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ESSEC BUSINESS SCHOOL

EUROFIDAI-ESSEC parisdecember FINANCE MEETING

21st Edition
December 19, 2023

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EUROFIDAI-ESSEC PARIS DECEMBER FINANCE MEETING
RANKED
#8 WORLDWIDE #2 EUROPE

Amundi ASSET MANAGEMENT

ARDIAN

Caisse des Dépôts GROUPE Institut pour la recherche

PLADIFES

Meeting's organization

The European Financial Data Institute (EUROFIDAI) is a public academic institute of the CNRS and ESSEC Business School. Its main mission is to develop financial and ESG databases for academic researchers. EUROFIDAI provides verified, controlled and homogeneous data over long periods.

EUROFIDAI provides a financial Daily database, an ESG database and a financial High Frequency database (BEDOFIH).
The financial Daily databases cover stocks, indices, mutual funds, exchange rates and corporate events for **Europe, Asia, Middle-East, Oceania, Africa and Latin America** with historical data over 40 years (depending on the countries).
The ESG database, powered by Clarity AI, offers 105 ESG Raw Data metrics on more than 70 000 companies worldwide going back to 2016. The data is reported annually with monthly updates.
The financial High Frequency database (BEDOFIH) includes trades and orders with the highest frequency (millisecond, microsecond) and covers the most important European stock markets: London Stock Exchange, CBOE BXE (BATS), CBOE CXE (Chi-X), CBOE DXE, Euronext Paris, Deutsche Boerse Xetra and EUREX (Turquoise coming soon).

EUROFIDAI is the only European academic organization providing this type of data. The data is directly available online through the EUROFIDAI website, which allows you and your students to work from any computer. More information is available on **www.eurofidai.org**

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

The 2023 Conference in Numbers

- **Number of papers submitted: 400**
- **Number of papers accepted: 72**
- **Acceptance rate: 18 %**
- **Number of sessions: 24**
- **Number of members on the scientific committee: 83**

In 2023, the distribution of submissions by submitting authors is: The U.S (87), France (58), The U.K. (55), Germany (41), the Netherlands (20), China (19), Canada (16), Australia (14), Hong-Kong (12), Italy (12), Switzerland (10), Belgium (5), Denmark (5), Norway (5), Spain (5), Sweden (5), Finland (4), Austria (3), India (3), Portugal (3), South Korea (3), Chile (2), Luxembourg (2), Greece (1), Ireland (1), Israel (1), Kazakhstan (1), Lebanon (1), Russia (1), Taiwan (1), Turkey (1).

Contents

Program Chairs

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

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Princeton University
Nihat Atkas
WHU Otto Beisheim School of Management
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Rafal Wojakowski
Surrey Business School
Alminas Zaldokas
HKUST
Olivier-David Zerbib
Boston University
Marius Zoican
University of Toronto

Program – Overview

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

08:30 Welcome and registration

09:00 **Banking / Financial Intermediation** — Berliner
Chairman: Jun Kyung Auh (Yonsei University)

09:00 **ETF** — Edison
Chairman: Marie Brière (Amundi Investment Institute, Université Paris Dauphine, Université Libre de Bruxelles)

09:00 **Corporate Finance I** — Halles 2
Chairman: Alessio Piccolo (Indiana University, Kelley School of Business)

09:00 **Machine Learning** — Daguerre
Chairman: Genevieve Gauthier (HEC Montréal)

09:00 **Asset Pricing I (CERESSEC)** — Halles 1
Chairman: Jan Sandoval (Tilburg University)

09:00 **Currency and Exchange Rates** — Bell
Chairman: Patrice Fontaine (EUROFIDAI - CNRS)

10:30 Coffee Break

11:00 **Corporate Governance** — Halles 2
Chairman: Wanli Zhao (Bocconi University)

11:00 **Market Microstructure / Liquidity (Equipex PLADIFES)** — Edison
PLADIFES
Chairman: TBC

11:00 **Asset Pricing II** — Halles 1
Chairman: Scott Cederburg (University of Arizona)

11:00 **Hedges Funds / Mutual Funds** — Berliner
Chairman: Olga Obizhaeva (Stockholm School of Economics)

11:00 **Corporate Finance II** — Bell
Chairman: Tereza Tykvova (University of St.Gallen and Swiss Finance Institute)

11:00 **Options** — Daguerre
Chairman: Philippe Dupuy (Grenoble EM)

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

Program – Overview

14:00	**ESG Investing (ESSEC-Amundi Chair)** Chairman: Jocelyn Martel (ESSEC Business School)		Halles 2
14:00	**Banking Regulation and Systemic Risk** Chairman: Tamas Vadasz (KU Leuven)		Bell
14:00	**Private Equity / Venture Capital (ARDIAN)** Chairman: Clemens Mueller (University of Mannheim)		Edison
14:00	**Corporate Finance III** Chairman: Boris Vallée (Harvard Business School)		Berliner
14:00	**Household Finance** Chairman: Laurent Bach (ESSEC Business School)		Daguerre
14:00	**Asset Pricing III (Equipex PLADIFES)** Chairman: Abraham Lioui (EDHEC)		Halles 1
15:30	*Coffee Break*		
16:00	**Fixed Income (CDC Institute for Research)** Chairman: Egle Karmaziene (VU Amsterdam)		Bell
16:00	**Investment Policy / Capital Budgeting** Chairman: Ying Cao (Chinese University of Hong Kong)		Edison
16:00	**Investors Behavior** Chairman: Gianpaolo Parise (EDHEC and CEPR)		Daguerre
16:00	**Asset Pricing IV** Chairman: Nuno Clara (Duke University)		Halles 1
16:00	**FinTech and Cryptocurrencies** Chairman: Peter Gruber (Università della Svizzera italiana (USI))		Berliner
16:00	**Climate Finance (ESSEC-Amundi Chair)** Chairman: Sofia Ramos (ESSEC Business School)		Halles 2
17:30	*Cocktail & Best Paper Awards - "La Rotonde", Novotel*		

Sessions

Banking / Financial Intermediation	09:00
Chairman: Jun Kyung Auh (Yonsei University)	Berliner

THE COST OF BANKING WITH NAIVETY AND ADVERSE SELECTION
Tamas Vadasz (KU Leuven) ; John Thanassoulis (Warwick Business School)
Presenter: Tamas Vadasz (KU Leuven)
Discussant: Teng Huang (Luiss University)

BANK MONOPSONY POWER AND DEPOSIT DEMAND (JOB MARKET PAPER)
Teng Huang (Luiss University)
Presenter: Teng Huang (Luiss University)
Discussant: Rui Xiong (Toulouse School of Economics / TSM-R)

LENDING AND MONITORING: BIG TECH VS BANKS
Matthieu Bouvard (Toulouse School of Economics and TSM-R) ; Catherine Casamatta (Toulouse School of Economics and TSM-R) ; Xiong Rui (Toulouse School of Economics and TSM-R)
Presenter: Xiong Rui (Toulouse School of Economics and TSM-R)
Discussant: Tamas Vadasz (KU Leuven)

ETF	09:00
Chairman: Marie Brière (Amundi Investment, Université Paris Dauphine, Université Libre de Bruxelles)	Edison

WILL ETFS DRIVE MUTUAL FUNDS EXTINCT? (JOB MARKET PAPER)
Anna Helmke (University of Pennsylvania)
Presenter: Anna Helmke (University of Pennsylvania)
Discussant: Olga Obizhaeva (Stockholm School of Economics)

THE DEALER WAREHOUSE – CORPORATE BOND ETFS
Egle Karmaziene (VU Amsterdam) ; Caitlin Dannhauser (Villanova University)
Presenter: Egle Karmaziene (VU Amsterdam)
Discussant: Anna Helmke (University of Pennsylvania)

“OK GOOGLE”: ETF’S ONLINE VISIBILITY AND FUND FLOWS
Olga Obizhaeva (Stockholm School of Economics)
Presenter: Olga Obizhaeva (Stockholm School of Economics)
Discussant: Egle Karmaziene (VU Amsterdam)

Corporate Finance I 09:00

Chairman: Alessio Piccolo (Indiana University, Kelley School of Business) Halles 2

DIVERSITY, EQUITY, AND INCLUSION

Simon Glossner (Federal Reserve Board) ; Alex Edmans (London Business School, CEPR, and ECGI) ; Caroline Flammer (London Business School, CEPR, and ECGI)
Presenter: Simon Glossner (Federal Reserve Board)
Discussant: Dan Su (Cheung Kong Graduate School of Business)

ARE ACQUIRER SHAREHOLDERS HAPPIER WHEN THEIR INDUSTRIES ARE UNHAPPY?

Tereza Tykvova (University of St.Gallen and Swiss Finance Institute) ; Fidrmuc Jana P.
Presenter: Tereza Tykvova (University of St.Gallen and Swiss Finance Institute)
Discussant: Simon Glossner (Federal Reserve Board)

WHY DO POWERFUL FIRMS HOLD EXCESSIVE CASH?

Dan Su (Cheung Kong Graduate School of Business)
Presenter: Dan Su (Cheung Kong Graduate School of Business)
Discussant: Tereza Tykvova (University of St.Gallen and Swiss Finance Institute)

Machine Learning 09:00

Chairman: Genevieve Gauthier (HEC Montréal) Daguerre

MARKET DISCIPLINE IN BANKING: THE ROLE OF FINANCIAL ANALYSTS

Sasan Mansouri (Goethe University Frankfurt) ; Andreas Barth (Goethe University Frankfurt) ; Woebbeking Fabian (Goethe University Frankfurt)
Presenter: Sasan Mansouri (Goethe University Frankfurt)
Discussant: Haoran Wu (University of Bath - School of Management, UK)

WHEN BAYES-STEIN MEETS MACHINE LEARNING: A GENERALIZED APPROACH FOR PORTFOLIO OPTIMIZATION

Haoran Wu (University of Bath - School of Management, UK) ; Dimitrios Gounopoulos (University of Bath - School of Management, UK) ; Emmanouil Platanakis (University of Bath - School of Management, UK) ; Gerry Tsoukalas (University of Pennsylvania - The Wharton School, Boston University & Luohan Academy)
Presenter: Haoran Wu (University of Bath - School of Management, UK)
Discussant: Christian Breitung (Technical University of Munich)

GLOBAL BUSINESS NETWORKS

Christian Breitung (Technical University of Munich) ; Sebastian Müller (Technical University of Munich)

Presenter: Christian Breitung (Technical University of Munich)

Discussant: Sasan Mansouri (Goethe University Frankfurt)

Asset Pricing I (CERESSEC)	09:00
Chairman: Jan Sandoval (Tilburg University)	Halles 1

LONG-HORIZON LOSSES IN STOCKS, BONDS, AND BILLS

Scott Cederburg (University of Arizona) ; Aizhan Anarkulova (Emory University) ; Michael O'Doherty (Emory University)

Presenter: Scott Cederburg (University of Arizona)

Discussant: Mo Wang (ESSEC Business School)

THE SUBJECTIVE RISK AND RETURN EXPECTATIONS OF INSTITUTIONAL INVESTORS

Johnathan Loudis (University of Notre Dame) ; Spencer Couts (Lusk Center of Real Estate, University of Southern California) ; Andrei Goncalves (Fisher College of Business, The Ohio State University) ; Johnathan Loudis (Mendoza College of Business, University of Notre Dame)

Presenter: Johnathan Loudis (University of Notre Dame)

Discussant: Scott Cederburg (University of Arizona)

OPTION MISPRICING AND ALPHA PORTFOLIOS

Mo Wang (ESSEC Business School) ; Andras Fulop (ESSEC Business School) ; Junye Li (ESSEC Business School)

Presenter: Mo Wang (ESSEC Business School)

Discussant: Johnathan Loudis (University of Notre Dame)

Currency and Exchange Rates	09:00
Chairman: Patrice Fontaine (EUROFIDAI - CNRS)	Bell

EXCHANGE RATE RISK AND FOREIGN DISCOUNT IN US DOLLAR BONDS (JOB MARKET PAPER)

Junxuan Wang (University of Cambridge)

Presenter: Junxuan Wang (University of Cambridge)

Discussant: Philippe Dupuy (Grenoble EM)

ASSET PRICES, GLOBAL PORTFOLIOS, AND THE INTERNATIONAL FINANCIAL SYSTEM

Maxime Sauzet (Boston University)

Presenter: Maxime Sauzet (Boston University)

Discussant: Junxuan Wang (University of Cambridge)

RISK MANAGERS ON MANAGING FOREIGN EXCHANGE RISK

Philippe Dupuy (Grenoble EM) ; David Haushalter (Smeal College of Business, Penn State University, USA) ; Luc Meunier (ESSCA School of Management, Aix-En-Provence, France)

Presenter: Philippe Dupuy (Grenoble EM)

Discussant: Maxime Sauzet (Boston University)

10:30-11:00 Coffee Break

Corporate Governance	11:00
Chairman: Wanli Zhao (Bocconi University)	Halles 2

OUTSIDE EMPLOYMENT OPPORTUNITIES AND TOURNAMENT INCENTIVES

Yue Feng (University of Manchester) ; Amedeo De Cesari (University of Manchester) ; Konstantinos Stathopoulos (University of Manchester)

Presenter: Yue Feng (University of Manchester)

Discussant: Ying Cao (Chinese University of Hong Kong)

LONG-TERM ACCOUNTING-BASED PLANS AND MANAGERIAL MYOPIA

Ying Cao (Chinese University of Hong Kong) ; Ying Cao (Chinese University of Hong Kong) ; Yanqiong Li (Chinese University of Hong Kong) ; Yong Yang (Chinese University of Hong Kong)

Presenter: Ying Cao (Chinese University of Hong Kong)

Discussant: Iris Wang (University of British Columbia)

QUALITY OF PROXY ADVICE: EVIDENCE FROM SAY-ON-PAY RECOMMENDATIONS

Iris Wang (University of British Columbia)

Presenter: Iris Wang (University of British Columbia)

Discussant: Yue Feng (University of Manchester)

Market Microstructure / Liquidity (Equipex PLADIFES)		11:00
Chairman: TBC	PLADIFES	Edison

FRAGMENTATION, FLASH CRASH, AND LATENCY ARBITRAGE

Zeyu Zhang (University of Aberdeen) ; Gbenga Ibikunle (University of Edinburgh)

Presenter: Zeyu Zhang (University of Aberdeen)

Discussant: Michel Robe (University of Richmond)

LIQUIDITY PROVIDERS IN EXTREME PERIODS: HIGH FREQUENCY MACHINES VS. HUMAN ELECTRONIC AND FLOOR TRADERS

Michel Robe (University of Richmond) ; Vikas Raman (University of Lancaster (UK)) ; Pradeep Yadav (University of Lancaster (UK))
Presenter: Michel Robe (University of Richmond)
Discussant: Zeyu Zhang (University of Aberdeen)

Asset Pricing II	11:00
Chairman: Scott Cederburg (University of Arizona)	Halles 1

WHOSE FORECASTER MATTERS? THE RISK PREMIUM OF OPTIMISTIC AND PESSIMISTIC DISAGREEMENT

Ilya Dergunov (HSE University) ; Giuliano Curatola (University of Siena) ; Christian Schlag (University of Siena)
Presenter: Giuliano Curatola (University of Siena)
Discussant: Nuno Clara (Duke University)

DEMAND ELASTICITIES, NOMINAL RIGIDITIES AND ASSET PRICES

Nuno Clara (Duke University)
Presenter: Nuno Clara (Duke University)
Discussant: Xuhui Chen (UBC)

RESPONSIBLE CONSUMPTION, DEMAND ELASTICITY, AND THE GREEN PREMIUM

Lorenzo Garlappi (UBC) ; Xuhui Chen (UBC) ; Ali Lazrak (UBC)
Presenter: Xuhui Chen (UBC)
Discussant: Giuliano Curatola (University of Siena)

Hedges Funds / Mutual Funds	11:00
Chairman: Olga Obizhaeva (Stockholm School of Economics)	Berliner

GREEN WINDOW DRESSING

Gianpaolo Parise (EDHEC and CEPR) ; Mirco Rubin (EDHEC)
Presenter: Gianpaolo Parise (EDHEC and CEPR)
Discussant: Chia-Yi Yen (University of Mannheim)

“BUY THE RUMOR, SELL THE NEWS”: LIQUIDITY PROVISION BY BOND FUNDS FOLLOWING CORPORATE NEWS EVENTS

Jinming Xue (Southern Methodist University) ; Guoming Huang (University of Waterloo) ; Russ Wermers (University of Maryland)
Presenter: Jinming Xue (Southern Methodist University)
Discussant: Gianpaolo Parise (EDHEC and CEPR)

TOO MUCH “SKIN IN THE GAME” RUINS THE GAME: EVIDENCE FROM MANAGERIAL CAPITAL GAINS TAXES (JOB MARKET PAPER)

Chia-Yi Yen (University of Mannheim) ; Anna Theresa Bührle (ZEW & University of Mannheim)

Presenter: Chia-Yi Yen (University of Mannheim)

Discussant: Jinming Xue (Southern Methodist University)

Corporate Finance II	11:00
Chairman: Tereza Tykvova (University of St.Gallen and Swiss Finance Institute)	Bell

FEEDBACK BETWEEN THE FINANCIAL MARKET AND THE PRODUCT MARKET

Ken Deng (University of Oxford) ; Joel Shapiro (University of Oxford)

Presenter: Ken Deng (University of Oxford)

Discussant: Alessio Piccolo (Indiana University, Kelley School of Business)

NON-COMPETE AGREEMENTS AND LABOR ALLOCATION ACROSS PRODUCT MARKETS (JOB MARKET PAPER)

Clemens Mueller (Erasmus University Rotterdam)

Presenter: Clemens Mueller (Erasmus University Rotterdam)

Discussant: Ken Deng (University of Oxford)

RESILIENCE IN COLLECTIVE BARGAINING

Alessio Piccolo (Indiana University, Kelley School of Business) ; Carlos F. Avenancio-León (University of California – San Diego, Rady School of Management) ; Roberto Pinto (University of California – San Diego, Rady School of Management)

Presenter: Alessio Piccolo (Indiana University, Kelley School of Business)

Discussant: Clemens Mueller (Erasmus University Rotterdam)

Options	11:00
Chairman: Philippe Dupuy (Grenoble EM)	Daguerre

DEMAND IN THE OPTION MARKET AND THE PRICING KERNEL

Gustavo Freire (Erasmus University Rotterdam) ; Caio Almeida (Princeton University)

Presenter: Gustavo Freire (Erasmus University Rotterdam)

Discussant: James O'Donovan (City University of Hong Kong)

RETAIL OPTION TRADING AND LIQUIDITY: EVIDENCE FROM HIGH-FREQUENCY DATA

James ODonovan (City University of Hong Kong) ; James O'Donovan (City University of Hong Kong) ; Yang (Gloria) Yu (City University of Hong Kong) ; Jinyuan Zhang (UCLA)

Presenter: James O'Donovan (City University of Hong Kong)
Discussant: Genevieve Gauthier (HEC Montréal)

JOINT DYNAMICS FOR THE UNDERLYING ASSET AND ITS IMPLIED VOLATILITY SURFACE: A NEW METHODOLOGY FOR OPTION RISK MANAGEMENT

Genevieve Gauthier (HEC Montréal) ; Pascal Francois (HEC Montréal) ; Remi Galarneau Vincent (HEC Montréal) ; Frederic Godin (Concordia University)

Presenter: Genevieve Gauthier (HEC Montréal)
Discussant: Gustavo Freire (Erasmus University Rotterdam)

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

ESG Investing (ESSEC-Amundi Chair) — 14:00

Chairman: Jocelyn Martel (ESSEC Business School) — Halles 2

ESG SHOCKS IN GLOBAL SUPPLY CHAINS

Emilio Bisetti (HKUST) ; Guoman She (The University of Hong Kong) ; Zaldokas Alminas (The University of Hong Kong)

Presenter: Emilio Bisetti (HKUST)
Discussant: Patrick Schwarz (University of Duisburg-Essen)

CATERING THROUGH TRANSPARENCY: VOLUNTARY ESG DISCLOSURE BY ASSET MANAGERS AND FUND FLOWS

Marco Ceccarelli (VU Amsterdam) ; Simon Glossner (Board of Governors of the Federal Reserve System) ; Mikael Homanen (Board of Governors of the Federal Reserve System)

Presenter: Marco Ceccarelli (VU Amsterdam)
Discussant: Emilio Bisetti (HKUST)

MEASURING BUSINESS SOCIAL IRRESPONSIBILITY: THE CASE OF SIN STOCKS (JOB MARKET PAPER)

Patrick Schwarz (University of Duisburg-Essen) ; Hamid Boustanifar (EDHEC Business School)

Presenter: Patrick Schwarz (University of Duisburg-Essen)
Discussant: Marco Ceccarelli (VU Amsterdam)

Banking Regulation and Systemic Risk	14:00
Chairman: Tamas Vadasz (KU Leuven)	Bell

DO CAPITAL REQUIREMENTS REALLY REDUCE THE RISKINESS OF BANKS? (JOB MARKET PAPER)

Antoine Baena (Banque de France)
Presenter: Antoine Baena (Banque de France)
Discussant: Lucas Mahieux (Tilburg University)

CONVERGENCE IN THE PRUDENTIAL REGULATION OF BANKS: ARE UNIFORM ACCOUNTING RULES THE MISSING PIECE?

Lucas Mahieux (Tilburg University)
Presenter: Lucas Mahieux (Tilburg University)
Discussant: Jun Kyung Auh (Yonsei University)

THE FULL STORY OF RUNS

Mattia Landoni (Federal Reserve Bank of Boston) ; Jun Kyung Auh (Yonsei University) ; Yun Hayong (Yonsei University)
Presenter: Jun Kyung Auh (Yonsei University)
Discussant: Antoine Baena (Banque de France)

Private Equity / Venture Capital (ARDIAN) ARDIAN	14:00
Chairman: Clemens Mueller (University of Mannheim)	Edison

BUYING PERFORMANCE? THE IMPACT OF MULTIPLE ARBITRAGE IN B&B STRATEGIES

Bernhard Schwetzler (HHL Leozig Graduate School of Management) ; Philipp Heisig (HHL) ; Jonas Kick (HHL)
Presenter: Philipp Heisig (HHL)
Discussant: Teng Wang (Federal Reserve Board)

DOES A VC'S COMMITMENT LEAD TO IMPROVED INVESTMENT OUTCOMES? EVIDENCE FROM CLIMATE STARTUPS

Jared Stanfield (University of Oklahoma) ; Aaron Burt (University of Oklahoma) ; Jarrad Harford (University of Oklahoma) ; Jason Zein (University of New South Wales)
Presenter: Jared Stanfield (University of Oklahoma)
Discussant: Philipp Heisig (HHL)

HOW PRIVATE EQUITY FUELS NON-BANK LENDING

Simon Mayer (HEC Paris) ; Sharjil Haque (Fed Board) ; Teng Wang (Federal Reserve Board)
Presenter: Teng Wang (Federal Reserve Board)
Discussant: Jared Stanfield (University of Oklahoma)

Corporate Finance III	14:00
Chairman: Boris Vallée (Harvard Business School)	Berliner

DO FIRMS SET PENSION DISCOUNT RATES STRATEGICALLY?

Xin Li (Michigan Technological University) ; Liping Chu (Shanghai University of International Business and Economics) ; Michael Goldstein (Babson College) ; Tong Yu (University of Cincinnati)
Presenter: Michael Goldstein (Babson College)
Discussant: Wanli Zhao (Bocconi University)

HOW DO BANKS COMPETE? LESSONS FROM AN ECUADORIAN LOAN TAX

Rebecca De Simone (London Business School) ; Felipe Brugués (The Business School at Instituto Tecnológico Autónomo de México)
Presenter: Rebecca De Simone (London Business School)
Discussant: Michael Goldstein (Babson College)

DEBT DYNAMICS IN EXECUTIVE COMPENSATION

Wanli Zhao (Bocconi University) ; Xingyu Huang (Bocconi University) ; David Reeb (National University of Singapore)
Presenter: Wanli Zhao (Bocconi University)
Discussant: Rebecca De Simone (London Business School)

Household Finance	14:00
Chairman: Laurent Bach (ESSEC Business School)	Daguerre

HOW DOES A BAN ON KICKBACKS AFFECT INDIVIDUAL INVESTORS?

Simon Straumann (WHU - Otto Beisheim School of Management) ; Nic Schaub (WHU - Otto Beisheim School of Management)
Presenter: Simon Straumann (WHU - Otto Beisheim School of Management)
Discussant: Yildiray Yildirim (Baruch College)

(NOT) ANTICIPATING PREDICTABLE INHERITANCES

Erkki Vihriälä (Aalto University) ; Tuomo Virkola (VATT Institute for Economic Research)
Presenter: Tuomo Virkola (VATT Institute for Economic Research)
Discussant: Simon Straumann (WHU - Otto Beisheim School of Management)

HIGH TEMPERATURE, CLIMATE CHANGE AND REAL ESTATE PRICES

Yildiray Yildirim (Baruch College)
Presenter: Yildiray Yildirim (Baruch College)
Discussant: Tuomo Virkola (VATT Institute for Economic Research)

Asset Pricing III (Equipex PLADIFES) — 14:00

Chairman: Abraham Lioui (EDHEC) — Halles 1

SUBJECTIVE RETURN EXPECTATIONS AND STOCK MARKET RISK PREMIA (JOB MARKET PAPER)

Pascal Büsing (University of Münster) ; Hannes Mohrschladt (University of Münster)
Presenter: Pascal Büsing (University of Münster)
Discussant: Jan Sandoval (Tilburg University)

GLOBAL EQUITY YIELDS

Jan Sandoval (Tilburg University) ; Jens Kvaerner (Tilburg University)
Presenter: Jan Sandoval (Tilburg University)
Discussant: Niklas Paluszkiewicz (Ulm University)

FROM PIXELS TO PROFITS: TRADING ARBITRAGE PORTFOLIOS BASED ON IMAGE REPRESENTATIONS

Niklas Paluszkiewicz (Ulm University)
Presenter: Niklas Paluszkiewicz (Ulm University)
Discussant: Pascal Büsing (University of Münster)

15:30-16:00 Coffee Break

Fixed Income (CDC Institute for Research) — 16:00

Chairman: Egle Karmaziene (VU Amsterdam) — Bell

HETEROGENEOUS BELIEFS, BONDS, AND INTEREST RATES

Arthur Beddock (City University of Hong Kong) ; Elyès Jouini (Université Paris Dauphine - PSL)
Presenter: Arthur Beddock (City University of Hong Kong)
Discussant: Jiri Woschitz (BI Norwegian Business School)

DO MUNICIPAL BOND INVESTORS PAY A CONVENIENCE PREMIUM TO AVOID TAXES?

Matthias Fleckenstein (University of Delaware) ; Francis A. Longstaff
Presenter: Matthias Fleckenstein (University of Delaware)
Discussant: Arthur Beddock (City University of Hong Kong)

ROBUST DIFFERENCE-IN-DIFFERENCES ANALYSIS WHEN THERE IS A TERM STRUCTURE

Jiri Woschitz (BI Norwegian Business School) ; Kjell Nyborg (University of Zurich)
Presenter: Jiri Woschitz (BI Norwegian Business School)
Discussant: Matthias Fleckenstein (University of Delaware)

Investment Policy / Capital Budgeting	16:00
Chairman: Ying Cao (Chinese University of Hong Kong)	Edison

HORIZONTAL DIRECTORS AND INVESTMENT EFFICIENCY
Liang Xu (SKEMA Business School) ; José-Miguel Gaspar (ESSEC Business School) ; Sumingyue Wang (ESSEC Business School)
Presenter: Liang Xu (SKEMA Business School)
Discussant: Boris Vallée (Harvard Business School)

CONSTRAINING GROWTH: ADVANCE LAYOFF NOTICE AND CORPORATE INNOVATION
Scott Guernsey (University of Tennessee) ; Gunchang Kim (Southwestern University of Finance and Economics) ; Yupeng Lin (Southwestern University of Finance and Economics)
Presenter: Scott Guernsey (University of Tennessee)
Discussant: Liang Xu (SKEMA Business School)

THE REAL EFFECTS OF LOCAL GOVERNMENT INDEBTEDNESS: EVIDENCE FROM TOXIC LOANS
Boris Vallée (Harvard Business School) ; Julien Sauvagnat
Presenter: Boris Vallée (Harvard Business School)
Discussant: Scott Guernsey (University of Tennessee)

Investors Behavior	16:00
Chairman: Gianpaolo Parise (EDHEC and CEPR)	Daguerre

THE MAKING OF MOMENTUM: A DEMAND-SYSTEM PERSPECTIVE
Paul Huebner (Stockholm School of Economics)
Presenter: Paul Huebner (Stockholm School of Economics)
Discussant: Pierre Mabille (INSEAD)

TEXTUAL CHANGES IN 10-KS AND STOCK PRICE CRASH RISK: EVIDENCE FROM NEURAL NETWORK EMBEDDINGS
Yahya Yilmaz (University of Münster) ; Doron Reichmann (Ruhr University Bochum) ; Reichmann Milan (University of Leipzig)
Presenter: Yahya Yilmaz (University of Münster)
Discussant: Paul Huebner (Stockholm School of Economics)

AGGREGATE PRECAUTIONARY SAVINGS MOTIVES
Pierre Mabille (INSEAD)
Presenter: Pierre Mabille (INSEAD)
Discussant: Yahya Yilmaz (University of Münster)

Asset Pricing IV	16:00
Chairman: Nuno Clara (Duke University)	Halles 1

PRICING TECHNOLOGICAL INNOVATORS: PATENT INTENSITY AND LIFE-CYCLE DYNAMICS
Jiri Knesl (Said Business School, University of Oxford) ; Adlai Fisher (University of British Columbia, Sauder School of Business) ; Jan Bena (University of British Columbia, Sauder School of Business) ; Julian Vahl (University of British Columbia, Sauder School of Business)
Presenter: Jiri Knesl (Said Business School, University of Oxford)
Discussant: Teodor Dyakov (EDHEC Business School)

THE IMPACT OF MONETARY POLICY ON LONG-TERM LIABILITIES OF HOUSEHOLDS AND FIRMS
Marco Grotteria (London Business School) ; Jules van Binsbergen (University of Pennsylvania)
Presenter: Marco Grotteria (London Business School)
Discussant: Jiri Knesl (Said Business School, University of Oxford)

WHO IS AT THE CENTER OF THE GLOBAL SUPPLY CHAIN?
Teodor Dyakov (EDHEC Business School) ; Hao Jiang (Broad College of Business, Michigan State University)
Presenter: Teodor Dyakov (EDHEC Business School)
Discussant: Marco Grotteria (London Business School)

FinTech and Cryptocurrencies	16:00
Chairman: Peter Gruber (Università della Svizzera italiana (USI))	Berliner

THE RISE OF E-WALLETS AND BUY-NOW-PAY-LATER: PAYMENT COMPETITION, CREDIT EXPANSION, AND CONSUMER BEHAVIOR
Wenlong Bian (Sungkyunkwan University) ; Lin William Cong (Cornell University) ; Yang Ji (Sun Yat-sen University)
Presenter: Yang Ji (Sun Yat-sen University)
Discussant: Donghwa Shin (UNC Kenan-Flagler Business School)

REACHING FOR YIELD IN DECENTRALIZED FINANCIAL MARKETS
Donghwa Shin (UNC Kenan-Flagler Business School) ; Patrick Augustin (McGill University) ; Roy Chen-Zhang
Presenter: Donghwa Shin (UNC Kenan-Flagler Business School)
Discussant: Douglas Laporte (Washington University in St. Louis)

U.S. EQUITY CROWDFUNDING: REAL EFFECTS OF FINANCING SMALL ENTREPRENEURS

Douglas Laporte (Washington University in St. Louis) ; Rebecca Lester (Stanford Graduate School of Business)

Presenter: Douglas Laporte (Washington University in St. Louis)

Discussant: Peng Wang (Business School, Sun Yat-sen University)

Climate Finance (ESSEC-Amundi Chair) — 16:00

Chairman: Sofia Ramos (ESSEC Business Schooll) — Halles 2

REDUCING CARBON USING REGULATORY AND FINANCIAL MARKET TOOLS

Adelina Barbalau (University of Alberta) ; Franklin Allen (Imperial College London) ; Federica Zeni (Imperial College London)

Presenter: Federica Zeni (Imperial College London)

Discussant: Ole Wilms (Universität Hamburg)

WHO BENEFITS FROM THE BOND GREENIUM?

Sébastien Pouget (University of Toulouse Capitole and Toulouse School of Economics) ; Daniel Kim (BI Norwegian Business School)

Presenter: Sébastien Pouget (University of Toulouse Capitole and Toulouse School of Economics)

Discussant: Federica Zeni (Imperial College London)

ASSET PRICING WITH DISAGREEMENT ABOUT CLIMATE RISKS

Ole Wilms (Universität Hamburg) ; Karl Schmedders (IMD Lausanne) ; Marco Thalhammer (RWTH Aachen) ; Thomas Lontzek (RWTH Aachen) ; Walter Pohl (NHH Bergen)

Presenter: Ole Wilms (Universität Hamburg)

Discussant: Sébastien Pouget (University of Toulouse Capitole and Toulouse School of Economics)

17:30 Cocktail & Best Paper Awards – “La Rotonde”, Novotel

Abstracts

Banking / Financial Intermediation	09:00
Chairman: Jun Kyung Auh (Yonsei University)	Berliner

THE COST OF BANKING WITH NAIVETY AND ADVERSE SELECTION

Tamas Vadasz (KU Leuven) ; John Thanassoulis (Warwick Business School)

Presenter: Tamas Vadasz (KU Leuven)
Discussant: Teng Huang (Luiss University)

We build a two-stage model of competition in the banking market to study the combined price of accounts and credit. We include naivety, adverse selection, and imperfect screening. We show that credit market profits are not competed away in the (primary) market for accounts. We establish an Information Penalty: the total cost of banking to consumers is V -shaped in the quality of screening in free banking markets. This implies better AI or use of Big Data first lowers then raises the cost of banking in countries similar to the US/UK. While in paid banking markets we establish a Sophistication Penalty: the cost of banking is ∩-shaped in customer sophistication. This implies improving financial literacy can raise banking costs in countries similar to France/Germany.

BANK MONOPSONY POWER AND DEPOSIT DEMAND (JOB MARKET PAPER)

Teng Huang (Luiss University)

Presenter: Teng Huang (Luiss University)
Discussant: Rui Xiong (Toulouse School of Economics / TSM-R)

Households exhibit "return chasing" behavior, so through asset reallocation channel, good stock market performance induces contractions in deposit supply. Using stock market performance as a shock to deposit supply, we trace out banks' deposit demand and identify the relationship between bank market power and the slope of deposit demand. Exploiting a fixed effects identification strategy by comparing branches with the same parent bank located in different cities within the same county, we find that bank market power makes deposit demand curve steeper. Steeper deposit demand curve attenuates the spillover effects on the local deposit and lending markets of stock market fluctuations.

LENDING AND MONITORING: BIG TECH VS BANKS

Matthieu Bouvard (Toulouse School of Economics and TSM-R) ; Catherine Casamatta (Toulouse School of Economics and TSM-R) ; Xiong Rui (Toulouse School of Economics and TSM-R)

Presenter: Xiong Rui (Toulouse School of Economics and TSM-R)
Discussant: Tamas Vadasz (KU Leuven)

We show that by lending to merchants and monitoring them, an e-commerce platform can price-discriminate between merchants with high and low financial

constraints: the platform offers credit priced below market rates and designed to select merchants with lower capital or collateral while simultaneously increasing the platform's access fees. The credit market then becomes endogenously segmented with banks focusing on less financially constrained borrowers. Lending by the platform expands with its monitoring efficiency but can arise even when the platform is less efficient than banks at monitoring. Platform credit benefits more financially constrained merchants as well as consumers, but can hurt less financially constrained merchants if cross-side network effects with consumers are too small.

ETF	09:00
Chairman: Marie Brière (Amundi Investment, Université Paris Dauphine, Université Libre de Bruxelles)	Edison

WILL ETFS DRIVE MUTUAL FUNDS EXTINCT? (JOB MARKET PAPER)

Anna Helmke (University of Pennsylvania)
Presenter: Anna Helmke (University of Pennsylvania)
Discussant: Olga Obizhaeva (Stockholm School of Economics)

This paper challenges the conventional wisdom that exchange-traded funds (ETFs) are more liquid than open-end mutual funds. I build a model and establish that same-index ETFs and mutual funds provide liquidity at different horizons. Investors facing higher (lower) liquidity risk and thus shorter (longer) investment horizons prefer mutual funds (ETFs). Since they can be redeemed at NAV, mutual funds holding illiquid assets provide higher short-term liquidity, but the resulting payoff complementarities make them underperform ETFs in the long run. ETFs, however, are subject to mispricing and illiquidity in the short term due to arbitrageurs' balance-sheet constraints. In equilibrium, both funds coexist when investors face heterogeneous liquidity needs. The model generates novel, testable predictions concerning the competition and future trajectory of index ETFs and mutual funds.

THE DEALER WAREHOUSE – CORPORATE BOND ETFS

Egle Karmaziene (VU Amsterdam) ; Caitlin Dannhauser (Villanova University)
Presenter: Egle Karmaziene (VU Amsterdam)
Discussant: Anna Helmke (University of Pennsylvania)

ETFs add a new layer of market-making to the corporate bond market that improves the market quality of the underlying bonds. Dealers use the flexibility of the primary corporate bond ETF market as a warehouse to manage inventory. The representative sampling rule allows using a subsample of bonds when creating ETFs. We show that ETFs are created using bonds with higher supply or dealer inventory costs. The face value of ETF holdings in investment grade (high yield) bonds is 9.8% (27.2%) greater on the downgrade date than thirty days prior. Bonds eligible for inclusion in ETFs with the most active primary markets overreact less than other downgraded bonds from the same issuer. This new layer of market-making leads to a negative relation between ETF ownership and idiosyncratic volatility.

"OK GOOGLE": ETF'S ONLINE VISIBILITY AND FUND FLOWS

Olga Obizhaeva (Stockholm School of Economics)
Presenter: Olga Obizhaeva (Stockholm School of Economics)
Discussant: Egle Karmaziene (VU Amsterdam)

Using the unique dataset on web analytics and exploiting the network structure of the Internet and institutional features of search engine technology, I propose the novel methodology to estimate a product's online visibility. I then apply the methodology to study the online visibility of exchange-traded funds (ETFs) and analyze the relationship between an ETF's online visibility and its fund flows. I examine three channels of online visibility: Organic or "free" search, paid search, and website referrals. The results show that ETFs with webpages ranked higher on Google, funds that engage in search engine marketing, and those with webpages referred to by more websites attract higher fund flows.

Corporate Finance I — 09:00

Chairman: Alessio Piccolo (Indiana University, Kelley School of Business) — Halles 2

DIVERSITY, EQUITY, AND INCLUSION

Simon Glossner (Federal Reserve Board) ; Alex Edmans (London Business School, CEPR, and ECGI) ; Caroline Flammer (London Business School, CEPR, and ECGI)
Presenter: Simon Glossner (Federal Reserve Board)
Discussant: Dan Su (Cheung Kong Graduate School of Business)

This paper measures diversity, equity, and inclusion (DEI) using proprietary data on survey responses used to compile the Best Companies to Work For list. We identify 13 of the 58 questions as being related to DEI, and aggregate the responses to form our DEI measure. This variable has low correlation with gender and ethnic diversity in the boardroom, in senior management, and within the workforce, suggesting that DEI captures additional dimensions missing from traditional measures of demographic diversity. DEI is associated with higher future accounting performance across a range of measures, higher future earnings surprises, and higher valuation ratios, but demographic diversity is not.

ARE ACQUIRER SHAREHOLDERS HAPPIER WHEN THEIR INDUSTRIES ARE UNHAPPY?

Tereza Tykvova (University of St.Gallen and Swiss Finance Institute) ; Fidrmuc Jana P.
Presenter: Tereza Tykvova (University of St.Gallen and Swiss Finance Institute)
Discussant: Simon Glossner (Federal Reserve Board)

Many mergers destroy shareholder value because managers intentionally waste corporate resources to pursue private benefits. Using textual analysis, we link industry conditions as reflected in acquirer peers' 10-K statements to acquirer announcement abnormal returns. We find that more negative industry conditions are associated with higher acquirer abnormal returns. Our results suggest that difficult times impose discipline on managers who then tend to focus on deals that create value for acquirer shareholders.

WHY DO POWERFUL FIRMS HOLD EXCESSIVE CASH?

Dan Su (Cheung Kong Graduate School of Business)
Presenter: Dan Su (Cheung Kong Graduate School of Business)
Discussant: Tereza Tykvova (University of St.Gallen and Swiss Finance Institute)

This paper investigates the cross-sectional relationship between corporate market power and cash holdings. We empirically show that firms with higher markup tend to have larger cash holdings on their balance sheets. Then we rationalize this empirical finding in a model with risky markup and costly external financing. The increase of the earnings-quality gradient sharply in the right tail generates not only a "winners-take-most" phenomenon but also makes current winners inherently riskier. In the presence of external financing costs, firms with risky market power are inclined to rely more on internal financing. Finally, our model is able to quantitatively match both the upward trend and the cross-sectional variation in corporate cash.

Machine Learning	09:00
Chairman: Genevieve Gauthier (HEC Montréal)	Daguerre

MARKET DISCIPLINE IN BANKING: THE ROLE OF FINANCIAL ANALYSTS

Sasan Mansouri (Goethe University Frankfurt) ; Andreas Barth (Goethe University Frankfurt) ; Woebbeking Fabian (Goethe University Frankfurt)
Presenter: Sasan Mansouri (Goethe University Frankfurt)
Discussant: Haoran Wu (University of Bath - School of Management, UK)

Using a novel measure for the variation in risk-related communication between investors and banks, this paper studies how markets discipline banks' risk-taking. We consider two groups of banks: a treated group with implicit bail-out guarantees and an untreated group without such guarantees. Our analysis focuses on how these banks present their risk profiles in public statements, financial reports, and other relevant documents. We find that treated banks tend to downplay their risk exposures to maintain the perception of being stable and safe institutions. On the other hand, untreated banks tend to provide more transparent and detailed disclosures about their risk-taking. Our results suggest that implicit bail-out guarantees may create a moral hazard problem, where banks take on excessive risks with the expectation of being bailed out. Our findings have important implications for regulatory and policy decisions aimed at promoting transparency and stability in the banking sector.

WHEN BAYES-STEIN MEETS MACHINE LEARNING: A GENERALIZED APPROACH FOR PORTFOLIO OPTIMIZATION

Haoran Wu (University of Bath - School of Management, UK) ; Dimitrios Gounopoulos (University of Bath - School of Management, UK) ; Emmanouil Platanakis (University of Bath - School of Management, UK) ; Gerry Tsoukalas (University of Pennsylvania - The Wharton School, Boston University & Luohan Academy)

Presenter: Haoran Wu (University of Bath - School of Management, UK)
Discussant: Christian Breitung (Technical University of Munich)

The Bayes-Stein model is widely used to tackle parameter uncertainty in the classical Markowitz mean-variance portfolio optimization framework. In practice, however, it suffers from estimation errors and often fails to outperform the naive 1/N rule. To address this, we develop a generalized counterpart that leverages machine learning (ML) techniques to estimate some of the core model parameters. Specifically, we propose a time-dependent weighted Elastic Net (TW-ENet) approach predicting expected asset returns, a hybrid double selective clustering combination (HDS-CC) strategy calibrating shrinkage factors, and a graphical adaptive Elastic Net (GA-ENet) algorithm estimating the inverse covariance matrix.

GLOBAL BUSINESS NETWORKS

Christian Breitung (Technical University of Munich) ; Sebastian Müller (Technical University of Munich)

Presenter: Christian Breitung (Technical University of Munich)
Discussant: Sasan Mansouri (Goethe University Frankfurt)

Applying large language models (GPT-3, Luminous, T5-XXL) to business descriptions of more than 79,000 firms, we construct business networks (BNs) of economically linked firms across the globe. We run multiple evaluation tasks and find that our networks are better suited to identify relevant competitors, suppliers, and customers across the globe than traditional industry classifications. We further demonstrate the usability of our networks by examining international lead-lag effects and M&A activities. Our findings highlight the importance of considering both domestic and foreign economic links across the globe.

Asset Pricing I (CERESSEC) — 09:00

Chairman: Jan Sandoval (Tilburg University) — Halles 1

LONG-HORIZON LOSSES IN STOCKS, BONDS, AND BILLS

Scott Cederburg (University of Arizona) ; Aizhan Anarkulova (Emory University) ; Michael O'Doherty (Emory University)

Presenter: Scott Cederburg (University of Arizona)
Discussant: Mo Wang (ESSEC Business School)

We study long-horizon returns of domestic stocks, international stocks, bonds, and bills with a focus on periods with real losses in each asset class. Our dataset construction and estimation methods mitigate survivor bias and offer novel, quantitative evidence on the joint distribution of asset class returns. We find that (i) 30-year real loss probabilities in domestic markets are high for stocks (13%), bonds (27%), and bills (37%); (ii) exchange-rate fluctuations offset local inflation to produce a lower loss probability for international stocks (4%); and (iii) equity losses are driven by negative real dividend growth attributable to declining profit shares.

THE SUBJECTIVE RISK AND RETURN EXPECTATIONS OF INSTITUTIONAL INVESTORS

Johnathan Loudis (University of Notre Dame) ; Spencer Couts (Lusk Center of Real Estate, University of Southern California) ; Andrei Goncalves (Fisher College of Business, The Ohio State University) ; Johnathan Loudis (Mendoza College of Business, University of Notre Dame)
Presenter: Johnathan Loudis (University of Notre Dame)
Discussant: Scott Cederburg (University of Arizona)

We use the long-term Capital Market Assumptions of major asset managers and institutional investor consultants from 1987 to 2022 to provide three stylized facts about their subjective risk and return expectations on 19 asset classes. First, the subjective distribution of asset class returns is well described by a 1-factor structure, with this single risk factor typically explaining more than 65% of the subjective variability in asset class returns. Second, at least 80% of the variability in subjective expected returns is due to variability in subjective risk premia (compensation for beta) as opposed to subjective mispricing (alpha). And third, subjective risk and return expectations vary much more across asset classes than across institutions.

OPTION MISPRICING AND ALPHA PORTFOLIOS

Mo Wang (ESSEC Business School) ; Andras Fulop (ESSEC Business School) ; Junye Li (ESSEC Business School)
Presenter: Mo Wang (ESSEC Business School)
Discussant: Johnathan Loudis (University of Notre Dame)

Relying on a latent factor model with time-varying dependence of systematic risk and mispricing on firm and option characteristics, we reveal economically substantial mispricing in the options market. The portfolio based on individual options alphas related to characteristics earns an out-of-sample annualized Sharpe ratio of 1.62 in call option returns and of 1.86 in put option returns. Commonly used risk factors in the stock and options markets are incapable of explaining abnormal returns of option alpha portfolios. We show that characteristics related to riskneutral moments and liquidity and their interactions largely contribute to option mispricing and that many characteristics that contribute to systematic risk also contribute to mispricing at times.

EXCHANGE RATE RISK AND FOREIGN DISCOUNT IN US DOLLAR BONDS (JOB MARKET PAPER)

Junxuan Wang (University of Cambridge)
Presenter: Junxuan Wang (University of Cambridge)
Discussant: Philippe Dupuy (Grenoble EM)

This paper investigates heterogeneous exposure of USD-denominated bonds to exchange rate risk. An appreciation of the US dollar increases the credit spread differential, referred to as the Foreign Discount, between dollar bonds issued by non-US and US firms. I present both theoretical and empirical evidence supporting the balance sheet and dollar home bias channels as the primary drivers of this heterogeneous exposure. The balance sheet channel suggests that a non-US firm with substantial dollar liabilities undergoes balance sheet contraction during US dollar appreciation, adversely impacting its dollar bonds. The dollar home bias channel posits that a strengthening US dollar diminishes the risk-taking capacity of non-US investors, who typically exhibit a home bias towards their own domestic issuers when investing in dollar bonds. This results in intensified selling pressure on non-US dollar bonds during periods of US dollar appreciation, as these bonds are predominantly held by non-US investors. My findings emphasize the pivotal role of exchange rate risk, particularly concerning the US dollar, in influencing pricing differentials among dollar bonds.

ASSET PRICES, GLOBAL PORTFOLIOS, AND THE INTERNATIONAL FINANCIAL SYSTEM

Maxime Sauzet (Boston University)
Presenter: Maxime Sauzet (Boston University)
Discussant: Junxuan Wang (University of Cambridge)

I characterize the global solution to the international portfolio problem in a general setup, a long-standing open issue in international finance. The framework replicates a number of stylized facts about the structure and dynamics of the international financial system. In this economy, a Global Financial Cycle in risk premia emerges naturally, and the model can rationalize the Reserve Currency Paradox. The empirical patterns of the wealth share and relative GDP of the United States support the main underlying mechanisms. Empirically, the level and dynamics of portfolios, as well as unconditional and conditional asset pricing tests, are consistent with theoretical predictions.

RISK MANAGERS ON MANAGING FOREIGN EXCHANGE RISK

Philippe Dupuy (Grenoble EM) ; David Haushalter (Smeal College of Business, Penn State University, USA) ; Luc Meunier (ESSCA School of Management, Aix-En-Provence, France)
Presenter: Philippe Dupuy (Grenoble EM)
Discussant: Maxime Sauzet (Boston University)

We survey risk managers from 110 corporations about hedging foreign exchange rate risk. Consistent with hedge ratios varying without managers' directional views about future FX rates, changes in the premium of forward rates to spot rates and mean-preserving changes in the distribution of future FX rates have substantial effects on hedge ratios. Manager' satisfaction with the outcomes from hedging is maximized when FX risk has no impact on cash flows and is asymmetric – with the dissatisfaction from large negative outcomes exceeding the satisfaction from comparable positive outcomes. Monte Carlo simulations using a model that combines these findings support the use of dynamic hedging even when managers do not form directional market expectations.

10:30-11:00 Coffee Break

Corporate Governance	11:00
Chairman: Wanli Zhao (Bocconi University)	Halles 2

OUTSIDE EMPLOYMENT OPPORTUNITIES AND TOURNAMENT INCENTIVES

Yue Feng (University of Manchester) ; Amedeo De Cesari (University of Manchester) ; Konstantinos Stathopoulos (University of Manchester)
Presenter: Yue Feng (University of Manchester)
Discussant: Ying Cao (Chinese University of Hong Kong)

We find that firms enlarge the executive pay gap when executive mobility is constrained by more enforceable non-compete agreements. We interpret this finding as evidence that firms increase tournament incentives to keep executives incentivized after the loss of valuable outside employment options. Consistent with this argument, we observe more significant increases in pay gaps for executives with greater ex ante mobility options and in years close to CEO-dismissal events. Following restrictions to executive mobility, equity portfolios that long (short) firms that (do not) boost the executive pay gap generate positive alphas. We rule out plausible alternative explanations driving our results.

LONG-TERM ACCOUNTING-BASED PLANS AND MANAGERIAL MYOPIA

Ying Cao (Chinese University of Hong Kong) ; Ying Cao (Chinese University of Hong Kong) ; Yanqiong Li (Chinese University of Hong Kong) ; Yong Yang (Chinese University of Hong Kong)

Presenter: Ying Cao (Chinese University of Hong Kong)
Discussant: Iris Wang (University of British Columbia)

Incentive plans based on multi-year accounting performance (MAPs) become the biggest component of CEO pay. In contrast to traditional time-based equity grants, the MAPs condition the granting of awards on accounting performance measured over multiple years, and are perceived to better align the long-term interest of managers and shareholders. However, we find that a disproportionately large (small) number of firms just beat (miss) the performance target of the MAPs. In addition, compared with non-adopters, MAP adopters engage in greater accrual- and real-earnings management, and conduct less R&D investment, patent application and mergers and acquisitions. Overlapping MAP issuance is likely a major cause of managerial myopia because it subjects the CEO to annual performance evaluation.

QUALITY OF PROXY ADVICE: EVIDENCE FROM SAY-ON-PAY RECOMMENDATIONS

Iris Wang (University of British Columbia)

Presenter: Iris Wang (University of British Columbia)
Discussant: Yue Feng (University of Manchester)

Using a comprehensive sample of say-on-pay recommendations from the two largest proxy advisors over the period 2012 – 2019, I document that proxy advisors fail to filter out industry-level returns that are beyond the control of management in evaluating a CEO’s pay package. This finding contradicts the predictions of standard agency theory that CEOs should be evaluated on their relative performance in the presence of common industry shocks. I use proxy advisors’ adjustment for industry performance as the quality measure of their recommendations. I find a decrease in quality (1) when proxy advisors are busy; (2) when proxy statements and pay contracts are complex and (3) when there are other salient proposals at the same meetings. My analysis suggests that proxy advisors’ capacity.

FRAGMENTATION, FLASH CRASH, AND LATENCY ARBITRAGE

Zeyu Zhang (University of Aberdeen) ; Gbenga Ibikunle (University of Edinburgh)
Presenter: Zeyu Zhang (University of Aberdeen)
Discussant: Michel Robe (University of Richmond)

Market fragmentations have been deployed into developed markets, including dark and lit forms, which raise significant effects on market development. We choose a creative aspect to analyze the market fragmentations' effects on flash crashes and latency arbitrages. Two natural experiments about DVC and Brexit are launched and sets of general 2SLS regressions are included to test potential effects. Results of natural experiments suggest that removing venues, whether dark or lit, is harmful for the sensitivity of markets. We also find more fragmentations, no matter dark or lit, can provide beneficial influences on reducing risks on flash crashes and latency arbitrages. Our findings provide substantial empirical evidence for regulators to relieve restrictions on increases of dark pools […].

LIQUIDITY PROVIDERS IN EXTREME PERIODS: HIGH FREQUENCY MACHINES VS. HUMAN ELECTRONIC AND FLOOR TRADERS

Michel Robe (University of Richmond) ; Vikas Raman (University of Lancaster (UK)) ; Pradeep Yadav (University of Lancaster (UK))
Presenter: Michel Robe (University of Richmond)
Discussant: Zeyu Zhang (University of Aberdeen)

We use U.S. crude-oil futures data with coded trader identities to investigate the concurrent trading behaviors of high-frequency machine-traders ("HFTs"), humans trading electronically, and physical floor-traders in "extreme" periods characterized by large and persistently abnormal information or customer order-flow shocks. Compared to co-existing human electronic and floor traders, HFTs reduce trade participation, cut liquidity provision, and increase effective spreads during information-driven extreme periods, but do not behave differently during extreme periods driven by uninformative customer order-flow. These differences are driven by automation, not anonymity or physical floor-trading. Real-time human electronic and floor-traders usefully complement pre-programmed machine traders amid extreme conditions.

Asset Pricing II	11:00
Chairman: Scott Cederburg (University of Arizona)	Halles 1

WHOSE FORECASTER MATTERS? THE RISK PREMIUM OF OPTIMISTIC AND PESSIMISTIC DISAGREEMENT

Ilya Dergunov (HSE University) ; Giuliano Curatola (University of Siena) ; Christian Schlag (University of Siena)
Presenter: Giuliano Curatola (University of Siena)
Discussant: Nuno Clara (Duke University)

We decompose total disagreement about macro variables into the disagreement among optimists (i.e., forecasters whose forecast exceeds a certain threshold) and pessimists. Optimistic (pessimistic) forecasters tend to disagree more in good (bad) times. Pessimistic (optimistic) disagreement commands a negative and significant (positive, although often insignificant) risk premium and total disagreement is often insignificant when included in the same regression. These results are robust across a variety of empirical specifications and sets of test assets. A theoretical model, in which the risk premia of optimistic and pessimistic disagreement depend in a non-trivial way on forecasters' beliefs and state prices rationalizes the empirical findings.

DEMAND ELASTICITIES, NOMINAL RIGIDITIES AND ASSET PRICES

Nuno Clara (Duke University)
Presenter: Nuno Clara (Duke University)
Discussant: Xuhui Chen (UBC)

I study heterogeneity in demand elasticities as a source of risk in asset pricing. I use high-frequency product data from Amazon to overcome the classical endogeneity challenge and estimate demand elasticities for a large cross-section of firms. I find that firms facing more elastic demands are riskier and this is reflected in higher equilibrium average stock returns (approx 10.2% annual return premium). I show that price stickiness contributes to these differences in risk: firms are slow to react to competitors' price changes. My empirical findings show the importance of having heterogeneous demand elasticities and degrees of stickiness in macro-finance models.

RESPONSIBLE CONSUMPTION, DEMAND ELASTICITY, AND THE GREEN PREMIUM

Lorenzo Garlappi (UBC) ; Xuhui Chen (UBC) ; Ali Lazrak (UBC)
Presenter: Xuhui Chen (UBC)
Discussant: Giuliano Curatola (University of Siena)

We study equilibrium asset prices in a model where investors favor “green” over “brown” goods. We show that demand elasticity of goods crucially affects assets’ riskiness. When demand elasticity is high, brown assets are safer than green, because they hedge against consumption risk. The opposite holds when goods’ demand elasticity is low. Our model therefore predicts that the “green minus brown” stock return spread (green premium) varies in the cross section and increases in the price elasticity of demand. We test this novel prediction on US stocks and find that over the 2012–2022 period the annual green premium is 11.7% for firms with high demand elasticity, while it is much smaller and insignificant for firms with low demand elasticity. The high green premium for high demand elasticity firms is robust to standard risk adjustments and to alternative measures of demand elasticity; it cannot be explained by unanticipated shocks to investors’ environmental concerns, and remains strong after using option-implied measures of expected returns. These findings underscore the critical role of goods’ demand elasticity for understanding the impact of responsible consumption on asset prices.

Hedges Funds / Mutual Funds	11:00
Chairman: Olga Obizhaeva (Stockholm School of Economics)	Berliner

GREEN WINDOW DRESSING

Gianpaolo Parise (EDHEC and CEPR) ; Mirco Rubin (EDHEC)
Presenter: Gianpaolo Parise (EDHEC and CEPR)
Discussant: Chia-Yi Yen (University of Mannheim)

We uncover evidence of widespread sustainability ratings manipulation by mutual funds. Our analysis finds that ESG fund portfolios exhibit 42% higher ESG exposure immediately before mandatory portfolio disclosure than immediately afterwards. As a result, disclosed portfolios receive higher ratings than actual portfolios would. We document that green window dressers earn higher riskadjusted returns and attract more investor flows. At the asset level, we find that high-ESG (low-ESG) stocks rise (fall) in the days before fund portfolio disclosure and revert afterwards. We discuss whether green window dressing is optimal for investors and document similar behavior by non-ESG funds, albeit more limited.

"BUY THE RUMOR, SELL THE NEWS": LIQUIDITY PROVISION BY BOND FUNDS FOLLOWING CORPORATE NEWS EVENTS

Jinming Xue (Southern Methodist University) ; Guoming Huang (University of Waterloo) ; Russ Wermers (University of Maryland)
Presenter: Jinming Xue (Southern Methodist University)
Discussant: Gianpaolo Parise (EDHEC and CEPR)

Using a comprehensive database of corporate news, we find that bond funds trade against the direction of news sentiment. The trading against news phenomenon is concentrated in funds selling on positive news and in the post-financial crisis period when dealer liquidity provision is constrained. Funds in so doing exhibit higher alphas, and a potential source of such alphas is bond price reversals post news events. Our findings highlight that bond mutual funds represent a significant liquidity provider in the corporate bond market and play a complementary role to dealers in corporate news events.

TOO MUCH "SKIN IN THE GAME" RUINS THE GAME: EVIDENCE FROM MANAGERIAL CAPITAL GAINS TAXES (JOB MARKET PAPER)

Chia-Yi Yen (University of Mannheim) ; Anna Theresa Bührle (ZEW & University of Mannheim)
Presenter: Chia-Yi Yen (University of Mannheim)
Discussant: Jinming Xue (Southern Methodist University)

Co-investment, often seen as a remedy for agency problems, may incentivize managers to cater to own preferences. We provide evidence that mutual fund managers with considerable co-investment stakes alter risk-taking decisions to prioritize their own tax interests. By exploiting the enactment of the American Taxpayer Relief Act 2012 as an exogenous shock of managerial capital gains taxes, we observe that co-investing fund managers increase risk-taking by 8%. Specifically, these managers adjust their portfolios by investing in stocks with higher beta. The observed effect appears to be driven by agency incentives, particularly for funds with a more convex flow-performance relationship and for managers who have underperformed. Such tax-induced behavior is associated with negative fund performance. We highlight the role of co-investment in transmitting managerial tax shocks to mutual funds.

Corporate Finance II	11:00
Chairman: Tereza Tykvova (University of St.Gallen and Swiss Finance Institute)	Bell

FEEDBACK BETWEEN THE FINANCIAL MARKET AND THE PRODUCT MARKET

Ken Deng (University of Oxford) ; Joel Shapiro (University of Oxford)
Presenter: Ken Deng (University of Oxford)
Discussant: Alessio Piccolo (Indiana University, Kelley School of Business)

Financial markets aggregate information about firm profitability. However, consumers, a key driver of profitability, may react to information coming from markets. This creates a feedback effect. We examine a model in which information from financial markets may push consumers to act uniformly, eliminating gains from speculation. This distorts trade and results stock prices not reflecting the information speculators possess. Speculators may benefit from firm disclosure, providing incentives for them to engage in activism. Firm disclosure, however, may reduce the firm's power to set product prices - thus creating incentives for misreporting.

NON-COMPETE AGREEMENTS AND LABOR ALLOCATION ACROSS PRODUCT MARKETS (JOB MARKET PAPER)

Clemens Mueller (Erasmus University Rotterdam)
Presenter: Clemens Mueller (Erasmus University Rotterdam)
Discussant: Ken Deng (University of Oxford)

I analyze the effect of non-compete agreements (NCAs) on career trajectories of inventors in the US. NCAs constrain the within-industry employment choice set of inventors. I show causal effects that 1.5 in 100 inventors annually bypass their NCAs by moving to new employers in more distant product markets. Reallocated inventors are subsequently less productive. Inventors move to new employers who are less reliant on NCAs and there is a lower quality match between inventors and their new employers. Firms affected by labor outflows grow less whereas firms with labor inflows grow more. I highlight regulatory frictions which lead to unintended detrimental reallocation of human capital in the economy.

RESILIENCE IN COLLECTIVE BARGAINING

Alessio Piccolo (Indiana University, Kelley School of Business) ; Carlos F. Avenancio-León (University of California – San Diego, Rady School of Management) ; Roberto Pinto (University of California – San Diego, Rady School of Management)
Presenter: Alessio Piccolo (Indiana University, Kelley School of Business)
Discussant: Clemens Mueller (Erasmus University Rotterdam)

A central finding of the theoretical literature on bargaining is that parties' attitudes towards delay influence bargaining outcomes. However, the ability to endure delays, resilience, is often private information and hard to measure in most real-world contexts. In the context of collective bargaining, we show firms actively attempt to become financially resilient in anticipation of labor negotiations. Firms adjust their financial resilience to respond to the passage of right-to-work laws (RWLs), unionization, and labor negotiation events. Unions' financial structure also responds to RWLs. Our findings suggest resilience is key to understanding the process through which collective bargaining determines wages.

Options	11:00
Chairman: Philippe Dupuy (Grenoble EM)	Daguerre

DEMAND IN THE OPTION MARKET AND THE PRICING KERNEL

Gustavo Freire (Erasmus University Rotterdam) ; Caio Almeida (Princeton University)

Presenter: Gustavo Freire (Erasmus University Rotterdam)
Discussant: James O'Donovan (City University of Hong Kong)

We show that net demand in the S&P 500 option market is fundamental to explain empirical puzzles related to the pricing kernel. When public investors (non-market makers) are exposed to variance risk by net-selling out-of-the-money (OTM) options, the pricing kernel is U-shaped, expected option returns are low and the variance risk premium is high. Conversely, when public investors are protected against variance risk by net-buying OTM options, the pricing kernel is decreasing in market returns, expected option returns are high and the variance risk premium is low. Our findings support equilibrium models with heterogeneous agents in which options are nonredundant.

RETAIL OPTION TRADING AND LIQUIDITY: EVIDENCE FROM HIGH-FREQUENCY DATA

James ODonovan (City University of Hong Kong) ; James O'Donovan (City University of Hong Kong) ; Yang (Gloria) Yu (City University of Hong Kong) ; Jinyuan Zhang (UCLA)

Presenter: James O'Donovan (City University of Hong Kong)
Discussant: Genevieve Gauthier (HEC Montréal)

This paper demonstrates that retail trading in the options market impacts the liquidity of underlying stocks. Options contracts have zero net supply, and financial intermediaries engage in delta hedging to manage their net imbalances, unlike retail traders. Consequently, when intermediaries hold a net short (long) option position, their dynamic hedging demands liquidity from (or supplies liquidity to) the underlying stock, leading to market destabilization (or stabilization). Leveraging proprietary option exchange data that categorizes option trading by trader type, we document this effect and show that it is stronger for stocks and periods where liquidity supply is expected to be limited.

JOINT DYNAMICS FOR THE UNDERLYING ASSET AND ITS IMPLIED VOLATILITY SURFACE: A NEW METHODOLOGY FOR OPTION RISK MANAGEMENT

Genevieve Gauthier (HEC Montréal) ; Pascal Francois (HEC Montréal) ; Remi Galarneau Vincent (HEC Montréal) ; Frederic Godin (Concordia University)

Presenter: Genevieve Gauthier (HEC Montréal)
Discussant: Gustavo Freire (Erasmus University Rotterdam)

This paper develops a dynamic joint model of the implied volatility (IV) surface and its underlying asset, impervious to arbitrage and quick to estimate. It combines an asymptotically well-behaved, parametric IV surface representation with a two-component variance, and non-Gaussian asymmetric GARCH specification for the underlying asset returns. Estimated on S&P 500 index return and option data for the 1996-2020 period, the model captures the IV surface movements well and uses them to obtain an improved fit on index returns. It also proves to be an effective risk management tool, producing reliable Value-at-Risk estimates for straddle and strangle positions, and accurate forecasts of the VIX distribution.

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

ESG Investing (ESSEC-Amundi Chair)	14:00
Chairman: Jocelyn Martel (ESSEC Business School)	Halles 2

ESG SHOCKS IN GLOBAL SUPPLY CHAINS

Emilio Bisetti (HKUST) ; Guoman She (The University of Hong Kong) ; Zaldokas Alminas (The University of Hong Kong)

Presenter: Emilio Bisetti (HKUST)

Discussant: Patrick Schwarz (University of Duisburg-Essen)

We show that U.S. firms cut imports by 11.1% and are 4.2% more likely to terminate a trade relationship when their international suppliers experience environmental and social (E&S) incidents. These trade cuts are larger for publicly-listed U.S. importers facing high E&S investor pressure and lead to cross-country supplier reallocation, suggesting that E&S preferences in capital markets can have real effects in far-flung economies. Larger trade cuts around the scandal result in higher supplier E&S scores in subsequent years, and in the eventual resumption of trade. Our results highlight the role of customers' exit in ensuring suppliers' E&S compliance along global supply chains.

CATERING THROUGH TRANSPARENCY: VOLUNTARY ESG DISCLOSURE BY ASSET MANAGERS AND FUND FLOWS

Marco Ceccarelli (VU Amsterdam) ; Simon Glossner (Board of Governors of the Federal Reserve System) ; Mikael Homanen (Board of Governors of the Federal Reserve System)

Presenter: Marco Ceccarelli (VU Amsterdam)

Discussant: Emilio Bisetti (HKUST)

Voluntary ESG disclosure by institutional investors improves capital allocation efficiency by enabling clients to allocate responsible capital to institutions with better ESG incorporation. Institutional investors disclose on their ESG practices as part of their voluntary commitment to the Principles for Responsible Investment (PRI), the world's largest responsible investment network. After joining the PRI, investors annually file a detailed ESG report, assessed and scored by the PRI. Clients allocate more assets toward institutions that receive higher scores on their disclosure. The disclosure becomes more effective when corroborated by third-party ESG fund ratings. Importantly, investors that disclose better ESG practices exhibit more sustainable equity holdings.

MEASURING BUSINESS SOCIAL IRRESPONSIBILITY: THE CASE OF SIN STOCKS (JOB MARKET PAPER)

Patrick Schwarz (University of Duisburg-Essen) ; Hamid Boustanifar (EDHEC Business School)
Presenter: Patrick Schwarz (University of Duisburg-Essen)
Discussant: Marco Ceccarelli (VU Amsterdam)

Negative screening (of "sin" stocks) is the most common strategy used by socially responsible investors. The existing literature identifies sin stocks using industry classification codes (IC). We propose an alternative measure of firms' exposure to sin activities (sinfulness) based on textual analysis (TA) of their annual reports. Sinfulness captures both cross-sectional and time-series variation in firms' exposure to sin activities. TA reveals several important false positive and numerous false negative sin stocks in IC. A sin-weighted portfolio of sin stocks earns an annualized Fama-French 6-factor alpha of 4%. Overall, our study highlights important shortcomings of using IC to identify sinful firms and resurrects the sin premium, that is, more sinful stocks have higher expected returns.

Banking Regulation and Systemic Risk	14:00
Chairman: Tamas Vadasz (KU Leuven)	Bell

DO CAPITAL REQUIREMENTS REALLY REDUCE THE RISKINESS OF BANKS? (JOB MARKET PAPER)

Antoine Baena (Banque de France)
Presenter: Antoine Baena (Banque de France)
Discussant: Lucas Mahieux (Tilburg University)

This paper investigates the response of banks to an increase in capital requirements using loan-level data from the European Credit Register. In addition to the two ways to comply with more restrictive capital requirements already studied in the literature, namely reducing risk-weighted assets and increasing capital reserves, this paper highlights a new response from banks: Following an increase in the countercyclical capital buffer, banks report lower risk parameters in order to reduce the costs associated with tighter financial regulation. This optimisation of risk-weights has implications for the effectiveness of macroprudential policy, as this practice is more pronounced for banks that are most in need of it, when it is most effective and when it is easier to hide the pattern.

CONVERGENCE IN THE PRUDENTIAL REGULATION OF BANKS: ARE UNIFORM ACCOUNTING RULES THE MISSING PIECE?

Lucas Mahieux (Tilburg University)

Presenter: Lucas Mahieux (Tilburg University)
Discussant: Jun Kyung Auh (Yonsei University)

In this paper, I examine the merit of international convergence of bank capital requirements depending on the uniformity of the accounting rules across countries. To that end, I build a model of international prudential regulation in which banks from different countries compete with each other. Prudential regulators set capital requirements based on available accounting information to curb excessive lending by banks. I compare a regulatory regime in which local regulators set local capital requirements with a regime in which a global regulator sets an international capital requirement. I show that an international capital requirement may be desirable only when countries have uniform accounting rules.

THE FULL STORY OF RUNS

Mattia Landoni (Federal Reserve Bank of Boston) ; Jun Kyung Auh (Yonsei University) ; Yun Hayong (Yonsei University)

Presenter: Jun Kyung Auh (Yonsei University)
Discussant: Antoine Baena (Banque de France)

We examine credit supply during a repo run. Lenders initially relax lending terms upon an initial bad signal about the borrower's creditworthiness. Lenders with a greater exposure to the borrower and a closer lending relationship intervene faster and show a longer period of patience, and so do lenders whose loans are backed by more illiquid assets. The initial credit relaxation is consistent with lenders having an incentive to prolong the borrower's life. Other loan terms (price and maturity) remain stable, pointing to the central role of collateral in dynamically managing risk exposure.

Private Equity / Venture Capital (ARDIAN)	14:00
Chairman: Clemens Mueller (University of Mannheim)	Edison

BUYING PERFORMANCE? THE IMPACT OF MULTIPLE ARBITRAGE IN B&B STRATEGIES

Bernhard Schwetzler (HHL Leozig Graduate School of Management) ; Philipp Heisig (HHL) ; Jonas Kick (HHL)

Presenter: Philipp Heisig (HHL)
Discussant: Teng Wang (Federal Reserve Board)

B&B strategies are increasingly popular, with past studies showing them to achieve superior returns. The question of how exactly B&B strategies create value is, however, still a "black box". Relying on a unique and proprietary sample of 161 B&B buyouts with valuation details on related add-on acquisitions, this study is, to the best of our knowledge, the first to decompose EBITDA growth as value driver into the organic, inorganic and the "sourcing" component. The "add-on sourcing effect" thereby considers the reduction of the average entry multiple caused by acquiring smaller firms in add-on transactions at multiples lower than the entry multiple for the platform company and labels the corresponding multiple uplift following the revaluation of add-on acquisitions post-closing. We find this effect to be a significant component of B&B buyout performance, contributing roughly 8% to the equity value CAGR. When eliminating it from the performance measurement, we find B&B outperformance to decrease significantly to the levels of their non-B&B peers. Finally, we find preliminary evidence that potential buyers of the buyout company do not seem to differentiate between the different sources of EBITDA growth.

DOES A VC'S COMMITMENT LEAD TO IMPROVED INVESTMENT OUTCOMES? EVIDENCE FROM CLIMATE STARTUPS

Jared Stanfield (University of Oklahoma) ; Aaron Burt (University of Oklahoma) ; Jarrad Harford (University of Oklahoma) ; Jason Zein (University of New South Wales)

Presenter: Jared Stanfield (University of Oklahoma)
Discussant: Philipp Heisig (HHL)

We assess whether a VC's intrinsic commitment to a startup affects investment performance. We proxy for climate change commitment using the political contributions to Democrats of the lead VC person on a deal. We find investments by Democrats in climate-related startups have 8% higher round-to-exit returns and 29% higher round-to-exit multiples than investments by non-Democrat investors. Democrat VCs are more likely to sit on the startup's board. Startups with Democrat VCs are more likely to obtain patents following the VC investment. We also use recent local climate-related natural disasters as a proxy for change in commitment by non-Democrat investors. Following these disasters, the performance of non-Democrats' investments in climate-related startups becomes similar to that of Democrat investors. Our results are consistent with both the importance of commitment in active (vs. passive) investing and the potential (temporary) advantage of ESG-motivated investors.

HOW PRIVATE EQUITY FUELS NON-BANK LENDING

Simon Mayer (HEC Paris) ; Sharjil Haque (Fed Board) ; Teng Wang (Federal Reserve Board)

Presenter: Teng Wang (Federal Reserve Board)
Discussant: Jared Stanfield (University of Oklahoma)

This paper shows how the rise of private equity has fueled non-bank participation in the U.S. syndicated loan market. Combining administrative data from the Shared National Credit register with buyout deals from Pitchbook, we show that PE-backed loans are associated with lower active bank monitoring, lower loan share retained by the lead arranger, and more loan sales to non-bank intermediaries (e.g., CLOs). Consistent with moral hazard in monitoring, we find that monitoring is highly sensitive to lead arranger share (skin-in-the-game), but less so for PE-backed loans. The key mechanism behind our results is that PE sponsors reduce their portfolio companies' credit risk and lenders' expected losses, for instance, by reducing sales and collateral volatility (i.e., operational engineering) or engaging in distress resolution.

Corporate Finance III	14:00
Chairman: Boris Vallée (Harvard Business School)	Berliner

DO FIRMS SET PENSION DISCOUNT RATES STRATEGICALLY?

Xin Li (Michigan Technological University) ; Liping Chu (Shanghai University of International Business and Economics) ; Michael Goldstein (Babson College) ; Tong Yu (University of Cincinnati)
Presenter: Michael Goldstein (Babson College)
Discussant: Wanli Zhao (Bocconi University)

We find U.S. firms strategically adjust their pension discount rates to reduce their pension contributions. Firms slowly lower rates when interest rates drop, but quickly raise them when interest rates increase. Cross-sectionally, both productive firms and financially distressed firms are more likely to set higher pension discount rates; corporations setting higher discount rates invest more and are more profitable. The imperfect elasticity of pension discount rates to interest rates allows productive or distressed companies to borrow funds from their own pensions by lowering or avoiding additional pension obligations.

HOW DO BANKS COMPETE? LESSONS FROM AN ECUADORIAN LOAN TAX

Rebecca De Simone (London Business School) ; Felipe Brugués (The Business School at Instituto Tecnológico Autónomo de México)
Presenter: Rebecca De Simone (London Business School)
Discussant: Michael Goldstein (Babson College)

We study how bank competition affects commercial lending using a quantitative model. The model allows banks multiple competitive behaviors - from setting prices as joint profit maximizers to pricing under Bertrand-Nash competition, where demand-side frictions and preferences determine markups. We use pass-through estimates from the surprise introduction of a loan transaction tax in Ecuador to identify the model and test modes of competition. We reject pure Bertrand-Nash competition but fail to reject joint maximization. Counterfactual analyses show 26% of observed markups are due to joint profit maximization and that moving to Bertrand-Nash would reduce equilibrium prices by 17%, increase loan use by 21% (intensive margin), and increase overall credit demand by 13% (extensive margin).

DEBT DYNAMICS IN EXECUTIVE COMPENSATION

Wanli Zhao (Bocconi University) ; Xingyu Huang (Bocconi University) ; David Reeb (National University of Singapore)
Presenter: Wanli Zhao (Bocconi University)
Discussant: Rebecca De Simone (London Business School)

The prevailing agency theory framework in executive compensation studies highlights the conflict of interest between managers and shareholders. Our study extends the literature by examining the incorporation of debt-related performance metrics (DPMs), such as credit ratings and debt-to-EBITDA ratios, into executive compensation contracts. Using a manually collected dataset, we find that approximately 19% of US publicly traded firms incorporated DPMs in their compensation contracts between 2007 and 2020. The likelihood of including DPMs increases after creditors' monitoring incentives increase due to credit quality deterioration or debt maturity pressure. To allow causal inferences, we use the exogenous default of lenders' other clients and observe that focal companies are more likely to include DPMs in compensation contracts when lenders perceive an increased likelihood of future default. We demonstrate that shareholders incorporate more nondebt metrics in their incentive programs in response to DPM inclusion and they request inclusion of DPM before corporate borrowing. Our results indicate that firms with DPMs in compensation contracts reduce future R&D intensity and SG&A expenses. Our study highlights the importance of debt-related factors in executive compensation and contributes to understanding the agency costs of debt.

Household Finance	14:00
Chairman: Laurent Bach (ESSEC Business School)	Daguerre

HOW DOES A BAN ON KICKBACKS AFFECT INDIVIDUAL INVESTORS?

Simon Straumann (WHU - Otto Beisheim School of Management) ; Nic Schaub (WHU - Otto Beisheim School of Management)
Presenter: Simon Straumann (WHU - Otto Beisheim School of Management)
Discussant: Yildiray Yildirim (Baruch College)

This study investigates how a ban on payments from product providers to financial advisors impacts individual investors' portfolio holdings and portfolio performance. To do so, we exploit a court ruling in Switzerland in 2012 that induced banks to ban kickbacks. We document a significant increase in the portfolio share of own-bank mutual funds and own-bank structured products following the ban, consistent with banks substituting income from kickbacks with income from own products. The poor performance of own-bank products negatively affects portfolio performance. Overall, our results point towards an unintended consequence of consumer protection.

(NOT) ANTICIPATING PREDICTABLE INHERITANCES

Erkki Vihriälä (Aalto University) ; Tuomo Virkola (VATT Institute for Economic Research)
Presenter: Tuomo Virkola (VATT Institute for Economic Research)
Discussant: Simon Straumann (WHU - Otto Beisheim School of Management)

We study whether people spend in anticipation of predictable inheritances from elderly parents or act as if inheritances are unpredictable windfalls. Implying incomplete anticipation, children increase car purchases by 36 percent after non-sudden parental death. Moreover, pre-inheritance spending, labor supply, and borrowing behavior indicate little to no anticipation. Standard life-cycle explanations (liquidity constraints, uncertainty, news, mortality beliefs) do not seem to explain the incomplete anticipation, suggesting behavioral or strategic explanations (mental accounting, norms, inheritance division). Given the size of inheritances, our results imply a high-stakes deviation from life-cycle consumption smoothing. Moreover, incomplete anticipation reduces the value of parental inheritances.

HIGH TEMPERATURE, CLIMATE CHANGE AND REAL ESTATE PRICES

Yildiray Yildirim (Baruch College)
Presenter: Yildiray Yildirim (Baruch College)
Discussant: Tuomo Virkola (VATT Institute for Economic Research)

Combining granular data on temperatures across the continental United States with comprehensive listing-level data for residential properties and survey data on beliefs about climate change from 2000 to 2021, we examine the impact of exposure to local heat shocks on residential real estate prices. We first show that abnormally high local temperature leads to elevated belief in climate change. We find that exposure to local heat shocks results in a significant decrease in house prices, and this effect is more pronounced in communities concerned about global warming, during periods of increasing public attention to climate change and among counties heavily exposed to the risk of sea level rise. In contrast to the transaction price regression, we find no relation between abnormal temperature exposure and rental prices, suggesting that the observed temperature exposure discount is driven by concerns about long-horizon climate risks. Taken together, our results highlight the importance of uncertainty about climate change in affecting the real estate market.

SUBJECTIVE RETURN EXPECTATIONS AND STOCK MARKET RISK PREMIA (JOB MARKET PAPER)

Pascal Büsing (University of Münster) ; Hannes Mohrschladt (University of Münster)

Presenter: Pascal Büsing (University of Münster)
Discussant: Jan Sandoval (Tilburg University)

We examine the time-series and cross-section of stock market risk premia from the perspective of financial analysts. Our novel approach is based on the notion that analysts' stock recommendations reflect both their subjective return expectations and their perceived stock risk. Thus, we can empirically infer presumed risk premia from recommendations and target price implied expected returns. We show that analysts' presumed risk premia are strongly countercyclical, such that their correlation with the VIX is 72%. Moreover, these risk premia predict future stock market returns and are closely related to the price-dividend ratio and other cyclical state variables. In the cross-section, the presumed risk premia are comparably large for highbeta, small, and value stocks, lending support to a risk-based interpretation of these characteristics.

GLOBAL EQUITY YIELDS

Jan Sandoval (Tilburg University) ; Jens Kvaerner (Tilburg University)

Presenter: Jan Sandoval (Tilburg University)
Discussant: Niklas Paluszkiewicz (Ulm University)

We use the model of Giglio, Kelly, and Kozak (2021) to construct a panel of global equity yields. We revisit stylized facts about equity yields, primarily based on US data, and provide several new results. On old facts, we study the dynamics of global equity yields, their slopes, and the relative contribution of risk premium and growth expectations in explaining variation in yields. On new facts, we study comovements in risk premia and growth expectations across markets and Fama French portfolios, estimate the term-structure of the global equity risk premium, and link yields to changes in exchange rates and future macroeconomic outcomes.

FROM PIXELS TO PROFITS: TRADING ARBITRAGE PORTFOLIOS BASED ON IMAGE REPRESENTATIONS

Niklas Paluszkiewicz (Ulm University)

Presenter: Niklas Paluszkiewicz (Ulm University)
Discussant: Pascal Büsing (University of Münster)

This paper explores a novel approach to statistical arbitrage by utilizing Convolutional Neural Networks (CNNs) to predict directional shifts in excess returns of arbitrage portfolios, which are constructed based on multifactor models. Using image representations of historical return co-movements to

identify nonlinear predictive relationships, the study applies CNNs to extract relevant geometrical return patterns from the data. The empirical results illustrate that the proposed image-based arbitrage strategies yield significant excess returns, which are not explained by common risk factors. Further investigations into the sources of these excess returns - namely omitted factor momentum, leverage and margin constraints, and lottery demand - do not conclusively account for the results.

15:30-16:00 Coffee Break

Fixed Income (CDC Institute for Research)		16:00
Chairman: Egle Karmaziene (VU Amsterdam)	Caisse des Dépôts — Institut pour la recherche	Bell

HETEROGENEOUS BELIEFS, BONDS, AND INTEREST RATES

Arthur Beddock (City University of Hong Kong) ; Elyès Jouini (Université Paris Dauphine - PSL)

Presenter: Arthur Beddock (City University of Hong Kong)

Discussant: Jiri Woschitz (BI Norwegian Business School)

We develop a general equilibrium model of interest rates in a continuous-time production economy populated by shareholders with heterogeneous beliefs. It allows us to study the impact of belief heterogeneity on the risk-free rate and bond characteristics. The model nests the CIR model with time-dependent parameters that depend endogenously on belief heterogeneity. Flight-to-safety induces an increase in the bond price when the average belief declines. In addition, the impact of belief dispersion increases with the bond maturity, and higher dispersion results in higher bond prices in economies where pessimistic and neutral shareholders hold most of the wealth. In optimistic economies, the relation reverses except for the case of highly dispersed beliefs and (very) long-term bonds. Lastly, heterogeneous beliefs increase bond yield volatility, helping to solve the excess bond yield volatility puzzle.

DO MUNICIPAL BOND INVESTORS PAY A CONVENIENCE PREMIUM TO AVOID TAXES?

Matthias Fleckenstein (University of Delaware) ; Francis A. Longstaff

Presenter: Matthias Fleckenstein (University of Delaware)

Discussant: Arthur Beddock (City University of Hong Kong)

We study the valuation of state-issued tax-exempt municipal bonds and find that there are significant convenience premia in their prices. These premia parallel those identified in Treasury markets. We find evidence that these premia are tax related. Specifically, the premia are related to measures of tax and fiscal uncertainty, forecast flows into state municipal bond funds, and are directly linked to outmigration from high-tax to low-tax states and to other measures of tax aversion such as IRA and retirement plan contributions. These results suggest that investors are willing to pay a substantial premium to avoid taxes.

ROBUST DIFFERENCE-IN-DIFFERENCES ANALYSIS WHEN THERE IS A TERM STRUCTURE

Jiri Woschitz (BI Norwegian Business School) ; Kjell Nyborg (University of Zurich)
Presenter: Jiri Woschitz (BI Norwegian Business School)
Discussant: Matthias Fleckenstein (University of Delaware)

It is common in finance to use difference-in-differences (DiD) analysis to study fixed-income pricing. Using simulations, we show that the standard DiD approach applied to variables with a term structure systematically produces false and mismeasured treatment effects, even under random treatment assignment. Standard DiD is misspecified because of endemic heterogeneity over the term structure and non-matched treated and control-bond samples. Neither bond fixed effects nor standard yield-curve controls resolve the problem. We provide solutions using yield-curve modeling that allow for heterogeneous effects across the term structure. These issues are not unique to DiD analysis, but are generic to group-assignment settings.

Investment Policy / Capital Budgeting	16:00
Chairman: Ying Cao (Chinese University of Hong Kong)	Edison

HORIZONTAL DIRECTORS AND INVESTMENT EFFICIENCY

Liang Xu (SKEMA Business School) ; José-Miguel Gaspar (ESSEC Business School) ; Sumingyue Wang (ESSEC Business School)
Presenter: Liang Xu (SKEMA Business School)
Discussant: Boris Vallée (Harvard Business School)

Horizontal directors, board members who also hold board seats in other firms in the same industry, are surprisingly common in boards of U.S. public firms. This paper proposes a benefit of horizontal directorships hitherto not identified in the literature, namely that horizontal directors enhance the efficiency of corporate investment decisions. Horizontal directors enjoy access to valuable industry information, which helps the board fulfill its role of advising and monitoring management. Consistent with this argument, we find that the presence of horizontal directors is negatively related to investment inefficiency, and with over-investment in particular. This effect is stronger in industries with poor information environments and for firms with high free cash flow.

CONSTRAINING GROWTH: ADVANCE LAYOFF NOTICE AND CORPORATE INNOVATION

Scott Guernsey (University of Tennessee) ; Gunchang Kim (Southwestern University of Finance and Economics) ; Yupeng Lin (Southwestern University of Finance and Economics)
Presenter: Scott Guernsey (University of Tennessee)
Discussant: Liang Xu (SKEMA Business School)

Firms adopt more conservative innovation policies when required to provide advance layoff notice to displaced workers. Exploiting state-level Worker Adjustment and Retraining Notification (WARN) Acts, which mandate such notice in plant closings and mass layoffs, and establishment-level employment and location data, we find that firms exposed to the Acts have lower R&D spending and fewer patent grants and citations. We argue that these results arise from the operational constraints that protecting workers from abrupt displacement imposes on firms. Reinforcing this view, establishment-level evidence shows reduced establishment openings and acquisitions, increased divestitures, and slower employment growth in WARN-passing states.

THE REAL EFFECTS OF LOCAL GOVERNMENT INDEBTEDNESS: EVIDENCE FROM TOXIC LOANS

Boris Vallée (Harvard Business School) ; Julien Sauvagnat
Presenter: Boris Vallée (Harvard Business School)
Discussant: Scott Guernsey (University of Tennessee)

We examine the response from municipalities and their voters to a large and exogenous increase in municipal indebtedness. We show that municipalities with ``toxic loans'' on their balance sheet exhibit a large increase in their debt and interest expenses following the Great Financial Crisis, and a twice-as-large reduction in municipal investments. The reduction in investments is particularly pronounced for municipalities that are politically contested. Local taxes remain unaffected. These empirical findings are consistent with a model of municipal investment in which electoral competition act as a disciplinary device for local politicians, and highlight the economic and political nature of public indebtedness.

Investors Behavior	16:00
Chairman: Gianpaolo Parise (EDHEC and CEPR)	Daguerre

THE MAKING OF MOMENTUM: A DEMAND-SYSTEM PERSPECTIVE

Paul Huebner (Stockholm School of Economics)
Presenter: Paul Huebner (Stockholm School of Economics)
Discussant: Pierre Mabille (INSEAD)

I develop a framework to quantify which features of investors' trading strategies lead to momentum in equilibrium. Specifically, I distinguish two channels: persistent demand shocks, capturing underreaction, and the term structure of demand elasticities, representing an intensity of arbitrage activity that decreases with investor horizon. I introduce both aspects of dynamic trading into an asset demand system and discipline the model using the joint behavior of portfolio holdings and prices. I estimate the demand of institutional investors in the U.S. stock market. On average, investors respond more to short-term than longer-term price changes: the term structure of elasticities is downward-sloping. My estimates suggest that this channel is the primary driver of momentum returns.

TEXTUAL CHANGES IN 10-KS AND STOCK PRICE CRASH RISK: EVIDENCE FROM NEURAL NETWORK EMBEDDINGS

Yahya Yilmaz (University of Münster) ; Doron Reichmann (Ruhr University Bochum) ; Reichmann Milan (University of Leipzig)

Presenter: Yahya Yilmaz (University of Münster)

Discussant: Paul Huebner (Stockholm School of Economics)

Previous research attributes stock price crash risk to managerial bad news hoarding. Contrary to this notion, we find evidence that stock price crash risk is determined by investor inattention to textual changes in corporate disclosures. Using a large sample of 10-K filings, we estimate neural network embeddings to quantify the degree of textual changes in successive 10-Ks. We find that changes in 10-Ks have a positive and economically meaningful impact on one-year-ahead stock price crash risks. Our results suggest that investor inattention to textual changes in 10-Ks can have broader capital market consequences than previously documented.

AGGREGATE PRECAUTIONARY SAVINGS MOTIVES

Pierre Mabille (INSEAD)

Presenter: Pierre Mabille (INSEAD)

Discussant: Yahya Yilmaz (University of Münster)

This paper analyzes the effect of aggregate risk on households' precautionary savings, a new channel that complements the standard idiosyncratic precautionary motive. I build a general equilibrium model with incomplete markets, heterogeneous households, and aggregate risk to decompose the drivers of precautionary savings. The precautionary motive due to credit supply shocks is large, at odds with received wisdom about the low costs of aggregate fluctuations. It is larger for middle-class households, who are too rich to benefit from social programs but too poor to have enough liquid assets. Aggregate precautionary motives are important because they imply that aggregate shocks can have permanent effects even when they are temporary.

Asset Pricing IV	16:00
Chairman: Nuno Clara (Duke University)	Halles 1

PRICING TECHNOLOGICAL INNOVATORS: PATENT INTENSITY AND LIFE-CYCLE DYNAMICS

Jiri Knesl (Said Business School, University of Oxford) ; Adlai Fisher (University of British Columbia, Sauder School of Business) ; Jan Bena (University of British Columbia, Sauder School of Business) ; Julian Vahl (University of British Columbia, Sauder School of Business)

Presenter: Jiri Knesl (Said Business School, University of Oxford)

Discussant: Teodor Dyakov (EDHEC Business School)

Technological innovators are priced differently from other firms, earning higher stock returns controlling for standard factors, with less punishment for aggressive capital investment and weak profitability. We create the new variable patent intensity (PI), patents received divided by market capitalization, available from 1926. On average, high-PI firms comprise ten percent of aggregate market capitalization but over half of five-year-forward public-company patenting. Aged portfolios and standard factors show significant alphas a decade post-formation. Adding an expected growth factor, alphas disappear and loadings display lifecycle dynamics: high, declining growth; aggressive, increasing investment; and weak, improving profitability.

THE IMPACT OF MONETARY POLICY ON LONG-TERM LIABILITIES OF HOUSEHOLDS AND FIRMS

Marco Grotteria (London Business School) ; Jules van Binsbergen (University of Pennsylvania)
Presenter: Marco Grotteria (London Business School)
Discussant: Jiri Knesl (Said Business School, University of Oxford)

We examine the impact of monetary policy transmission on households' and firms' long-duration liabilities using high-frequency variation in 10-year swap rates around FOMC announcements. Mortgage rates respond about three weeks after monetary policy announcements, with a larger response to interest rate hikes compared to cuts in post-2010 data. The strong response of mortgage rates to 10-year swap rates leaves little explanatory power for mortgage concentration or bank market power. Corporate yields respond symmetrically to positive and negative shocks, with a higher sensitivity for firms with lower credit ratings. Expected future short rates and interbank market frictions explain both mortgage rates and corporate bond yields, while the term premium solely correlates with mortgage rates.

WHO IS AT THE CENTER OF THE GLOBAL SUPPLY CHAIN?

Teodor Dyakov (EDHEC Business School) ; Hao Jiang (Broad College of Business, Michigan State University)
Presenter: Teodor Dyakov (EDHEC Business School)
Discussant: Marco Grotteria (London Business School)

We study the network structure of the global supply chain, using trade in value-added data for 67 economies and 45 industries. We find that, in the global manufacturing network, a few hub economies such as China, US, Germany, Japan, and Russia drive the global and regional trade flows, but have low dependence on foreign sourcing. Building fine-grained global networks linking economy-industry pairs, we find that the structural importance of an economy-industry pair in the global supply chain drives its contribution to global economic and stock market fluctuations. These results provide fresh evidence supporting the network origins of global economic fluctuations.

FinTech and Cryptocurrencies 16:00

Chairman: Peter Gruber (Università della Svizzera italiana (USI)) Berliner

THE RISE OF E-WALLETS AND BUY-NOW-PAY-LATER: PAYMENT COMPETITION, CREDIT EXPANSION, AND CONSUMER BEHAVIOR

Wenlong Bian (Sungkyunkwan University) ; Lin William Cong (Cornell University) ; Yang Ji (Sun Yat-sen University)
Presenter: Yang Ji (Sun Yat-sen University)
Discussant: Donghwa Shin (UNC Kenan-Flagler Business School)

Digital wallets have surged in popularity, especially during the COVID-19 pandemic. Analyzing e-wallet transaction-level data matched with merchant and user characteristics from a world-leading provider, we find internal payment options, especially Buy-Now-Pay-Later (BNPL), dominates two-sided payment networks, expands consumer credit provision, and facilitates financial inclusion. A randomized experiment reveals that BNPL boosts consumer spending without increasing default or user indebtedness. These findings provide insights for economies transitioning from cash-heavy to cashless, where digital payments and FinTech credit are growing most rapidly.

REACHING FOR YIELD IN DECENTRALIZED FINANCIAL MARKETS

Donghwa Shin (UNC Kenan-Flagler Business School) ; Patrick Augustin (McGill University) ; Roy Chen-Zhang
Presenter: Donghwa Shin (UNC Kenan-Flagler Business School)
Discussant: Douglas Laporte (Washington University in St. Louis)

Among the ecosystem of decentralized financial services, yield farming is a complex investment strategy with hidden downside risks providing opportunities for passively earning income. We characterize the risk and return characteristics of yield farming and show that yield farms dynamically compete for liquidity by offering high yields that are advertised as salient headline rates. Levering the full history of transactions available through blockchain data, we show that investors chase farms with high yields and that those farms with the highest headline rates record the most negative risk-adjusted returns. That underperformance is amplified by small investment stakes and investor mistakes. Overall, our evidence is consistent with salience theory that may underpin reaching for yield behavior. We exploit heterogeneity in shocks to the information set of yield farmers to show that improved information disclosure and reduction in product complexity reduces yield chasing and improves investor performance. Since yield farming is easily accessible to retail investors, our analysis has important implications for the regulation of decentralized finance.

U.S. EQUITY CROWDFUNDING: REAL EFFECTS OF FINANCING SMALL ENTREPRENEURS

Douglas Laporte (Washington University in St. Louis) ; Rebecca Lester (Stanford Graduate School of Business)
Presenter: Douglas Laporte (Washington University in St. Louis)
Discussant: Peng Wang (Business School, Sun Yat-sen University)

We investigate the economic impact of equity crowdfunding (Reg CF), which allows small businesses to raise capital from the public via online platforms. We find that it improves access to capital by financing smaller, younger, and more diverse entrepreneurs than banks and venture capital firms. Using the number of competing offerings as an instrument for Reg CF success, we show that successful offerings increase subsequent survival and access to venture capital. We also find that Reg CF activity is associated with increased awareness of this new financing channel, increased entrepreneurial interest, and increased venture capital investment in the local area.

Climate Finance (ESSEC-Amundi Chair) — 16:00

Chairman: Sofia Ramos (ESSEC Business School) — Halles 2

REDUCING CARBON USING REGULATORY AND FINANCIAL MARKET TOOLS

Adelina Barbalau (University of Alberta) ; Franklin Allen (Imperial College London) ; Federica Zeni (Imperial College London)
Presenter: Federica Zeni (Imperial College London)
Discussant: Ole Wilms (Universität Hamburg)

We study the conditions under which debt securities that make the cost of debt contingent on issuer's carbon emissions can be equivalent to a carbon tax. We propose a model in which standard and environmental agents can adopt a polluting or a non-polluting, less profitable technology. A carbon tax can correct the laissez-faire economy in which the polluting technology is adopted by standard agents, but requires sufficient political support. Carbon-contingent securities provide an alternative price incentive for standard agents to adopt the non-polluting technology, but require sufficient funds to fully substitute the regulatory tool. Absent political support for the carbon-contingent securities can only improve welfare, but the same is not true when some support for a carbon tax exists.

WHO BENEFITS FROM THE BOND GREENIUM?

Sébastien Pouget (University of Toulouse Capitole and Toulouse School of Economics) ; Daniel Kim (BI Norwegian Business School)
Presenter: Sébastien Pouget (University of Toulouse Capitole and Toulouse School of Economics)
Discussant: Federica Zeni (Imperial College London)

Do green firms fully benefit from lower yields than brown firms? Or instead, do finan- cial intermediaries pocket in part of the greenium? We study these issues focusing on US firms active in the bond market from 2005 to 2022. We show that the greenium is lower on the primary than on the secondary bond market. This main result is robust to a wide variety of robustness checks. Underwriting dealers capture around 75% of the greenium. Based on a theoretical model, we document two channels for this finding related to uncertainty on investors' future climate concerns and to a lack of competition among dealers. Microstruc- ture frictions in the bond primary market appear to decrease the financial incentives for firms to become greener.

ASSET PRICING WITH DISAGREEMENT ABOUT CLIMATE RISKS

Ole Wilms (Universität Hamburg) ; Karl Schmedders (IMD Lausanne) ; Marco Thalhammer (RWTH Aachen) ; Thomas Lontzek (RWTH Aachen) ; Walter Pohl (NHH Bergen)

Presenter: Ole Wilms (Universität Hamburg)
Discussant: Sébastien Pouget (University of Toulouse Capitole and Toulouse School of Economics)

This paper analyzes how climate risks are priced on financial markets. We show that climate tipping thresholds, disagreement about climate risks, and preferences that price in long-run risks are crucial to an understanding of the impact of climate change on asset prices. Our model simultaneously explains several findings that have been established in the empirical literature on climate finance: (i) news about climate change can be hedged in financial markets, (ii) the share of green investors has significantly increased over the past decade, (iii) investors require a positive, although small, climate risk premium for holding "brown" assets, and (iv) "green" stocks outperformed "brown" stocks in the period 2011–2021. The model can also explain why investments in mitigating climate change have been small in the past. Finally, the model predicts a strong, non-linear increase in the marginal gain from carbon-reducing investments as well as in the carbon premium if global temperatures continue to rise.

17:30 Cocktail & Best Paper Awards - "La Rotonde", Novotel

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