12th Paris December Finance Meeting

December 18, 2014

Novotel Paris les Halles Hotel
Place Marguerite de Navarre
75001 PARIS

www.eurofidai.org/december2014.html

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AFFI

Meeting's organization

Association Française de Finance
French Finance Association

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

Its objective is to develop communication between members thus contributing to enhanced progress in the financial management discipline.

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

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Its main mission is to **develop financial daily databases useful to finance academic researchers.** That's why EUROFIDAI works in creating **verified, controlled and homogeneous databases over long periods. EUROFIDAI also works on developing a European high frequency database called BEDOFIH.**

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www.eurofidai.org

Numbers

252 papers were submitted for presentation at the meeting. Of this number, only 52 were accepted indicating rigorous selection criteria.

In 2014, the 315 submissions were received from the US (59), France (46), Germany (41), the UK (28), Switzerland (24), Canada (16), Italy (16), the Netherlands (13), Australia (11), Belgium (8), Sweden (7), Denmark (5), Singapore (5), Spain (5), China (4), Portugal (4), Russian Federation (3), Israel (3), Greece (2), Luxembourg (2), Norway (2), Turkey (2), Viet Nam (2), Austria (1), Brazil (1), Chile (1), Cyprus (1), Finland (1), Honk Kong (1), Ireland (1), Japan (1), Morocco (1), Poland (1).

Based on presenter's affiliation, the 56 accepted articles came from France (9), the US (9), Germany (8), the UK (6), Canada (5), Switzerland (4), Australia (3), Sweden (3), the Netherlands (2), Belgium (1), Cyprus (1), Denmark (1), Greece (1), Italy (1), Russian Federation (1), Spain (1).

Compared with previous meetings, there is an increasingly large and strong body of high quality work coming from all parts of the world.

Program chair

Patrice Fontaine (EUROFIDAI, CNRS)

2014 Scientific Committee

Sessions were organized by :

Yacine Aït-Sahalia (Princeton University and NBER)
Nihat Aktas (WHU Otto Beisheim School of Management)
Hervé Alexandre (Paris Dauphine University)
Andrea Attar (Toulouse School of Economics)
Véronique Bessière (University of Montpellier)
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Laurence Lescourret (ESSEC)
Abraham Lioui (EDHEC)
Yannick Malevergne (University of Lyon)
Maxime Merli (University of Strasbourg)
Franck Moraux (University of Rennes 1)
Christophe Pérignon (HEC Paris)
Joël Petey (University of Strasbourg)
Patrice Poncet (ESSEC)
François Quittard-Pinon (EM Lyon)
Catherine Refait-Alexandre (University of Franche-Comté)
Patrick Roger (University of Strasbourg)
Patrick Sentis (University of Montpellier)
Bart Yueshen (INSEAD)

Program

08h00 Registrations

08h30 I-1 Financial Crisis
Room Caillebotte

08h30 I-2 Portfolio Management
Room Van Gogh

08h30 I-3 Financial Econometrics
Room Pissarro

09h00 I-4 Capital Structure
Room Cezanne

09h00 Phd session 1
Room Renoir

10h30 **Coffee Break**

11h00 II-1 Mergers & Acquisitions
Room Cezanne

11h00 II-2 Banking and Financial Intermediation 1 Room Caillebotte

11h00 II-3 Risk Management
Room Pissarro

11h00 II-4 Asset Pricing 1
Room Van Gogh

11h00 Phd session 2
Room Renoir

12h45 **Lunch** Restaurant «La Place», Novotel

14h15 III-1 Entrepreneurial Finance
Room Caillebotte

14h15 III-2 Security Issuance - Payout Policy Room Cezanne

14h15 III-3 International Finance
Room Van Gogh

14h15 III-4 Behavioral Finance
Room Pissarro

14h15 III-5 Microstructure 1
Room Renoir

15h45 **Coffee Break**

16h15 IV-1 Corporate Governance
Room Cezanne

16h15 IV-2 Banking and Financial Intermediation 2 Room Caillebotte

16h15 IV-3 Microstructure 2
Room Pissarro

16h15 IV-4 Asset Pricing 2
Room Van Gogh

16h15 Phd session 3
Room Renoir

18h15 **Cocktail - Best paper awards**

08h30 I-1 Financial Crisis

Chairman: **Guembel Alex** (Toulouse School of Economics) — Room Caillebotte

TIME VARYING VOLATILITY AND THE ORIGINS OF FINANCIAL CRISES
Rachedi Omar (Universidad Carlos III de Madrid) - Discussant: Stancu Andrei (ICMA Centre)

THE EFFECT OF NATURAL DISASTERS ON BANK FAILURES
Noth Felix (University of Magdeburg); Schuewer Urlich (Goethe University Frankfurt) - Discussant: Rachedi Omar (Universidad Carlos III de Madrid)

THE EQUITY-LIKE FEATURES OF SOVEREIGN BONDS
Stancu Andrei; Varotto Simone; Dufour Alfonso (University of Reading) - Discussant: Mascia Bedendo (Audencia Nantes School of Management)

HETEROGENEOUS BELIEFS ABOUT RARE EVENT RISK IN THE LUCAS ORCHARD
Piatti Ilaria (University of Oxford) - Discussant: Noth Felix (University of Magdeburg)

08h30 I-2 Portfolio Management

Chairman: **Bertrand Philippe** (IAE Aix en Provence) — Room Van Gogh

WHO ARE THE VALUE AND GROWTH INVESTORS?
Sodini Paolo (Stockholm School of Economics); Calvet Laurent (HEC Paris); Betermier Sebastien (McGill University)
Discussant: Pouget Sébastien (IAE de Toulouse)

COMPETITION AMONG PORTFOLIO MANAGERS AND ASSET SPECIALIZATION
Makarov Dmitry (New Economic School); Basak Suleyman (London Business School) - Discussant: Sodini Paolo (Stockholm School of Economics)

TESTING ASSET PRICING THEORY ON SIX HUNDRED YEARS OF STOCK RETURNS: PRICES AND DIVIDENDS FOR THE BAZACLE COMPANY FROM 1372 TO 1946
Pouget Sébastien (IAE de Toulouse); le Bris David (KEDGE Business School); Goetzmann Will (Yale University)
Discussant: Lambert Marie (HEC Management School, University of Liege)

SIZE MATTERS, BOOK VALUE DOES NOT! THE FAMA-FRENCH EMPIRICAL CAPM REVISITED
Lambert Marie; Hübner Georges (HEC Management School, University of Liege) - Discussant: Makarov Dmitry (New Economic School)

10h00 Coffee break

Ground floor and first floor

08h30 I-3 Financial Econometrics

Chairman: **Moraux Franck** (University of Rennes 1) — Room Pissarro

STAYING AT ZERO WITH AFFINE PROCESSES: A NEW DYNAMIC TERM STRUCTURE MODEL
Renne Jean-Paul (Banque de France); Monfort Alain (CREST); Pegoraro Fulvio (Banque de France); Roussellet Guillaume (CEREMADE and Banque de France) - Discussant: Rompolis Leonidas (Athens University of Economics and Business)

PRICING AND HEDGING CONTINGENT CLAIMS USING VARIANCE AND HIGHER-ORDER MOMENT SWAPS
Rompolis Leonidas; Tzavalis Elias (Athens University of Economics and Business) - Discussant: Kaya Orcun (Deutsche Bank Research)

SYSTEM-WIDE TAIL COMOVEMENTS: A BOOTSTRAP TEST FOR COJUMP IDENTICATION ON THE S&P 500, US BONDS AND EXCHANGE RATES
Lahaye Jerome (Fordham University); Gnabo Jean-Yves (University of Namur); Hvozdyk Lyudmila (University of Essex and CFAP, University of Cambridge) - Discussant: Renne Jean-Paul (Banque de France)

CDS SPREADS IN THE AFTERMATH OF CENTRAL CLEARING
Kaya Orcun (Deutsche Bank Research) - Discussant: Lahaye Jerome (Fordham University)

09h00 I-4 Capital Structure

Chairman: **Hege Ulrich** (HEC Paris) — Room Cezanne

THE REAL COSTS OF CORPORATE CREDIT RATINGS
Begley Taylor (London Business School) - Discussant: Otto Clemens (HEC Paris)

LIQUIDITY RISK AND DISTRESSED EQUITY
Medhat Mamdouh (Copenhagen Business School) - Discussant: Begley Taylor (London Business School)

DEBT STRUCTURE DISPERSION AND LOAN COVENANTS
Otto Clemens; Lou Yun (HEC Paris) - Discussant: Medhat Mamdouh (Copenhagen Business School)

09h00 Phd session 1

Chairman: **Malevergne Yannick** (University of Lyon) — Room Renoir

RISK FACTORS, COPULA DEPENDENCE AND RISK SENSITIVITY OF A LARGE PORTFOLIO
Peng Zhun (University of Evry); Bruneau Catherine (University Paris I Panthéon-Sorbonne and Centre d'Economie de la Sorbonne); Flageollet Alexis (Natixis Asset Management) - Discussant: Milonas Kristoffer (Stockholm School of Economics / Institute for Financial Research (SIFR))

INTERNAL-EXTERNAL LIQUIDITY FEEDBACKS
Zucchi Francesca (Swiss Finance Institute @ EPFL) - Discussant: Peng Zhun (University of Evry)

THE EFFECT OF FORECLOSURE LAWS ON SECURITIZATION: EVIDENCE FROM U.S. STATES
Milonas Kristoffer (Stockholm School of Economics / Institute for Financial Research (SIFR)) - Discussant: Zucchi Francesca (Swiss Finance Institute @ EPFL)

11h00 II-1 Mergers & Acquisitions

Chairman: **De Bodt Eric** (SKEMA Business School) Room Cezanne

LEARNING ABOUT TARGET FIRMS AND PRICING OF ACQUISITIONS
Moeller Thomas (Texas Christian University); Jindra Jan (Menlo College) - Discussant: Martinsson Gustav (Institute for Financial Research (SIFR))

DO M&A LAWSUITS DISCIPLINE MANAGERS' INVESTMENT BEHAVIOR?
Bourveau Thomas (HEC Paris); Brochet François (Harvard Business School); Spira Sven Michael (HEC Paris)
Discussant: Williams Ryan (The University of Arizona)

PAYOUT TAXES, COSTLY EXTERNAL FINANCE, AND LONG-RUN INVESTMENT
Brown James (Iowa State University); Martinsson Gustav (Institute for Financial Research (SIFR)) - Discussant: Bourveau Thomas (HEC Paris)

11h00 II-2 Banking and Financial Intermediation 1

Chairman: **Petey Joël** (University of Strasbourg) Room Caillebotte

SELF-FULFILLING FIRE SALES: FRAGILITY OF COLLATERALISED SHORT-TERM DEBT MARKETS
Kuong John C.F. (INSEAD) - Discussant: Zhao Lei (ICMA Centre, University of Reading)

IMPLICIT GOVERNMENT GUARANTEES IN EUROPEAN FINANCIAL INSTITUTIONS
Zhao Lei (ICMA Centre, University of Reading) - Discussant: Boissel Charles (HEC Paris)

SYSTEMIC RISK IN CLEARING HOUSES: EVIDENCE FROM THE EUROPEAN REPO MARKET
Boissel Charles; Derrien Francois; Ors Evren; Thesmar David (HEC Paris) - Discussant: Kuong John C.F. (INSEAD)

11h00 II-3 Risk Management

Chairman: **Pérignon Christophe** (HEC Paris) Room Pissarro

WHEN VARIANCE RISK HAS TWO PRICES: EVIDENCE FROM THE EQUITY AND OPTION MARKETS
Barras Laurent; Malkhozov Aytek (McGill University)
Discussant: Liebscher Roberto (Catholic University of Eichstätt-Ingolstadt)

ARE PROFESSIONAL INVESTMENT MANAGERS SKILLED? EVIDENCE FROM SYNDICATED LOAN PORTFOLIOS
Liebscher Roberto (Catholic University of Eichstätt-Ingolstadt); Mählmann Thomas (Catholic University of Eichstätt-Ingolstadt)
Discussant: Tuzun Tugkan (Federal Reseve Board)

ARE LEVERAGED AND INVERSE ETFS THE NEW PORTFOLIO INSURERS?
Tuzun Tugkan (Federal Reseve Board) - Discussant: Barras Laurent (Mcgill university)

11h00 II-4 Asset Pricing 1

Chairman: **Poncet Patrice** (ESSEC) Room Van Gogh

DO STOCK RETURNS REALLY DECREASE WITH DEFAULT RISK? NEW INTERNATIONAL EVIDENCE
Florackis Chris (University of Liverpool); Kostakis Alex (Manchester Business School); Aretz Kevin (Manchester Business School)
Discussant: Weber Michael (University of Chicago)

NOMINAL RIGIDITIES AND ASSET PRICING
Weber Michael (University of Chicago) - Discussant: Cujean Julien (University of Maryland)

TERM STRUCTURE OF DISAGREEMENT AND PREDICTABILITY OVER THE BUSINESS CYCLE
Cujean Julien (University of Maryland); Hasler Michael (University of Toronto) - Discussant: Kostakis Alex (Manchester Business School)

11h00 Phd session 2

Chairman: **Moinas Sophie** (Toulouse School of Economics) Room Renoir

GROUP AFFILIATION AND THE PRICING OF PUBLIC DEBT
Altieri Michela (University of Turin) - Discussant: Zhu Guangyao (Erasmus Univesity of Rotterdam)

THREAT OF ENTRY AND CORPORATE DEBT MATURITY: EVIDENCE FROM AIRLINES
Parise Gianpaolo (Swiss Finance Institute) - Discussant: Altieri Michela (University of Turin)

WHERE IS FAMILY OWNERSHIP AND NEPOTISM GOING? EVIDENCE FROM S&P 1500 FIRMS
Zhu Guangyao (Erasmus Univesity of Rotterdam) - Discussant: Parise Gianpaolo (Swiss Finance Institute)

12h45 Lunch

Restaurant «La Place» Novotel

14h15 III-1 Entrepreneurial Finance

Chairman: **Bessière Véronique** (University of Montpellier) — Room Caillebotte

FINANCING CONSTRAINTS IN THE CRISIS: EVIDENCE FROM A NOVEL POLICY INITIATIVE IN SWEDEN
Martinsson Gustav (Swedish House of Finance) - Discussant: Sokolyk Tatyana (Brock University)

CROWDFUNDING MODELS: KEEP-IT-ALL VS. ALL-OR-NOTHING
Schwienbacher Armin (Universite Lille 2 & SKEMA); Cumming Douglas (York University - Schulich School of Business); Leboeuf Gael (Universite Lille 2 & SKEMA) - Discussant: Martinsson Gustav (Swedish House of Finance)

DEBT FINANCING, SURVIVAL, AND GROWTH OF START-UP FIRMS
Sokolyk Tatyana (Brock University) - Discussant: Schwienbacher Armin (Universite Lille 2 & SKEMA)

14h15 III-2 Security Issuance - Payout Policy

Chairman: **Gajewski Jean-François** (University of Savoie) — Room Cezanne

ACTUAL SHARE REPURCHASES, PRICE EFFICIENCY, AND THE INFORMATION CONTENT OF STOCK PRICES
Busch Pascal (University of Mannheim); Obernberger Stefan (Erasmus University) - Discussant: Boulton Thomas (Miami University)

MANAGERIAL CONFIDENCE AND INITIAL PUBLIC OFFERINGS
Boulton Thomas; Campbell T. Colin (Miami University) - Discussant: Ordu Umut (WHU - Otto Beisheim School of Management)

DO MARKETS ANTICIPATE CHANGES IN RISK AFTER MAJOR CORPORATE EVENTS? EVIDENCE FROM SEOs
Ordu Umut; Johanning Lutz; Schweizer Denis (WHU – Otto Beisheim School of Management); Cumming Douglas (York University - Schulich School of Business) - Discussant: Busch Pascal (University of Mannheim)

14h15 III-3 International Finance

Chairman: **Dumas Bernard** (INSEAD) — Room Van Gogh

FISCAL AUSTERITY AND THE INFORMATIVENESS OF CREDIT RATINGS
Gibert Anna (European University Institute) - Discussant: Herold Michael (University of Bamberg)

LIMITED PARTICIPATION AND INTERNATIONAL RISK SHARING: DOES THE NOMINAL EXCHANGE RATE MATTER?
Wang Xuedong (Erasmus University Rotterdam and Tinbergen Institute) - Discussant: Gibert Anna (European University Institute)

INTERNATIONAL STOCHASTIC DISCOUNT FACTORS AND STOCHASTIC CORRELATION
Herold Michael (University of Bamberg); Branger Nicole (University of Muenster); Muck Matthias (University of Bamberg)
Discussant: Wang Xuedong (Erasmus University Rotterdam and Tinbergen Institute)

14h15 III-4 Behavioral Finance

Chairman: **Broihanne Marie-Hélène** (University of Strasbourg) — Room Pissarro

HARNESSING MEDIA ATTENTION: CORPORATE PRESS RELEASES AND MEDIA COVERAGE AROUND EARNINGS ANNOUNCEMENTS
Ngo Phong (Australian National University); Liu Wai-Man (Australian National University); Zhu Qiaoqiao (Australian National University)
Discussant: Edelen Roger (University of California at Davis)

CONTAGIOUS NEGATIVE SENTIMENT - EVIDENCE FROM LOCAL BANKRUPTCY FILINGS
Le Nhan (University of Mannheim); Addoum Jawad (University of Miami); Kumar Alok (University of Miami)
Discussant: Ngo Phong (Australian National University)

INSTITUTIONAL INVESTORS AND STOCK RETURN ANOMALIES
Edelen Roger (University of California at Davis); Kadlec Greg (Virginia Tech); Ince Ozgur (Virginia Tech)
Discussant: Roger Patrick (University of Strasbourg)

14h15 III-5 Microstructure 1

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Chairman: **Yueshen Bart** (INSEAD) — Room Renoir

HOW OPTIONS AFFECT INFORMATION ACQUISITION AND ASSET PRICE
Huang Shiyang (London School of Economics) - Discussant: Patel Vinay (University of Technology Sydney)

THE IMPACT OF ARBITRAGE ON MARKET LIQUIDITY
Rosch Dominik (Rotterdam School of Management, Erasmus University) - Discussant: Huang Shiyang (London School of Economics)

PRICE DISCOVERY IN STOCK AND OPTIONS MARKETS
Patel Vinay (University of Technology Sydney); Putnins Talis (University of Technology Sydney); Michayluk David (University of Technology Sydney)
Discussant: Rosch Dominik (Rotterdam School of Management, Erasmus University)

15h45 Coffee break

Ground floor and first floor

16h00 IV-1 Corporate Governance

Chairman: **Ginglinger Edith** (Paris Dauphine University) Room Cezanne

PERFORMANCE-VESTING PROVISIONS IN EXECUTIVE COMPENSATION
Kalpathy Swaminathan (Texas Christian University); Bettis Carr (Arizona State University); Bizjak John (Texas Christian University); Coles Jeffrey (Arizona State University) - Discussant: Abudy Meni (Bar-Ilan University)

WHAT IS SPECIAL ABOUT HEDGE FUND ACTIVISM? EVIDENCE FROM 13-D FILINGS
Schnitzler Jan; von Lilienfeld-Toal Ulf (Stockholm School of Economics) - Discussant: Lahlou Ismail (University of Rennes 1 & CREM)

ARE FEMALE TOP MANAGERS REALLY PAID LESS?
Geiler Philipp (EMLYON Business School); RENNEBOOG Luc (Tilburg University) - Discussant: Schnitzler Jan (Stockholm School of Economics)

DIRECTOR COMPENSATION INCENTIVES AND ACQUISITION PERFORMANCE
Lahlou Ismail; NAVATTE Patrick (University of Rennes 1 & CREM) - Discussant: Bizjak John (Texas Christian University)

16h00 IV-2 Banking and Financial Intermediation 2

Chairman: **Refait-Alexandre Catherine** (University of Franche-Comté) Room Caillebotte

CALL ME MAYBE? THE EFFECTS OF EXERCISING CONTINGENT CAPITAL
Vallee Boris (Harvard Business School) - Discussant: Becker Bo (Stockholm School of Economics)

REGULATORY CAPITAL REQUIREMENTS AND CAPITAL BUFFERS: AN EXAMINATION OF THE AUSTRALIAN BANKING SECTOR
Durrani Kassim; Cummings James (Macquarie University); - Discussant: Vallee Boris (Harvard Business School)

FINANCIAL REPRESSION IN THE EUROPEAN SOVEREIGN DEBT CRISIS
Becker Bo (Stockholm School of Economics); Ivashina Victoria (Harvard Business School) - Discussant: Efing Matthias (Swiss Finance Institute & University of Geneva)

INCENTIVE PAY AND BANK RISK TAKING: EVIDENCE FROM AUSTRIAN, GERMAN AND SWISS BANKS
Efing Matthias (Swiss Finance Institute & University of Geneva); Hau Harald (Swiss Finance Institute & University of Geneva); Kampkötter Patrick (University of Cologne); Steinbrecher Johannes (Ifo Institute Branch Dresden) - Discussant: Durrani Kassim (Macquarie University)

16h00 IV-3 Microstructure 2

Sponsored by BEDOFIH

Chairman: **Lescourret Laurence** (ESSEC) Room Pissarro

INFORMED TRADING, FORCED TRADES AND AMPLIFICATION MECHANISMS
Odabasioglu Alper (Swiss Finance Institute - University of Geneva) - Discussant: Dugast Jerome (Banque de France)

FALSE NEWS, INFORMATIONAL ECIENCY, AND PRICE REVERSALS
Dugast Jerome (Banque de France); Foucault Thierry (HEC Paris) - Discussant: Youssef Khoali (EUROFIDAI, CNRS)

SAND IN THE CHIPS? EVIDENCE ON TAXING TRANSACTIONS IN MODERN MARKETS
Hoffmann Peter; Colliard Jean-Edouard (European Central Bank - Financial Research) - Discussant: Odabasioglu Alper (Swiss Finance Institute - University of Geneva)

16h00 IV-4 Asset Pricing 2

Chairman: **Lioui Abraham** (EDHEC) Room Van Gogh

SOCIAL SCREENS AND SYSTEMATIC BOYCOTT RISK
Luo Arthur; Balvers Ronald (McMaster University) - Discussant: Langlois Hugues (HEC Paris)

DYNAMIC DEPENDENCE AND DIVERSIFICATION IN CORPORATE CREDIT
Langlois Hugues (HEC Paris); Christoffersen Peter (Rotman School of Management, University of Toronto); Jacobs Kris (University of Houston); Jin Xisong (University of Luxembourg) - Discussant: Kagkadis Anastasios (Lancaster University)

DISPERSION IN OPTIONS TRADERS' EXPECTATIONS AND STOCK RETURN PREDICTABILITY
Kagkadis Anastasios (Lancaster University); Andreou Panayiotis (Cyprus University of Technology); Maio Paulo (Hanken School of Economics); Philip Dennis (Durham University Business School) - Discussant: Luo Arthur (McMaster University)

16h00 Phd session 3

Chairman: **Quittard-Pinon François** (EM Lyon) Room Renoir

ECONOMIC RELEVANCE OF HIDDEN FACTORS IN INTERNATIONAL BOND RISK PREMIA
Tiozzo Pezzoli Luca (Paris-Dauphine University and University of Paris 1) - Discussant: Luong Hoang Luong (University of New South Wales)

THE MYSTERY OF CURRENCY BETAS
Riddiough Steven (University of Warwick) - Discussant: Tiozzo Pezzoli Luca (Paris-Dauphine University and University of Paris 1)

18h15 Cocktail / Best paper awards

Ground floor

08h30 I-1 Financial Crisis

Chairman: **Guembel Alex** (Toulouse School of Economics) Room Caillebotte

TIME VARYING VOLATILITY AND THE ORIGINS OF FINANCIAL CRISES

Rachedi Omar (Universidad Carlos III de Madrid) - Discussant: Stancu Andrei (ICMA Centre)

I document that financial crises coincide with the sudden reversal of a long period of low aggregate volatility. I argue that shocks to the volatility of total factor productivity are a source of financial instability, and account for both the building-up of risk and the burst of financial crises. I develop a DSGE model with an occasionally binding collateral constraint and a frictional housing market which determines the liquidity of the collateral. In this environment, volatility shocks affect the frequency of fire sales by changing collateral liquidity. In a quantitative exercise, I find that the interaction of time-varying volatility and search frictions increases both the frequency financial crises and the corresponding fall in GDP by 62% and 71%, respectively. Moreover, in the model the liquidity of the collateral endogenizes agents' loan-to-value ratios. Volatility shocks generate sizable time variations in the loan-to-value ratios, providing a foundation of financial shocks.

THE EFFECT OF NATURAL DISASTERS ON BANK FAILURES

Noth Felix (University of Magdeburg); Schuewer Urlich (Goethe University Frankfurt) - Discussant: Rachedi Omar (Universidad Carlos III de Madrid)

We tests whether natural disasters have an effect on failure probabilities of banks in affected regions. Using data on property damages from hurricanes, earthquakes and other natural disasters in the U.S. from 1976 to 2010, we show that natural disasters significantly increase the failure probabilities of banks. This effect prevails when controlling for bank characteristics that are typically associated with bank failures. Surprisingly, our results suggest that banks are not more likely to fail due to disaster damage in the short-term period after a natural disaster occurs, but in the medium-term period.

THE EQUITY-LIKE FEATURES OF SOVEREIGN BONDS

Stancu Andrei; Varotto Simone; Dufour Alfonso (University of Reading) - Discussant: Mascia Bedendo (Audencia Nantes School of Management)

Using a rich dataset of high frequency historical information we study the determinants of European sovereign bond returns over calm and crisis periods. We find that the importance of credit and liquidity risk factors vary greatly over time and crucially depends on country risk. In low risk countries, government bond returns are negatively related to equity returns, regardless of market conditions. Investors appear to migrate from low risk government bonds to stocks in calm periods and in the opposite direction when markets are under stress. On the other hand, government bonds of high risk countries lose their “safe-asset” status during the recent sovereign debt crisis and have exhibited more equity-like features since then, with positive and strongly significant co-movements relative to the stock market. The new segmentation of the government bond market suggests higher diversification benefits for fixed income investors and potentially lower risk reduction opportunities for less specialised investors.

HETEROGENEOUS BELIEFS ABOUT RARE EVENT RISK IN THE LUCAS ORCHARD

Piatti Ilaria (University of Oxford) - Discussant: Noth Felix (University of Magdeburg)

This paper investigates the asset pricing implications of investor disagreement about the likelihood of a systemic disaster. I specify a general equilibrium Lucas endowment economy with multiple trees and heterogeneous beliefs about the risk of rare systemic events; the aim is to understand how risk-sharing mechanisms and fear affect equity and variance risk premia, at an aggregate level and in the cross section of stock returns. I identify a state-dependent conditional link between equity and variance premia, that changes with the cross-sectional distribution of agent consumption. Empirically, I find that, as anticipated by the model, the variance premium’s power to predict future excess returns is greater during times of financial distress, which typically feature more disagreement among investors. This result holds especially for small stocks, which are more sensitive to systemic rare event risk.

WHO ARE THE VALUE AND GROWTH INVESTORS?

Sodini Paolo (Stockholm School of Economics); Calvet Laurent (HEC Paris); Betermier Sebastien (McGill University)

Discussant: Pouget Sébastien (IAE de Toulouse)

This paper investigates the determinants of value and growth investing in a large administrative panel of Swedish residents over the 1999-2007 period. We document strong relationships between a household's portfolio tilt and the household's financial and demographic characteristics. Value investors have higher financial and real estate wealth, lower leverage, lower income risk, lower human capital, and are more likely to be female than the average growth investor. Households actively migrate to value stocks over the life-cycle and, at higher frequencies, dynamically offset the passive variations in the value tilt induced by market movements. We verify that these results are not driven by cohort effects, financial sophistication, biases toward popular or professionally close stocks, or unobserved heterogeneity in preferences. We relate these household-level results to some of the leading explanations of the value premium.

COMPETITION AMONG PORTFOLIO MANAGERS AND ASSET SPECIALIZATION

Makarov Dmitry (New Economic School); Basak Suleyman (London Business School) - Discussant: Sodini Paolo (Stockholm School of Economics)

This paper develops a tractable dynamic model of competition between two portfolio managers specializing in different assets. We characterize explicitly the unique Nash equilibrium portfolio policies and explore their properties. We find that competition can be conducive to asset specialization, in that both managers can voluntarily opt for asset specialization and the corresponding loss of diversification. Considering a manager's client investor, we find that her preference for or against asset specialization could well be the opposite to that of her manager. Finally, we examine the client's costs arising as managerial turnover or changing stock characteristics misaligns her manager's policy.

TESTING ASSET PRICING THEORY ON SIX HUNDRED YEARS OF STOCK RETURNS: PRICES AND DIVIDENDS FOR THE BAZACLE COMPANY FROM 1372 TO 1946

Pouget Sébastien (IAE de Toulouse); le Bris David (KEDGE Business School); Goetzmann Will (Yale University)

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

We use the Bazacle company of Toulouse's unique historical experience as a laboratory to test asset pricing theory. The Bazacle company is the earliest documented shareholding corporation. Founded in 1372 and nationalized in 1946, it was a grain milling firm for most of its 600 year history. We collect share prices and dividends over its entire lifespan. The average dividend yield in real terms was slightly in excess of is 5% per annum, while the long-term price growth was near zero. The company's unique full-payout dividend policy allows us to estimate an asset pricing model with fundamentally persistent dividends and a time-varying risk correction. The model is not rejected by the data. Variations in expected future dividends are found to explain between one-sixth and one-third of variations in prices. Moreover, the risk correction is correlated with macroeconomic shocks, in particular with the volatility of grain prices.

SIZE MATTERS, BOOK VALUE DOES NOT! THE FAMA-FRENCH EMPIRICAL CAPM REVISITED

Lambert Marie; Hübner Georges (HEC Management School, University of Liege) - Discussant: Makarov Dmitry (New Economic School)

The Fama and French (F&F) factors do not reliably estimate the size and book-to-market effects. Our paper shows that the former has been underestimated in the US market while the latter overestimated. We do so by replacing F&F's independent rankings by the conditional ones introduced by Lambert and Hübner (2013), over which we improve the sorting procedure. This new specification better reflects the properties of the individual risk premiums. We emphasize a much stronger size effect than conventionally documented. As a major related outcome, the alternative risk factors deliver less specification errors when used to price passive investment indices.

STAYING AT ZERO WITH AFFINE PROCESSES: A NEW DYNAMIC TERM STRUCTURE MODEL

Renne Jean-Paul (Banque de France); Monfort Alain (CREST); Pegoraro Fulvio (Banque de France); Roussellet Guillaume (CEREMADE and Banque de France) - Discussant: Rompolis Leonidas (Athens University of Economics and Business)

We build an Affine Term Structure Model that provides non-negative yields at any maturity and that is able to accommodate a short-term rate that stays at the zero lower bound (ZLB) for extended periods of time. These features are allowed for by the introduction of a new univariate non-negative affine process called ARG-Zero, and its multivariate affine counterpart (VARG), entailing conditional distributions with zero-point masses. The affine property of this new class of processes implies both explicit bond pricing and quasi-explicit lift-off probability formulas. We provide an empirical application to Japanese Government Bond (JGB) yields, observed weekly from January 1995 to March 2008 with maturities from six months to ten years. Our multivariate (four-dimensional) specification is able to closely match yield levels and to capture conditional yield volatilities at any maturity.

PRICING AND HEDGING CONTINGENT CLAIMS USING VARIANCE AND HIGHER-ORDER MOMENT SWAPS

Rompolis Leonidas; Tzavalis Elias (Athens University of Economics and Business) - Discussant: Kaya Orcun (Deutsche Bank Research)

This paper suggests perfect hedging strategies of contingent claims under stochastic volatility and/or random jumps of the underlying asset price. This is done by enlarging the market with appropriate swap contracts whose payoffs depend on higher-order sample moments of the underlying asset price process. It also derives a model-free relation between these higher-order moment swaps and the value of a composite portfolio of European options, which can be employed to perfectly hedge variance swaps. Based on the theoretical results of the paper, and on options and variance swaps rates written on the S&P 500 index, the paper provides clear cut evidence that, first, random jumps are priced in the market and, second, hedging strategies for European options employing variance and higher-order moment swaps considerably improves upon the performance of traditional delta hedging strategies. These results indicate the kind of new financial instruments that can be introduced to perfectly hedge the market.

SYSTEM-WIDE TAIL COMOVEMENTS: A BOOTSTRAP TEST FOR COJUMP IDENTICATION ON THE S&P 500, US BONDS AND EXCHANGE RATES

Lahaye Jerome (Fordham University); Gnabo Jean-Yves (University of Namur); Hvozdyk Lyudmila (University of Essex and CFAP, University of Cambridge) - Discussant: Renne Jean-Paul (Banque de France)

This paper studies bivariate tail comovements on nancial markets that are of crucial im- portance for the world economy: The S&P 500, US bonds, and currencies. We propose to study that form of dependence under the lens of cojump identication in a bivariate Brow- nian semimartingale with idiosyncratic jumps, as well as cojumps. Whereas univariate jump identication has been widely studied in the high-frequency data literature, the multivariate literature on cojump identication is more recent and scarcer. Cojump identication is of interest, as it may identify comovements which are not trivially visible in a univariate setting. That is, price changes can be small relative to local variation, but still abnormal relative to local covariation. This paper investigates how simple parametric bootstrapping of the product of assets' intraday returns can help detect cojumps in a multivariate Brownian semi-martingale with both idiosyncratic jumps and cojumps. In particular, we investigate how to disentangle idiosyncratic jumps from common jumps at an intraday level for pairs of assets. The approach is exible, trivial to implement, and yields good power properties. It allows to shed new light on extreme dependence at the world economy level. We detect cojumps of heterogeneous size which are partly undetected with a univariate approach. We nd an increased cojump intensity after the crisis on the S&P 500-US bonds pair before a return to normal.

CDS SPREADS IN THE AFTERMATH OF CENTRAL CLEARING

Kaya Orcun (Deutsche Bank Research) - Discussant: Lahaye Jerome (Fordham University)

In an attempt to understand the market impact of the derivative market reforms, this paper focuses on the spreads of centrally cleared CDSs using a unique data set of voluntarily cleared single-name contracts. Controlling for a number of factors that previous literature identified as important determinants of credit risk, my results indicate that CDS spreads widen with the initiation of central clearing. I document that the widening in CDS spreads is tantamount among non-financial and financial firms whereas there is heterogeneity in the impact of central clearing with respect to credit rating. Furthermore, I show that volatility and central clearing widen the CDS spreads jointly whereas CDS liquidity plays little role in determining spreads in the aftermath of central clearing. Therefore, I conclude that the surge in spreads is due to the elevated costs of central clearing that are likely to pass on to the end-users of these contracts.

09h00 I-4 Capital Structure

Chairman: **Hege Ulrich** (HEC Paris) Room Cezanne

THE REAL COSTS OF CORPORATE CREDIT RATINGS

Begley Taylor (London Business School) - Discussant: Otto Clemens (HEC Paris)

Credit rating agencies emphasize the importance of specific financial ratio thresholds in their rating process. Firms on the favorable side of these thresholds are more likely to receive higher ratings than similar firms that are not. I show that firms near these salient thresholds respond to the incentive to improve their appearance on this dimension by distorting real investment activities during periods leading up to bond issuance. These firms are significantly more likely to reduce R&D and SG&A expenditures compared to observationally similar firms not near a threshold. Subsequently, they are more likely to experience declines in innovation output, profitability, and Tobin's Q. These distortions highlight an important cost of arms-length financing and an adverse consequence of transparency in credit rating criteria.

LIQUIDITY RISK AND DISTRESSED EQUITY

Medhat Mamdouh (Copenhagen Business School) - Discussant: Begley Taylor (London Business School)

I show theoretically and empirically that cash used to offset liquidity risk can help rationalize the anomalous returns of distressed equity. In my model, default occurs because of liquidity or solvency, but firms seek to manage their cash to avoid the former. An insolvent but liquid firm has a large fraction of its assets in cash, which makes its equity beta low and rationalizes low expected returns. Using data on rated US firms, I find evidence consistent with my theoretical predictions: i) the average insolvent firm holds cash that meets or exceeds its current liabilities; ii) firm-specific betas and risk-adjusted returns decline as solvency and cash levels decline; and iii) a portfolio long firm with high cash (high solvency) and short firms with low cash (low solvency) has increasing returns as solvency declines (cash declines). My results suggest that there is no distress anomaly for insolvent but liquid firms.

DEBT STRUCTURE DISPERSION AND LOAN COVENANTS

Otto Clemens (HEC Paris); Lou Yun (HEC Paris) - Discussant: Medhat Mamdouh (Copenhagen Business School)

We examine the effect of dispersion in a firm's existing debt on the contract terms of newly issued loans. We find that new loans of firms whose existing debt is more dispersed among different types of lenders include more covenants and default clauses and are more likely to be collateralized. These findings provide evidence that new lenders seek protection from potential conflicts among different types of creditors by including additional contract terms in the loan agreements. Consistent with the notion that conflicts between different types of lenders matter most in case of default and are aggravated by information asymmetries, we further find that the effect of creditor dispersion is stronger for firms with high default risk and more pronounced for firms with low accounting quality. Finally, we provide evidence for a similar effect of creditor dispersion on the contract terms of newly issued bonds.

RISK FACTORS, COPULA DEPENDENCE AND RISK SENSITIVITY OF A LARGE PORTFOLIO

Peng Zhun (University of Evry); Bruneau Catherine (University Paris I Panthéon-Sorbonne and Centre d'Economie de la Sorbone); Flageollet Alexis (Natixis Asset Management) - Discussant: Milonas Kristoffer (Stockholm School of Economics / Institute for Financial Research (SIFR))

In this paper we propose a flexible tool to estimate the risk exposure of a large dimensional portfolio composed of different classes of assets, especially in extreme risk circumstances. In such cases, the usual beta approach is no longer relevant due to the complex- including tail- dependencies. Thus we use the copulas' theory but we have also to define a tractable and readable dependence structure. So we combine an ex ante interpretable factorial structure and a CVine copula model to build a CVine Risk Factors (CVRF) model. Our tool allows us to decompose the risk of any asset and any portfolio into specific risk directions. Our approach is semiparametric and we quantify the exact contribution of the different possible risk sources to the risk premia of assets and to any usual risk measure applied to portfolios. In particular we refer to the CVaR measure, which is relevant in critical contexts.

INTERNAL-EXTERNAL LIQUIDITY FEEDBACKS

Zucchi Francesca (Swiss Finance Institute @ EPFL) - Discussant: Peng Zhun (University of Evry)

I develop a model that studies the two-sided relation between corporate policies and secondary stock market liquidity. I show that market illiquidity limits firms' ability to hold precautionary liquidity, exacerbates financial constraints, reduces investment, and decreases corporate value. In turn, I demonstrate that this illiquidity-driven drop in firm value feeds back into the secondary market, by deterring liquidity providers' participation and making the market more illiquid. The self-reinforcing nature of this relation gives rise to an internal-external liquidity loop, whereby corporate liquidity stimulates market liquidity, and vice-versa. The loop microfounds liquidity provision in equity markets, and it singles out a novel propagation and amplification mechanism between financial markets and the corporate sector.

THE EFFECT OF FORECLOSURE LAWS ON SECURITIZATION: EVIDENCE FROM U.S. STATES

Milonas Kristoffer (Stockholm School of Economics / Institute for Financial Research (SIFR)) - Discussant: Zucchi Francesca (Swiss Finance Institute @ EPFL)

Recent literature suggests that if a borrower runs into default and the mortgage has been securitized in the private non-agency market, the mortgage is likely to be foreclosed even when a wealth-maximizing portfolio lender would renegotiate. We study whether this renegotiation friction affects lenders' decision to securitize. Using loan-level data from 2001 to 2012, we document that lenders are less likely to securitize mortgages in states with higher foreclosure cost. Consistent with the prediction that the difference should be larger in times of higher expected defaults, we show that it increases with recent default rates. Comparing loans from nearby areas across state borders removes unobserved heterogeneity between states.

LEARNING ABOUT TARGET FIRMS AND PRICING OF ACQUISITIONS

Moeller Thomas (Texas Christian University); Jindra Jan (Menlo College) - Discussant: Martinsson Gustav (Institute for Financial Research (SIFR))

We analyze whether acquisition pricing is related to changing target valuation uncertainty due to learning about target firms. Newly public firms should be more opaque than established public firms with long track records. An acquirer with an advantage in learning about a newly public firm can negotiate a favorable takeover price because other potential acquirers realize their bidding handicap and choose not to compete for the target. Over time, as more information about the target becomes publicly and easily available to all potential acquirers, the benefits to acquirers with learning advantages decline and more competition for the target should ensue. Accordingly, we find that acquirer announcement returns decrease and takeover premiums increase with the length of time since the targets' initial public offerings. Our study provides new insights into the determinants of acquirer announcement returns, takeover premiums, and the effects of target valuation uncertainty and learning on acquisition pricing.

DO M&A LAWSUITS DISCIPLINE MANAGERS' INVESTMENT BEHAVIOR?

Bourveau Thomas (HEC Paris); Brochet François (Harvard Business School); Spira Sven Michael (HEC Paris)
Discussant: Williams Ryan (The University of Arizona)

Using securities lawsuits related to M&A as an industry shock, we examine whether litigation risk acts as an external governance mechanism by disciplining managers' investment decisions. In the two years following an M&A lawsuit (a lawsuit where plaintiffs allege that the firm hid poor performance related to a prior acquisition), we find that industry peers experience higher bidder announcement returns, choose more adequate methods of payment, and engage in fewer diversifying and smaller takeovers. Collectively, this evidence is consistent with post lawsuit deals being of higher quality. Furthermore, we find that peer rms respond to the increased litigation risk by reducing abnormally high investment expenditures. Finally, the reactions are stronger among firms with fewer anti-takeover provisions. Overall, our results show that M&A lawsuits can have an industry-wide deterrence effect on firms' suboptimal investment behavior.

PAYOUT TAXES, COSTLY EXTERNAL FINANCE, AND LONG-RUN INVESTMENT

Brown James (Iowa State University); Martinsson Gustav (Institute for Financial Research (SIFR)) - Discussant: Bourveau Thomas (HEC Paris)

Taxing corporate payouts drives a wedge between the cost of internal and external equity finance. Long-run investments like innovation should be particularly sensitive to this financing distortion because firms have limited ability to substitute to debt when external equity is costly. Indeed, using a broad international panel, we find a strong inverse relation between payout tax rates and innovative activity. Payout taxes have the strongest impact on innovation in industries more dependent on external equity, supporting the financing mechanism we emphasize. Our study shows that capital taxation matters for a broader array of economically important activities than prior research indicates.

SELF-FULFILLING FIRE SALES: FRAGILITY OF COLLATERALISED SHORT-TERM DEBT MARKETS

Kuong John C.F. (INSEAD) - Discussant: Zhao Lei (ICMA Centre, University of Reading)

This paper shows that collateralised borrowing, although optimal to reduce borrower moral hazard, can lead to systemic runs in the debt markets and create endogenous aggregate risk. This is because of a feedback loop between the risk-taking behavior of borrowers and the expected price of seized collateral in the secondary market. When the fire-sale price of collateral is expected to be low, lenders demand more collateral and higher debt yields, making it more attractive for borrowers to engage in risk-taking ex-ante (due to limited liability). The riskier pool of projects will lead to more liquidation ex-post, justifying the expectation of low fire-sale price. I show that a government commitment to engage in asset purchases in a crisis can improve welfare, and that a ban on the exemption from automatic stay in repo finance can worsen borrower moral hazard and lead to more fire sales.

IMPLICIT GOVERNMENT GUARANTEES IN EUROPEAN FINANCIAL INSTITUTIONS

Zhao Lei (ICMA Centre, University of Reading) - Discussant: Boissel Charles (HEC Paris)

We exploit the price differential of CDS contracts written on debts with different seniority to measure the implicit government guarantees enjoyed by European financial institutions over the period 2005-2013. We find that the guarantee exists for both banks and insurance companies and it increases substantially during the global sub-prime crisis and peaks at an average of 89 basis points in September 2011 during the European sovereign debt crisis. Implicit support is higher for banks than insurance companies. Our analyses suggest Eurozone financial firms benefit more from implicit guarantees than their non-Eurozone counterparts. We observe that the aggregate guarantee implicitly offered by a country's government positively "Granger causes" the country's default risk and decreases as the country's credit quality deteriorates. We also find evidence that the phasing in of Basel III rules does not appear to have reduced the implicit guarantees available to major financial institutions in Europe.

SYSTEMIC RISK IN CLEARING HOUSES: EVIDENCE FROM THE EUROPEAN REPO MARKET

Boissel Charles (HEC Paris); Derrien Francois (HEC Paris);Ors Evren (HEC Paris); Thesmar David (HEC Paris) - Discussant: Kuong John C.F. (INSEAD)

We examine whether the Centralized-Counterparty Clearinghouse (CCP) behind the General Collateral (GC) repos traded on two large repurchase agreement (repo) platforms potentially suffered from systemic risk during the European sovereign debt crisis in 2008-2011. We find that GC repo rates respond to movements in sovereign risk, in particular at the peak of the crisis in 2011 and in GIIPS countries. This is surprising given that our data are from the safest segment of the European repo market, in which the CCP assumes counterparty default risk. We document that in 2011 the repo market behaved as if the probability of CCP default (conditional on sovereign default) was very large, and did not react to increases in haircuts. The ECB's 36-month long-term refinancing operation of December 2011 alone was able to disconnect the CCP from the sovereign crisis. Overall, our evidence is consistent with CCPs providing some protection in periods of intermediate sovereign stress (2009-2010), but being ineffective at the peak of the sovereign crisis (2011). Our findings have important implications for the increasing role that CCPs, many of which are interconnected, are required to play under the European Market Infrastructure Reform (EMIR) and the Dodd-Frank Act in the USA.

WHEN VARIANCE RISK HAS TWO PRICES: EVIDENCE FROM THE EQUITY AND OPTION MARKETS

Barras Laurent; **Malkhozov Aytek (McGill University)**
Discussant: Liebscher Roberto (Catholic University of Eichstätt-Ingolstadt)

We estimate the quarterly dynamics of the Variance Risk Premium (VRP) in the equity and option markets. Both VRPs follow common patterns and respond similarly to changes in volatility and economic conditions. However, they also exhibit persistent discrepancies. We find that such discrepancies are strongly related to variables that proxy for the risk-bearing capacity of financial intermediaries. These results are consistent with the central role of these institutions in setting prices in the option market. They also suggest that frictions limit risk sharing across markets and that the option VRP can be a biased measure of equity investors' risk attitude.

ARE PROFESSIONAL INVESTMENT MANAGERS SKILLED? EVIDENCE FROM SYNDICATED LOAN PORTFOLIOS

Liebscher Roberto **(Catholic University of Eichstätt-Ingolstadt); Mählmann Thomas (Catholic University of Eichstätt-Ingolstadt)**
Discussant: Tuzun Tugkan (Federal Reseve Board)

Theory predicts that individual investors' incentives to uncover new information about asset values are low if asset prices are efficient. This, in turn, implies that heterogeneity in investment manager skill, if present, should be most clearly visible among managers that focus on asset classes with less informationally efficient prices. We investigate this argument using a large sample of syndicated bank loan portfolios managed by collateralized loan obligation (CLO) managers. Using a CLO's equity tranche cash-on-cash (CoC) return to measure performance, we find strong persistence: The best quintile managers outperform the lowest quintile by about 5.5% per annum even three years after the formation period. This result cannot be explained by differences in risk or several data bias issues. We also find that skilled managers capitalize on their skill by being more likely to increase (and less likely to decrease) assets under management and enjoying higher management fee levels.

ARE LEVERAGED AND INVERSE ETFS THE NEW PORTFOLIO INSURERS?

Tuzun Tugkan **(Federal Reseve Board) -** Discussant: Barras Laurent (Mcgill university)

Mechanical positive-feedback rebalancing of Leveraged and Inverse Exchange Traded Funds (LETFs) resembles the portfolio insurance strategies, which contributed to the stock market crash of October 19, 1987 (Brady Report, 1988). I show that a 1% increase in stock indexes forces LETFs to originate rebalancing flows equivalent to $1.04 billion worth of stock. Concentrated trading of LETFs results in price reaction and extra volatility. Implied price impact calculations suggest that they contributed to the stock market volatility in the 2008-2009 financial crisis and in the second half of 2011 when the European sovereign debt crisis came to the forefront.

DO STOCK RETURNS REALLY DECREASE WITH DEFAULT RISK? NEW INTERNATIONAL EVIDENCE

Florackis Chris (University of Liverpool); Kostakis Alex (Manchester Business School); Aretz Kevin (Manchester Business School)
Discussant: Weber Michael (University of Chicago)

This study constructs a unique dataset of bankruptcy filings for a large sample of non-U.S. firms in 14 developed markets and sheds new light on the cross-sectional relation between default risk and stock returns. Using the flexible approach of Campbell et al. (2008) to estimate default risk probabilities, this is the first study to offer conclusive ev-idence supporting the existence of an economically and statistically significant positive default risk premium in international markets. This finding is robust to different portfo-lio weighting schemes, data filters, sample periods and holding period definitions, and holds using both in-sample estimates of default probabilities during the period 1992-2010 and out-of-sample estimates during the period 2000-2010. We also show that the magnitude of the default risk premium is contingent upon a series of firm characteristics.

NOMINAL RIGIDITIES AND ASSET PRICING

Weber Michael (University of Chicago) - Discussant: Cujean Julien (University of Maryland)

This paper examines the asset pricing implications of nominal rigidities. Firms that adjust their product prices infrequently earn a return premium of more than 4% per year. Merging unique product-price data at the firm level with stock returns, I document that the premium for sticky-price firms is a robust feature of the data and varies substantially over the business cycle. The premium is not driven by other firm and industry characteristics. Differential exposure to systematic risk fully explains the premium for sticky-price firms. A multi-sector New Keynesian asset-pricing model with sectors differing in their frequency of price adjustment is consistent with these novel facts.

TERM STRUCTURE OF DISAGREEMENT AND PREDICTABILITY OVER THE BUSINESS CYCLE

Cujean Julien (University of Maryland); Hasler Michael (University of Toronto) - Discussant: Kostakis Alex (Manchester Business School)

Our objective is to identify the mechanism that causes return predictability to vary over the business cycle and the trading strategy that allows an investor to take advantage of it. We build an equilibrium model in which some investors believe the economy transits slowly from good to bad times, while others believe economic condi- tions can change precipitately. This particular type of heterogeneous beliefs leads to a time-varying term structure of disagreement whereby return predictability rises as economic conditions deteriorate. In bad times, disagreement spikes in the short term, generating short-term momentum followed by a long-term reversion to fundamentals. In good times, instead, disagreement is steady and therefore prices revert instantly to fundamentals. Investors implement momentum strategies to extract momentum in bad times and time the market to avoid momentum crashes when the market rebounds.

GROUP AFFILIATION AND THE PRICING OF PUBLIC DEBT

Altieri Michela (University of Turin) - Discussant: Zhu Guangyao (Erasmus Univesity of Rotterdam)

I compare the cost of US corporate debt of nonfinancial firms belonging to a business group with the cost of debt of nonfinancial stand-alone firms. The corporate bonds issued by subsidiary firms have a lower yield spread of 16 bps when compared to similar bonds issued by stand-alone firms. I argue that this saving of 10% on the cost of debt depends from an implicit guarantee provided by the parent firms on the debt of their subsidiaries. The value of this implicit guarantee- the save on bond yield spreads – raises up to 30 bps when parent firms are triple-A rated and have high cash flow ratios. At the same time, an implicit guarantee does not impact the market value of the outstanding debt of parent firms: they will allow for a selective default of the subsidiary bonds, when having insufficient liquidity to honor the subsidiary's debt.

THREAT OF ENTRY AND CORPORATE DEBT MATURITY: EVIDENCE FROM AIRLINES

Parise Gianpaolo (Swiss Finance Institute) - Discussant: Altieri Michela (University of Turin)

This paper provides evidence for a causal effect of the threat of entry on corporate debt maturity in the airline industry. Building on the previous literature, the evolution of Southwest Airlines' route network is used to identify routes where the probability of future entry dramatically increases. Empirical results show that when a strategic route is threatened, incumbents increase the proportion of their long-term liabilities by 13% before Southwest starts flying. Conversely, nothing happens when relatively unimportant routes are threatened. Similar results are found using the industry deregulation during the Carter administration as a quasi-natural experiment. Overall, my findings suggest that airlines respond to entry threats by lengthening the maturity of their debt in order to reduce liquidity risk and discourage actual entry.

WHERE IS FAMILY OWNERSHIP AND NEPOTISM GOING? EVIDENCE FROM S&P 1500 FIRMS

Zhu Guangyao (Erasmus Univesity of Rotterdam) - Discussant: Parise Gianpaolo (Swiss Finance Institute)

I study nepotism in a social network perspective and measure nepotism by degree, density and centrality. I find firms with nepotism underperform significantly, and firms with female-dominant nepotism perform no better than male-dominant one. Moreover, I find significant negative abnormal change in nepotism degree around first-time blockholder presence event. I document a «squeeze-out effect'' for the blockholder ownership. The decline in the founding-family ownership and nepotism can be attributed to the sharp trend of ownership concentration towards blockholders in the last three decades. I find 90% of the S&P 1500 firms have at least one shareholder holding a block exceeding 5% in 2012, which is 20% higher than the one in 1996. Overall, my empirical results demonstrate that unmonitored nepotism relationships destroy firm value, especially for firms having founding-family ownership, while blockholder activism creates firm value by «squeezing out'' founding-family ownership and nepotism relationships.

FINANCING CONSTRAINTS IN THE CRISIS: EVIDENCE FROM A NOVEL POLICY INITIATIVE IN SWEDEN

Martinsson Gustav (Swedish House of Finance) - Discussant: Sokolyk Tatyana (Brock University)

We study a novel government policy, launched in Sweden in March 2009, to evaluate the consequences of financing constraints during a crisis. The policy is unique in that it allowed firms to temporarily suspend payment of their labor taxes, but any unpaid taxes were treated as a loan on the balance sheet rather than a government grant or direct support. Moreover, the interest rate charged was set relatively high so as to appeal only to firms whose options for external finance disappeared. About 2,700 firms received loans totaling about one billion dollars. We match information on the lending facility to firm level data on the whole universe of Swedish limited liability corporations during 2007-2010. We show that i) the firms taking the loan indeed appear to be financially constrained, and ii) the mitigation of the financing constraints as a consequence of the policy stimulated real investment and employment growth

CROWDFUNDING MODELS: KEEP-IT-ALL VS. ALL-OR-NOTHING

Schwienbacher Armin (Universite Lille 2 & SKEMA); Cumming Douglas (York University - Schulich School of Business); Leboeuf Gael (Universite Lille 2 & SKEMA) - Discussant: Martinsson Gustav (Swedish House of Finance)

Rewards-based crowdfunding campaigns are commonly offered in one of two models: “Keep-it-All” (KIA) where the entrepreneurial firm sets a fundraising goal and keeps the entire amount raised regardless of whether or not they meet their goal, and “All-or-Nothing” (AON) where the entrepreneurial firm sets a fundraising goal and keeps nothing unless the goal is achieved. We provide large sample evidence consistent with the view that the usage of AON is a credible signal to the crowd that the entrepreneur commits not to undertake the project if not enough is raised. This signal reduces the risk to the crowd, thereby enabling the AON entrepreneurial firms to set higher goals, raise more money, and be more likely to reach their stated goals. In contrast, KIA projects tend to be less successful, since the crowd bears the risk that an entrepreneurial firm undertakes a project that is underfunded and hence more likely to fail after the campaign. Entrepreneurs use the KIA model for scalable projects; that is, projects that are still feasible with partial funding. Further, we provide evidence that the crowd is much more sensitive to information provided by AON projects. We show that these findings are robust to a number of robustness checks, including but not limited to use of instrumental variables and propensity score matching.

DEBT FINANCING, SURVIVAL, AND GROWTH OF START-UP FIRMS

Sokolyk Tatyana (Brock University) - Discussant: Schwienbacher Armin (Universite Lille 2 & SKEMA)

This study utilizes data from the Kauffman Firm Survey to analyze the use of credit by U.S. start-up firms. We first examine what factors explain a start-up’s decision to use credit, and, conditional upon using credit, its decision as to what type of credit to use—business or personal. We find that while larger and better quality start-ups are more likely to use credit in general, out of credit users, better quality firms are more likely to use business and less likely to use personal credit. Importantly, the decision to use credit at the firm’s start-up matters for subsequent firm outcomes. A start-up firm using debt, and, in particular, business debt, is significantly more likely to survive and achieves a higher level of revenue three years after the firm’s start-up. We attribute this to the incentives and expertise of the lenders, which, for business debt, almost always are banks.

ACTUAL SHARE REPURCHASES, PRICE EFFICIENCY, AND THE INFORMATION CONTENT OF STOCK PRICES

Busch Pascal (University of Mannheim); Obernberger Stefan (Erasmus University) - Discussant: Boulton Thomas (Miami University)

We examine the impact of share repurchases on the information content of stock prices using several measures of price efficiency. The study is based on manually collected data on share repurchases in the United States for the period 2004-2010. We find that share repurchases make prices more efficient. In particular, share repurchases increase the accuracy of the stock price after negative information comes to the market. We conclude that share repurchases increase the information content of stock prices by providing price support at fundamental values. There is no evidence that share repurchases incorporate private information into the stock price or that share repurchases increase the noise in stock returns.

MANAGERIAL CONFIDENCE AND INITIAL PUBLIC OFFERINGS

Boulton Thomas (Miami University); Campbell T. Colin (Miami University) - Discussant: Ordu Umut (WHU - Otto Beisheim School of Management)

Initial public offering (IPO) underpricing is positively correlated with managerial confidence. We hypothesize that highly overconfident managers, who tend to overvalue their own firm, use underpricing to signal their beliefs to the market in an effort to receive greater value for their shares in follow-on offerings. Evidence from the subsequent capital raising activities of IPO firms supports this conjecture. However, firms with highly overconfident managers do not consistently outperform firms with less confident managers following their IPO, which suggests that overconfidence is not a proxy for firm quality.

DO MARKETS ANTICIPATE CHANGES IN RISK AFTER MAJOR CORPORATE EVENTS? EVIDENCE FROM SEOs

Ordu Umut; Johanning Lutz; Schweizer Denis (WHU – Otto Beisheim School of Management); Cumming Douglas (York University - Schulich School of Business) - Discussant: Busch Pascal (University of Mannheim)

This paper examines the relationship between stock and option markets around SEO events. We compare option-implied volatility and realized volatility to show that option markets do not fully predict risk dynamics following equity issues. Moreover, we show that straddle strategies that explore the difference between option-implied and realized volatility following SEO events can lead to significant risk-adjusted (by common risk factors) positive returns. We also find that risk-adjusted returns can be partially explained by uncertainty (approximated for by option market liquidity). We interpret this as compensation for writing options during times of high uncertainty around the SEO event, where long options are more valuable.

III-3 International Finance

Chairman: **Dumas Bernard** (INSEAD) Room Van Gogh

FISCAL AUSTERITY AND THE INFORMATIVENESS OF CREDIT RATINGS

Gibert Anna (European University Institute) - Discussant: Herold Michael (University of Bamberg)

This paper studies the signaling role of fiscal austerity. I construct a model where countries have different ability to commit to raise taxes in the future, which affects their probability to repay their debts. The more able type can reduce debt more than the other type is willing to, thereby revealing its type, at the expense of reducing consumption today. How this trade-off resolves depends on the value of pooling. I use a measure of the credit ratings informativeness to proxy for the information at the pool and confirm that low informativeness is associated with a higher austerity due to the signaling motive.

LIMITED PARTICIPATION AND INTERNATIONAL RISK SHARING: DOES THE NOMINAL EXCHANGE RATE MATTER?

Wang Xuedong (Erasmus University Rotterdam and Tinbergen Institute) - Discussant: Gibert Anna (European University Institute)

In international business cycle models with complete financial markets, the consumption growth ratio moves in tandem with the real exchange rate growth. In the data, however, their correlation is often negative. International risk sharing is quite poor in reality. This consumption-real exchange rate anomaly, also called the Backus-Smith puzzle, is one of the major puzzles in international macroeconomics. Empirical results show that the nominal exchange rate movements are the main source for the Backus-Smith puzzle. This paper shows that an endogenous segmented asset markets model can solve the consumption-real exchange rate anomaly and reveal the role of the nominal exchange rate on international risk sharing. If the nominal exchange rate is fixed, international risk sharing improves in the simulated economy.

INTERNATIONAL STOCHASTIC DISCOUNT FACTORS AND STOCHASTIC CORRELATION

Herold Michael (University of Bamberg); Branger Nicole (University of Muenster); Muck Matthias (University of Bamberg)
Discussant: Wang Xuedong (Erasmus University Rotterdam and Tinbergen Institute)

We consider an analytical framework that aims at investigating the impact of stochastic covariance and thus stochastic correlation between international economies. Using a Wishart pure diffusion process, we model the covariance matrix of country-specific stochastic discount factors (SDF) to incorporate stochastic volatility and unspanned stochastic covariance. We infer the dynamic structure of the SDFs and the time series of latent state variables by embedding a nonlinear filter in a quasi maximum likelihood estimation approach. Our findings suggest that at the outbreak of the financial crisis in the second half of the year 2008 stochastic discount factors face a sharp decrease in correlation associated with diverging risk premia of the corresponding currency areas. After a short adaption period, correlation stabilizes at high positive levels.

HARNESSING MEDIA ATTENTION: CORPORATE PRESS RELEASES AND MEDIA COVERAGE AROUND EARNINGS ANNOUNCEMENTS

Ngo Phong (Australian National University); Liu Wai-Man (Australian National University); Zhu Qiaoqiao (Australian National University)

Discussant: Edelen Roger (University of California at Davis)

We document that firms are 35% more likely to issue non-earnings press releases during the earnings announcement period. This propensity for firms to release non-earnings information during the earnings period increases to 80% for firms announcing extremely negative earnings news. Non-earnings releases are insufficient to improve negative announcement returns in isolation. However, firms time the release of non-earnings news in this way to harness the heightened media attention during the earnings period—the media is four times more likely to cover a press release made during an extremely negative earnings announcement. In particular, if there is media coverage of the non-earnings release, then announcement returns increase by over 5%. These valuation effects are long lasting and concentrated in small firms.

CONTAGIOUS NEGATIVE SENTIMENT - EVIDENCE FROM LOCAL BANKRUPTCY FILINGS

Le Nhan (University of Mannheim); Addoum Jawad (University of Miami); Kumar Alok (University of Miami)

Discussant: Ngo Phong (Australian National University)

This study shows that corporate bankruptcy events affect the corporate behavior of geographically proximate firms. Following the bankruptcy of a local peer, non-filing local firms significantly reduce investment expenditures, reduce capital structure leverage, and hold more cash. The effects of local bankruptcy are more pronounced when the filing firm is larger and more mature, and stronger among firms managed by CEOs with relatively short tenure. Importantly, the spillover effects associated with geographic proximity cannot be explained by intra-industry or supply chain effects documented in the extant literature. We also find that the effects cannot be explained by shocks to the local economy. Collectively, these results suggest that corporate managers follow the availability heuristic and become overly conservative in their investment and financial policies in response to local distress events.

INSTITUTIONAL INVESTORS AND STOCK RETURN ANOMALIES

Edelen Roger (University of California at Davis); Kadlec Greg (Virginia Tech); Ince Ozgur (Virginia Tech)

Discussant: Roger Patrick (University of Strasbourg)

We examine institutional investor demand for stocks that are categorized as mispriced according to twelve well-known pricing anomalies. We find that institutional demand during the year prior to anomaly portfolio formation is typically on the wrong side of the anomalies' implied mispricing. That is, we find increases in institutional ownership for overvalued stocks and decreases in institutional ownership for undervalued stocks. Moreover, abnormal returns for all twelve anomalies are concentrated almost entirely in stocks with institutional demand on the wrong side. We consider several competing explanations for these puzzling results.

HOW OPTIONS AFFECT INFORMATION ACQUISITION AND ASSET PRICE

Huang Shiyang (London School of Economics) - Discussant: Patel Vinay (University of Technology Sydney)

This paper studies how introducing option market affects investors' incentive to collect private information in a rational expectations equilibrium model. We show that information acquisition cost and public information play important roles. When information acquisition cost is low or public information is imprecise, option market will decrease investors' incentive to collect private information. This decrease in information collection will induce underlying asset's price to decrease and increase price volatility. Meanwhile, dynamic extension of this model shows that introducing option market will increase price reaction to future earnings announcements in this scenario. However, when information acquisition cost is high or public information is precise, these effects are opposite. These results provide a potential unified theory to reconcile the conflicting empirical findings regarding option listing in both US market and international markets. Furthermore, option market' effects can be achieved by introducing additional trading opportunities, such as after-hour or round-the-clock trading.

THE IMPACT OF ARBITRAGE ON MARKET LIQUIDITY

Rosch Dominik (Rotterdam School of Management, Erasmus University) - Discussant: Huang Shiyang (London School of Economics)

How arbitrage affects liquidity depends on the reasons why arbitrage opportunities arise. Using tick-by-tick data (in the Depositary Receipts market, as an example where arbitrage is almost risk-free) from the US and five different countries from 1996 to 2013, I find that 70% of all arbitrage opportunities arise because of demand shocks. Consistently, I find that a one standard deviation decrease in deviations from the law of one price (indicating an increase in arbitrage activity) predicts a decrease in order imbalance and a one-fourth standard deviation increase in liquidity. These findings suggest that arbitrageurs trade against market order imbalance, and thereby improve market integration and liquidity. To address causality I use days on which the home-market is ex-dividend, but the ADR is cum-dividend, as an instrument for arbitrage activity.

PRICE DISCOVERY IN STOCK AND OPTIONS MARKETS

Patel Vinay (University of Technology Sydney); Putnins Talis (University of Technology Sydney); Michayluk David (University of Technology Sydney)
Discussant: Rosch Dominik (Rotterdam School of Management, Erasmus University)

This study sheds new light on the contribution of stock and options markets to price discovery. We use a sample of large US stocks during the past decade and measures of price discovery that overcome a bias that is present in previous empirical work. We find that options markets contribute about one third to price discovery. This estimate is approximately two to five times larger in magnitude than documented in previous studies and suggests that options markets are an important source of informed trading and price discovery, consistent with theoretical predictions. We also find increased price discovery in the options market is associated with wider bid-ask spreads in the options market consistent with relatively higher adverse selection risks from informed traders when compared to the stock market. In addition, we find that leverage is also a key driver of price discovery in the options market.

PERFORMANCE-VESTING PROVISIONS IN EXECUTIVE COMPENSATION

Kalpathy Swaminathan (Texas Christian University); Bettis Carr (Arizona State University); Bizjak John (Texas Christian University); Coles Jeffrey (Arizona State University) - Discussant: Abudy Meni (Bar-Ilan University)

Over the last decade performance vesting (p-v) equity awards have displaced time vesting equity awards. By 2012 70% of large US companies granted one or more p-v awards. Based on new methods we develop and implement, we find that p-v provisions significantly amplify executive incentive alignment with shareholder interests (delta) and executive incentives to take risk (vega). Conventional measures of value, delta and vega reflect significant error. These awards are more likely to be adopted for a new CEO and more complex firms. Award usage is associated with a significant subsequent increase in stock performance, accounting performance, and firm risk.

WHAT IS SPECIAL ABOUT HEDGE FUND ACTIVISM? EVIDENCE FROM 13-D FILINGS

Schnitzler Jan; von Lilienfeld-Toal Ulf (Stockholm School of Economics) - Discussant: Lahlou Ismail (University of Rennes 1 & CREM)

We provide an empirical assessment of two incentivizing mechanisms that help overcome agency costs caused by the separation of ownership and control: namely inside ownership and external blockholdings. Our findings suggest that defining features of these mechanisms, like high ownership and costly (active) effort provision, are important determinants for a successful outcome. On the other hand, the type of activist seems to be of minor importance only. We find that announcements of activist hedge fund holdings are not accompanied with larger abnormal returns than our base-group of activist investors. The only group standing apart with a smaller effect are financial institutions. Our sample covers all Schedule 13D filings from 1985-2012. Incidences of active blockholders are very frequent with over 10000 filings per year (1900 initial filings). Additionally, these events are associated with substantial abnormal returns, 7% for initial lings (4% for all filings).

ARE FEMALE TOP MANAGERS REALLY PAID LESS?

Geiler Philipp (EMLYON Business School); RENNEBOOG Luc (Tilburg University) - Discussant: Schnitzler Jan (Stockholm School of Economics)

Are female top managers paid less than their male counterparts? Is the gender gap higher in male-dominated industries? What effect on pay do female non-executive directors and remuneration consultants exert? While we find no pay gap for the figure-head (CEO), there is strong pay discrimination at the level of the other top managers. These female executive directors earn over a five-year tenure period £1.3 million less than male directors, and this pay gap is visible for all components of pay. The pay gap is lower for executives in firms with one or more female non-executives. Female executives in 'male' industries receive less remuneration than male executives but the gender pay gap is smaller. The advice of top remuneration consultants does not reduce the pay gap.

DIRECTOR COMPENSATION INCENTIVES AND ACQUISITION PERFORMANCE

Lahlou Ismail; NAVATTE Patrick (University of Rennes 1 & CREM) - Discussant: Bizjak John (Texas Christian University)

The principal objective of this paper is to investigate the relation between director compensation structure and shareholder interests in the context of acquisitions. Our evidence suggests that the more closely directors' compensation is tied to the firm's stock, the more consistent corporate acquisition decisions are with shareholder interests. Specifically, we find that acquirer firms that compensate their directors with a higher proportion of incentive-based compensation have significantly higher stock returns around the announcement. Compared to acquirers in the low equity-based compensation group, acquirers in the high equity-based compensation group outperform by 0.73% in a five-day period surrounding the announcement date. An increase in director equity-based pay results in a lower probability of value-destroying acquisitions and a lower acquisition premium for targets. We further find that acquirers with higher equity-based pay exhibit greater improvements in stock price and operating performance following acquisitions.

CALL ME MAYBE? THE EFFECTS OF EXERCISING CONTINGENT CAPITAL

Vallee Boris (Harvard Business School) - Discussant: Becker Bo (Stockholm School of Economics)

This paper studies market reaction and economic performance following the first episode of banks triggering contingent capital options. During the financial crisis, European banks massively used embedded options in their hybrid bonds to reduce their debt burden. These triggers are positively received by debtors, while stockholders discriminate according to the type of resulting debt relief and the financial institution leverage. Moreover, banks that trigger permanent debt reliefs exhibit higher economic performance than the ones that do not. These findings point towards innovative debt instruments offering an effective solution to the dilemma of bank capital regulation.

REGULATORY CAPITAL REQUIREMENTS AND CAPITAL BUFFERS: AN EXAMINATION OF THE AUSTRALIAN BANKING SECTOR

Durrani Kassim; Cummings James (Macquarie University); - Discussant: Vallee Boris (Harvard Business School)

This study investigates regulatory capital requirements and bank capital buffers for the Australian banking sector. Findings indicate Australian banks have a targeted level of capital in mind, with quarterly speed of adjustment coefficients of 19 and 15 per cent back to this target, for total and tier 1 capital ratios respectively. Findings suggest bank risk and bank size and return on equity are strong capital buffer determinants, and the impact of Basel II has had a positive impact on the capital buffers held by banks. Findings suggest capital buffers vary positively with the business cycle, indicating a potential countercyclical effect with lending based on the capital crunch hypothesis. Finally, results indicate regulatory imposed prudential capital ratios (PCRs) have their intended effect on capital ratios, indicating the degree of importance regulatory oversight has had in maintaining a sound and profitable banking system in Australia.

FINANCIAL REPRESSION IN THE EUROPEAN SOVEREIGN DEBT CRISIS

Becker Bo (Stockholm School of Economics); Ivashina Victoria (Harvard Business School) - Discussant: Efing Matthias (Swiss Finance Institute & University of Geneva)

By the end of 2013, the share of government debt held by the domestic banking sectors of Eurozone countries was more than twice its 2007 level. We show that this type of increasing reliance on the domestic banking sector for absorbing government bonds generates a crowding out of corporate lending. For a given domestic firm, new debt is less likely to be a loan—i.e., the loan supply contracts—when local banks have purchased more domestic sovereign debt and when that debt is risky (as measured by CDS spreads). These effects are most pronounced in the period following the second Greek bailout in early 2010.

INCENTIVE PAY AND BANK RISK TAKING: EVIDENCE FROM AUSTRIAN, GERMAN AND SWISS BANKS

Efing Matthias (Swiss Finance Institute & University of Geneva); Hau Harald (Swiss Finance Institute & University of Geneva); Kampkötter Patrick (University of Cologne); Steinbrecher Johannes (Ifo Institute Branch Dresden) - Discussant: Durrani Kassim (Macquarie University)

We use payroll data on 1.2 million bank employee years in the Austrian, German and Swiss banking sector to extract bonus payments in the critical banking segments of treasury/capital market management and investment banking for 66 banks. We document an economically significant correlation of incentive pay with both the level and volatility of bank trading income---particularly for the pre-crisis period 2003-2007 for which incentive pay was strongest. In a second step, we use the strength of incentive pay in unrelated bank divisions like retail banking to instrument the bonus share in the capital market divisions: a `pay incentive culture\' increases both the level and volatility of trading income. For the pre-crisis we find a negative overall effect on the Sharpe ratio of trading income.

INFORMED TRADING, FORCED TRADES AND AMPLIFICATION MECHANISMS

Odabasioglu Alper (Swiss Finance Institute - University of Geneva) - Discussant: Dugast Jerome (Banque de France)

The first aim of this study is to seek an information-based explanation to the empirical finding that stocks held mostly by hedge-funds, compared to the ones held by mutual-funds, experience more severe price drops and slower price reversals during market turmoil. We do so within an information-setting of double-uncertainty (in the asset value and in the fraction of forced-trades). Meanwhile, we suggest in general an informational explanation to non-fundamental, yet rational, asset price deviations and their particular evolutions (their directions, magnitudes and persistence) when traders are exposed to funding constraints. Our parsimonious model predicts rational under-(over-)shooting in the prices when the fraction of unobserved forced-trades is under-(over-)estimated. We show that, the price deviations exhibit reversals when constrained traders are uninformed (e.g. mutual-funds) and that they are persistent when these traders are informed (e.g. hedge-funds). Finally, we propose mechanisms to mitigate these overall destabilizing effects.

NOISY ARROW-DEBREU EQUILIBRIA

Malamud Semyon (EPFL) - Discussant: Hoffmann Peter (European Central Bank - Financial Research)

I develop a model to study noisy Arrow-Debreu equilibria with asymmetric information and a continuum of states. The model allows for an arbitrary probability density, arbitrary signal structures, and general trader preferences. I show that there is a major difference in equilibrium behaviour between models with constant absolute risk aversion (CARA) and non-CARA preferences. First, if informed traders have non-CARA preferences, equilibrium is fully revealing, independent of the amount of noise in the supply. Second, when informed traders have CARA preferences, but uninformed traders have non-CARA preferences, the set of equilibria contains a maximally ecient equilibrium and a minimally ecient equilibrium. While the former one is fully revealing and hence fully ecient, the latter one reveals the minimal possible amount of information and is highly inecient: In this equilibrium, state prices are not sufficient to recover the information contained in the noisy aggregate demand.

FALSE NEWS, INFORMATIONAL ECIENCY, AND PRICE REVERSALS

Dugast Jerome (Banque de France); Foucault Thierry (HEC Paris) - Discussant: Malamud Semyon (EPFL)

Speculators can discover whether a signal is true or false by processing it but this takes time. Hence they face a trade-off between trading fast on a signal (i.e., before processing it), at the risk of trading on a false positive, or trading after processing the signal, at the risk that prices already reflect their information. The number of speculators who choose to trade fast increases with news reliability and decreases with the cost of fast trading technologies. We derive testable implications for the effects of these variables on (i) the value of information, (ii) patterns in returns and trades, (iii) the frequency of price reversals in a stock, and (iv) informational efficiency. Cheaper fast trading technologies simultaneously raise informational efficiency and the frequency of «mini-flash crashes»: large price movements that revert quickly.

SAND IN THE CHIPS? EVIDENCE ON TAXING TRANSACTIONS IN MODERN MARKETS

Hoffmann Peter; Colliard Jean-Edouard (European Central Bank - Financial Research) - Discussant: Odabasioglu Alper (Swiss Finance Institute - University of Geneva)

We present evidence on the causal impact of financial transaction taxes on market quality in a modern market structure by exploiting the introduction of such a levy in France on August 1st, 2012. Our evidence suggests that the substantial changes in market structure over the past decades play an important role in reassessing the long-standing idea of the FTT. While we document a surprisingly mild impact on exchange-based trading due to exemptions for liquidity provision, off-exchange trading declined by 40%, and the largest OTC trades virtually disappeared. This suggests that market segmentation poses a considerable challenge to current policy proposals.

SOCIAL SCREENS AND SYSTEMATIC BOYCOTT RISK

Luo Arthur; Balvers Ronald (McMaster University) - Discussant: Langlois Hugues (HEC Paris)

We consider the pricing implications of allowing the investor base to differ along a moral dimension. The model extends standard risk-based asset pricing models by deriving a portfolio of stocks that are systematically screened out of the investment universe of a subgroup of investors as an additional factor determining expected stock returns. The model reconciles the empirically observed risk-adjusted sin-stock abnormal return with a “boycott risk premium” derived from the model. We show that the boycott has a substantial financial impact that is, however, not limited to the targeted firms or industries. The model compares favorably to other theoretical asset pricing models based on the incremental contribution of the boycott factor to overall explanatory power.

DYNAMIC DEPENDENCE AND DIVERSIFICATION IN CORPORATE CREDIT

Langlois Hugues (HEC Paris); Christoffersen Peter (Rotman School of Management, University of Toronto); Jacobs Kris (University of Houston); Jin Xisong (University of Luxembourg) - Discussant: Kagkadis Anastasios (Lancaster University)

We characterize dependence and tail dependence in corporate credit using a new class of dynamic copula models which can capture dynamic dependence and asymmetry in large samples of firms. We also document important differences between the dependence dynamics for credit spreads and equity returns. Modeling a decade of weekly CDS spreads for 215 firms, we find that copula correlations are highly time-varying and persistent, and that they increase significantly in the financial crisis and have remained high since. Tail dependence increases even more during the crisis and also remains high. The most important shocks to credit dependence occur in August of 2007 and in August of 2011, but interestingly these dates are not associated with significant changes to median credit spreads. Finally, we find that the CDS volatility, correlation and tail dependence measures that we have constructed using the dynamic copula model are important determinants of credit spreads over time.

DISPERSION IN OPTIONS TRADERS’ EXPECTATIONS AND STOCK RETURN PREDICTABILITY

Kagkadis Anastasios (Lancaster University); Andreou Panayiotis (Cyprus University of Technology); Maio Paulo (Hanken School of Economics); Philip Dennis (Durham University Business School) - Discussant: Luo Arthur (McMaster University)

We propose a measure of dispersion in options traders’; expectations about future stock returns by using dispersion in trading volume across strike prices. We find that an increased dispersion in expectations forecasts lower subsequent excess market returns at both short and long horizons. Trading strategies based on the dispersion measure reveal significant utility gains for a mean-variance investor as compared to a buy-hold strategy. Further, the dispersion measure exhibits additional predictive power when combined with the variance risk premium, thus showing that the two variables capture different aspects of the variation in returns. We also find that the information embedded in the dispersion in expectations measure is neither subsumed by well-established predictors of market returns, nor by other option-implied measures that proxy for variance and jump risk, or reflect hedging demand. Our results can be interpreted in light of models explaining the effect of disagreement or ambiguity on asset returns.

ECONOMIC RELEVANCE OF HIDDEN FACTORS IN INTERNATIONAL BOND RISK PREMIA

Tiozzo Pezzoli Luca (Paris-Dauphine University and University of Paris 1) - Discussant: Luong Hoang Luong (University of New South Wales)

This paper investigates the relevance of hidden factors in international bond risk premia to forecast future excess bond returns and macroeconomic variables such as economic growth and ination rate. Using maximum likelihood estimation of a linear Gaussian state-space model, adopted to explain the dynamics of expected excess bond returns of a given country, associated selection criteria detect as relevant, factors otherwise judged negligible by the classical explained variance approach adopted by Cochrane and Piazzesi (2005) and Cochrane and Piazzesi (2008). We call these factors hidden, meaning that they are not visible through the lens of a principal component analysis of expected excess bond returns. We find that these hidden factors are useful predictors of both future economic growth and ination rate given that they add forecasting power over and above the information contained both in the Cochrane and Piazzesi (2008) and in yield curve factors. These empirical findings are robust across different sample periods and countries as well as with respect to the interpolation technique used in the construction of the international bond yield data sets.

THE MYSTERY OF CURRENCY BETAS

Riddiough Steven (University of Warwick) - Discussant: Tiozzo Pezzoli Luca (Paris-Dauphine University and University of Paris 1)

Currencies are heterogeneously exposed to global risk. But the reason why remains a mystery. A theoretical explanation should identify the source of asymmetry between countries and hence, explain why beta -- the loading on global risk -- varies across currencies. In this paper, I test leading theoretical explanations for the root of the asymmetry and find only the time-varying ‘surplus-consumption’ prediction of Verdelhan (2010) to be supported. When I go on to consider alternative, ‘characteristic’ factors, I find a country’s current account and ‘investment profile’ provide incremental information on the variation in currency betas. The results shed light on the macroeconomic drivers of conditional and unconditional carry returns, while highlighting the importance of focusing on risk exposure in theoretical models of currency premia and on imposing statistical restrictions in empirical tests of currency factors.

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  (*) data for Middle East, Pacific and Asia is available on demand

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