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ESSEC BUSINESS SCHOOL

14th Paris December Finance Meeting

December 20, 2016

Novotel Paris les Halles

www.eurofidai.org/december2016.html

BEDOFIH
Base Européenne de Données Financières à Haute Fréquence

cnrs

FONDATION BANQUE DE FRANCE
POUR LA RECHERCHE EN ÉCONOMIE MONÉTAIRE, FINANCIÈRE ET BANCAIRE

INSTITUT CDC POUR LA RECHERCHE

Initiative de recherche
Régulation et Risques Systémiques
regulation and systemic risks

Amundi ASSET MANAGEMENT

ARDIAN

NATIXIS

BUILDING TOGETHER
TEAM SPIRIT
SOCIETE GENERALE

Meeting's organization

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

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

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

Since 1979, the French Finance Association (AFFI) has brought together researchers, teachers and practitioners interested in financial management.

AFFI sets up meetings, publishes a specialized review (Finance) and supports financial research (AFFI-EUROFIDAI price, AFFI-FNEGE price...).

AFFI
Association Française de Finance
French Finance Association

www.affi.asso.fr

ESSEC
BUSINESS SCHOOL

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

Numbers

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

In 2016, the 317 submissions were received from the U.S. (73), France (56), Germany (33), the U.K. (32), Switzerland (18), Canada (16), the Netherlands (10), Italy (9), Singapore (6), Belgium (6), Norway (5), Denmark (5), Sweden (4), Spain (4), Portugal (4), Republic of South Korea (4), Finland (4), China (3), Brazil (3), Australia (4), Russia (2), Luxembourg (2), Hong Kong (2), Pakistan (1), Austria (1).

The Paris December Finance Meeting is one of the top 3 European conferences in terms of the quality of the papers presented.

Program chair

Patrice Fontaine (EUROFIDAI, CNRS)

2016 Scientific Committee

Sessions were organized by :

Yacine Aït-Sahalia
(Princeton University and NBER)
Nihat Aktas
(WHU Otto Beisheim School of Management)
Hervé Alexandre
(Université Paris Dauphine)
Anne Balter
(Tilburg University)
Jean-Noel Barrot
(MIT Sloan)
Philippe Bertrand
(University of Marseille)
Véronique Bessière
(Université of Montpellier)
Marie-Hélène Broihanne
(University of Strasbourg)
Laurent Calvet
(EDHEC)
Luciano Campi
(London School of Economics)
Catherine Casamatta
(TSE & IAE, Université Toulouse 1 Capitole)
Pierre Collin-Dufresne
(EPFL)
Ettore Croci
(Università Cattolica del Sacro Cuore)
Julien Cujean
(University of Maryland)
Eric De Bodt
(University of Lille 2)
François Degeorge
(University of Lugano)
Olivier Dessaint
(University of Toronto)
Bernard Dumas
(INSEAD)
Mathias Efing
(University of Geneva & Swiss Finance Institute)
Ruediger Fahlenbrach
(EPFL & Swiss Finance Institute)

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(EUROFIDAI-CNRS)
Pascal François
(HEC Montréal)
Jean-François Gajewski
(University Savoie Mont-Blanc)
Edith Ginglinger
(Université Paris Dauphine)
Christian Gourieroux
(ENSAE and University of Toronto)
Peter Gruber
(Università della Svizzera Italiana)
Alex Guembel
(Toulouse School of Economics)
Terrence Hendershott
(Berkeley University)
Shiyang Huang
(The University of Hong Kong)
Georges Hübner
(HEC Liège)
Monique Jean-Blanc Piqué
(Université d'Evry)
Sonia Jimenez
(Grenoble INP)
Laurence Lescourret
(ESSEC Business School)
Abraham Lioui
(EDHEC)
Yannick Malevergne
(Université Paris 1 Panthéon-Sorbonne)
Roberto Marfe
(Collegio Carlo Alberto)
Jocelyn Martel
(ESSEC Business School)
Maxime Merli
(University of Strasbourg)
Sophie Moinas
(Toulouse School of Economics)
Franck Moraux
(University of Rennes 1)
Per Mykland
(University of Chicago)

Duc N'Guyen
(IPAG)
Clemens Otto
(HEC PARIS)
Loriana Pelizzon
(Goethe University)
Fabricio Perez
(Wilfrid Laurier University)
Christophe Perignon
(HEC Paris)
Joël Petey
(University of Strasbourg)
Ludovic Phalippou
(Oxford University)
Patrice Poncet
(ESSEC Business School)
François Quittard-Pinon
(EM Lyon)
Catherine Refait-Alexandre
(University of Franche-Comté)
Patrick Roger
(University of Strasbourg)
Mathieu Rosenbaum
(University Paris 6)
Patrick Sentis
(University of Montpellier)
Paolo Sodini
(Stockholm School of Economics)
Ariane Szafarz
(Université Libre de Bruxelles)
Christophe Spaenjers
(HEC Paris)
Nizar Touzi
(Ecole Polytechnique)
Raman Uppal
(EDHEC)
Boris Vallée
(Harvard Business School)
Philip Valta
(University of Geneva)
Rafal Wojakowski
(Surrey Business School)

Program - overview

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

08h00	**Registrations & Welcome coffee break**	
08h30	**SI-1 Corporate financing** Chairman: Jean-Noel Barrot (MIT Sloan)	Halles 1
08h30	**SI-2 Banking regulation & Systemic risk** Chairman: Eric de Bodt (University of Lille 2)	Halles 2
08h30	**SI-3 Interest rates** Chairman: Nizar Touzi (Ecole Polytechnique)	Edison
08h30	**SI-4 Risk factor** Chairman: Paolo Sodini (Stockholm School of Economics)	Berliner
09h00	**SI-5 Asset Pricing / Behavior** Chairman: Yannick Malevergne (Université Paris 1 Panthéon-Sorbonne)	Bell
10h30	**Coffee break**	
11h00	**SII-1 Investment policy / Capital budgeting** Chairman: Pierre Collin-Dufresne (EPFL)	Halles 1
11h00	**SII-2 Chaire ACPR** Chairman: Christophe Perignon (HEC Paris)	Halles 2
11h00	**SII-3 Financial mathematics** Chairman: Mathieu Rosenbaum (University Paris 6)	Edison
11h00	**SII-4 Financial crisis** Chairman: Patrice Poncet (ESSEC Business School)	Berliner
11h00	**SII-5 Portfolio management** Chairman: Georges Hübner (HEC Liège)	Bell
11h00	**SII-6 Mergers & acquisitions** Chairman: Nihat Aktas (WHU Otto Beisheim School of Management)	Daguerre
12h30	**Lunch - Restaurant «La Place», Novotel**	

Program - overview

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

14h00	**SIII-1 Corporate governance** Chairman: Edith Ginglinger (Université Paris Dauphine)	Halles 1
14h00	**SIII-2 BEDOFIH** Chairman: Terrence Hendershott (UC Berkeley)	Halles 2
14h00	**SIII-3 Asset pricing** Chairman: Bernard Dumas (INSEAD)	Edison
14h00	**SIII-4 Derivatives** Chairman: Fabricio Perez (Wilfrid Laurier University)	Berliner
14h00	**SIII-5 Banking & financial intermediation** Chairman: Joël Petey (University of Strasbourg)	Bell
14h00	**SIII-6 Private equity** Chairman: Jocelyn Martel (ESSEC Business School)	Daguerre
16h00	**Coffee break**	
16h30	**SIV-1 Housing** Chairman: Abraham Lioui (EDHEC)	Halles 1
16h30	**SIV-2 Financial econometrics** Chairman: Laurent Calvet (EDHEC)	Halles 2
16h30	**SIV-3 Information and price** Jean-François Gajewski (University Savoie Mont-Blanc)	Edison
16h30	**SIV-4 CDS** Chairman: Bart Yueshen (INSEAD)	Berliner
16h30	**SIV-5 International finance** Chairman: Roberto Marfe (Collegio Carlo **Alberto**)	Bell
18h00	**Cocktail & best paper awards - «La Rotonde», Novotel**	

Job market papers

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

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

08h30 / SI-1 Corporate financing (Halles 1)

Customer Risk and the Choice between Cash and Bank Credit Lines

David Thomas (Université Paris Dauphine, DRM)
Personal page: http://www.thomasdavid.org
Research Interests: Corporate Finance; Cash Management; Payout Policy; Customer-supplier relationships

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08h30 / SI-3 Interest rates (Edison)

Trading Ahead of Treasury Auctions

Sigaux Jean-David (HEC Paris (Groupe HEC) - Finance Department)
Personal page: sites.google.com/site/jeandavidsigaux
Research Interests: Empirical Asset Pricing; Theoretical Asset Pricing; Sovereign Debt; Short-Selling; Repo Market; Bond Markets

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08h30 / SI-5 Asset Pricing / Behavior (Bell)

Capital Heterogeneity, Volatility Risk, and the Value Premium

Ahn Yong Kil (Hong Kong University of Science and Technology)
Research Interests: continuous-time finance, production models

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11h00 / SII-1 Investment policy / Capital budgeting (Halles 1)

Do Managers Learn from Short Sellers?

Xu Liang (Université Paris Dauphine)
Research Interests: Corporate Finance (Corporate Investment, M&A, Corporate Governance); Real Effects of Financial Markets; Short Selling; Stock Liquidity

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11h00 / SII-1 Investment policy / Capital budgeting (Halles 1)

Alliance Networks, Corporate Investment, and Firm Valuation

Lee Sangho (Georgia State University, J. Mack Robinson College of Business)
Personal page: www.sangholeefinance.com
Research interests: Corporate Finance, Product Markets, Networks, Corporate Governance, Investments

11h00 / SII-6 Mergers and acquisitions (Daguerre)

Why Do Distressed Firms Acquire?

Zhang Quxian «Eden» (Rotterdam School of Management, Erasmus University)
Personal page: https://quxianzhang.github.io
Research Interests: Corporate Finance, Political Economy of Finance, Mergers and Acquisitions

14h00 / SIII-6 Private equity (Daguerre)

Does the Crowd Forgive?

Leboeuf Gaël (University of Lille, SKEMA Business School, EA4112 - LSMRC)

14h00 / SIII-6 Private equity (Daguerre)

Estimating Skill in Private Equity Performance Using Market Data

McCourt Maurice (ESSEC Business School)
Personal page: https://sites.google.com/view/mauricemccourt

16h30 / SIV-5 International finance (Bell)

Solvency Risk Premia and the Carry Trades

Orlov Vitaly (University of Vaasa, Department of Accounting and Finance)

Notes

SI-1 Corporate financing

Chairperson: Jean-Noel Barrot (MIT Sloan)

08h30

Room: Halles 1

- **INTANGIBLE ASSETS AND CAPITAL STRUCTURE**
  Moeller Thomas (Texas Christian University - Neeley School of Business); Macias Antonio J. (Baylor University); Lim Steve C. (Texas Christian University - M.J. Neeley School of Business)
  Presenter: Moeller Thomas
  Discussant: Efing Matthias (HEC Paris (Groupe HEC) - Finance Department)

- **CUSTOMER RISK AND THE CHOICE BETWEEN CASH AND BANK CREDIT LINES - JOB MARKET PAPER**
  Trinh Quoc Dat; Dereeper Sébastien (University of Lille 2, ECCCS)
  Presenter: David Thomas (Université Paris Dauphine, DRM)
  Discussant: Moeller Thomas (Texas Christian University - Neeley School of Business)

- **ACCESS TO COLLATERAL AND THE DEMOCRATIZATION OF CREDIT: FRANCE'S REFORM OF THE NAPOLEONIC CODE**
  Aretz Kevin (Manchester Business School); Campello Murillo (Cornell University); Marchica Maria-Teresa (University of Manchester - Manchester Business School)
  Presenter: Aretz Kevin
  Discussant: David Thomas (Université Paris Dauphine, DRM)

- **EMPTY CREDITORS AND STRONG SHAREHOLDERS: THE REAL EFFECTS OF CREDIT RISK TRADING**
  Efing Matthias (HEC Paris (Groupe HEC) - Finance Department); Colonnello Stefano (Halle Institute for Economic Research and OvGU Magdeburg); Zucchi Francesca (Federal Reserve Board)
  Presenter: Efing Matthias
  Discussant: Aretz Kevin (Manchester Business School)

SI-2 Banking regulation & Systemic risk

Chairperson: Eric de Bodt (University of Lille 2)

08h30

Room: Halles 2

- **THE COST OF IMMEDIACY FOR CORPORATE BONDS**
  Dick-Nielsen Jens (Copenhagen Business School - Department of Finance); Rossi Marco (Texas A&M)
  Presenter: Dick-Nielsen Jens
  Discussant: Perignon Christophe (HEC Paris (Groupe HEC) - Finance Department)

- **PITFALLS IN SYSTEMIC-RISK SCORING**
  Perignon Christophe (HEC Paris (Groupe HEC) - Finance Department); Hurlin Christophe (University of Orleans); Benoit Sylvain (Paris Dauphine University - LEDa-SDFi)
  Presenter: Perignon Christophe
  Discussant: Parisi Laura (New York University (NYU), Leonard N. Stern School of Business)

- **CORISK: MEASURING SYSTEMIC RISK THROUGH DEFAULT PROBABILITY CONTAGION**
  Parisi Laura (New York University (NYU), Leonard N. Stern School of Business); Giudici Paolo (University of Pavia)
  Presenter: Parisi Laura
  Discussant: Grundke Peter (University of Osnabrück, Chair of Banking and Finance)

- **RANKING CONSISTENCY OF SYSTEMIC RISK MEASURES: A SIMULATION-BASED ANALYSIS IN A BANKING NETWORK MODEL**
  Grundke Peter (University of Osnabrück, Chair of Banking and Finance)
  Presenter: Grundke Peter
  Discussant: Dick-Nielsen Jens (Copenhagen Business School - Department of Finance)

SI-3 Interest rates

Chairperson: Nizar Touzi (Ecole Polytechnique)

08h30

Room: Edison

LABOR RIGIDITY, INFLATION RISK AND BOND RETURNS

Marfè Roberto (Collegio Carlo Alberto)
Presenter: Marfè Roberto
Discussant: Abbot Tyler (Institut d'Etudes Politiques de Paris (Sciences Po) - Department of Economics)

HETEROGENEOUS RISK PREFERENCES IN FINANCIAL MARKETS

Abbot Tyler (Institut d'Etudes Politiques de Paris (Sciences Po) - Department of Economics)
Presenter: Abbot Tyler
Discussant: da Fonseca Soares José (University of Coimbra)

PRICING INFLATION LINKED BONDS AND HEDGING BOND PORTFOLIOS: A COMPARATIVE ANALYSIS APPLIED TO FRENCH OAT INDEXED BONDS

da Fonseca Soares José (University of Coimbra); de Séverac Béatrice (Université Paris Ouest Nanterre La Défense)
Presenter: da Fonseca Soares José
Discussant: Sigaux Jean-David (HEC Paris (Groupe HEC) - Finance Department)

TRADING AHEAD OF TREASURY AUCTIONS - JOB MARKET PAPER

Sigaux Jean-David (HEC Paris (Groupe HEC) - Finance Department)
Presenter: Sigaux Jean-David
Discussant: Marfè Roberto (Collegio Carlo Alberto)

SI-4 Risk factor

Chairperson: Paolo Sodini (Stockholm School of Economics)

08h30

Room: Berliner

ONE-FACTOR ASSET PRICING

Kostakis Alexandros (University of Manchester - Manchester Business School); Delikouras Stefanos (University of Miami)
Presenter: Kostakis Alexandros
Discussant: Lambert Marie (University of Liege - HEC Management School)

IDIOSYNCRATIC JUMP RISK MATTERS: EVIDENCE FROM EQUITY RETURNS AND OPTIONS

Bégin Jean-François (HEC Montréal); Dorion Christian (HEC Montreal); Gauthier Geneviève (HEC Montreal - Department of Decision Sciences)
Presenter: Dorion Christian
Discussant: Brière Marie (Amundi Asset Management / Paris Dauphine University / Université Libre de Bruxelles)

SIZE AND VALUE MATTER, BUT NOT THE WAY YOU THOUGHT

Lambert Marie (University of Liege - HEC Management School); Fays Boris (University of Liege - HEC Management School); Hubner Georges (HEC Management School - University of Liège/ Maastricht University - Department of Finance/ Gambit Financial Solutions)
Presenter: Lambert Marie
Discussant: Dorion Christian (HEC Montreal)

FACTOR-BASED V. INDUSTRY-BASED ASSET ALLOCATION: THE CONTEST

Brière Marie (Amundi Asset Management / Paris Dauphine University / Université Libre de Bruxelles); Szafarz Ariane (Université Libre de Bruxelles, Solvay Brussels School of Economics and Management, Centre Emile Bernheim (CEB) & CERMi)
Presenter: Brière Marie
Discussant: Kostakis Alexandros (University of Manchester - Manchester Business School)

SI-5 Asset Pricing / Behavior

Chairperson: Yannick Malevergne (Université Paris 1 Panthéon-Sorbonne)

09h00

Room: Bell

- **CAPITAL HETEROGENEITY, VOLATILITY SHOCK, AND THE VALUE PREMIUM - JOB MARKET PAPER**
  Ahn Yong Kil (Hong Kong University of Science and Technology)
  Presenter: Ahn Yong Kil
  Discussant: Kasch Maria (Humboldt University of Berlin, Finance Group)

- **DISAPPOINTMENT AVERSION, TERM STRUCTURE, AND PREDICTABILITY PUZZLES IN BOND MARKETS**
  Tédongap Roméo (ESSEC Business School); Augustin Patrick (McGill University, Desautels Faculty of Management)
  Presenter: Augustin Patrick
  Discussant: Ahn Yong Kil (Hong Kong University of Science and Technology)

- **SYSTEMATIC RISK AND SHARE TURNOVER [OR BETA AS A MEASURE OF MISPRICING]**
  Kasch Maria (Humboldt University of Berlin, Finance Group)
  Presenter: Kasch Maria
  Discussant: Augustin Patrick (McGill University, Desautels Faculty of Management)

10h30 Coffee break

SII-1 Investment policy / Capital budgeting

Chairperson: Pierre Collin-Dufresne (EPFL)

11h00

Room: Halles 1

- **DO MANAGERS LEARN FROM SHORT SELLERS? - JOB MARKET PAPER**
  Xu Liang (Université Paris Dauphine)
  Presenter: Xu Liang
  Discussant: Parise Gianpaolo (Bank for International Settlements)

- **FAMILY FIRST: DOES NEPOTISM HINDER INVESTMENTS AT U.S. FIRMS?**
  Parise Gianpaolo (Bank for International Settlements); Leone Fabrizio (University of Lugano); Sommavilla Carlo (University of Lugano / Swiss Finance Institute)
  Presenter: Parise Gianpaolo
  Discussant: Lee Sangho (Georgia State University, J. Mack Robinson College of Business)

- **ALLIANCE NETWORKS, CORPORATE INVESTMENT, AND FIRM VALUATION - JOB MARKET PAPER**
  Lee Sangho (Georgia State University, J. Mack Robinson College of Business)
  Presenter: Lee Sangho
  Discussant: Xu Liang (Université Paris Dauphine)

SII-2 Chaire ACPR

Chairperson: Christophe Perignon (HEC Paris)

Initiative de recherche
Régulation et Risques Systémiques
regulation and systemic risks

11h00

Room: Halles 2

- **THE IMPACT OF CENTRAL CLEARING ON BANKS' LENDING DISCIPLINE**
  Arnold Marc (University of Saint Gallen - School of Finance)
  Presenter: Arnold Marc
  Discussant: Gabarro Marc (Erasmus University)

DOES A LARGER MENU INCREASE APPETITE? COLLATERAL ELIGIBILITY AND BANK RISK-TAKING
van Bekkum Sjoerd (Erasmus University); Gabarro Marc (Erasmus University); Irani Rustom M. (College of Business at the University of Illinois at Urbana-Champaign)
Presenter: Gabarro Marc
Discussant: Arnold Marc (University of Saint Gallen - School of Finance)

THE FAILURE OF A CLEARINGHOUSE: EMPIRICAL EVIDENCE
Bignon Vincent (Banque de France); Vuillemey Guillaume (HEC Paris and CEPR)
Presenter: Vuillemey Guillaume
Discussant: Lé Mathias (ACPR, Banque de France)

SII-3 Financial mathematics
Chairperson: Mathieu Rosenbaum (University Paris 6)

11h00
Room: Edison

ARE INFORMATION AND PORTFOLIO DIVERSIFICATION SUBSTITUTES OR COMPLEMENTS?
Luciano Elisa (Collegio Carlo Alberto); Tolomeo Antonella (University of Turin)
Presenter: Luciano Elisa

A MULTIFACTOR SELF-EXCITING JUMP DIFFUSION APPROACH FOR MODELLING THE CLUSTERING OF JUMPS IN EQUITY RETURNS
Hainaut Donatien (Université Catholique de Louvain); Moraux Franck (Université de Rennes I and CREM)
Presenter: Hainaut Donatien
Discussant: Luciano Elisa (Collegio Carlo Alberto)

FUNDING SHORTFALL RISK AND ASSET PRICES IN GENERAL EQUILIBRIUM
Hasan Majid (EDHEC Business School)
Presenter: Hasan Majid
Discussant: Hainaut Donatien (Université Catholique de Louvain)

Information: presentation moved to session IV-1 Housing - 16h30

SII-4 Financial crisis
Chairperson: Patrice Poncet (ESSEC)

11h00
Room: Berliner

FINANCIAL CRISES, PRICE DISCOVERY, AND INFORMATION TRANSMISSION: A HIGH-FREQUENCY PERSPECTIVE
Füss Roland (University of Saint Gallen - School of Finance); Mager Ferdinand (EBS Universität für Wirtschaft und Recht); Stein Michael (University of Duisburg-Essen); Zhao Lu (EBS Universität für Wirtschaft und Recht)
Presenter: Füss Roland
Discussant: Barrot Jean-Noël (Massachusetts Institute of Technology (MIT))

CAN PAYING FIRMS QUICKER IMPACT AGGREGATE EMPLOYMENT?
Barrot Jean-Noël (Massachusetts Institute of Technology (MIT)); Nanda Ramana (Harvard University - Entrepreneurial Management Unit)
Presenter: Barrot Jean-Noël
Discussant: Zhao Shan (Grenoble Ecole de Management)

FINANCIAL FLIGHTS, STOCK MARKET LINKAGES AND JUMP EXCITATION
Erdemlioglu Deniz (IESEG School of Management); Dungey Mardi H. (University of Tasmania); Matei Marius (University of Tasmania); Yang Xiye (Rutgers University)
Presenter: Erdemlioglu Deniz
Discussant: Füss Roland (University of Saint Gallen - School of Finance)

SII-5 Portfolio management

Chairperson: Georges Hübner (HEC Liège)

11h00

Room: Bell

- **DISTRACTED INSTITUTIONAL INVESTORS**
  Schmidt Daniel (HEC Paris (Groupe HEC) - Finance Department)
  Presenter: Schmidt Daniel
  Discussant: Klein Olga (University of Warwick - Warwick Business School)

- **FINANCIAL INNOVATION AND STOCK MARKET PARTICIPATION**
  Vallee Boris (Harvard Business School - Finance Unit); Celerier Claire (University of Toronto - Rotman School of Management); Calvet Laurent E. (HEC Paris - Finance Department); Sodini Paolo (Stockholm School of Economics)
  Presenter: Vallee Boris
  Discussant: Schmidt Daniel (HEC Paris (Groupe HEC) - Finance Department)

- **STYLE INVESTING AND COMMONALITY IN LIQUIDITY**
  Klein Olga (University of Warwick - Warwick Business School); Antoniou Constantinos (University of Warwick - Warwick Business School); Raman Vikas (University of Warwick - Finance Group)
  Presenter: Klein Olga
  Discussant: Vallee Boris (Harvard Business School - Finance Unit)

SII-6 Mergers and acquisitions

Chairperson: Nihat Aktas (WHU Otto Beisheim School of Management)

11h00

Room: Daguerre

- **COLLUSION AND EFFICIENCY IN HORIZONTAL MERGERS: EVIDENCE FROM GEOGRAPHIC OVERLAP**
  Williams Ryan (University of Arizona - Department of Finance); Fairhurst Douglas J. (Washington State University)
  Presenter: Williams Ryan
  Discussant: Aktas Nihat (WHU Otto Beisheim School of Management)

- **WHY DO DISTRESSED FIRMS ACQUIRE? - JOB MARKET PAPER**
  Zhang Quxian (Rotterdam School of Management, Erasmus University)
  Presenter: Zhang Quxian
  Discussant: Burietz Aurore (IESEG School of Management)

12h30 **Lunch - Restaurant «La Place», Novotel**

SIII-1 Corporate governance

Chairperson: Edith Ginglinger (Université Paris Dauphine)

14h00

Room: Halles 1

THE CAUSAL (NON-)EFFECT OF DYNASTIC CONTROL ON FIRM PERFORMANCE

Bach Laurent (Swedish House of Finance)
Presenter: Bach Laurent
Discussant: Lei Zicheng (University of Surrey - Finance and Accounting Group)

INSTITUTIONAL INVESTORS AND CORPORATE POLITICAL ACTIVISM

Lei Zicheng (University of Surrey - Finance and Accounting Group); Albuquerque Rui A. (Boston College, CEPR and ECGI); Rocholl Joerg (ESMT European School of Management and Technology); Zhang Chendi (University of Warwick - Finance Group)
Presenter: Lei Zicheng
Discussant: Sorensen Morten (Copenhagen Business School)

ARE CEOs DIFFERENT? CHARACTERISTICS OF TOP MANAGERS

Sorensen Morten (Copenhagen Business School); Kaplan Steven Neil (University of Chicago - Booth School of Business)
Presenter: Sorensen Morten
Discussant: Camanho Nelson (Católica Lisbon School of Business & Economics)

DO COURTS MATTER FOR FIRM VALUE? EVIDENCE FROM THE U.S. COURT SYSTEM

Colonnello Stefano (Halle Institute for Economic Research and OvGU Magdeburg); Herpfer Christoph (Ecole Polytechnique Fédérale de Lausanne - Swiss Finance Institute)
Presenter: Colonnello Stefano
Discussant: Bach Laurent (Swedish House of Finance)

SIII-2 BEDOFIH

Chairperson: Terrence Hendershott (UC Berkeley)

14h00

Room: Halles 2

EVERY CLOUD HAS A SILVER LINING: FAST TRADING, MICROWAVE CONNECTIVITY AND TRADING COSTS

Shkilko Andriy (Wilfrid Laurier University); Sokolov Konstantin (Wilfrid Laurier University)
Presenter: Shkilko Andriy
Discussant: Tuzun Tugkan (Federal Reserve Board of Governors)

DESIGNATED MARKET MAKERS STILL MATTER: EVIDENCE FROM TWO NATURAL EXPERIMENTS

Zi Chao (University of Illinois at Urbana-Champaign); Ye Mao (University of Illinois at Urbana-Champaign); Clark-Joseph Adam D. (University of Illinois at Urbana-Champaign)
Presenter: Zi Chao
Discussant: Shkilko Andriy (Wilfrid Laurier University)

BEYOND THE FREQUENCY WALL: SPEED AND LIQUIDITY ON BATCH AUCTION MARKETS

Zoican Marius A. (Paris Dauphine University - PSL Research University); Haas Marlene (University of Lugano - Institute of Finance)
Presenter: Zoican Marius A.
Discussant: Moinas Sophie (IAE - Université de Toulouse 1 Capitole)

FUNDING CONSTRAINTS AND MARKET LIQUIDITY IN THE EUROPEAN TREASURY BOND MARKET

Moinas Sophie (IAE - Université de Toulouse 1 Capitole); Nguyen Minh (Newcastle University Business School); Valente Giorgio (City University of Hong Kong (CityUHK) - Department of Economics & Finance)
Presenter: Moinas Sophie
Discussant: Zoican Marius A. (Paris Dauphine University - PSL Research University)

SIII-3 Asset pricing

Chairperson: Bernard Dumas (INSEAD)

14h00

Room: Edison

THE EFFECTS OF OIL INVENTORIES ON GROWTH PROSPECTS, FUTURES MARKETS, AND RISK PREMIA

Gräber Nikolaï (University of Muenster - Finance Center Muenster); Branger Nicole (University of Muenster - Finance Center Muenster); Schumacher Malte (University of Muenster - Finance Center Muenster)

Presenter: Gräber Nikolaï

Discussant: Landoni Mattia (Southern Methodist University (SMU) - Finance Department)

CAPITAL REQUIREMENTS AND ASSET PRICES

Chabakauri Georgy (London School of Economics and Political Science); Han Brandon Yueyang (London School of Economics and Political Science)

Presenter: Chabakauri Georgy

Discussant: Roling Christoph (Deutsche Bundesbank)

FLYING UNDER THE RADAR: THE EFFECTS OF SHORT-SALE DISCLOSURE RULES ON INVESTOR BEHAVIOR AND STOCK PRICES

Roling Christoph (Deutsche Bundesbank); Jank Stephan (Frankfurt School of Finance & Management gemeinnützige GmbH); Smajlbegovic Esad (University of Mannheim)

Presenter: Roling Christoph

Discussant: Gräber Nikolaï (University of Muenster - Finance Center Muenster)

LENDER PROTECTION VERSUS RISK COMPENSATION: EVIDENCE FROM THE BILATERAL REPO MARKET

Landoni Mattia (Southern Methodist University (SMU) - Finance Department); Auh Jun Kyung (Georgetown University - Department of Finance)

Presenter: Landoni Mattia

Discussant: Chabakauri Georgy (London School of Economics and Political Science)

SIII-4 Derivatives

Chairperson: Fabricio Perez (Wilfrid Laurier University)

14h00

Room: Berliner

WHEN THE OPTIONS MARKET DISAGREES

Grass Gunnar (HEC Montréal); Goyenko Ruslan (McGill University - Desautels Faculty of Management); Fournier Mathieu (HEC Montreal)

Presenter: Grass Gunnar

Discussant: Hofmann Michael (Karlsruhe Institute of Technology)

CREDIT DEFAULT SWAPS IN GENERAL EQUILIBRIUM: SPILLOVERS, CREDIT SPREADS, AND ENDOGENOUS DEFAULT

Darst Matthew (Board of Governors of the Federal Reserve System); Refayet Ehraz (Office of the Comptroller of the Currency, Department of Treasury)

Presenter: Darst Matthew

Discussant: Cosma Antonio (Université du Luxembourg)

MARGIN REQUIREMENTS AND EQUITY OPTION RETURNS

Hofmann Michael (Karlsruhe Institute of Technology); Hitzemann Steffen (Ohio State University (OSU) - Department of Finance); Uhrig-Homburg Marliese (Karlsruhe Institute of Technology); Wagner Christian (Copenhagen Business School)

Presenter: Hofmann Michael

Discussant: Darst Matthew (Board of Governors of the Federal Reserve System)

VALUING AMERICAN OPTIONS USING FAST RECURSIVE PROJECTIONS

Cosma Antonio (Université du Luxembourg); Galluccio Stefano (BNP Paribas Fixed Income); Pederzoli Paola (University of Geneva); Scaillet Olivier (University of Geneva GSEM and GFRI)

Presenter: Cosma Antonio

Discussant: Grass Gunnar (HEC Montréal)

SIII-5 Banking and financial intermediation

Chairperson: Joël Petey (University of Strasbourg)

14h00

Room: Bell

- **EQUITY IS CHEAP FOR LARGE FINANCIAL INSTITUTIONS: THE INTERNATIONAL EVIDENCE**
  Plazzi Alberto (USI-Lugano); Lustig Hanno N. (Stanford Graduate School of Business); Gandhi Priyank (Mendoza College of Business, University of Notre Dame)
  Presenter: Plazzi Alberto
  Discussant: Sila Vathunyoo (University of Edinburgh)

- **QUID PRO QUO? WHAT FACTORS INFLUENCE IPO ALLOCATIONS TO INVESTORS?**
  Suntheim Felix (Financial Conduct Authority); Jones Howard (University of Oxford, Said Business School); Jenkinson Tim (University of Oxford - Said Business School)
  Presenter: Suntheim Felix
  Discussant: Plazzi Alberto (USI-Lugano)

- **THE IMPACT OF BANK SHOCKS ON FIRM-LEVEL OUTCOMES AND BANK RISK-TAKING**
  Jakovljevic Sanja (KU Leuven); De Jonghe Olivier (Tilburg University - Department of Finance); Degryse Hans (KU Leuven); Mulier Klaas (Ghent University-Universiteit Gent - Faculty of Economics and Business Administration)
  Presenter: Jakovljevic Sanja
  Discussant: Suntheim Felix (Financial Conduct Authority)

- **BANK CULTURE, RISKY LENDING, AND SYSTEMIC RISK**
  Sila Vathunyoo (University of Edinburgh); Hoai Linh Nguyen (University of St Andrews); Nguyen Duc Duy (University of St Andrews)
  Presenter: Sila Vathunyoo
  Discussant: Jakovljevic Sanja (KU Leuven)

SIII-6 Private equity

Chairperson: Jocelyn Martel (ESSEC Business School)

14h00

Room: Daguerre

- **HOW DO INVESTORS ACCUMULATE NETWORK CAPITAL? EVIDENCE FROM ANGEL NETWORKS**
  Venugopal Buvaneshwaran Gokul (University of Houston - C.T. Bauer College of Business); Yerramilli Vijay (University of Houston - C.T. Bauer College of Business)
  Presenter: Venugopal Buvaneshwaran Gokul
  Discussant: McCourt Maurice (ESSEC Business School)

- **DOES THE CROWD FORGIVE? - JOB MARKET PAPER**
  Leboeuf Gaël (Univ. Lille, SKEMA Business School, EA4112 - LSMRC)
  Presenter: Leboeuf Gaël
  Discussant: Venugopal Buvaneshwaran Gokul (University of Houston - C.T. Bauer College of Business)

- **ESTIMATING SKILL IN PRIVATE EQUITY PERFORMANCE USING MARKET DATA - JOB MARKET PAPER**
  McCourt Maurice (ESSEC Business School)
  Presenter: McCourt Maurice
  Discussant: Fuchs Florian (University of St Gallen - School of Finance)

- **WINNING A DEAL IN PRIVATE EQUITY: DO EDUCATIONAL NETWORKS MATTER?**
  Morkoetter Stefan (University of Saint Gallen - School of Finance); Füss Roland (University of Saint Gallen - School of Finance); Fuchs Florian (University of Saint Gallen - School of Finance); Jenkinson Tim (University of Oxford, Saïd Business School)
  Presenter: Fuchs Florian
  Discussant: Leboeuf Gaël (Univ. Lille, SKEMA Business School, EA4112 - LSMRC)

16h00 **Coffee break**

SIV-1 Housing

Chairperson: Abraham Lioui (EDHEC)

16h30

Room: Halles 1

- **IDENTIFYING THE BENEFITS FROM HOME OWNERSHIP: A SWEDISH EXPERIMENT**
  Van Nieuwerburgh Stijn (New York University Stern School of Business); Sodini Paolo (Stockholm School of Economics); Vestman Roine (Stockholm University); von Lilienfeld-Toal Ulf (Universite du Luxembourg);
  Presenter: Van Nieuwerburgh Stijn
  Discussant: Messaoud Chibane (ESSEC Business School)

- **IMMIGRATION, REAL ESTATE PRICES AND THE CONSUMPTION DECISIONS OF NATIVE HOUSEHOLDS**
  Adams Zeno (University of Saint Gallen - School of Finance); Blickle Kristian (University of Saint Gallen - School of Finance)
  Presenter: Adams Zeno
  Discussant: Van Nieuwerburgh Stijn (New York University Stern School of Business)

SIV-2 Financial econometrics

Chairperson: Laurent Calvet (EDHEC)

16h30

Room: Halles 2

- **INVESTING THROUGH ECONOMIC CYCLES WITH ENSEMBLE MACHINE LEARNING ALGORITHMS**
  Raffinot Thomas (Millesime-IS)
  Presenter: Raffinot Thomas
  Discussant: Gourier Elise (Queen Mary, University of London)

- **THE JOINT DYNAMICS OF THE U.S. AND EURO-AREA INFLATION: EXPECTATIONS AND TIME-VARYING UNCERTAINTY**
  Renne Jean-Paul (HEC Lausanne); Mouabbi Sarah (Banque de France); Grishchenko Olesya V. (Board of Governors of the Federal Reserve System)
  Presenter: Renne Jean-Paul
  Discussant: Raffinot Thomas (Millesime-IS)

- **INFERRING VOLATILITY DYNAMICS AND RISK PREMIA FROM THE S&P 500 AND VIX MARKETS**
  Gourier Elise (Queen Mary, University of London); Bardgett Chris (University of Zurich - Department of Banking and Finance); Leippold Markus (University of Zurich - Department of Banking and Finance)
  Presenter: Gourier Elise
  Discussant: Al Wakil Anmar (Université Paris Dauphine)

SIV-3 Information and price

Jean-François Gajewski (University Savoie Mont-Blanc)

16h30

Room: Edison

- **TECHNICAL ANALYSIS, LIQUIDITY, AND PRICE DISCOVERY**
  Fritz Felix (Karlsruhe Institute of Technology); Weinhardt Christof (Karlsruhe Institute of Technology)
  Presenter: Fritz Felix
  Discussant: Nunes Tamara (University of Lausanne, Students)

- **THINKING ABOUT PRICES VERSUS THINKING ABOUT RETURNS IN FINANCIAL MARKETS**
  Iliewa Zwetelina (Centre for European Economic Research); Glaser Markus (Ludwig Maximilian University of Munich); Weber Martin (University of Mannheim)
  Presenter: Iliewa Zwetelina
  Discussant: Fritz Felix (Karlsruhe Institute of Technology)

- **CONFIRMING SIGNALS ARE HARD TO RESIST: BLESSING AND CURSE OF INFORMATION UNDER CONFIRMATION BIAS**
  Nunes Tamara (University of Lausanne, Students); Schraeder Stefanie (University of New South Wales)
  Presenter: Schraeder Stefanie
  Discussant: Iliewa Zwetelina (Centre for European Economic Research)

SIV-4 CDS

Chairperson: Bart Yueshen (INSEAD)

16h30

Room: Berliner

- **RELATED SECURITIES AND THE CROSS-SECTION OF STOCK RETURN MOMENTUM: EVIDENCE FROM CREDIT DEFAULT SWAPS (CDS)**
  Lee Jongsub (University of Florida - Warrington College of Business Administration); Naranjo Andy (University of Florida - Warrington College of Business Administration); Sirmans Stace (University of Arkansas - Department of Finance)
  Presenter: Lee Jongsub
  Discussant: Junge Benjamin (Ecole Polytechnique Fédérale de Lausanne)

- **LINEAR CREDIT RISK MODELS**
  Ackerer Damien (Ecole Polytechnique Fédérale de Lausanne); Filipovic Damir (Ecole Polytechnique Fédérale de Lausanne)
  Presenter: Ackerer Damien
  Discussant: Lee Jongsub (University of Florida - Warrington College of Business Administration)

- **MARKET STRUCTURE AND TRANSACTION COSTS OF INDEX CDSS**
  Junge Benjamin (Ecole Polytechnique Fédérale de Lausanne); Collin-Dufresne Pierre (Ecole Polytechnique Fédérale de Lausanne - Swiss Finance Institute); Trolle Anders B. (Ecole Polytechnique Fédérale de Lausanne)
  Presenter: Junge Benjamin
  Discussant: Ackerer Damien (Ecole Polytechnique Fédérale de Lausanne)

SIV-5 International finance

Chairperson: Roberto Marfe (Collegio Carlo Alberto)

16h30

Room: Bell

- **A PURE MEASURE OF HOME BIAS**
  Cooper Ian A. (London Business School); Sercu Piet (FEB at KU Leuven); Vanpee Rosanne (KU Leuven Faculty of Economics and Business)
  Presenter: Cooper Ian A.
  Discussant: Orlov Vitaly (University of Vaasa, Department of Accounting and Finance)

- **BETA AND BIASED BELIEFS**
  Jacobs Heiko (University of Mannheim, Finance Department)
  Presenter: Jacobs Heiko
  Discussant: Cooper Ian A. (London Business School)

- **SOLVENCY RISK PREMIA AND THE CARRY TRADES - JOB MARKET PAPER**
  Orlov Vitaly (University of Vaasa, Department of Accounting and Finance)
  Presenter: Orlov Vitaly
  Discussant: Jacobs Heiko (University of Mannheim, Finance Department)

18h00 **Cocktail & best paper awards - «La Rotonde», Novotel**

Abstracts

SI-1 Corporate financing

Chairperson: Jean-Noel Barrot (MIT Sloan)

08h30

Room: Halles 1

INTANGIBLE ASSETS AND CAPITAL STRUCTURE

Moeller Thomas (Texas Christian University - Neeley School of Business); Macias Antonio J. (Baylor University); Lim Steve C. (Texas Christian University - M.J. Neeley School of Business)

Presenter: Moeller Thomas

Discussant: Efing Matthias (HEC Paris (Groupe HEC) - Finance Department)

With intangible assets representing at least one third of U.S. corporate assets and one half of annual investment, it is important to understand to what extent intangible assets support debt. Some characteristics of intangible assets, such as high valuation risk and poor collateralizability, can discourage debt financing. Yet, intangible assets can generate cash flows just as reliably as tangible assets and may therefore support debt like tangible assets do. The empirical capital structure research has struggled to quantify the effects of intangible assets on leverage because most intangible assets are not reflected in financial statements. We take advantage of a recent accounting rule change that has made it possible to observe market-based valuations of a large part of intangible assets that beforehand where largely unobservable. With this novel dataset, we find a strong positive relation between intangible assets and financial leverage. The strength of this relation depends on the type of firm. In firms with ample tangible assets, the tangible assets can support the desired debt and intangible assets do not affect leverage. In firms with limited tangible assets, intangible assets strongly affect leverage and are the primary support of debt. On a per dollar basis across all firms, intangible assets support roughly three quarters as much debt financing as tangible assets. We also observe that the type of debt financing differs for firms whose assets are predominantly intangible. Firms with higher proportions of intangible assets utilize more unsecured and convertible debt, debt types that fit an intangible asset base well.

CUSTOMER RISK AND THE CHOICE BETWEEN CASH AND BANK CREDIT LINES - JOB MARKET PAPER

Trinh Quoc Dat; Dereeper Sébastien (University of Lille 2, ECCCS)

Presenter: David Thomas (Université Paris Dauphine, DRM)

Discussant: Moeller Thomas (Texas Christian University - Neeley School of Business)

I use a matched buyer-supplier sample of U.S. industrial firms to investigate the impact of customer risk on suppliers' choice between cash and lines of credit as a source of liquidity. I find that customer risk decreases the reliance on bank-managed liquidity insurance relative to cash. This effect appears to be economically significant compared to previously documented factors affecting the choice between cash and lines of credit. A one standard deviation increase in customer risk is associated to a significant 1.48% up to 2.44% (depending on the measure used) decrease of the ratio of opened lines of credit to total available liquidity. These results are consistent with the hypothesis that customer-supplier relationships can significantly shape corporate financial decisions.

ACCESS TO COLLATERAL AND THE DEMOCRATIZATION OF CREDIT: FRANCE'S REFORM OF THE NAPOLEONIC CODE

Aretz Kevin (Manchester Business School); Campello Murillo (Cornell University); Marchica Maria-Teresa (University of Manchester - Manchester Business School)

Presenter: Aretz Kevin

Discussant: David Thomas (Université Paris Dauphine, DRM)

We exploit wrinkles of a contracting framework to show how access to collateral shapes the composition of corporate borrowing and the demographics of credit access. France's Ordonnance 2006-346 repudiated the 200-year old Napoleonic security code, easing the pledge of hard assets in a country where corporate credit was highly concentrated. The reform was undermined by "non-codified" laws pushed by firms in large cities, which allowed them to pledge liquid assets to factoring companies. Using a differences-test strategy, we show that firms with high utilization of hard assets and limited access to factoring services increased their leverage ratios following the reform (intensive margin), with the fraction of "zero-leverage" firms among them dropping from 89% to 29% (extensive margin). Using contractlevel data, we show that hard assets allowed for significant reductions in loan mark-ups and increases in loan maturities. Small, profitable, low-risk firms benefitted the most from derogating the Napoleonic code. Start-up firms registered unprecedented increases in the use of debt financing at incorporation. Department-level analysis allows us to map the effects of Ordonnance 2006-346 on credit access inequality within and across different areas of the country. The reform reached firms in rural areas, leading to a pronounced decline in the Gini index of credit access inequality across France's countryside.

EMPTY CREDITORS AND STRONG SHAREHOLDERS: THE REAL EFFECTS OF CREDIT RISK TRADING

Efing Matthias (HEC Paris (Groupe HEC) - Finance Department); Colonnello Stefano (Halle Institute for Economic Research and OvGU Magdeburg); Zucchi Francesca (Federal Reserve Board)
Presenter: Efing Matthias
Discussant: Aretz Kevin (Manchester Business School)

Credit derivatives give creditors the possibility to transfer debt cash flow rights to other market participants while retaining control rights. We use the market for credit default swaps (CDSs) as a laboratory to show that the real effects of this transfer crucially hinge on the relative bargaining power of shareholders and creditors. We find that creditors buy more CDS protection when facing strong shareholders to secure themselves a valuable outside option in distressed renegotiation. After the start of CDS trading, the distance-to-default, investment, and market value of firms with powerful shareholders decline substantially relative to other firms.

SI-2 Banking regulation & Systemic risk

Chairperson: Eric de Bodt (University of Lille 2)

08h30

Room: Halles 2

THE COST OF IMMEDIACY FOR CORPORATE BONDS

Dick-Nielsen Jens (Copenhagen Business School - Department of Finance); Rossi Marco (Texas A&M)
Presenter: Dick-Nielsen Jens
Discussant: Perignon Christophe (HEC Paris (Groupe HEC) - Finance Department)

Liquidity provision in the corporate bond market has become significantly more expensive after the 2008 credit crisis. Using index exclusions as a natural experiment during which uninformed index trackers request immediacy, we find that the price of immediacy has doubled for short-term investment grade bonds, and more than tripled for speculative-grade bonds. The increased cost of immediacy is a side-effect of a ban on proprietary trading (Volker Rule) and tighter post-crisis capital regulations, which have resulted in lower aggregate dealer inventories.

PITFALLS IN SYSTEMIC-RISK SCORING

Perignon Christophe (HEC Paris (Groupe HEC) - Finance Department); Hurlin Christophe (University of Orleans); Benoit Sylvain (Paris Dauphine University - LEDa-SDFi)
Presenter: Perignon Christophe
Discussant: Parisi Laura (New York University (NYU), Leonard N. Stern School of Business)

To increase financial stability, regulators request higher loss absorption capacity from the banks that contribute the most to the risk of the system, i.e., the Systemically Important Financial Institutions (SIFIs). In this paper, we identify a potential bias in the methodology used by the Basel Committee on Banking Supervision for identifying SIFIs and setting their regulatory capital. This can lead to capital misallocation among banks and distort the distribution of credit and risk-taking in the economy. We then propose a modified methodology that corrects for the bias and leads to a robust list of SIFIs which can readily be used to set capital surcharges or levy a Pigouvian tax on systemic risk. Using regulatory data for a sample of 106 large, international banks, we demonstrate that our approach offers an attractive alternative to the official methodology, yet remaining as simple to compute.

CORISK: MEASURING SYSTEMIC RISK THROUGH DEFAULT PROBABILITY CONTAGION

Parisi Laura (New York University (NYU), Leonard N. Stern School of Business); Giudici Paolo (University of Pavia)
Presenter: Parisi Laura
Discussant: Grundke Peter (University of Osnabrück, Chair of Banking and Finance)

We propose a novel systemic risk measurement model based on stochastic processes, correlation networks and conditional probabilities of default. For each country we consider three different economic sectors (sovereigns, corporates, banks) and we model each of them as a linear combination of two stochastic processes: a country-specific idiosyncratic component and a common systematic factor. Through correlation networks we derive conditional default probabilities, thus obtaining the CoRisk, which measures the variation in the probability of default due to contagion effects. Our model is applied to Eurozone countries, and the results show that the sovereign crisis has increased systemic risks more than the financial one: the two events together have caused a phase transition difficult to reverse, as risk propagation does not act as a mean for balancing inequalities across countries but, on the contrary, weakens the weakest and strengthens the strongest.

RANKING CONSISTENCY OF SYSTEMIC RISK MEASURES: A SIMULATION-BASED ANALYSIS IN A BANKING NETWORK MODEL

Grundke Peter (University of Osnabrück, Chair of Banking and Finance)
Presenter: Grundke Peter

Discussant: Dick-Nielsen Jens (Copenhagen Business School - Department of Finance)

In a banking network model, the ranking consistency of various popular systemic risk measures (SRMs) is analyzed. In contrast to previous studies, this model-based analysis offers the advantage that the sensitivity of the ranking consistency with respect to bank and network characteristics can easily be checked. The employed network model accounts, among others, for bank insolvencies as well as illiquidities, stochastic dependencies of non-bank loans as well as of liquidity buffer assets across various banks, bank rating-dependent volumes of deposits and interbank liabilities, and the funding liquidity reducing effect of fire sales of other banks. Within the assumed banking network model, it can be shown that, in general, the ranking consistency (measured by the rank correlation) of various SRMs is rather low. Furthermore, the ranking consistency can significantly vary, for example, for an increasing correlation between the returns of the liquidity buffer assets across banks, for an increasing degree of heterogeneity in the banks' balance sheets or with a changing network structure of the banking system. However, forecasting which effect a specific change in parameters, bank behavior or network characteristics has on the ranking consistency of SRMs in general seems to be rather difficult because the sign of the effect can be different for different pairs of SRMs.

SI-3 Interest rates

Chairperson: Nizar Touzi (Ecole Polytechnique)

08h30

Room: Edison

LABOR RIGIDITY, INFLATION RISK AND BOND RETURNS

Marfè Roberto (Collegio Carlo Alberto)
Presenter: Marfè Roberto
Discussant: Abbot Tyler (Institut d'Etudes Politiques de Paris (Sciences Po) - Department of Economics)

This paper exploits information from the variance-ratios of macroeconomic variables to infer about the short and long-run components of dividend risk and inflation risk. While labor rigidity shifts dividend risk towards the short horizon, it also reveals - by means of labor-share variation - the component of inflation risk which is correlated with fundamentals. A simple general equilibrium model with labor rigidity can explain how inflation interacts with the real growth and the labor-share, as well as many patterns of the term-structures of real and nominal bond yields. The model is robust to many properties of equity returns.

HETEROGENEOUS RISK PREFERENCES IN FINANCIAL MARKETS

Abbot Tyler (Institut d'Etudes Politiques de Paris (Sciences Po) - Department of Economics)
Presenter: Abbot Tyler
Discussant: da Fonseca Soares José (University of Coimbra)

This paper builds a continuous time model of N heterogeneous agents, whose CRRA preferences differ in their level of risk aversion and considers the Mean Field Game (MFG) in the limit as N becomes large. I find that agents dynamically self select into one of three groups depending on their preferences: leveraged investors, diversified investors, and saving divestors, driven by a wedge between the market price of risk and the risk free rate. I simulate by path monte-carlo both the finite types and continuous types economies and find that both models match qualitative features of real world financial markets. However, the continuous types economy is more robust to the definition of the support of the distribution of preferences and computationally less costly than the finite types economy.

PRICING INFLATION LINKED BONDS AND HEDGING BOND PORTFOLIOS: A COMPARATIVE ANALYSIS APPLIED TO FRENCH OAT INDEXED BONDS

da Fonseca Soares José (University of Coimbra); de Séverac Béatrice (Université Paris Ouest Nanterre La Défense)
Presenter: da Fonseca Soares José
Discussant: Sigaux Jean-David (HEC Paris (Groupe HEC) - Finance Department)

Using market prices of inflation-linked bonds and nominal bonds issued by the French Treasury, both the real and nominal zero coupon curves are estimated from January 1, 2013 to December 31, 2015. Several methods are applied to extract zero coupon bond prices: bootstrapping, a piecewise constant forward rates method, a cubic spline model, and the Nelson and Siegel smoothing model. Next, based on the estimated real and nominal curves, several methodologies to hedge bond portfolios comprising indexed and nominal bonds are tested. The hedging ratios used in these strategies are based on an arbitrage-free model of the term structure and on a traditional duration measure. Hedging methods are compared according to three perspectives: impact of the extraction method, hedging methodology, and holding period. It seems that the extraction procedure and hedging methodology do not impact the hedging error measurement, while the holding period plays a key role. This paper also generates evidence on the benefits of hedging portfolios against real interest rate and inflation risks rather than against nominal interest rate risks.

TRADING AHEAD OF TREASURY AUCTIONS - JOB MARKET PAPER

Sigaux Jean-David (HEC Paris (Groupe HEC) - Finance Department)

Presenter: Sigaux Jean-David

Discussant: Marfè Roberto (Collegio Carlo Alberto)

I develop and test a model explaining the gradual price decrease observed in the days leading to large anticipated asset sales such as Treasury auctions. In the model, risk-averse investors anticipate an asset sale which magnitude, and hence price, are uncertain. I show that investors face a trade-off between hedging the price risk with a long position, and arbitraging the difference between the pre-sale and the expected sale prices. Due to hedging, the equilibrium price is above the expected sale price. As the sale date approaches, uncertainty about the sale price decreases, short arbitrage positions increase and the price decreases. In line with the predictions, I find that the price of Italian Treasuries decreases by 4.6 bps after the release of auction price information, compared to non-information days.

SI-4 Risk factor

Chairperson: Paolo Sodini (Stockholm School of Economics)

08h30

Room: Berliner

ONE-FACTOR ASSET PRICING

Kostakis Alexandros (University of Manchester - Manchester Business School); Delikouras Stefanos (University of Miami)

Presenter: Kostakis Alexandros

Discussant: Lambert Marie (University of Liege - HEC Management School)

I develop and test a model explaining the gradual price decrease observed in the days leading to large anticipated asset sales such as Treasury auctions. In the model, risk-averse investors anticipate an asset sale which magnitude, and hence price, are uncertain. I show that investors face a trade-off between hedging the price risk with a long position, and arbitraging the difference between the pre-sale and the expected sale prices. Due to hedging, the equilibrium price is above the expected sale price. As the sale date approaches, uncertainty about the sale price decreases, short arbitrage positions increase and the price decreases. In line with the predictions, I find that the price of Italian Treasuries decreases by 4.6 bps after the release of auction price information, compared to non-information days.

IDIOSYNCRATIC JUMP RISK MATTERS: EVIDENCE FROM EQUITY RETURNS AND OPTIONS

Bégin Jean-François (HEC Montréal); Dorion Christian (HEC Montreal); Gauthier Geneviève (HEC Montreal - Department of Decision Sciences)

Presenter: Dorion Christian

Discussant: Brière Marie (Amundi Asset Management / Paris Dauphine University / Université Libre de Bruxelles)

The recent literature provides conflicting empirical evidence on the relationship between idiosyncratic risk and equity returns. This paper sheds new light on this relationship by exploiting the richness of option data. We disentangle four risk factors that potentially contribute to the equity risk premium: systematic Gaussian risk, systematic jump risk, idiosyncratic Gaussian risk, and idiosyncratic jump risk. First, we find that systematic risk factors explain close to 60% of the risk premium on average, while idiosyncratic factors explain more than 40%. Second, we show that the contribution of idiosyncratic risk to the equity risk premium arises exclusively from the jump risk component. Tail risk thus plays a central role in the pricing of idiosyncratic risk.

SIZE AND VALUE MATTER, BUT NOT THE WAY YOU THOUGHT

Lambert Marie (University of Liege - HEC Management School); Fays Boris (University of Liege - HEC Management School); Hubner Georges (HEC Management School - University of Liège/ Maastricht University - Department of Finance/ Gambit Financial Solutions)

Presenter: Lambert Marie

Discussant: Dorion Christian (HEC Montreal)

We propose a fundamental methodological change to Fama and French (1993) factor construction procedure. Consistent with Lambert and Hübner (2013) sequential sorting procedure to classify stocks, our methodology controls ex ante for pricing errors produced by multifactor models. Our size and value factors deliver less specification errors when used to price passive portfolios including the new portfolio sorts of Fama and French (2015a, b). The sequential model delivers excellent pricing performance for corner portfolios such as low size and high B/M stocks. Furthermore, this alternative framework generates much stronger "turn-of-the-year" size and "through-the-year" book-to-market effects than conventionally documented.

FACTOR-BASED V. INDUSTRY-BASED ASSET ALLOCATION: THE CONTEST

Brière Marie (Amundi Asset Management / Paris Dauphine University / Université Libre de Bruxelles); Szafarz Ariane (Université Libre de Bruxelles, Solvay Brussels School of Economics and Management, Centre Emile Bernheim (CEB) & CERMi)
Presenter: Brière Marie
Discussant: Kostakis Alexandros (University of Manchester - Manchester Business School)

Factor investing has emerged as the new paradigm for long-term investment. This paper organizes a multi-trial contest opposing factor investing and sector investing. The results suggest that factor investing is the best strategy when short sales are permitted. When short-selling is forbidden, investors are typically better-off with the defensive opportunities of sector investing. The contest reveals that there is a trade-off between the risk premia associated with factors and the diversification potential of sectors. Overall, factor investing keeps its promises, but it still has a long way to go before it can oust sector investing.

SI-5 Asset Pricing / Behavior

Chairperson: Yannick Malevergne (Université Paris 1 Panthéon-Sorbonne)

09h00

Room: Bell

CAPITAL HETEROGENEITY, VOLATILITY SHOCK, AND THE VALUE PREMIUM - JOB MARKET PAPER

Ahn Yong Kil (Hong Kong University of Science and Technology)
Presenter: Ahn Yong Kil
Discussant: Kasch Maria (Humboldt University of Berlin, Finance Group)

I propose an investment-based asset pricing model augmented with intangible capital and transient volatility shock. Already-acquired intangible capital and new R&D investment are complementary inputs in knowledge production. The distinctive evolutionary dynamics of intangible capital as opposed to that of physical capital mitigate the negative impact of temporary volatility shock on output. Physical-capital-intensive value rms are thus more exposed to volatility shock and require more premium. Moreover, the expected return of value rms surges conditionally upon a temporary volatility shock. As a result, the value premium is unconditionally positive ex ante and the realized return of value-minus-growth portfolio plummets to negative after major transient second-moment shocks such as the Loma Prieta Earthquake or the 9/11 terrorist attack.

DISAPPOINTMENT AVERSION, TERM STRUCTURE, AND PREDICTABILITY PUZZLES IN BOND MARKETS

Tédongap Roméo (ESSEC Business School); Augustin Patrick (McGill University, Desautels Faculty of Management)
Presenter: Augustin Patrick
Discussant: Ahn Yong Kil (Hong Kong University of Science and Technology)

We solve a dynamic general equilibrium model with generalized disappointment aversion preferences and continuous state endowment dynamics. We apply the framework to the term structure of interest rates and show that the model generates an upward sloping term structure of nominal interest rates, a downward sloping term structure of real interest rates, and that it accounts for the failure of the expectations hypothesis. The key ingredients are disappointment aversion preferences, preference for early resolution of uncertainty, and a parsimonious endowment economy with three state variables: time-varying macroeconomic uncertainty, time-varying expected inflation and inflation uncertainty.

SYSTEMATIC RISK AND SHARE TURNOVER [OR BETA AS A MEASURE OF MISPRICING]

Kasch Maria (Humboldt University of Berlin, Finance Group)
Presenter: Kasch Maria
Discussant: Augustin Patrick (McGill University, Desautels Faculty of Management)

This paper documents a simple and powerful cross-sectional mechanism: a higher rate of investor participation in trading a stock translates into a greater contribution of the stock to market movements. The participation-driven overreaction (1) forms a persistent source of excess market volatility and, by implication, return predictability, (2) introduces a strong mechanical element into the beta-return relation, making this relation conditional on market state and challenging the meaningfulness of traditional tests of the CAPM, and (3) suggests that the low-risk anomaly (Black et al. (1972)) reflects a reversal of overreaction in the cross-section of stock returns. The endogeneity of market beta challenges the mainstream interpretation of the systematic risk-return relation and the notion of risk-adjusted returns in the finance literature.

SII-1 Investment policy / Capital budgeting

Chairperson: Pierre Collin-Dufresne (EPFL)

11h00

Room: Halles 1

DO MANAGERS LEARN FROM SHORT SELLERS? - JOB MARKET PAPER

Xu Liang (Université Paris Dauphine)

Presenter: Xu Liang

Discussant: Parise Gianpaolo (Bank for International Settlements)

This paper investigates whether short selling activities affect corporate decisions through an information channel. By exploiting a unique institutional feature in Hong Kong market that only stocks included in an official list are eligible for short sales, I show that non-shortable firms' investment is positively and significantly related to their shortable peers' stock prices: a one standard deviation decrease in shortable peers' stock prices is associated with a decrease in non-shortable firms' investment by around 10%. I verify that this relationship is not driven by shortable peers' firm characteristics other than short-sale eligibility. Moreover, this relationship becomes stronger in situations where non-shortable firms' managers are more likely to learn negative information from shortable peers' stock prices. These findings are consistent with my hypothesis that non-shortable firms' managers seek to learn short sellers' information on external conditions from shortable peers' stock prices and use this information in their corporate investment decisions.

FAMILY FIRST: DOES NEPOTISM HINDER INVESTMENTS AT U.S. FIRMS?

Parise Gianpaolo (Bank for International Settlements); Leone Fabrizio (University of Lugano); Sommavilla Carlo (University of Lugano / Swiss Finance Institute)

Presenter: Parise Gianpaolo

Discussant: Lee Sangho (Georgia State University, J. Mack Robinson College of Business)

Directors that are not owners directly benefit from nepotism, while only indirectly gain by increasing firm value. This creates an incentive to hire less qualified family members instead of more talented external candidates. This also weakens the incentive to enforce optimal investment. To assess the implications of nepotism, we build a unique database that tracks family connections—by blood, marriage, or adoption—among individuals employed in key positions by the same firm. Our analysis indicates that firms in which nepotism is pervasive invest substantially less than peer firms and are less responsive to changes in investment opportunities. Our results suggest that previous findings by the literature on family-owned firms may not be generalizable to family-run firms.

ALLIANCE NETWORKS, CORPORATE INVESTMENT, AND FIRM VALUATION - JOB MARKET PAPER

Lee Sangho (Georgia State University, J. Mack Robinson College of Business)

Presenter: Lee Sangho

Discussant: Xu Liang (Université Paris Dauphine)

This paper examines the impact of corporate alliances on corporate investment decisions in a network setting. Well-connected firms are centrally located in alliance networks. I hypothesize that more centrally located firms are exposed to greater information flows through the networks and, therefore, possess informational advantages. The informational advantages of central firms allow them to rely less on the information in their stock prices for making investment decisions. Supporting this hypothesis, firms with a higher centrality exhibit lower investment-to-price sensitivity. This finding is robust to a variety of network centrality measures and endogeneity in alliance formations. Notably, the effect of centrality is not the same across alliance types. More integrated forms of alliances including joint ventures, technology transfer, R&D agreements, and manufacturing agreements seem to exert a stronger influence on the investment-to-price sensitivity. In fact, only the centrality based on these alliances shows a positive impact on both market valuations and announcement effects, suggesting that these alliance networks likely convey value-enhancing information. Overall, my results show that alliance networks are conduits of information that impact corporate investment decisions.

SII-2 Chaire ACPR

Chairperson: Christophe Perignon (HEC Paris)

Initiative de recherche
Régulation et Risques Systémiques
regulation and systemic risks

11h00

Room: Halles 2

THE IMPACT OF CENTRAL CLEARING ON BANKS' LENDING DISCIPLINE

Arnold Marc (University of Saint Gallen - School of Finance)

Presenter: Arnold Marc

Discussant: Gabarro Marc (Erasmus University)

This article investigates the impact of central clearing in credit risk transfer markets on a loan-originating bank's lending behavior. Access to central clearing changes the bank's optimal loan risk hedging strategy so as to undermine lending discipline. The effect on lending discipline depends crucially on the regulatory design of central clearing in terms of capital requirements, disclosure standards, risk retention, and access to uncleared credit risk transfer. I also show that lending discipline is an important channel to assess the total impact of central clearing on systemic risk.

DOES A LARGER MENU INCREASE APPETITE? COLLATERAL ELIGIBILITY AND BANK RISK-TAKING

van Bekkum Sjoerd (Erasmus University); Gabarro Marc (Erasmus University); Irani Rustom M. (College of Business at the University of Illinois at Urbana-Champaign)
Presenter: Gabarro Marc
Discussant: Arnold Marc (University of Saint Gallen - School of Finance)

We examine a change in the European Central Bank's collateral framework, which signi cantly lowered the rating requirement for eligible residential mortgage-backed securities (RMBS), and its impact on bank lending and risk-taking in the Netherlands. Banks most a ected by the policy increase loan supply and lower interest rates on new mortgage originations. These lower interest rate loans serve as collateral for newly issued RMBS with lower-rated tranches and subsequently experience worse repayment performance. The performance deterioration is pronounced among loans with state guarantees, which suggests looser collateral requirements may lead to undesired credit risk transfer to the sovereign.

THE FAILURE OF A CLEARINGHOUSE: EMPIRICAL EVIDENCE

Bignon Vincent (Banque de France); Vuillemey Guillaume (HEC Paris and CEPR)
Presenter: Vuillemey Guillaume
Discussant: Lé Mathias (ACPR, Banque de France)

We provide the first empirical description of the failure of a derivatives clearinghouse. We use novel, hand-collected, archive data to study risk management incentives by the Paris commodity futures clearinghouse around its failure in 1974. We do not find evidence of lenient risk management during the commodity price boom of 1973-1974. However, we show strong distortions of risk management incentives, akin to risk-shifting, as soon as prices collapsed and a large clearing member approached distress. Distortions persist during the recovery/resolution phase. Theoretically, these distortions suggest that capitalization and governance were weak, but do not imply that moral hazard was significant before the failure. Our findings have implications for the design of clearing institutions, including their default management schemes.

SII-3 Financial mathematics

Chairperson: Mathieu Rosenbaum (University Paris 6)

11h00

Room: Edison

ARE INFORMATION AND PORTFOLIO DIVERSIFICATION SUBSTITUTES OR COMPLEMENTS?

Luciano Elisa (Collegio Carlo Alberto); Tolomeo Antonella (University of Turin)
Presenter: Luciano Elisa

Whenever a new financial product is offered by the financial industry, a rational investor faces a trade off between diversification benefits and costs of «getting to know» the newly introduced asset. In this paper the investor who can diversify can also decide either to pay a fee and separate the information on different risks affecting his asset value, or to remain uninformed and receive a non-separating signal. The uninformed investor optimally lters his pooled signal. The paper provides conditions under which diversification benefits are exploited, with or without information acquisition. We discuss lack of diversification and under-diversification and provide conditions under which each of them applies.

FUNDING SHORTFALL RISK AND ASSET PRICES IN GENERAL EQUILIBRIUM

Hasan Majid (EDHEC Business School)
Presenter: Hasan Majid
Discussant: Hainaut Donatien (Université Catholique de Louvain)

Institutional investors, such as pensions and insurers, are typically constrained to hold enough wealth to be able to make their contractually promised payments to fund beneficiaries. This creates an additional risk in the economy, namely the risk of funding-shortfall. We seek to explore the optimal asset allocation strategies for institutions facing this risk, and its effects on asset prices. The constraint introduces two distinct regions in the economy, characterising unconstrained and constrained regions, with the possibility of transitioning from the constrained to unconstrained regime, which leads to a two-factor asset pricing model. The funding-shortfall risk increases the conditional equity premium and Sharpe ratio, which evolve counter-cyclically, but decreases the conditional volatility of equity returns, which evolves cyclically. The constrained institution may optimally an under-diversified portfolio, and simultaneously increases its demand for the riskfree and higher-risk assets relative to medium-risk assets, inducing a bubble-like behaviour in the prices of higher-risk assets. The dynamics of contractually promised payments affect the dynamics of conditional moments of asset return distributions, and may lead to predictability. The term structure of interest rates is predominantly upward sloping, but can change shape upon shocks to the growth rate of aggregate dividend relative to the growth rate of minimum payouts. These results may have implications for the design of optimal regulatory requirements.

A MULTIFACTOR SELF-EXCITING JUMP DIFFUSION APPROACH FOR MODELLING THE CLUSTERING OF JUMPS IN EQUITY RETURNS

Hainaut Donatien (Université Catholique de Louvain); Moraux Franck (Université de Rennes I and CREM)

Presenter: Hainaut Donatien

Discussant: Luciano Elisa (Collegio Carlo Alberto)

This paper introduces a new jump diffusion process where the occurrence and the size of past jumps have an impact on both the instantaneous and the long term propensities of observing a jump instantaneously. Here, the intensity of jump arrival is a multifactor self-excited process whereas the jump size is a double exponential random variable. This specification capture many dynamic features of asset returns; it can for instance handle with the jump clustering effects explored by Ait-Sahalia et al. (2015). Moreover, it remains analytically tractable, as we can prove that these multifactor self-excited processes are similar to single factor processes whose kernel function is the sum of two exponential functions. We can derive various closed and semi-closed form expressions for the mean and the variance of the intensity as well as for the moment generating of log returns. We also find a class of changes of measure that preserves the dynamics of the process under the risk neutral measure. To motivate empirically the multifactor model, we calibrate the model by a peak over threshold approach and filter state variables by sequential Monte Carlo algorithm. We also investigate if self-excitation is induced by positive, negative or both jumps. So as to illustrate the applicability of our modeling for derivatives, we next evaluate European options and analyze the sensitivity of implied volatilities to parameters and factors.

SII-4 Financial crisis

Chairperson: Patrice Poncet (ESSEC)

11h00

Room: Berliner

FINANCIAL CRISES, PRICE DISCOVERY, AND INFORMATION TRANSMISSION: A HIGH-FREQUENCY PERSPECTIVE

Füss Roland (University of Saint Gallen - School of Finance); Mager Ferdinand (EBS Universität für Wirtschaft und Recht); Stein Michael (University of Duisburg-Essen); Zhao Lu (EBS Universität für Wirtschaft und Recht)

Presenter: Füss Roland

Discussant: Barrot Jean-Noël (Massachusetts Institute of Technology (MIT))

This paper examines the price discovery processes before and during the 2007-09 subprime and financial crisis, as well as the subsequent European sovereign crisis, for the stock, bond, and U.S. dollar/euro FX markets in the U.S. and Germany in a high-frequency setting. Based on five-second intervals, we analyze how asset Prices interact and incorporate information conditional on macroeconomic announcements and news surprises from the U.S. and Germany. Our results show strong state-dependent return and volatility patterns across assets and markets. Moreover, we document significant co-movement and spillover effects that result from a dynamic network of news-based and trading-based information transmissions. We find that some effects we first identify during the financial and subprime crisis vanish, but others persist.

CAN PAYING FIRMS QUICKER IMPACT AGGREGATE EMPLOYMENT?

Barrot Jean-Noël (Massachusetts Institute of Technology (MIT)); Nanda Ramana (Harvard University - Entrepreneurial Management Unit)

Presenter: Barrot Jean-Noël

Discussant: Zhao Shan (Grenoble Ecole de Management)

In 2011, the Federal government accelerated payments to their small business contractors, spanning virtually every county and industry in the US. We study the impact of this reform on industry-county employment growth over the subsequent three years. Despite firms being paid just 15 days sooner, we find payroll increased nearly 20 cents for each accelerated dollar, with two-thirds of the effect coming from an increase in new hires and the balance from an increase in earnings for new and existing workers. Importantly, however, we find evidence of crowding out in employment growth among non-treated firms, particularly in counties with low rates of unemployment. Our results highlight an important and understudied channel through which financing constraints can be alleviated for small firms, but also emphasize the general-equilibrium effects of large-scale interventions, which can lead to a substantially lower net impact on aggregate outcomes.

FINANCIAL FLIGHTS, STOCK MARKET LINKAGES AND JUMP EXCITATION

Erdemlioglu Deniz (IESEG School of Management); Dungey Mardi H. (University of Tasmania); Matei Marius (University of Tasmania); Yang Xiye (Rutgers University)
Presenter: Erdemlioglu Deniz
Discussant: Füss Roland (University of Saint Gallen - School of Finance)

We propose a new nonparametric test to identify the mutually exciting jumps in high frequency data. We derive the asymptotic properties of the test statistics and show that the tests behave reasonably well in finite sample cases. Using our mutual excitation tests, we characterize global stock market linkages and study the dynamics of financial flights. The results suggest that flight-to-safety episodes (from stocks to gold) occur more frequently than do flight-to-quality cycles (from stocks to bonds). The excitation channel further appears to be asymmetric at high frequency: emerging market jumps excite U.S. equities, and the evidence supporting the reverse transmission is quite weak. The data exhibit a strong excitation effect from volatility jumps to price jumps.

SII-5 Portfolio management

Chairperson: Georges Hübner (HEC Liège)

11h00

Room: Bell

DISTRACTED INSTITUTIONAL INVESTORS

Schmidt Daniel (HEC Paris (Groupe HEC) - Finance Department)
Presenter: Schmidt Daniel
Discussant: Klein Olga (University of Warwick - Warwick Business School)

We investigate how distraction affects the trading behavior of professional asset managers. Exploring detailed transaction-level data, we show that managers with a large fraction of portfolio stocks exhibiting an earnings announcement are significantly less likely to trade in other stocks, suggesting that these announcements absorb attention which is missing for the choice of which stocks to trade. Hence, attention constraints can be binding even among this elite group of traders. Finally, we identify two channels through which distraction hurts managers' performance: distracted managers fail to close losing positions and incur slightly higher transaction costs.

FINANCIAL INNOVATION AND STOCK MARKET PARTICIPATION

Vallee Boris (Harvard Business School - Finance Unit); Celerier Claire (University of Toronto - Rotman School of Management); Calvet Laurent E. (HEC Paris - Finance Department); Sodini Paolo (Stockholm School of Economics)
Presenter: Vallee Boris
Discussant: Schmidt Daniel (HEC Paris (Groupe HEC) - Finance Department)

This paper analyzes the development of retail structured products, an innovative class of complex financial instruments with option-like features, on a large administrative panel of Swedish households. We document the emergence of this asset class and its impact on household financial decisions. We report that investors in structured products face different socioeconomic circumstances than investors in traditional assets such as stocks and equity funds. The micro-evidence in this paper suggests that the introduction of retail structured products increases stock market participation. The effect is larger for relatively poor households and households that initially have a low risky share.

STYLE INVESTING AND COMMONALITY IN LIQUIDITY

Klein Olga (University of Warwick - Warwick Business School); Antoniou Constantinos (University of Warwick - Warwick Business School); Raman Vikas (University of Warwick - Finance Group)
Presenter: Klein Olga
Discussant: Vallee Boris (Harvard Business School - Finance Unit)

In this paper, we examine whether the stock's liquidity systematically co-moves with the liquidity of other stocks in the same style. We sort stocks into styles along widely-used size and growth dimensions and show that style-related commonality in liquidity is significant, even after controlling for the stock's liquidity co-movements with the rest of the market. For stocks that belong to a specific style, systematic co-movements with aggregate style liquidity are more pronounced in the recent period and dominate their co-movements with the rest of the market. Further, style-related commonality in liquidity is stronger for stocks with larger exposure to style investing, especially during periods, in which style-level fund outflows are the highest.

SII-6 Mergers and acquisitions

Chairperson: Nihat Aktas (WHU Otto Beisheim School of Management)

11h00

Room: Daguerre

COLLUSION AND EFFICIENCY IN HORIZONTAL MERGERS: EVIDENCE FROM GEOGRAPHIC OVERLAP

Williams Ryan (University of Arizona - Department of Finance); Fairhurst Douglas J. (Washington State University)

Presenter: Williams Ryan

Discussant: Aktas Nihat (WHU Otto Beisheim School of Management)

We explore the sources of gains in horizontal mergers by exploiting heterogeneity in the overlap between the merging firms' geographic footprints. We calculate the geographic overlap between the bidder, target, and their rivals to identify variation in the competitive impact of horizontal mergers. We document negative rival stock price reactions for "expansion" mergers when the bidder acquires a target with a different geographic footprint, indicating that these mergers are on average for efficiency reasons. Conversely, we detect significantly positive rival reactions for "concentrating" mergers when the bidder and target operating in similar geographic regions. Finally, we use data on state Attorneys General (AGs) to provide staggered, state-level variation in the political environment. We show that bidders avoid "concentrating" mergers in the presence of Democratic AGs, thereby supporting the argument that horizontal mergers that increase local industry concentration are likely to be anti-competitive, as well as documenting the significant role of state-level AGs in the M&A regulatory process.

WHY DO DISTRESSED FIRMS ACQUIRE? - JOB MARKET PAPER

Zhang Quxian (Rotterdam School of Management, Erasmus University)

Presenter: Zhang Quxian

Discussant: Burietz Aurore (IESEG School of Management)

In this study, I document a recent trend of diversifying acquisitions made by financially distressed firms and investigate the motivation for such acquisitions. Contrary to classical arguments, large firms in financial distress engage in M&As as much as non-distressed large firms between 2010 and 2014. Exploiting an exogenous shock in bankruptcy risk for financially distressed firms, I find that distressed firms reduce acquisition activities upon a reduction of bankruptcy probabilities. Specifically, distressed firms become more focused by cutting acquisition spending by 53% and by doubling divestitures. The results support the diversifying motivation of acquisitions by distressed firms, rather than the growth opportunity motivation that firms are capturing external growth opportunities. These findings indicate another distortion of financial distress that when firms are under the pressure to meet debt obligations, it creates an incentive for firms to diversify and drives the investment style to external expansions.

SIII-1 Corporate governance

Chairperson: Edith Ginglinger (Université Paris Dauphine)

14h00

Room: Halles 1

THE CAUSAL (NON-)EFFECT OF DYNASTIC CONTROL ON FIRM PERFORMANCE

Bach Laurent (Swedish House of Finance)

Presenter: Bach Laurent

Discussant: Lei Zicheng (University of Surrey - Finance and Accounting Group)

The conventional wisdom is that dynastic control provides sharp incentives to entrepreneurs ex-ante, when founders run firms in anticipation of their progeny being in charge once they retire, and bad management ex-post, when untalented heirs take over. Using data on Swedish private firms and the individuals who control them, I construct a cross-sectional measure of owners' dynastic intentions based on the presence in the board of young relatives of the current chairman, and provide instruments for dynastic control using the main owner's family characteristics. Dynastic intentions make it three times less likely that the firm will be taken over by outsiders in the future and they also immediately lead to less delegation of management to outsiders. Yet, my estimations rule out any first-order effect, positive or negative, of dynastic control on firm profitability.

INSTITUTIONAL INVESTORS AND CORPORATE POLITICAL ACTIVISM

Lei Zicheng (University of Surrey - Finance and Accounting Group); Albuquerque Rui A. (Boston College, CEPR and ECGI); Rocholl Joerg (ESMT European School of Management and Technology); Zhang Chendi (University of Warwick - Finance Group)

Presenter: Lei Zicheng

Discussant: Sorensen Morten (Copenhagen Business School)

The landmark decision by the U.S. Supreme Court on Citizens United v. Federal Election Commission asserts for the first time that corporations benefit from First Amendment protection regarding freedom of speech in the form of independent political expenditures, thus creating a new avenue for political activism. This paper studies how corporations adjusted their political activism in response to this ruling. The paper presents evidence consistent with the hypothesis that institutional investors, in particular public pension funds, have a preference for not using the new avenue for political activism, a preference not shared by other investors.

ARE CEOs DIFFERENT? CHARACTERISTICS OF TOP MANAGERS

Sorensen Morten (Copenhagen Business School); Kaplan Steven Neil (University of Chicago - Booth School of Business)
Presenter: Sorensen Morten
Discussant: Camanho Nelson (Católica Lisbon School of Business & Economics)

We use a data set of over 2,600 executive assessments to study thirty individual characteristics of candidates for top executive positions – CEO, CFO, COO and others. Candidate characteristics can be classified by four primary factors: general ability, execution skills, charisma and strategic skills. CEO candidates tend to score higher on all four of these factors; CFO candidates score lower. Hired candidates score higher than all assessed candidates on interpersonal skills (for each job category) suggesting that such skills are important in the selection process. Scores on the four factors also predict future career progression. Non-CEO candidates who score higher on the four factors are subsequently more likely to become CEOs. The patterns are qualitatively similar for public, private equity and venture capital owned companies. We do not find economically large differences in the four factors for men and women. Women, however, are ultimately less likely to become CEOs holding the four factors constant.

DO COURTS MATTER FOR FIRM VALUE? EVIDENCE FROM THE U.S. COURT SYSTEM

Colonnello Stefano (Halle Institute for Economic Research and OvGU Magdeburg); Herpfer Christoph (Ecole Polytechnique Fédérale de Lausanne - Swiss Finance Institute)
Presenter: Colonnello Stefano
Discussant: Bach Laurent (Swedish House of Finance)

We estimate the link between the court system and firm value by exploiting a U.S. Supreme Court ruling which changed firms' exposure to different courts. We find that exposure to courts which are highly ranked by the U.S. Chamber of Commerce increases firm value. The effect is driven by courts' attitude towards businesses more than by their efficiency and is more pronounced for firms in industries with high litigation risk. We also test whether firms benefit from the ability to steer lawsuits into friendly courts, so-called forum shopping. We provide evidence that a reduction in firms' ability to forum shop decreases firm value, whereas a reduction in plaintiffs' ability to forum shop increases firm value.

SIII-2 BEDOFIH

Chairperson: Terrence Hendershott (UC Berkeley)

BEDOFIH
Base Européenne de Données Financières à Haute Fréquence

14h00

Room: Halles 2

EVERY CLOUD HAS A SILVER LINING: FAST TRADING, MICROWAVE CONNECTIVITY AND TRADING COSTS

Shkilko Andriy (Wilfrid Laurier University); Sokolov Konstantin (Wilfrid Laurier University)
Presenter: Shkilko Andriy
Discussant: Tuzun Tugkan (Federal Reserve Board of Governors)

In modern markets, trading firms spend generously to gain a speed advantage over their rivals. The marketplace that results from this rivalry is characterized by speed differentials, whereby some traders are faster than others. Is this marketplace optimal? To answer this question, we study a series of exogenous weather-related episodes that temporarily remove speed advantages of the fastest traders by disrupting their microwave networks. During these episodes, adverse selection declines accompanied by improved liquidity and reduced volatility. Some of the liquidity improvement comes from stronger competition among liquidity providers, suggesting that when speed differentials exist some liquidity stays on the sidelines. The results are confirmed in an event-study setting, whereby a new business model adopted by one of the technology providers reduces speed differentials among traders, resulting in market quality improvements.

DESIGNATED MARKET MAKERS STILL MATTER: EVIDENCE FROM TWO NATURAL EXPERIMENTS

Zi Chao (University of Illinois at Urbana-Champaign); Ye Mao (University of Illinois at Urbana-Champaign); Clark-Joseph Adam D. (University of Illinois at Urbana-Champaign)
Presenter: Zi Chao
Discussant: Shkilko Andriy (Wilfrid Laurier University)

Independent technological glitches forced two separate trading halts on different exchanges during the week of July 6, 2015. During each halt, all other exchanges remained open. We exploit exogenous variation provided by this unprecedented coincidence, in conjunction with a novel proprietary dataset, to identify the causal impact of Designated Market Maker (DMM) participation on liquidity. Whereas removing the voluntary liquidity providers on one exchange has negligible effects, removing DMMs substantially reduces liquidity market-wide. Contrary to conventional wisdom, we find that DMMs—liquidity providers with formal obligations—significantly improve liquidity in the modern electronic marketplace. Seemingly tiny obligations elicit enormous effects.

BEYOND THE FREQUENCY WALL: SPEED AND LIQUIDITY ON BATCH AUCTION MARKETS

Zoican Marius A. (Paris Dauphine University - PSL Research University); Haas Marlene (University of Lugano - Institute of Finance)
Presenter: Zoican Marius A.
Discussant: Moinas Sophie (IAE - Université de Toulouse 1 Capitole)

Frequent batch auction (FBA) markets do not necessarily improve liquidity relative to continuous-time trading. HFTs submit quotes that become stale if the market clears before new information becomes public, and may be sniped by other privately-informed HFTs. Less frequent auctions enhance learning by allowing for more public news: liquidity improves. For infrequent enough auctions, a frequency «wall» emerges as lower adverse selection is offset by lower liquidity demand by impatient traders. Beyond this «wall,» longer auction intervals do not improve liquidity anymore. However, the HFT «arms' race» on speed stimulates price competition between arbitrageurs, allowing for a lower spread.

FUNDING CONSTRAINTS AND MARKET LIQUIDITY IN THE EUROPEAN TREASURY BOND MARKET

Moinas Sophie (IAE - Université de Toulouse 1 Capitole); Nguyen Minh (Newcastle University Business School); Valente Giorgio (City University of Hong Kong (CityUHK) - Department of Economics & Finance)
Presenter: Moinas Sophie
Discussant: Zoican Marius A. (Paris Dauphine University - PSL Research University)

Theoretical studies show that shocks to funding constraints should affect and be affected by market liquidity. However, little is known about the empirical magnitude of such responses because of the intrinsic endogeneity of liquidity shocks. This paper adopts an identification technique based on the heteroskedasticity of liquidity proxies to infer the reaction of one measure to shocks affecting the other. Using data for the European Treasury bond market, we find evidence that funding liquidity shocks affect bond market liquidity and of a weaker simultaneous feedback effect of market liquidity on funding liquidity. We also investigate the determinants of the magnitude of these effects in the cross-section of bonds characterized by different durations and default risk. We find that the market-to-funding liquidity effect is stronger for short-term bonds and for bonds used as collaterals in repo transactions, such as German bonds.

SIII-3 Asset pricing

Chairperson: Bernard Dumas (INSEAD)

14h00

Room: Edison

THE EFFECTS OF OIL INVENTORIES ON GROWTH PROSPECTS, FUTURES MARKETS, AND RISK PREMIA

Gräber Nikolaï (University of Muenster - Finance Center Muenster); Branger Nicole (University of Muenster - Finance Center Muenster); Schumacher Malte (University of Muenster - Finance Center Muenster)
Presenter: Gräber Nikolaï
Discussant: Landoni Mattia (Southern Methodist University (SMU) - Finance Department)

This paper studies the effects of introducing storable inputs into a general equilibrium model of endogenous growth. We explicitly account for an occasionally binding nonnegativity constraint on storage. To solve the model, we rely on global non-linear solution methods, allowing us to make conditional statements on endogenous variables. We find a substantial nonlinear impact of inventory levels on growth prospects in the economy. The state of commodity holdings has an important impact on utilization of production capacity. In an economy with endogenous growth risks, firms target an optimal level of inventories to be able to increase oil usage in boom times. In an economy with transitory shocks only, the opposite is true. Macroeconomic dynamics implied by the model explain major stylized fact of financial markets, such as the term structure of futures premia and a negative co-movement of oil inventories with the risk-free rate.

CAPITAL REQUIREMENTS AND ASSET PRICES

Chabakauri Georgy (London School of Economics and Political Science); Han Brandon Yueyang (London School of Economics and Political Science)
Presenter: Chabakauri Georgy
Discussant: Roling Christoph (Deutsche Bundesbank)

We consider a pure-exchange general equilibrium economy populated by investors with heterogeneous preferences and beliefs. The investors receive labor incomes, which are not fully pledgeable, and can potentially default on their risky positions unless their asset holdings are collateralized. We study the equilibrium implications of a constraint that requires investors to keep their financial capital above a certain minimum level to provide sufficient collateral. We characterize periods in the economy in which mere possibility of a crisis makes constraints binding and significantly depresses interest rates and increases Sharpe ratios. We find that stock price-dividend ratios are higher in the constrained economy and the tightening of constraints emerges as a viable instrument for curbing asset volatilities in bad times. Our equilibrium is stationary, and both investors survive despite differences in beliefs. The equilibrium processes are derived in closed form.

FLYING UNDER THE RADAR: THE EFFECTS OF SHORT-SALE DISCLOSURE RULES ON INVESTOR BEHAVIOR AND STOCK PRICES

Roling Christoph (Deutsche Bundesbank); Jank Stephan (Frankfurt School of Finance & Management gemeinnützige GmbH); Smajlbegovic Esad (University of Mannheim)

Presenter: Roling Christoph

Discussant: Gräber Nikolaï (University of Muenster - Finance Center Muenster)

This paper analyzes how newly introduced transparency requirements for short positions affect investors' behavior and security prices. Employing a unique data set, which contains both public positions above and confidential positions below the regulatory disclosure threshold, we offer several novel insights. Positions accumulate just below the threshold, indicating that a sizable fraction of short sellers are reluctant to disclose their positions publicly. Furthermore, we provide evidence that the transparency measures effectively represent a short-sale constraint for secretive investors, which results in stocks to be overpriced. Specifically, when this constraint is potentially binding, stocks subsequently exhibit a negative abnormal return of 1.0-1.4% on a monthly basis. Different placebo tests verify that the short-sale constraint originates from the disclosure threshold. Overall, these findings suggest that short sellers' evasive behavior in response to the transparency regulation imposes a negative externality on stock market efficiency

LENDER PROTECTION VERSUS RISK COMPENSATION: EVIDENCE FROM THE BILATERAL REPO MARKET

Landoni Mattia (Southern Methodist University (SMU) - Finance Department); Auh Jun Kyung (Georgetown University - Department of Finance)

Presenter: Landoni Mattia

Discussant: Chabakauri Georgy (London School of Economics and Political Science)

We study secured lending contracts using a novel, loan-by-loan database of bilateral repurchase agreements in which borrower quality is fixed and collateral quality is known. Other things equal, lower-quality loans have longer maturities, indicating that borrowers' concerns with refinancing risk override lenders' incentives to engage in maturity rationing. Lower-quality loans also have higher spreads and margins, indicating that margin is lenders' main risk management tool. As collateral quality drops, lenders take more risk and earn higher spread. Holding loan quality constant, one point of spread substitutes for approximately 9 points of margin.

SIII-4 Derivatives

Chairperson: Fabricio Perez (Wilfrid Laurier University)

14h00

Room: Berliner

WHEN THE OPTIONS MARKET DISAGREES

Grass Gunnar (HEC Montréal); Goyenko Ruslan (McGill University - Desautels Faculty of Management); Fournier Mathieu (HEC Montreal)

Presenter: Grass Gunnar

Discussant: Hofmann Michael (Karlsruhe Institute of Technology)

Using equity options order flows we construct cross-sectional and aggregate disagreement measures by investor type: customer (client accounts) and intermediary (proprietary trading desks). The sources of disagreement differ between investor types, which has important pricing implications. Client-account originated order flows disagree about both positive and negative news while negatively predicting stock returns. When aggregated, client disagreement positively predicts future market volatility (VIX), and common sentiment indexes. This is consistent with the optimistic investor theory. While also negatively predicting stock returns, prop-desk accounts disagree about negative news on the cross-sectional stock level, and negative macro-economic news on the aggregate market level. Prop-desk disagreement negatively predicts S&P500 returns, common sentiment indexes, and client disagreement. This is consistent with the rational expectations theory provided that the source of disagreement is macro-economic uncertainty. Overall, aggregate market-wide client disagreement reflects market sentiment and prop-desk disagreement can be considered as an index of uncertainty.

CREDIT DEFAULT SWAPS IN GENERAL EQUILIBRIUM: SPILLOVERS, CREDIT SPREADS, AND ENDOGENOUS DEFAULT

Darst Matthew (Board of Governors of the Federal Reserve System); Refayet Ehraz (Office of the Comptroller of the Currency, Department of Treasury)

Presenter: Darst Matthew
Discussant: Cosma Antonio (Université du Luxembourg)

This paper highlights two new effects of credit default swap markets (CDS) in a general equilibrium setting. First, when firms' cash flows are correlated, CDSs impact the cost of capital–credit spreads–and investment for all firms, even those that are not CDS reference entities. Second, when firms internalize the credit spread changes, the incentive to issue safe rather than risky bonds is fundamentally altered. Issuing safe debt requires equity holders to transfer profits from good states to bankruptcy states to ensure full repayment. Risky bonds allow equity holders to increase good state profits as much as possible because of limited liability in default. Higher credit spreads lead to more safe rather than risky debt because equity value in good states, when debts are repaid, falls. Symetrically, lower credit spreads lead to more risky rather than safe debt. CDS affect the credit spread at which firms issue risky debt, and ultimately whether firms issue defaultable securities. The direction of the tradeoff between credit spreads and firm default depends on whether CDS are used to speculate or hedge against credit risk.

MARGIN REQUIREMENTS AND EQUITY OPTION RETURNS

Hofmann Michael (Karlsruhe Institute of Technology); Hitzemann Steffen (Ohio State University (OSU) - Department of Finance); Uhrig-Homburg Marliese (Karlsruhe Institute of Technology); Wagner Christian (Copenhagen Business School)
Presenter: Hofmann Michael
Discussant: Darst Matthew (Board of Governors of the Federal Reserve System)

In equity option markets, traders face margin requirements both for the options themselves and for hedging-related positions in the underlying stock market. We show that these requirements carry a significant margin premium in the cross-section of equity option returns. The sign of the margin premium depends on demand pressure: If end-users are on the long side of the market, option returns decrease with margins, while they increase otherwise. Our results are statistically and economically significant and robust to different margin specifications and various control variables. We explain our findings by a model of funding-constrained derivatives dealers that require compensation for satisfying end-users' option demand.

VALUING AMERICAN OPTIONS USING FAST RECURSIVE PROJECTIONS

Cosma Antonio (Université du Luxembourg); Galluccio Stefano (BNP Paribas Fixed Income); Pederzoli Paola (University of Geneva); Scaillet Olivier (University of Geneva GSEM and GFRI)
Presenter: Cosma Antonio
Discussant: Grass Gunnar (HEC Montréal)

We introduce a fast and widely applicable numerical pricing method that uses recursive projections. We characterize its convergence speed. We find that the early exercise boundary of an American call option on a discrete dividend paying stock is higher under the Merton and Heston models than under the Black-Scholes model, as opposed to the continuous dividend case. A large database of call options on stocks with quarterly dividends shows that adding stochastic volatility and jumps to the Black-Scholes benchmark reduces the amount foregone by call holders failing to optimally exercise by 25%. Transaction fees cannot fully explain the suboptimal behavior.

SIII-5 Banking and financial intermediation

Chairperson: Joël Petey (University of Strasbourg)

14h00

Room: Bell

EQUITY IS CHEAP FOR LARGE FINANCIAL INSTITUTIONS: THE INTERNATIONAL EVIDENCE

Plazzi Alberto (USI-Lugano); Lustig Hanno N. (Stanford Graduate School of Business); Gandhi Priyank (Mendoza College of Business, University of Notre Dame)
Presenter: Plazzi Alberto
Discussant: Sila Vathunyoo (University of Edinburgh)

Equity is a cheap source of funding for a country's largest financial institutions. In a large panel of 31 countries, we find that the stocks of a country's largest financial companies earn returns that are significantly lower than stocks of non-financials with the same risk exposures. In developed countries, only the largest banks' stock earns negative risk-adjusted returns, but, in emerging market countries, other large non-bank financial firms do. Even though large banks have high betas, these risk-adjusted return spreads cannot be attributed to the risk anomaly. Instead, we find that the large-minus-small, financial-minus-nonfinancial, risk-adjusted spread varies across countries and over time in ways that are consistent with stock investors pricing in the implicit government guarantees that protect shareholders of the largest banks. The spread is significantly larger for the largest banks in countries with deposit insurance, backed by fiscally strong governments, and in common law countries that offer shareholders better protection from expropriation. Finally, the spread also predicts large crashes in that country's stock market and output.

QUID PRO QUO? WHAT FACTORS INFLUENCE IPO ALLOCATIONS TO INVESTORS?

Suntheim Felix (Financial Conduct Authority); Jones Howard (University of Oxford, Said Business School); Jenkinson Tim (University of Oxford - Said Business School)
Presenter: Suntheim Felix
Discussant: Plazzi Alberto (USI-Lugano)

Using detailed information from a large sample of investment banks we test the determinants of IPO allocations. This research draws on data gathered by the UK Financial Conduct Authority, and covers 220 IPOs managed from the UK raising around $160bn. Detailed information on book-building is combined with data on revenues generated (from trading and other activities) by investment banks' buy-side clients, and data on post-IPO trading. We find evidence that informative bids are rewarded. However, we also find strong evidence that most, but not all, of the major investment banks favor the buyside clients that produce the most revenue.

THE IMPACT OF BANK SHOCKS ON FIRM-LEVEL OUTCOMES AND BANK RISK-TAKING

Jakovljevic Sanja (KU Leuven); De Jonghe Olivier (Tilburg University - Department of Finance); Degryse Hans (KU Leuven); Mulier Klaas (Ghent University-Universiteit Gent - Faculty of Economics and Business Administration)
Presenter: Jakovljevic Sanja
Discussant: Suntheim Felix (Financial Conduct Authority)

We examine the impact of bank-loan supply shocks on firm outcomes and bank risk-taking employing bank-firm matched credit information from Belgium for the period 2002-2012. Towards this end, we develop and estimate cross-sectional measures of bank-loan supply shocks. We find that firms borrowing from banks with negative supply shocks exhibit slower growth and investment, and a delayed negative response of employment. Banks faced with positive supply shocks show risk-taking behaviour at the extensive margin. Our estimated bank-loan shocks correlate positively with interbank liabilities growth and an alternative indicator of bank-loan supply, i.e. bank lending standards.

BANK CULTURE, RISKY LENDING, AND SYSTEMIC RISK

Sila Vathunyoo (University of Edinburgh); Hoai Linh Nguyen (University of St Andrews); Nguyen Duc Duy (University of St Andrews)
Presenter: Sila Vathunyoo
Discussant: Jakovljevic Sanja (KU Leuven)

We explore the role of bank corporate culture on systemic stability through the lens of credit decisions. Using a widely-used corporate culture framework in organizational behavior literature, we show that banks classified as having a "compete-dominant" culture are more likely to offer credit to sub-investment grade borrowers. Our results are robust to using an exogenous shock that addresses lender-borrower matching and isolates credit demand from credit supply. Whilst "compete-dominant" banks charge a higher loan spread from risky borrowers, they require fewer covenant conditions. As a result, they incur greater losses in bad times and contribute more to systemic risk. Our findings offer novel insights on how corporate culture of individual banks can affect industry-wide stability.

SIII-6 Private equity

Chairperson: Jocelyn Martel (ESSEC Business School)

14h00

Room: Daguerre

HOW DO INVESTORS ACCUMULATE NETWORK CAPITAL? EVIDENCE FROM ANGEL NETWORKS

Venugopal Buvaneshwaran Gokul (University of Houston - C.T. Bauer College of Business); Yerramilli Vijay (University of Houston - C.T. Bauer College of Business)
Presenter: Venugopal Buvaneshwaran Gokul
Discussant: McCourt Maurice (ESSEC Business School)

We use angel investor networks to examine how individual investors accumulate network capital. We collect data on start-ups and angel investors from CrunchBase, the largest crowd-sourced database on startups and investors, and AngelList, the leading online fund-raising platform for startups. Our sample comprises 4,108 individual angels who have invested in 12,215 portfolio firms over the period 2005-2014. We find that angel investors who have successfully moved several of their portfolio firms to the next funding stage in the recent past are likely to experience an increase in their network connectedness, in terms of the number and quality of their connections. These results are particularly strong for small angels who are building their networks. Moreover, good performance as a lead investor increases likelihood of the investor joining an angel group or a venture capital fund. Overall, our results highlight that reputation for good performance enhances the network capital of angel investors.

DOES THE CROWD FORGIVE? - JOB MARKET PAPER

Leboeuf Gaël (Univ. Lille, SKEMA Business School, EA4112 - LSMRC)

Presenter: Leboeuf Gaël

Discussant: Venugopal Buvaneshwaran Gokul (University of Houston - C.T. Bauer College of Business)

In the literature about serial entrepreneurs, experience and network gained from previous entrepreneurial projects is considered having a positive impact on the outcome of following ventures, offsetting the negatives effects of past failures. In this paper, we show that serial entrepreneurs with a first failed crowdfunding campaign are unable to reverse the negative opinion of the crowd on their ability to lead a project. Despite the adjustments made by the entrepreneurs on their new crowdfunding campaigns based on what they have learned from previous experience, we show that their new campaigns, despite an increase in the number of backers and in the money raised, still show lower success rate than for first timers or for entrepreneurs with a successful previous campaign.

ESTIMATING SKILL IN PRIVATE EQUITY PERFORMANCE USING MARKET DATA - JOB MARKET PAPER

McCourt Maurice (ESSEC Business School)

Presenter: McCourt Maurice

Discussant: Leboeuf Gaël (Univ. Lille, SKEMA Business School, EA4112 - LSMRC)

There is ongoing debate whether the returns earned by private equity (PE) firms are persistent. However, recent research has raised concerns about the integrity of both the data and the empirical methods that are commonly used in the PE persistence literature. I address these concerns by studying skill using a comprehensive sample of publicly traded listed private equity entities (LPEs) representing Buyout, Mezzanine, Venture, and Funds-of-Funds. Using tests developed in the funds literature, Buyout LPEs exhibit short-term persistence (0.67% per month), and investors anticipate short-term managerial performance. Short-term persistence disappears in the period 2005-2010, but recovers strongly in 2010-2015. Tests for long-term persistence show that substantial skill remains after controlling for luck, and skilled LPEs outperform unskilled ones by up to 1.2% per month. Finally, the median LPE generates about $16 million per year. These results are the first estimates of private equity skill derived from stock market data.

WINNING A DEAL IN PRIVATE EQUITY: DO EDUCATIONAL NETWORKS MATTER?

Morkoetter Stefan (University of Saint Gallen - School of Finance); Füss Roland (University of Saint Gallen - School of Finance); Fuchs Florian (University of Saint Gallen - School of Finance); Jenkinson Tim (University of Oxford, Saïd Business School)

Presenter: Fuchs Florian

Discussant: Leboeuf Gaël (Univ. Lille, SKEMA Business School, EA4112 - LSMRC)

Earlier research finds that a shared educational background can help to establish business connections and facilitate information flows. But how valuable are these social ties for senior managers of private market funds and for their deal sourcing? We present evidence for the buyout industry and show that funds with a broader exposure to academic institutions generate higher performance. In addition, educational ties are frequent (15% of investigated deals) and increase the chances to win the deal (by 79%). In particular, rare ties are valuable and educational ties seem to be able to mitigate a potential home bias. Our data set comprises the biographical and educational background on more than 4,500 fund partners from around 2,000 buyout funds and on around 4,500 CEOs working for a company at the time a fund acquired it.

SIV-1 Housing

Chairperson: Abraham Lioui (EDHEC)

16h30

Room: Halles 1

IDENTIFYING THE BENEFITS FROM HOME OWNERSHIP: A SWEDISH EXPERIMENT

Van Nieuwerburgh Stijn (New York University Stern School of Business); Sodini Paolo (Stockholm School of Economics); Vestman Roine (Stockholm University); von Lilienfeld-Toal Ulf (Universite du Luxembourg);

Presenter: Van Nieuwerburgh Stijn

Discussant: Messaoud Chibane (ESSEC Business School)

This paper studies the economic benefits of home ownership. Exploiting a quasi-experiment surrounding privatization decisions of municipally-owned apartment buildings, we obtain random variation in home ownership for otherwise similar buildings with similar tenants. We link the tenants to their tax records to obtain information on demographics, income, mobility patterns, housing wealth, financial wealth, and debt. This data allow us to construct high-quality measures of consumption expenditures. Home ownership causes households to move up the housing ladder, work harder, and save more. Consumption increases out of housing wealth are concentrated among the home owners who sell and among those who receive negative income shocks. The paper advances our understanding of how households make consumption decisions and of the effectiveness of policies that stimulate home ownership.

IMMIGRATION, REAL ESTATE PRICES AND THE CONSUMPTION DECISIONS OF NATIVE HOUSEHOLDS

Adams Zeno (University of Saint Gallen - School of Finance); Blickle Kristian (University of Saint Gallen - School of Finance)
Presenter: Adams Zeno
Discussant: Van Nieuwerburgh Stijn (New York University Stern School of Business)

Since house prices govern the consumption decisions of renters and owners alike, changing house prices can have far-reaching macroeconomic consequences. We analyze how the disposable income and consumption decisions of households are affected by exogenous house price changes in Switzerland. We look at consumption of both housing and non-durable goods to establish a comprehensive picture. We ensure that our house price variation is exogenous by instrumenting house prices with origin-shift immigration. Our unique dataset includes information on every immigrant that entered Switzerland between 1990 and 2013, house price data for every community, and detailed survey data for over 5000 households. We can show three things. Firstly, different types of immigrants influence house prices to different degrees. This finding allows us to structure a valid instrument while also contributing to an ongoing European discussion over the effects of immigration. Secondly, rising house prices reduce the disposable income of renters. This is particularly pronounced for renters who are forced to relocate in times of rising prices. We find, therefore, that renters consume less while owners do not necessarily consume more. This is different from the US/UK context and may reflect the inability of households to extract home equity in central Europe. Thirdly, households transition to ownership less frequently or move away more often following an exogenous price increase. We add novel insights on household consumption and tenure/location choice in response to exogenous changes in the cost of housing.

SIV-2 Financial econometrics

Chairperson: Laurent Calvet (EDHEC)

16h30

Room: Halles 2

INVESTING THROUGH ECONOMIC CYCLES WITH ENSEMBLE MACHINE LEARNING ALGORITHMS

Raffinot Thomas (Millesime-IS)
Presenter: Raffinot Thomas
Discussant: Gourier Elise (Queen Mary, University of London)

Ensemble machine learning algorithms, referred to as random forest (Breiman (2001)) and as boosting (Schapire (1990)), are applied to quickly and accurately detect economic turning points in the United States and in the euro area. The two key features of those algorithms are their abilities to entertain a large number of predictors and to perform estimation and variable selection simultaneously. The real-time ability to nowcast economic turning points is gauged. To assess the value of the models, profit maximization measures are employed in addition to more standard criteria. When comparing predictive accuracy and profit measures, the model confidence set procedure proposed by Hansen et al. (2011) is applied to avoid data snooping. The investment strategies based on the models achieve impressive risk-adjusted returns: macroeconomists can get rich nowcasting economic turning points.

THE JOINT DYNAMICS OF THE U.S. AND EURO-AREA INFLATION: EXPECTATIONS AND TIME-VARYING UNCERTAINTY

Renne Jean-Paul (HEC Lausanne); Mouabbi Sarah (Banque de France); Grishchenko Olesya V. (Board of Governors of the Federal Reserve System)
Presenter: Renne Jean-Paul
Discussant: Raffinot Thomas (Millesime-IS)

We propose a dynamic factor model with time-varying uncertainty for the joint estimation of inflation expectations in the United States and the euro area. We exploit information in several U.S. and euro area surveys of professional forecasters to fit the first two moments of future inflation rates. Our model provides closed-form solutions for conditional expectations and variances of inflation at different horizons and is able to closely match their survey-based counterparts. Survey-consistent probabilities of future inflation falling within a given range of inflation outcomes are used to evaluate whether inflation expectations are anchored. We find that since 2010 inflation expectations decreased noticeably in both economies, and that over our sample period the U.S. displayed larger inflation uncertainty relative to the euro area. The correlation between future inflation rates in the two economies increased. This correlation and probability of occurring jointly in both economies are related to economic policy uncertainty indices.

INFERRING VOLATILITY DYNAMICS AND RISK PREMIA FROM THE S&P 500 AND VIX MARKETS

Gourier Elise (Queen Mary, University of London); Bardgett Chris (University of Zurich - Department of Banking and Finance); Leippold Markus (University of Zurich - Department of Banking and Finance)
Presenter: Gourier Elise
Discussant: Al Wakil Anmar (Université Paris Dauphine)

This paper shows that the VIX market contains information that is not already contained by the S&P 500 market on the variance of the S&P 500 returns. We estimate a flexible affine model based on a joint time series of underlying indexes and option prices on both markets. We find that including VIX option prices in the model estimation allows better identification of the parameters driving the risk-neutral conditional distributions and term structure of volatility, thereby enhancing the estimation of the variance risk premium. We gain new insights on the properties of the premium's term structure and show how they can be used to form trading signals. Finally, our premium has better predictive power than the usual model-free estimate and the higher-order moments of its term structure allow improving forecasts of S&P 500 returns.

SIV-3 Information and price

Jean-François Gajewski (University Savoie Mont-Blanc)

16h30

Room: Edison

TECHNICAL ANALYSIS, LIQUIDITY, AND PRICE DISCOVERY

Fritz Felix (Karlsruhe Institute of Technology); Weinhardt Christof (Karlsruhe Institute of Technology)

Presenter: Fritz Felix

Discussant: Nunes Tamara (University of Lausanne, Students)

Academic literature suggests that Technical Analysis (TA) plays a role in the decision making process of some investors. If TA traders act as uninformed noise traders and generate a relevant amount of trading volume, market quality could be affected. We analyze moving average (MA) trading signals as well as support and resistance levels with respect to market quality and price efficiency. For German large-cap stocks we find excess liquidity demand around MA signals and high limit order supply on support and resistance levels. Depending on signal type, spreads increase or remain unaffected which contradicts the mitigating effect of uninformed TA trading on adverse selection risks. The analysis of transitory and permanent price components demonstrates increasing pricing errors around TA signals, while for MAs permanent price changes tend to increase of a larger magnitude. This suggests that liquidity demand in direction of the signal leads to persistent price deviations.

THINKING ABOUT PRICES VERSUS THINKING ABOUT RETURNS IN FINANCIAL MARKETS

Iliewa Zwetelina (Centre for European Economic Research); Glaser Markus (Ludwig Maximilian University of Munich); Weber Martin (University of Mannheim)

Presenter: Iliewa Zwetelina

Discussant: Fritz Felix (Karlsruhe Institute of Technology)

Prices and returns are alternative ways to present financial market information and to elicit financial market expectations. But do investors make sense of prices and returns in the same way? Also, do they state the same expectations when asked to forecast prices or to forecast returns? This paper compares the two formats in three studies with subjects of varying expertise, with various amount of information and with different incentive schemes. The results are consistent across all studies: Asking subjects to forecast returns as opposed to price levels results in higher expectations, whereas showing them return bar charts as opposed to price level line charts results in lower expectations. Our results imply that information platforms and financial advisors could affect investors' expectations by varying superficial features of the decision environment. Financial education is unlikely to be a useful remedy, since financial professionals are not immune to the impact of format changes.

CONFIRMING SIGNALS ARE HARD TO RESIST: BLESSING AND CURSE OF INFORMATION UNDER CONFIRMATION BIAS

Nunes Tamara (University of Lausanne, Students); Schraeder Stefanie (University of New South Wales)

Presenter: Schraeder Stefanie

Discussant: Iliewa Zwetelina (Centre for European Economic Research)

Ample empirical evidence documents that human beings pay more attention to confirming than to contradicting evidence. This paper takes a closer look at the effects of the confirmation bias on financial markets in an overlapping generations model with a continuous signal distribution. We find that several results of more simplified models do not hold true any more. Confirmation bias leads to initial underreaction. In a framework with endogenous market entry and exit, this initial underreaction, however, triggers long-term overreaction. Other findings include a connection between trading volume and volatility, momentum effect, a time variation in market participation and novel varying responses on trading experience, as well as various announcement day and market depth effects. Moreover, we provide testable hypotheses such as that managers inform about bad news in a more diffuse signal compared to good news and that the frequency of information release matters.

SIV-4 CDS

Chairperson: Bart Yueshen (INSEAD)

16h30

Room: Berliner

RELATED SECURITIES AND THE CROSS-SECTION OF STOCK RETURN MOMENTUM: EVIDENCE FROM CREDIT DEFAULT SWAPS (CDS)

Lee Jongsub (University of Florida - Warrington College of Business Administration); Naranjo Andy (University of Florida - Warrington College of Business Administration); Sirmans Stace (University of Arkansas - Department of Finance)

Presenter: Lee Jongsub

Discussant: Junge Benjamin (Ecole Polytechnique Fédérale de Lausanne)

We document that related securities linked through common firm fundamentals provide important cross-market security return performance information. Using 1,074 U.S. firms during 2003-2014, we find that past stock return winners that are also past CDS return winners ("joint" market winners) exhibit continued stock return momentum, whereas past stock return winners that are past CDS return losers ("disjoint" winners) display significant return reversal. We find similar evidence for past stock return losers, where share prices continue to drop for "joint" losers and rebound for "disjoint" losers. Stock trading strategies that combine a momentum strategy on "joint" winners/losers with a contrarian strategy on "disjoint" winners/losers significantly outperform traditional single-signal stock momentum strategies by 132 bps per month with an annualized Sharpe ratio of 1.11. We find that relative valuation of credit in the related securities' markets underlies the cross-sectional segmentation structure we document for stock return momentum.

LINEAR CREDIT RISK MODELS

Ackerer Damien (Ecole Polytechnique Fédérale de Lausanne); Filipovic Damir (Ecole Polytechnique Fédérale de Lausanne)

Presenter: Ackerer Damien

Discussant: Lee Jongsub (University of Florida - Warrington College of Business Administration)

We introduce a novel class of credit risk models in which the drift of the survival process of a firm is a linear function of the factors. These models outperform the standard affine default intensity models in terms of analytical tractability. The prices of defaultable bonds and credit default swaps (CDS) are linear in the factors. The price of a CDS option can be uniformly approximated by polynomials in the factors. An empirical study illustrates the versatility of these models by fitting CDS spread time series.

MARKET STRUCTURE AND TRANSACTION COSTS OF INDEX CDSS

Junge Benjamin (Ecole Polytechnique Fédérale de Lausanne); Collin-Dufresne Pierre (Ecole Polytechnique Fédérale de Lausanne - Swiss Finance Institute); Trolle Anders B. (Ecole Polytechnique Fédérale de Lausanne)

Presenter: Junge Benjamin

Discussant: Ackerer Damien (Ecole Polytechnique Fédérale de Lausanne)

Using transaction data, we study the two-tiered structure of the index CDS market after the implementation of the Dodd-Frank Act. We identify dealer-to-client (D2C) trades and interdealer (D2D) trades. Average transaction costs are higher for D2C trades, reflecting higher average price impact. D2C trades Granger-cause D2D trades consistent with the interdealer market being used for managing inventory risk. Unique order-book data show that D2D transaction costs and price impacts vary across trading protocols, with mid-market matching and workup attracting liquidity-motivated trades. D2C prices are typically better than those available on the main interdealer limit order book, which may explain the endurance of the two-tiered market structure.

SIV-5 International finance

Chairperson: Roberto Marfe (Collegio Carlo Alberto)

16h30

Room: Bell

A PURE MEASURE OF HOME BIAS

Cooper Ian A. (London Business School); Sercu Piet (FEB at KU Leuven); Vanpee Rosanne (KU Leuven Faculty of Economics and Business)

Presenter: Cooper Ian A.

Discussant: Orlov Vitaly (University of Vaasa, Department of Accounting and Finance)

The literature on international equity holdings distinguishes between home bias (overweighting of home stocks) and foreign bias (relative underweighting for more 'distant' countries). The two biases can be integrated into one

distance-based model. We define pure home bias as the excess of home bias relative to this model, and find pure home bias only in emerging markets. Countries with high tax rates and low credit standing have higher pure home bias, and more development comes with lower distance aversion. Methodologically, the choice of portfolio bias measure matters. We find the best measure to be a covariance-based measure relative to the world average. The literature on international equity holdings distinguishes between home bias (overweighting of home stocks) and foreign bias (relative underweighting for more 'distant' countries). The two biases can be integrated into one distance-based model. We define pure home bias as the excess of home bias relative to this model, and find pure home bias only in emerging markets. Countries with high tax rates and low credit standing have higher pure home bias, and more development comes with lower distance aversion. Methodologically, the choice of portfolio bias measure matters. We find the best measure to be a covariance-based measure relative to the world average.

BETA AND BIASED BELIEFS

Jacobs Heiko (University of Mannheim, Finance Department)
Presenter: Jacobs Heiko
Discussant: Cooper Ian A. (London Business School)

Relying on 116 million firm days from 50 stock markets and guided by behavioral theories, I provide evidence for the conjecture that the puzzling beta anomaly is the result of mispricing partly caused by expectational errors and biased beliefs. First, long/short return spreads across the globe are several times larger surrounding a broad range of firm-specific news announcements. Second, the anomaly is largely explained by a composite local mispricing factor. Third, the anomaly is positively related to lagged local market gains. Fourth, local consumer confidence positively predicts alphas. Fifth, the anomaly is concentrated in heavily traded stocks.

SOLVENCY RISK PREMIA AND THE CARRY TRADES - JOB MARKET PAPER

Orlov Vitaly (University of Vaasa, Department of Accounting and Finance)
Presenter: Orlov Vitaly
Discussant: Jacobs Heiko (University of Mannheim, Finance Department)

This paper shows that currency carry trades can be rationalized by the time-varying risk premia originating from the sovereign solvency risk. We find that solvency risk is a key determinant of risk premia in the cross section of carry trade returns, as its covariance with returns captures a substantial part of the cross-sectional variation of carry trade returns. Importantly, low interest rate currencies serve as insurance against solvency risk, while high interest rate currencies expose investors to more risk. The results are not attenuated by existing risks and pass a broad range of various robustness checks.

Notes

Notes

ABOUT EUROFIDAI

Financial databases for academic researchers

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

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  The daily stock database covers France (1977-2015), and 36 other countries in Europe (1980-2015). This global stocks database provides verified and proven data for more than 70,000 securities over a long timeframe.
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- **Daily exchange rates**
  About 15,000 spot exchange rates (1975-2015).
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  Highly detailed data on more than 5,000,000 corporate events and more than 200,000 issuers (incl. split, dividends, delisting, company reorganisation,purchase, repurchase, exchange…)for the period 1977-2015.

EUROPEAN HIGH FREQUENCY DATABASE

EUROFIDAI developed a European high frequency financial database named BEDOFIH. It includes **trades and orders with the highest frequency** (millisecond, microsecond), for the most important European financial markets from 2010 to 2015 *(period and frequency may vary depending on the market):*

- BATS/Chi-X
- AMF Euronext Paris
- London Stock Exchange
- Deutsche Boerse Xetra

BEDOFIH
Base Européenne de Données Financières à Haute Fréquence

On demand services by EUROFIDAI:

- As BEDOFIH includes the entire message history, researchers can develop the order book individually with technical assistance from our team.
- Eurex (derivatives markets).

They already work with our data:

Augsburg University, Copenhagen Business School (CBS), European Central Bank, European Commission JRC, Goethe Universität, HEC Paris, Imperial College London, LaRGE at University of Strasbourg, Massachusetts Institute of Technology (MIT), Princeton University, Université Paris 1 Panthéon-Sorbonne, Université Paris Dauphine, Université Toulouse 1 Capitole, University of Mannheim, University of Zurich.