tomy Rimmy (University of Chicago Booth School of Business)
Presenter: Kleymenova Anya (Board of Governors of the Federal Reserve System)
Discussant: Shakya Shasta (Arizona State University)

This paper studies the role banking supervision plays in improving access to credit for minorities by investigating how enforcement decisions and orders (EDOs) affect bank borrower base. Despite declines in most component portfolios, we find that bank-level residential mortgage portfolios remain relatively unchanged

after an EDO. We document significant changes in the underlying demographic mix of residential mortgage borrowers: after an EDO's termination, banks significantly increase residential mortgage lending to minorities. EDO banks are also less likely to deny loans to minority borrowers, and their reasons for loan denial change. We propose several mechanisms to explain why lending to minorities might increase after an EDO and find evidence consistent with EDO banks' improvements due to the enforcement process expanding lending to minorities, as well as banks catering to regulators after EDO termination.

RISK MANAGERS IN BANKS

Authors: Efing Matthias (HEC Paris); Kampkoetter Patrick (University of Tuebingen)
Presenter: Efing Matthias (HEC Paris)
Discussant: Kleymenova Anya (Board of Governors of the Federal Reserve System)

How do banks remunerate risk managers? Studying 127 banks during the years 2003 to 2007, we show that the performance-linked pay of risk managers is positively aligned with the performance-linked pay of traders and loan officers. A risk manager receives a 13.6 to 33.5 Cents higher bonus when bonuses in front offices increase by one Euro. This finding is not fully explained by labor markets or by risk-sharing among employees. Risk managers whose remuneration is strongly aligned with performance pay in front offices tend to work for banks that did better in the crisis of 2008-2009. These findings are consistent with predictions we derive from a model of efficient risk manager compensation.

POSITIVE BANK-TO-BANK SPILLOVERS

Authors: Shakya Shasta (Arizona State University)
Presenter: Shakya Shasta (Arizona State University)
Discussant: Efing Matthias (HEC Paris)

This paper provides the first evidence of positive bank-to-bank spillovers. I show that geographic linkages between banks that engage in home lending in the same geographic region transmit positive shocks from one bank to another. I exploit shocks to the deposit base of banks located in counties experiencing shale oil booms – and show that a non-shocked bank in a non-boom county expands lending more if its linkages have greater exposure to shale booms. Results show that the shock exposure of linkages has a positive impact on home prices of non-boom counties and non-shocked banks located therein respond with increased lending.

BANK BALANCE SHEET CONSTRAINTS AND BOND LIQUIDITY

Authors: Breckenfelder Johannes (European Central Bank); Ivashina Victoria (Harvard Business School, NBER and CEPR)
Presenter: Breckenfelder Johannes (European Central Bank)
Discussant: Klein Philipp (University of Muenster)

We explore the ties between bonds and individual dealers formed through home advantage and the persistence of previous underwriting relationships. Building on these connections, we show that the introduction of the leverage ratio for the European banks had a large impact on exposed bonds' liquidity. Moreover, based on these ties, we show that bond mutual fund panic following the 2020 pandemic outbreak affected substantially more mutual funds with the larger exposures to dealer banks' balance sheet constraints.

WHITHER WEATHER?: HIGH TEMPERATURE, CLIMATE CHANGE AND MORTGAGE DEFAULT

Authors: Riddiough Timothy (University of Wisconsin - Madison); Deng Deng (University of Wisconsin - Madison); Han Congyan (University of Wisconsin - Madison); Li Teng (Sun Yat-sen University)
Presenter: Riddiough Timothy (University of Wisconsin - Madison)
Discussant: Breckenfelder Johannes (European Central Bank)

We investigate the relationship between temperature and residential mortgage default using fine-scale weather information and comprehensive loan performance data. Conditional on a rich set of default risk controls and fixed effects, we identify a significant high temperature-mortgage default relation. An additonal day of mean temperatures above 90oF (32.2oC) in each month for the last 12 months is associated with a 3.2% and 3.5% increase in the probability of 30-day delinquency and foreclosure, respectively. To explain the effect, tests are specified to differentiate between three plausible channels: behavioural-psychological, income-liquidity, and rational belief updating. Evidence favors the belief updating channel as dominant. All three channels help explain the link between high temperature and 30-day delinquency, but, given the long lags from delinquency to foreclosure and the pronounced costs, belief updating best explains the effects of high temperature on foreclosure outcomes. High temperatures paired with higher rates of default indicate that borrowers mark down their own estimate of house value, perceiving a mismatch between their current home-location and their preferred home-location. Our findings have direct monetary and bank regulatory policy implications.

BETTER BE CAREFUL: THE REPLENISHMENT OF ABS BACKED BY SME LOANS

Authors: Moessinger Carina (Deutsche Bundesbank); Klein Philipp (University of Münster); Fenner Arved (University of Münster)

Presenter: Klein Philipp (University of Muenster)
Discussant: Riddiough Timothy (University of Wisconsin - Madison)

We investigate the replenishment of 102 asset-backed securities (ABS) backed by more than 1.7 million small- and medium-sized enterprise loans. Based on our extensive data set from 2012 to 2017 obtained from the first and only central loan-level repository for ABS in Europe, we reveal that loans added to securitized loan portfolios after the transactions' closing perform worse than loans that are part of the initial portfolio. On average, we find that loans added to securitized loan portfolios demonstrate a 0.42 percentage points higher probability of default. We additionally provide evidence that originators induce these performance differences since they exploit their information advantage by deliberately adding low-quality loans to securitized loan portfolios. This adverse behavior is mitigated by originators' reputation efforts, by increasing transparency in the ABS market, as for example per the European Central Bank's loan-level initiative, and most effectively by their interaction.

Corporate Governance 17.30

Chairman: Sridhar Arcot (ESSEC Business School)

COMPETITION AND THE REPUTATIONAL COSTS OF LITIGATION

Authors: Schmid Markus (University of St. Gallen); von Meyerinck Felix (University of St. Gallen); Pursiainen Vesa (University of St. Gallen)
Presenter: Schmid Markus (University of St. Gallen)
Discussant: Meier Jean-Marie (University of Texas)

We study the role of competition in customers' reactions to litigation against firms, using anonymized mobile phone location data. A class action lawsuit filing results in a 4% average reduction in customer visits to target firms' outlets in the following months. The effect strongly depends on competition. Outlets facing more competition experience significantly larger negative effects. Closer competition matters more, both in terms of geographic and industry proximity. Announcement returns and quarterly accounting revenues around lawsuit filings also strongly depend on competition. Our results suggest that competition is an important component in customers' ability to discipline firms for misbehavior.

DO SPECULATORS EXACERBATE MANAGERIAL MYOPIA? EVIDENCE FROM MARGIN TRADERS IN CHINA

Authors: Chen Jun (University of California San Diego)
Presenter: Chen Jun (University of California San Diego)
Discussant: Schmid Markus (University of St. Gallen)

This paper exploits a regulatory experiment that lifts the margin trading ban in China to test whether speculative retail investors impact stock prices and corporate decisions. Using a regression discontinuity design, I find that the margin trading eligibility increases stock share turnover and prices, and that marginable firms cater to investor short-termism by manipulating earnings and reducing long-term investment. Consistent with managerial myopia, marginable firms experience

a decline in operating profit and equity valuation in the long run. My results suggest that margin traders, as short-term speculators, pressure the manager to focus on current earnings and sacrifice long-term growth.

DID WESTERN CEO INCENTIVES CONTRIBUTE TO CHINA'S TECHNOLOGICAL RISE?

Authors: Meier Jean-Marie (University of Texas at Dallas); Bian Bo (University of British Columbia)
Presenter: Meier Jean-Marie (University of Texas at Dallas)
Discussant: Chen Jun (University of California San Diego)

We study the role of Western CEO incentives in fostering the technological rise of China. Due to China's quid pro quo policy, foreign multinationals face a trade-off between the short-term benefits of accessing China's vast market and the long-term costs of transferring technology to China. Leveraging microdata on the global patent network, we construct novel measures to describe technological interactions between US firms and over 70 countries. We find that firms managed by CEOs with high-powered incentive contracts form more partnerships with China and transfer more technology to China. These firms subsequently lose R&D human capital to China and face more patenting competition from China, suggesting negative long-term consequences in innovation. The evidence is consistent with the myopia-inducing instead of effort-inducing property of high-powered CEO incentives. The paper reveals an important real effect of CEO incentives and highlights a novel channel behind China's technological catch-up.

Derivatives — 17.30

Chairman: Andras Fulop (ESSEC Business School)

"LESS IS MORE": CREDIT DEFAULT SWAPS AND FIRM CYCLICALITY

Authors: Zhao Lei (ESCP Business School); Norden Lars (Getulio Vargas Foundation); Yin Chao (Durham University)
Presenter: Norden Lars (Getulio Vargas Foundation)
Discussant: Venter Gyuri (University of Warwick)

Firm cyclicality decreases by around 40% after the inception of credit default swap (CDS) trading. The effect is due to CDS firms' lower asset growth-GDP growth sensitivity in good times and stronger for firms facing a more severe exacting creditor problem. The cyclicality-reducing effect of CDS trading cannot be explained with bank lending cyclicality or market beta. The result remains robust when we alternatively employ outstanding CDS positions, firm employment growth, or state-/industry-level cyclicality. Moreover, CDS trading impedes unhealthy growth and enhances profitability and market value. The evidence highlights an important disciplining effect of CDS on corporate growth.

A GENERAL EQUILIBRIUM MODEL OF CREDIT DEFAULT SWAP (CDS) MARKETS

Authors: Subramanian Ajay (Georgia State University); Subramanian Ajay (Georgia State University)
Presenter: Subramanian Ajay (Georgia State University)

Discussant: Norden Lars (Getulio Vargas Foundation)

We develop a general equilibrium model to analyze CDS trading and regulation with aggregate risk. If available equity capital is below a threshold, any equilibrium of the basic economy with no CDS markets features firm default and underinvests in firms relative to the efficient allocation. For low aggregate risk levels, there is a unique equilibrium of the economy with unregulated CDS markets in which bondholders are fully insured. Investment is efficient, and the efficient allocation can be implemented via transfers. For intermediate aggregate risk, the unregulated CDS economy overinvests, and a margin requirement on CDS sellers that becomes more stringent as aggregate risk increases is necessary for efficiency. When aggregate risk is high, the CDS market breaks down. A margin requirement restores equilibrium and efficiency, but it must be maximally stringent when aggregate risk exceeds a threshold in which case a capital requirement that restricts CDS supply is also required.

DEMAND-SUPPLY IMBALANCE RISK AND LONG-TERM SWAP SPREADS

Authors: Venter Gyuri (University of Warwick); Hanson Samuel G (Harvard Business School); Malkhozov Aytek (Federal Reserve Board)
Presenter: Venter Gyuri (University of Warwick)
Discussant: Subramanian Ajay (Georgia State University)

We develop a model in which long-term swap spreads are determined by preferred habitat investors' demand for swaps, constrained intermediaries' supply of swaps, and compensation for the risk that spreads temporarily widen due to future shocks to demand or supply. Empirically, we identify these separate demand and supply factors, and assess their respective contributions to the level of swap spreads and the returns on swap spread trades.

Ethical Finance (AMUNDI)

Chairman: Tamara Nefedova (Université Paris Dauphine - PSL)

17.30

DOES SOCIALLY RESPONSIBLE INVESTING CHANGE FIRM BEHAVIOR?

Authors: Ringgenberg Matthew (University of Utah); Heath Davidson (University of Utah); Macciocchi Daniele (University of Miami); Michaely Roni (Hong Kong University and ECGI)
Presenter: Ringgenberg Matthew (University of Utah)
Discussant: Jeffers Jessica (University of Chicago, Booth School of Business)

Socially responsible investment (SRI) funds are increasing in popularity. Yet, it is unclear if these funds improve corporate behavior. Using novel micro-level data, we find that SRI funds select firms with higher environmental and social standards: the firms they hold exhibit lower pollution, greater board diversity, higher employee satisfaction, higher workplace safety, and fewer customer complaints. Yet, using an exogenous shock to SRI capital, we find no evidence that SRI funds improve firm behavior. The results suggest SRI funds invest in a portfolio

consistent with the fund's objective, but they do not significantly improve corporate conduct.

USING HIGH-FREQUENCY EVALUATIONS TO ESTIMATE DISCRIMINATION: EVIDENCE FROM MORTGAGE LOAN OFFICERS

Authors: Yu Edison (Federal Reserve Bank of Philadelphia); Marco Giacoletti (University of Southern California); Rawley Heimer (Boston College)
Presenter: Yu Edison (Federal Reserve Bank of Philadelphia)
Discussant: Ringgenberg Matthew (University of Utah)

We develop empirical tests for discrimination that use high-frequency evaluations to address the problem of unobserved heterogeneity in a conventional benchmarking test. Our approach to identifying discrimination requires two conditions: (1) the subject pool is time-invariant in a short time horizon and (2) there is high-frequency variation in the extent to which evaluators can rely on their subjective assessments. We bring our approach to the residential mortgage market, using data on the near-universe of U.S. mortgage applications from 1994 to 2018. Monthly volume quotas reduce how much subjectivity loan officers apply to loans they process at the end of the month. As a result, the volume of new originations increases by 150% at the end of the month, while application volume and applicants' quality are constant within the month. Owing to within-month variation in loan officers' subjectivity, we estimate that Black mortgage applicants have 3.5% to 5% lower approval rates, which explains at least half of the observed approval gap for Blacks. When we use this approach to evaluate policies, we find that market concentration and FinTech lending have had no effect on lending discrimination, but that shadow banking has reduced discrimination presumably by having a larger presence in under-served communities.

THE RISK AND RETURN OF IMPACT INVESTING FUNDS

Authors: Jeffers Jessica (University of Chicago, Booth); Lyu Tianshu (Yale University, SOM); Posenau Kelly (University of Chicago, Booth)
Presenter: Jeffers Jessica (University of Chicago, Booth)
Discussant: Yu Edison (Federal Reserve Bank of Philadelphia)

We provide the first analysis of the risk exposure and consequent risk-adjusted performance of impact investing funds, private market funds with dual financial and social goals. We introduce a new dataset of impact fund cash flows constructed from financial statements. When accounting for market risk exposure, impact funds underperform the market, though not more so that comparable private market strategies. We exploit known distortions in measures of VC performance to characterize the risk profile of impact funds. Impact funds have substantially lower market beta than VC funds, contradicting the idea of sustainability as a "luxury good." We find that impact fund cash flows do not exhibit positive correlation with a public market sustainability factor, consistent with the idea that private and public market sustainability strategies capture distinct exposures.

Financial Crisis 17.30
Chairman: René Garcia (University of Montréal)

A MACRO-FINANCE MODEL WITH REALISTIC CRISIS DYNAMICS

Authors: Gopalakrishna Goutham (Ecole Polytechnique Federale de Lausanne (Swiss Finance Institute))
Presenter: Gopalakrishna Goutham (Ecole Polytechnique Federale de Lausanne (Swiss Finance Institute))
Discussant: Hoerova Marie (European Central Bank)

What causes deep recessions and slow recovery? I revisit this question and develop a macro-finance model that quantitatively matches the salient empirical features of financial crises such as a large drop in the output, a high risk premium, reduced financial intermediation, and a long duration of economic distress. The model has leveraged intermediaries featuring stochastic productivity and regime-dependent exit rate that governs the transition in and out of crises. A model without these two features suffers from a trade-off between the amplification and persistence of crises. I show that my model resolves this tension and generates realistic crisis dynamics.

FIRM QUALITY DYNAMICS AND THE SLIPPERY SLOPE OF CREDIT INTERVENTION

Authors: Li Wenhao (USC Marshall School of Business); Li Ye (Ohio State University)
Presenter: Li Wenhao (USC Marshall School of Business)
Discussant: Gopalakrishna Goutham (Ecole Polytechnique Federale de Lausanne (Swiss Finance Institute))

Crises have cleansing effects: Low-quality firms face greater financial shortfalls and invest less than high-quality firms. Public liquidity support preserves the overall production capacity. However, by dampening the cleansing effects, it distorts the quality distribution and reduces the total productivity. The trade-off between quantity and quality determines the optimal size of intervention. The distortionary effects on quality are self-perpetuating: A downward bias in quality necessitates interventions of greater scales in future crises, implying further distortions. The distortions are also amplified by the expectations of liquidity support that motivate lowquality firms to overinvest pre-crisis. Finally, the size of optimal intervention is larger and the distortionary effects stronger in a low interest rate environment where the low yield on savings discourage firms from self-insurance against crises through internal liquidity accumulation.

DO NON-BANKS NEED ACCESS TO THE LENDER OF LAST RESORT? EVIDENCE FROM FUND RUNS

Authors: Hoerova Marie (European Central Bank); Breckenfelder Johannes (European Central Bank); Grimm Niklas (European Central Bank)
Presenter: Hoerova Marie (European Central Bank)

Discussant: Li Wenhao (USC Marshall School of Business)

When a liquidity crisis hits non-bank financial intermediaries, which central bank interventions help? We show that investment funds faced large investor outflows as the COVID-19 shock hit and assess the effectiveness of central bank asset purchases and additional liquidity provision to banks in alleviating the crisis. We use detailed fund-level data and proprietary data on bank take-ups in liquidity-providing operations and bank-fund repo transactions. Analyzing asset purchases, we find that funds with higher shares of assets eligible for central bank purchases in their portfolio before the COVID-19 crisis saw their performance improve by 3.7% and outflows decrease by 63% relative to otherwise similar funds. Analyzing repo activity, we find that additional central bank liquidity provision supported bank repo lending to funds, by alleviating bank liquidity constraints. Banks more exposed to the March 2020 liquidity crisis that took up central bank liquidity increased their repo transactions with funds by 3% to 4% compared to other banks. Our results suggest that central bank interventions were effective in stopping fire-sale dynamics and staving off runs on non-bank financial intermediaries, even though funds did not have direct access to the lender of last resort.

Hedge Funds / Mutual Funds 2 — 17.30

Chairman: Serge Darolles (Université Paris IX - Dauphine)

HIDING IN PLAIN SIGHT: THE GLOBAL IMPLICATIONS OF MANAGER DISCLOSURE

Authors: Young Michael (University of Missouri); Evans Richard (University of Virginia); Ferreira Miguel (Nova School of Business and Economics); Matos Pedro (University of Virginia)
Presenter: Young Michael (University of Missouri)
Discussant: Xenomorph Stig (University of Vaasa)

Given the potential for agency conflicts in delegated asset management, and the constant push for disclosure by regulators, we examine a clear potential source of agency conflicts in the mutual fund industry: anonymously managed funds. Using a global sample of mutual funds, we find that 17% of funds worldwide, excluding the US, and 22% of emerging market funds do not disclose the names of their manager. Anonymously managed funds significantly underperform, have lower active share, return gap, tracking error, and higher r2 than funds with named managers. They are more frequent in cooperative families, and bank affiliated funds. Using a change in SEC disclosure regulation, we find that both performance and fund activity increases following new regulation that required disclosure of manager names. This is important, as it provides evidence that the underperformance of anonymous teams is not solely due to less skilled managers being kept anonymous.

DOES PORTFOLIO DISCLOSURE MAKE MONEY SMARTER?

Authors: Xenomorph Stig (University of Vaasa); Kang Byoung Uk (The Hong Kong Polytechnic University); Sinclair Andrew J. (The University of Hong Kong)
Presenter: Xenomorph Stig (University of Vaasa)
Discussant: Gil-Bazo Javier (Universitat Pompeu Fabra)

We provide causal evidence that mandatory portfolio disclosure helps investors evaluate and select hedge fund managers. Using a staggered difference-in-differences analysis, we demonstrate that investor capital flows better predict fund performance among funds that publicly disclose their portfolio holdings. Additional cross-sectional analyses suggest that this gain in selection ability varies with the informational value of disclosure. Furthermore, examining investor-level allocations, we find that institutional investors earn higher returns on their allocations to disclosing funds. Overall, these results help contribute to the cost-benefit analysis of mandatory portfolio disclosure.

CAN MACHINE LEARNING HELP TO SELECT PORTFOLIOS OF MUTUAL FUNDS?

Authors: de Miguel Campos Angel Victor (London Business School); Gil-Bazo Javier (Universitat Pompeu Fabra); Nogales Francisco J. (U. Carlos III de Madrid); Santos Andre (Universidade Federal de Santa Catarina)
Presenter: Gil-Bazo Javier (Universitat Pompeu Fabra)
Discussant: Young Michael (University of Missouri)

Identifying outperforming mutual funds ex-ante is a notoriously difficult task. We use machine learning to exploit numerous fund characteristics and construct portfolios of equity funds that earn out-of-sample annual alpha of 4.2% net of costs. We show that such performance is the joint outcome of both exploiting multiple fund characteristics and allowing for flexibility in the relation between characteristics and performance. We demonstrate that even retail investors can benefit from investing in actively managed funds. The performance of our portfolios has declined over time, however, consistent with increased competition in asset markets and diseconomies of scale at the industry level.

International Finance 17.30

Chairman: Fabricio Perez (Wilfrid Laurier University)

PRIVATE INFORMATION AND CURRENCY RETURNS: A CORPORATE INVESTMENT CONNECTION

Authors: Riddiough Steven (University of Toronto); Zhang Huizhong (Queensland University of Technology)
Presenter: Riddiough Steven (University of Toronto)
Discussant: Jappelli Ruggero (Leibniz Institute for Financial Research SAFE and Goethe University Frankfurt)

We uncover a novel source of predictive information, originating from the announcements of cross-border mergers and acquisitions (M&As), that forecasts

economic acceleration and currency returns. Consistent with the announcements revealing firms' private expectations about economic fundamentals, we find that a country's economic growth accelerates, and their local currency appreciates, following months in which their announced cross-border M&A net inflows are abnormally high; while the opposite outcomes are observed following abnormally high M&A net outflows. The predictability captures reversals in economic acceleration and is driven by the acquisition decisions of domestic firms. A currency portfolio that exploits the predictability is found to generate a Sharpe ratio of over 0.70 and to offer large diversification gains to global currency investors.

TAX AVOIDANCE THROUGH CROSS-BORDER MERGERS AND ACQUISITIONS

Authors: Smith Jake (University of Texas at Dallas); Meier Jean-Marie (University of Texas at Dallas)
Presenter: Smith Jake (University of Texas at Dallas)
Discussant: Riddiough Steven (University of Toronto)

We investigate 13,458 cross-border, tax-haven mergers and acquisitions (M&A) from 1990 to 2017, totaling $4.2 trillion in deal value. These M&A result in $32.9 billion in recurring annual tax avoidance. $2.4 trillion of haven M&A is beyond what is predicted based on a gravity model with economic fundamentals. Moreover, we improve the measurement of a key data item in tax research–a firm's tax residence–through a novel algorithm that embeds the residency laws of 150 countries and the associated tie-breaking provisions. We reassign the tax residence of a considerable fraction of firms relative to standard assignments.

THE CORE, THE PERIPHERY, AND THE DISASTER: CORPORATE-SOVEREIGN NEXUS IN COVID-19 TIMES

Authors: Jappelli Ruggero (Leibniz Institute for Financial Research SAFE and Goethe University Frankfurt); Pelizzon Loriana (Leibniz Institute for Financial Research SAFE and Goethe University Frankfurt; Ca' Foscari University of Venice; CEPR); Alberto Plazzi (Swiss Finance Institute; Institute of Finance, Università della Svizzera Italiana USI)
Presenter: Jappelli Ruggero (Leibniz Institute for Financial Research SAFE and Goethe University Frankfurt)
Discussant: Smith Jake (University of Texas at Dallas)

We study how the COVID-19 pandemic reshaped the relation between corporate and sovereign credit risk in the cross-section of countries in the European Union. Surprisingly, the outbreak triggered higher elasticity of corporate to sovereign CDS spreads in core countries, which realigned to that of peripheral countries, with lower fiscal capacity, for which the impact of the pandemic on the elasticity was essentially muted. During the pandemic, we observe systematic departures of actual CDS from those implied by a standard structural model of default for larger firms in core EU countries with budgetary slackness. We interpret this evidence in light of a disaster-risk asset pricing model with bailout guarantees and defaultable public debt. Based on the model and a synthetic control method, we

show that CDS-implied risk-adjusted bailout guarantees over the medium term were about three times larger in the Core than in the Periphery.

Merket Microstrucre 2 (BEDOFIH) 17.30
Chairman: Felix Fattinger (WU Vienna University of Economic and Business)

RETAIL TRADER SOPHISTICATION AND STOCK MARKET QUALITY: EVIDENCE FROM BROKERAGE OUTAGES

Authors: Eaton Gregory (Oklahoma State University); Green Clifton (Emory University); Roseman Brian (Oklahoma State University); Wu Yanbin (Emory University)
Presenter: Roseman Brian (Oklahoma State University)
Discussant: Velikov Mihail (Penn State University)

We find that Robinhood ownership changes are unrelated with future returns, suggesting that zero-commission investors behave as noise traders. We exploit Robinhood platform outages to identify the causal effects of commission-free traders on financial markets. Exogenous negative shocks to Robinhood participation are associated with increased market liquidity and lower return volatility among stocks favored by Robinhood investors, as proxied by Reddit WallStreetBets mentions. HFTs with Robinhood order flow arrangements quote narrower lit-market spreads during outages, and market depth order imbalances fall, particularly for stocks with highly autocorrelated order flow, suggesting that zero-commission investors create liquidity-reducing inventory risks for market makers.

SEQUENTIAL ENTRY IN ILLIQUID MARKETS

Authors: Fardeau Vincent (Higher School of Economics)
Presenter: Fardeau Vincent (Higher School of Economics)
Discussant: Roseman Brian (Oklahoma State University)

I study the sequential entry of intermediaries into an illiquid market. As intermediaries trade with rational counterparts, market depth affects, and is affected by, the possibility of entry. This feedback loop between entry and depth, however, gives incumbent intermediaries more incentives to deter entrants, creating endogenous barriers to entry. Further, the threat of entry and actual entry have distinct effects ex-ante: entry improves depth, reduces spreads, and speeds up price convergence; the threat of entry disciplines only spreads. In a contestable market, more competition leads to higher spreads ex-ante and intermediaries' counterparties benefit more from deterrence than actual entry.

MODEL SELECTION WITH TRANSACTION COSTS

Authors: Velikov Mihail (Penn State University); Detzel Andrew (University of Denver); Novy-Marx Robert (University of Rochester)
Presenter: Velikov Mihail (Penn State University)
Discussant: Fardeau Vincent (Higher School of Economics)

Failing to account for transaction costs materially impacts inferences drawn when evaluating asset pricing models, biasing tests in favor of those employing high cost factors. Ignoring transaction costs, the Hou, Xue, and Zhang (2015) q-factor

model and the Barillas and Shanken (2018) six-factor model models have high maximum squared Sharpe ratios and small alphas across 120 anomalies. They do not, however, come close to spanning the achievable mean-variance efficient frontier. Accounting for transaction costs, the Fama and French (2015, 2018) five-factor model has a significantly higher squared Sharpe ratio than either of these alternative models, while variations employing cash profitability perform better still. More generally, these results highlight the importance of incorporating real-world concerns into financial research.

19:00 Concluding Remarks & Best Paper Awards

Awards 2021 for the best papers using EUROFIDAI daily data

to

Vesa Pursiainen (University of St. Gallen)

for the paper entitled

"CULTURAL BIASES IN EQUITY ANALYSIS"
Journal of Finance (forthcoming)

and

Catherine D'Hondt (Louvain School of Management); Rudy De Winne (Louvain School of Management); Maxime Merli (LaRGE, Université de Strasbourg)

for the paper entitled

"DO RETAIL INVESTORS BITE OFF MORE THAN THEY CAN CHEW? A CLOSE LOOK AT THEIR RETURN OBJECTIVES"
Journal of Economic Behavior and Organization (August 2021)

Awards 2021 for the best papers using BEDOFIH daily data

to

Carole Métais (LaRGE, Université de Strasbourg); Tristan Roger (ICN Business School, CEREFIGE, Université de Lorraine)

for the paper entitled

"ARE RETAIL INVESTORS LESS AGGRESSIVE ON SMALL PRICE STOCKS?"

Journal of Financial Markets (forthcoming)

and

Stéphanie Ligot (Université Paris 1 - Panthéon Sorbonne); Roland Gillet (Université Paris 1 - Panthéon Sorbonne and Free University of Brussels); Iryna Veryzhenko (CNAM)

for the paper entitled

"INTRADAY VOLATILITY SMILE: EFFECTS OF FRAGMENTATION AND HIGH-FREQUENCY TRADING ON PRICE EFFICIENCY"

Journal of International Financial Markets, Institutions and Money (November 2021)

19th Paris December Finance Meeting Award for the best paper

to

Dmitry Kuvshinov (University of Pompeu Fabra)

for the paper entitled

"THE CO-MOVEMENT PUZZLE"

Members of the jury:

Patrice Fontaine (Eurofidai, CNRS);
Jocelyn Martel (ESSEC Business School);
Sophie Moinas (Toulouse School of Economics);
Lars Norden (EBAPE/FVG);
Julien Sauvagnat (Bocconi University)

List of Participants

Name	First name	Email
AIN TOMMAR	Sara	sara.ain-tommar@neoma-bs.fr
ALEXANDRE	Hervé	herve.alexandre@dauphine.psl.eu
ANOUAR	Kamal	kamalanouar@gmail.com; kamal.anouar@uphf.fr
BACH	Laurent	bach@essec.edu
BAKALLI	Gaetan	Gaetan.bakalli@gmail.com
BISETTI	Emilio	bisetti@ust.hk
BRECKENFELDER	Johannes	jbreckenfelder@post.harvard.edu
BREUGEM	Matthijs	mhpbreugem@gmail.com
BRIÈRE	Marie	marie.briere@amundi.com
BROIHANNE	Marie-Hélène	mhb@unistra.fr
CALVET	Laurent	laurent.calvet@edhec.edu
CHEN	Jun	jun.chen@rady.ucsd.edu
COCOMA	Paula	paula.cocoma@insead.edu
COLONNELLO	Stefano	stefano.colonnello@unive.it
CROCI	Ettore	ettore.croci@unicatt.it
DAROLLES	Serge	serge.darolles@dauphine.psl.eu
DAVIES	Shaun	shaun.davies@colorado.edu
DE BODT	Eric	eric.debodt@nhh.no
DE JONG	Frank	F.deJong@uvt.nl
DE WINNE	Rudy	rudy.dewinne@uclouvain.be
D'HONDT	Catherine	catherine.dhondt@uclouvain.be
DOETTLING	Robin	doettling@rsm.nl
DOROSHENKO	Lyubov	liubovdoroshenko@yahoo.com
DREYER	Christian	christian.dreyer@wiwi.uni-muenster.de
EFING	Matthias	efing@hec.fr
EILING	Esther	e.eiling@uva.nl
ERSAHIN	Nuri	ersahin2@msu.edu
FARDEAU	Vincent	v.m.fardeau@gmail.com
FATTINGER	Felix	felix.fattinger@wu.ac.at
FELDMAN	David	d.feldman@unsw.edu.au
FONTAINE	Patrice	patrice.fontaine@eurofidai.org
FROIDURE	Tristan	tristan.froidure@tobam.fr
FULOP	Andras	fulop@essec.edu
FUSI	Giulia	g.fusi93@gmail.com
GABRIEL	Jean	jgcousin@univ-lille.fr
GAJEWSKI	Jean-François	jean-francois.gajewski@univ-lyon3.fr
GANGULY	Abhishek	abhiganguly@ou.edu
GARCIA	René	rene.garcia@umontreal.ca
GARFINKEL	Jon	jon-garfinkel@uiowa.edu
GE	Lin	lge@bus.olemiss.edu
GENC	Caroline	caroline.genc@dauphine.psl.eu
GIL-BAZO	Javier	javier.gil-bazo@upf.edu
GILLET	Roland	roland.gillet@univ-paris1.fr
GOPALAKRISHNA	Goutham	goutham.gopalakrishna@epfl.ch
GRUBER	Peter	peter.gruber@usi.ch
HADDAD	Valentin	valentin.haddad@anderson.ucla.edu
HAMED	Leo	hamini@gsu.edu
HARACZ	John	jharacz@berkeley.edu
HARPEDANNE	Louis-Marie	louis-marie.harpedannedebelleville@banque-france.fr
HEBERT	Camille	cam.hebert@gmail.com
HO	Jeong	jkim230@emory.edu
HOEROVA	Marie	marie.hoerova@gmail.com
HONZIK	Ondrej	o.honzik@qmul.ac.uk
IUNG	Helène	helene.iung@essec.edu
JAPPELLI	Ruggero	rjappelli92@gmail.com
JEFFERS	Jessica	jessica.jeffers@chicagobooth.edu
JIMENEZ	Juan	juan.imbet@dauphine.psl.eu
JOHNSEN	Gudrun	gj.acc@cbs.dk
KADACH	Igor	ikadach@iese.edu
KAMPKOETTER	Patrick	patrick.kampkoetter@uni-tuebingen.de
KANG	Byoung	byoung.kang@polyu.edu.hk
KARAU	Soren	soerenkarau@web.de
KIEREN	Pascal	pascal.kieren@gess.uni-mannheim.de
KIM	Sehoon	sehoon.kim@warrington.ufl.edu
KLEIN	Philipp	philipp.klein@wiwi.uni-muenster.de
KLEYMENOVA	Anya	anya.kleymenova@frb.gov
KOSTAKIS	Alex	a.kostakis@liverpool.ac.uk
KRIEBEL	Johannes	johannes.kriebel@wiwi.uni-muenster.de
KUNDU	Santanu	skundu@mail.uni-mannheim.de
KUONG	John	johncfkuong@gmail.com
KUVSHINOV	Dmitry	dmitry.kuvshinov@upf.edu
LARSEN	Kasper	kasperl2andrew.cmu.edu@gmail.com
LE GUENEDAL	Théo	theo.le-guenedal@ensae.fr
LEE	Jongsub	jongsub.lee@snu.ac.kr
LEVAI	Adam	adam.levai@uclouvain.be
LI	Wenhao	liwenhao@marshall.usc.edu
LIGOT	Stéphanie	stephanie.ligot@gmail.com
LIN	Luca	luca.lin@hec.ca
LIOUI	Abraham	Abraham.Lioui@edhec.edu
LYKOURGOS	Alexiou	L.Alexiou@liverpool.ac.uk
MALEVERGNE	Yannick	yannick.malevergne@univ-paris1.fr
MARTEL	Jocelyn	martel@essec.edu
MARTIN-UTRERA	Alberto	amarut@njit.edu
MATTHYS	Felix	felix.matthys@itam.mx
MEIER	Jean-Marie	meier@utdallas.edu
MERLI	Maxime	merli@unistra.fr

Name	First name	Email
MÉTAIS	Carole	cmetais@unistra.fr
MEYERHOF	Paul	paul.meyerhof@wiwi.uni-muenster.de
NEFEDOVA	Tamara	tamara.nefedova@dauphine.psl.eu
NOGUEIRA	Gil	anogueir@stern.nyu.edu
NORDEN	Lars	lars.norden@fgv.br
ORLOWSKI	Piotr	piotr.orlowski@hec.ca
PAASO	Mikael	paaso@rsm.nl
PELIZZON	Loriana	pelizzon@unive.it
PELSTER	Matthias	matthias.pelster@upb.de
PENG	Cameron	c.peng9@lse.ac.uk
PEREZ	Fabricio	mperez@wlu.ca
PÉRIGNON	Christophe	perignon@hec.fr
PIROVANO	Matteo	matteo.pirovano@usi.ch
PORTEU	Laurence	laurence.porteu@esc-pau.fr
POULSEN	Thomas	thomas.k.poulsen@bi.no
PURSIAINEN	Vesa	vesa.pursiainen@unisg.ch; vesa.pursiainen@gmail.com
QIU	Tian	tian.qiu@uky.edu
RAKOWSKI	David	rakowski@uta.edu
RIDDIOUGH	Steven	steven.riddiough@rotman.utoronto.ca
RIDDIOUGH	Timothy	timothy.riddiough@wisc.edu
RINGGENBERG	Matthew	matthew.ringgenberg@eccles.utah.edu
RIVA	Camillo	b00726834@essec.edu
ROGER	Patrick	proger@unistra.fr
ROGER	Tristan	tristan.roger1@gmail.com
ROMBOUTS	Jeroen	rombouts@essec.edu
ROSEMAN	Brian	brian.roseman@okstate.edu
SADOGHI	Amirhossein	amirhossein.sadoghi@rennes-sb.com
SAGNA	Béatrice	beatrice.sagna@dauphine.psl.eu
SCHMID	Markus	markus.schmid@unisg.ch
SCHNEEMEIER	Jan	jschnee@iu.edu
SCHUMACHER	David	david.schumacher@mcgill.ca
SHAKYA	Shasta	sshakya@tulane.edu
SHEN	Jialu	jshen@missouri.edu
SHIN	Seunghun	sean.shin@aalto.fi
SMITH	Jake	jake.smith1@utdallas.edu
SRIDHAR	Arcot	arcot@essec.edu
SUBRAMANIAN	Ajay	asubramanian@gsu.edu
TAILLET	Nicolas	nicolas.taillet@edu.escp.eu
TANG	Dragon	yjtang@hku.hk
TANKOV	Peter	peter.tankov@ensae.fr
TENA	Vincent	vincent.tena@dauphine.psl.eu
THIMME	Julian	thimme@kit.edu
TROEGE	Michael	troege@escpeurope.eu
TYKVOVA	Tereza	tereza.tykvova@unisg.ch
UPPAL	Ramanjit	raman.uppal@edhec.edu
VALLEE	Boris	bvallee@hbs.edu
VAN BOMMEL	Jos	jos.vanbommel@uni.lu
VELIKOV	Mihail	velikov@psu.edu
VENTER	Gyuri	gyuri.venter@wbs.ac.uk
VERYZHENKO	Iryna	iryna.veryzhenko@lecnam.net
WANG	Liyao	lywang@hkbu.edu.hk
WON	Joonsung	joonsung.won@baruch.cuny.edu
XENOMORPH	Stig	stig.xenomorph@uwasa.fi
XU	Guosong	xu@rsm.nl
XU	Huiting	h.xu@fs.de
YOUNG	Michael	myoung@missouri.edu
YU	Edison	edison.yu@phil.frb.org
ZHAO	Ziwei	ziwei.zhao@unil.ch
ZHENG	Yue	aczheng@ust.hk
ZHENGZI	Sophia	zhengzi.li@business.rutgers.edu

ABOUT EUROFIDAI

Financial databases for academic researchers

The **European Financial Data Institute** - EUROFIDAI (UAR 3390) is a public academic institute attached to the **CNRS** and the **ESSEC Business School**. Its main mission is to develop stock exchange databases for academic research. It provides verified, controlled and homogeneous data over long periods. Subscription to EUROFIDAI offers direct on-line access to its daily data, allowing you or your students to work from any computer. Free trial accounts or samples are available on demand.

EUROFIDAI offers two databases:
- EUROFIDAI – ESSEC Daily database
- EUROFIDAI High Frequency database (BEDOFIH)

DAILY DATABASE

The EUROFIDAI – ESSEC Daily database is composed of 5 different databases.

• Daily stock data

The daily stock database covers France (1977-2021) and 37 other countries in Europe (1986-2021) for more than 88 000 stocks over 282 stock exchanges. Data for the Asia-Pacific region will be available in May 2022.

• Daily mutual fund data

Coverage of mutual funds over a long period (1980-2021) and for a large sample of funds traded over the counter (410 000 funds in 91 countries) or on organized markets (71 000 funds in 78 countries). The database provides information on prices (NAV, subscription and redemption prices), dividend, number of shares, ..., on a daily basis and background information (fund manager, fees, benchmark, investment policy, fund asset allocation...).

• Daily stock indices

EUROFIDAI constructs different benchmark indices: i) For each European country (27), we calculate 2 country indices (equally and value-weighted) for 10 sectors, 9 benchmark portfolios (size, book-to-market, momentum) and 4 benchmark factors (MRP, SMB, HML, MOM); ii) 2 European indices and iii) 10 sector indices for 1977-2021.

• Daily spot exchange rates

More than 17,000 spot exchange rates (since 1977).

• Corporate events

Highly detailed data on more than 8 million corporate events and more than 250,000 issuers (incl. split, dividends, capital structure, company reorganization, purchase, exchange, delisting...) since 1977.

HIGH FREQUENCY DATABASE (BEDOFIH)

The EUROFIDAI High Frequency database (BEDOFIH) includes trades and orders with the highest frequency (millisecond, microsecond), for the most important European financial markets:

- London Stock Exchange (since 2001)
- BATS (since 10/2011)
- CHI-X (since 04/2021)
- DXE (since 09/2019)
- Deutsche Boerse Xetra (2010-2020)
- AMF Euronext Paris (2009-2017)
- EUREX (Derivatives) (2010-2020)

They have worked with our data:

Aristotle University of Thessaloniki / Augsburg University / CentraleSupélec / Copenhagen Business School / Ecole Centrale de Lyon (CLES) / Ecole d'Economie Aix-Marseille (AMSE) / ESCP Business School / European Central Bank / European Commission (Joint Research Center) / Goethe University (SAFE) / HEC Montréal / HEC Paris / Hong-Kong University / London School of Economics / Mannheim University (SAFE) / Massachusetts Institute of Technology / Mc Gill University / PjSE Ecole d'Economie de Paris / Pole Universitaire Leonard de Vinci (DVRC) / Princeton University (Bendheim Center for Finance) / Saint Louis University / Tilburg University / UMASS Amherst (Isenberg School of Management) / Université Catholique de Louvain (LFIN) / Université de Bordeaux (GRETHA) / Université de Caen Normandie (CREM) / Université de Cergy Pontoise (THEMA) / Université de Nanterre (EconomiX) / Université de Nantes (LEMNA) / Université de Nice Sophia Antipolis (GREDEG) / Université de Strasbourg (LARGE) / Université d'Orléans (LEO) / Université Paris 1 (PRISM) / Université Paris 13 (CEPN) / Université Paris Dauphine-PSL (DRM) / Université Paris-Saclay / University of Bristol / University of Portsmouth / University of St Gallen / University of Texas at Arlington / University of Trento / University of Warwick / University of Zurich / Université Toulouse 1 Capitole (CRM, IDEI) and more.

More information on the databases can be found on www.eurofidai.org