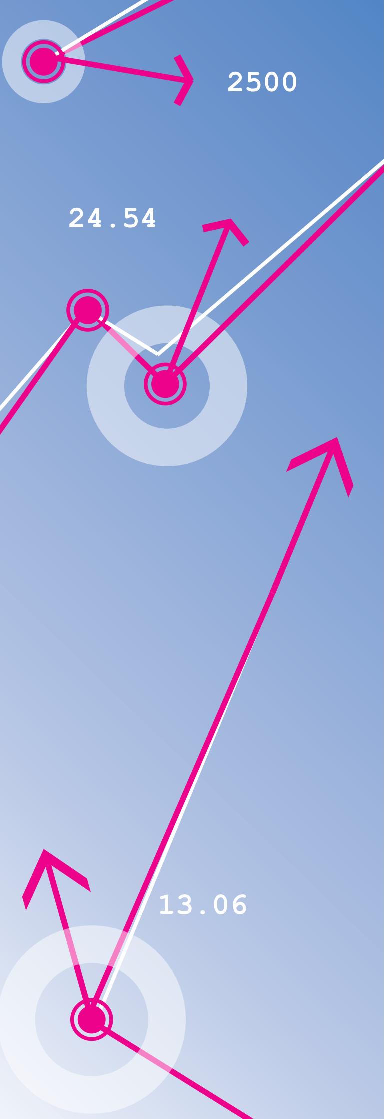

8th International Paris Finance Meeting

December 16, 2010

Novotel Paris les Halles Hotel
Place Marguerite de Navarre
75001 PARIS

www.eurofidai.org/december2010.html

EUROFIDAI
UMS CNRS 2748

AFFI

cnrs

Liberté • Égalité • Fraternité
RÉPUBLIQUE FRANÇAISE
MINISTÈRE DE L'ENSEIGNEMENT SUPÉRIEUR ET DE LA RECHERCHE

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

INSTITUT CDC POUR LA RECHERCHE

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-NYSE Euronext price, AFFI-FNEGE price...).

More information:
www.affi.asso.fr

European financial data institute

Eurofidai (European Financial Data Institute) is a service unit supported by the French National Center for Scientific Research (CNRS), the University of Grenoble 2 and HEC Paris.

Its mission is to **develop European stock exchange databases that are useful to finance researchers : the data is verified, controlled, homogeneous and over long periods**.

Through its website, Eurofidai provides access to the stock exchange databases for all European countries : stock daily data, intraday data, mutual funds...

More information:
www.eurofidai.org

Numbers

290 papers were submitted for presentation at the meeting. Of this number, only 49 were accepted indicating rigorous selection criteria.

In 2010, submissions were received from France (76), Germany (58), the United States (28), Canada (14), the United Kingdom (13), Australia (13), Italy (9), Belgium (8), Switzerland (8), Tunisia (7), other European countries (24) and 32 from the rest of the world.

Based on presenter's affiliation, the 49 accepted articles for presentation at the 8th International Paris Finance Meeting came from France (14), the USA (10), Italy (3), Canada (2), Australia (2), the Netherlands (3), Germany (3), the United Kingdom (3), Belgium (2), Austria (1), Portugal (1), Denmark (1), Finland (1), Luxembourg (1), Tunisia (1) and Singapore (1).

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

Program chair

Patrice Fontaine (EUROFIDAI, CNRS & University of Grenoble 2)

in collaboration with

Sonia Jimenez-Garcès (Eurofidai and University of Lyon 2)

2010 Scientific Committee

The people named below organized the sessions

Yacine Aït-Sahalia (Princeton University & NBER)
Nihat Aktas (EM Lyon)
Hervé Alexandre (Paris Dauphine University)
Radu Burlacu (Eurofidai and University of Nancy 2)
Eric Debodt (University of Lille 2)
François Degeorge (University of Lugano)
François Derrien (HEC Paris)
Bernard Dumas (INSEAD)
Patrice Fontaine (Eurofidai and University of Grenoble 2)
Andras Fulop (ESSEC Business School & CREST)
Jean-François Gajewski (University of Savoie)
Edith Ginglinger (Paris Dauphine University)
Ulrich Hege (HEC Paris)
Sonia Jimenez-Garcès (Eurofidai and University of Lyon 2)
Olivier Lecourtois (EM Lyon Business School)
Laurence Lescourret (ESSEC Business School)
Sophie Moinas (Toulouse School of Economics)
Franck Moraux (University of Rennes 1)
Lorenzo Naranjo (ESSEC Business School)
Christophe Pérignon (HEC Paris)
Catherine Refait-Alexandre (University of Franche-Comté)
Laurent Vilanova (University of Lyon 2)

Program

08h00 Registrations

08h30 Microstructure
Room Pissarro

09h00 International Valuation
Room Cézanne

09h00 Mergers & Acquisitions
Room Van Gogh

09h00 Risk & Returns
Room Caillebotte

10h30 Coffee Break

11h00 Stock Markets
Room Cézanne

11h00 Ownership
Room Van Gogh

11h00 TSIR & Default Risk
Room Caillebotte

11h00 Governance & Bank Performance
Room Pissarro

12h30 Lunch

14h00 Risk Management
Room Cézanne

14h00 Banking Risk
Room Caillebotte

14h00 Hedge Funds
Room Pissarro

14h00 Corporate Finance
Room Van Gogh

15h30 Coffee Break

16h00 Corporate Financing
Room Caillebotte

16h00 Corporate Governance
Room Van Gogh

16h00 Asset Pricing & Derivatives
Room Cézanne

16h00 Portfolio Management
Room Pissarro

18h00 Cocktail

Award of the best paper published in French academic journal «Finance»

08h30 Microstructure

Chairman: L. Lescourret — Room Pissarro

Roberta Fredella (Bocconi University); Pietro Perotti (University of Graz); Barbara Rindi (Bocconi University)
MinimumTrade Unit Regulation and Market Quality
Discussant: Suk-Joong Kim

Stefan Frey (Leibniz University Hannover); Patrick Herbst (Stirling University)
The Influence of Buy-side Analysts on Mutual Fund Trading
Discussant: Jeremie Lefebvre

Jeremie Lefebvre (IESEG School of Management)
Block Trades and Market Liquidity on Euronext Paris
Discussant: Pietro Perotti

Peter Andersen (University of New South Wales); Suk-Joong Kim (University of Sydney)
Intraday Timing of AUD Intervention by the Reserve Bank of Australia: Evidence from Microstructural Analyses - Discussant: Patrick Herbst

09h00 Mergers & Acquisitions

Chairman: E. de Bodt — Room Van Gogh

Jarrad Harford (University of Washington); Mark Humphery (The University of New South Wales); Ronan Powell (The University of New South Wales)
The Sources of Value Destruction in Acquisitions by Entrenched Managers
Discussant: David Offenberg

François Belot (Paris Dauphine University)
Excess Control Rights and Corporate Acquisitions
Discussant: Ronan Powell

David Offenberg (Loyola Marymount University); Miroslava Straska (Ohio University); Gregory Waller (Ohio University)
Who Gains From Buying Bad Bidders?
Discussant: François Belot

09h00 International Valuation

Chairman: B. Dumas — Room Cézanne

Francesca Carrieri (Mc Gill University); Ines Chaieb (University of Amsterdam); Vihang Errunza (Mc Gill University)
Do Implicit Barriers Matter for Globalization?
Discussant: Wing Wah Tham

Mohamed Azzim Gulamhussen (Lisbon University Institute); Carlos Pinheiro (Caixa Geral de Depósitos); Alberto Franco Pozzolo (Università degli Studi del Molise, MoFiR and Centro Luca D'Agliano)
Do Multinational Banks Create or Destroy Economic Value?
Discussant: Ines Chaieb

Elvira Sojli (Rotterdam School of Management, Erasmus University); Wing Wah Tham (Erasmus School of Economics, Erasmus University)
The Impact of Foreign Government Investments on Corporate Performance: Evidence from the U.S.
Discussant: Carlos Pinheiro

09h00 Risk & Returns

Chairman: P. Sentis — Room Caillebotte

Georges Hübner (HEC Management School, University of Liege); Marie Lambert (School of Business & Economics, Maastricht University and Solvay Brussels School of Economics & Management, Free University of Brussels)
Comoment Risk and Stock Returns - Discussant: Erik Kole

Christophe Boucher (ABN AMRO Advisors-QCG, Variances & University of Paris 1); Bertrand Maillet (AAAdvisors-QCG, Variances & University of Paris 1)
Expected Returns across Time Scales
Discussant: Marie Lambert

Erik Kole (Econometric Institute, Erasmus University Rotterdam); Dick Van Dijk (Econometric Institute, Erasmus University Rotterdam)
How to Identify and Predict Bull and Bear Markets?
Discussant: Christophe Boucher

11h00 Stock Markets

Chairman: R. Gillet — Room Cézanne

Amir Rubin (Simon Fraser University); **Alexander Vedrashko** (Simon Fraser University)
Market Timing and Managerial Talent
Discussant: David Le Bris

David Cicero (University of Delaware); **Swaminathan Kalpathy** (Southern Methodist University); **Johan Sulaeman** (Southern Methodist University)
Equity Analysts Affiliated with Corporate Lenders
Discussant: Alexander Vedrashko

David Le Bris (LEO, University of Orleans)
What is a Market Crash?
Discussant: David Cicero

11h00 Ownership

Chairman: F. Derrien — Room Van Gogh

Ettore Croci (University of Milan, Bicocca); **Halit Gonenc** (University of Groningen); **Neslihan Ozkan** (University of Bristol)
CEO Compensation, Family Control and Institutional Investors in Continental Europe
Discussant: Laurent Bach

Anders Ekholm (Hanken School of Economics); **Benjamin Maury** (Hanken School of Economics)
External Shareholders: Incentives and Returns
Discussant: Ettore Croci

Laurent Bach (Stockholm School of Economics)
Why are Family Firms so Small ?
Discussant: Benjamin Maury

11h00 TSIR & Default Risk

Chairman: F. Moraux — Room Caillebotte

Olesya Grishchenko (Penn State University); **Joel Vanden** (Penn State University); **Jianing Zhang** (Penn State University)
The Information Content of the Embedded Deflation Option in TIPS
Discussant: Ako Doffou

Alain Monfort (CREST, Banque de France, University of Maastricht); **Jean-Paul Renne** (Banque de France)
Default, Liquidity and Crises: an Econometric Framework
Discussant: Olesya Grishchenko

Ako Doffou (New England College of Finance)
New Methodologies in the Valuation of Interest Rate Options
Discussant: Jean-Paul Renne

11h00 Governance & Bank Performance

Chairman: H. Alexandre — Room Pissarro

Salima Djedidi (Paris Dauphine University)
Distances and Small Business Credit Constraints: the French Case
Discussant: Alon Raviv

Bernadette Minton (Ohio State University, Fisher College of Business); **Jérôme Taillard** (Boston College, Carroll School of Management); **Rohan Williamson** (Georgetown University, McDonough School of Business)
Do Independence and Financial Expertise of the Board Matter for Risk Taking and Performance? - Discussant: Salima Djedidi

Yoram Landskroner (Or Yehuda Center for Academic Studies); **Alon Raviv** (Brandeis International Business school)
The 2007-2009 Financial Crisis and Executive Compensation: an Analysis and a Proposal for a Novel Structure
Discussant: Jérôme Taillard

14h00 Risk Management

Chairman: C. Pérignon — Room Cézanne

Doh-Shin Jeon (TSE, CEPR); **Stefano Lovo** (HEC Paris)
Natural Barrier to Entry in the Credit Rating Industry
Discussant: Giulio Girardi

Patricio Valenzuela (European University Institute)
Rollover Risk and Corporate Bond Spreads
Discussant: Stefano Lovo

Giulio Girardi (Suffolk University); **A. Tolga Ergun** (Suffolk University)
How to Account for Interdependence of Risk in Financial Markets? A GARCH Approach to Conditional Value at Risk Estimation
Discussant: Patricio Valenzuela

14h00 Banking Risk

Chairman: C. Refait-Alexandre — Room Caillebotte

Dilek Bulbul (Goethe University Frankfurt); **Claudia Lambert** (Goethe University Frankfurt)
Credit Portfolio Modelling and its Effect on Capital Requirements: Empirical Evidence from German Banks
Discussant: Enrico Onali

Clovis Rugemintwari (University of Limoges)
Investigation on the Comparative Persistence and Convergence of Risk and Non-Risk Adjusted Bank Capital Ratios
Discussant: Claudia Lambert

Enrico Onali (Bangor Business School)
Moral Hazard, Dividends and Risk in Banks
Discussant: Clovis Rugemintwari

14h00 Hedge Funds

Chairman: A. Doffou — Room Pissarro

Jérôme Detemple (Boston University); **René Garcia** (EDHEC); **Marcel Rindisbacher** (Boston University)
Optimal Portfolio Allocations with Hedge Funds
Discussant: Piet Sercu

François Desmoulins-Lebeault (Grenoble École de Management)
Hedge Funds Returns and Deviation from Normality during Crises
Discussant: Jérôme Detemple

Van Thi Tuong Nguyen (Catholic University of Leuven); **Piet Sercu** (Catholic University of Leuven)
Tactical Asset Allocation with Commodity Futures: Implications of Business Cycle and Monetary Policy
Discussant: François Desmoulins-Lebeault

14h00 Corporate Finance

Chairman: U. Hege — Room Van Gogh

Redouane Elkamhi (University of Iowa); **Min Jiang** (University of Iowa)
Business Cycles and the Bankruptcy Code: A New Structural Approach
Discussant: Tom Aabo

Art Durnev (Mc Gill University)
The Real Effects of Political Uncertainty: Elections and Investment Sensitivity to Stock Prices - Discussant: Min Jiang

Tom Aabo (Aarhus School of Business, Aarhus University); **Christos Panzalis** (University of South Florida); **Maja Stoholm Sorensen** (Novo Nordisk A/S)
Game Hoarding in Europe: Stock-Price Consequences of Local bias?
Discussant: Art Durnev

16h00 Corporate Financing

Chairman: L. Vilanova — Room Caillebotte

Simona Mateut (University of Nottingham); **Paul Mizen** (University of Nottingham); **Ydriss Ziane** (Sorbonne Graduate Business School)
Trade Credit Extension, Inventories or Credit Sales?
Discussant: Stefano Bonini

Philip Valta (Swiss Finance Institute & Ecole Polytechnique Fédérale de Lausanne)
Competition and the Cost of Debt
Discussant: Ydriss Ziane

Stefano Bonini (Bocconi University & New York University); **Diana Boraschi-Diaz** (Bocconi University)
Corporate Scandals and Capital Structure
Discussant: Philip Valta

16h00 Corporate Governance

Chairman: E. Ginglinger — Room Van Gogh

Dang Bang Nguyen (Judge School of Business, Cambridge University); **Kasper Nielsen** (Hong Kong University of Science and Technology)
What Death Can Tell: Are Executives Paid for Their Contributions to Firm Value? Discussant: Frédéric Palomino

Xin Deng (Nanyang Technological University); **Huasheng Gao** (Nanyang Technological University)
Do Nonmonetary Benefits Matter for Corporate Executives? Evidence from the Pay Premium for Quality of Life
Discussant: Dang Bang Nguyen

Frédéric Palomino (EDHEC Business School); **Eloïc Peyrache** (HEC Paris)
On CEO Appointment and Compensation
Discussant: Xin Deng

16h00 Asset Pricing & Derivatives

Chairman: O. Le Courtois — Room Cézanne

Carole Bernard (University of Waterloo); **Phelim Boyle** (Wilfrid Laurier University)
Explicit Representation of Cost-Efficient Strategies
Discussant: Florian Ielpo

Laura Ballotta (Faculty of Finance, Cass Business School); **Efrem Bonfiglioli** (Ernst & Young)
Multivariate Asset Models Using Levy Processes and Applications
Discussant: Carole Bernard

Christophe Chorro (Centre d'Économie de la Sorbonne); **Dominique Guégan** (Centre d'Économie de la Sorbonne); **Florian Ielpo** (Centre d'Économie de la Sorbonne)
Option Pricing for GARCH-type Models with Generalized Hyperbolic Innovations - Discussant: Laura Ballotta

16h00 Portfolio Management

Chairman: R. Burlacu — Room Pissarro

Yang Chunyu (McCombs School of Business, UT-Austin); **Hervé Roche** (California Polytechnic State University); **Tompaidis Stathi** (McCombs School of Business, UT-Austin)
Asset Selection and Under-Diversification with Financial Constraints and Income: Implications for Household Portfolio Studies
Discussant : Radu Burlacu

Wolfgang Bessler (Justus-Liebig-University Giessen); **David Blake** (Cass Business School); **Peter Lückoff** (Justus-Liebig-University Giessen); **Ian Tonks** (University of Bath)
Why does Mutual Fund Performance not Persist? The Impact and Interaction of Fund Flows and Manager Changes
Discussant : Hervé Roche

Taher Hamza (University of Sousse & LOG, University of Orleans)
A Leverage-Augmented Tree Factor Model and Default Risk Pricing: Evidence from France - Discussant : Wolfgang Bessler

P1 - Tom Aabo (Aarhus School of Business, Aarhus University) - taa@asb.dk
Chritos Panzalis (University of South Florida)
Maja Stoholm Sorensen (Novo Nordisk A/S)

Game Hoarding in Europe: Stock-Price Consequences of Local Bias?

Hong, Kubik and Stein (JFE 2008) find that the price of a stock in the US is decreasing in the ratio of the aggregate book value of listed firms in a region to the aggregate personal income in the same region (“RATIO”), an “only-game-in-town” effect. We first replicate the HKS (2008) study using European data and find an opposite effect, a “game-hoarding” effect. We then investigate the underlying factors of RATIO and find that after controlling for differences in origin of law, investor rights, corruption and Euro adoption, neither a game-hoarding effect nor an only-game-in-town effect is strongly supported in the European case. The results are important in understanding the concept of local bias in a cross-country framework.

P2 - Peter Andersen (University of New South Wales)
Suk-Joong Kim (University of Sydney) - sukjoongkim@optusnet.com.au

Microstructural Issues of the Intraday InterventionTiming of the Reserve Bank of Australia

We add a new dimension to the debate of the efficacy and the timing of a central bank’s currency intervention. Utilising an enhanced proxy for intervention and high frequency tick-by-tick quote data, we estimate the approximate intraday timing of interventions by the Reserve Bank of Australia in the both the onshore and offshore USD/AUD markets for the period of 1996 to 2006. We detect interventions in the late onshore period, early European market, and again in the early New York market. We further find evidence to suggest the RBA choose those hours of higher volume, lower volatility and lower bid/ask spreads to conduct its non-intervention transactions. These results have important implications not only for institutions and corporations with a need to transact in the market, but also for hedge funds and other traders that may profit by trading against the RBA.

P3 - Laurent Bach (Stockholm School of Economics) - laurent.bach@ens.fr

Why are Family Firms so Small ?

I ask whether family firms provide stability to their stakeholders at the expense of growth. I build a model where aversion to external finance induces family-minded entrepreneurs to invest in smaller and less risky projects. Predictions are tested using an original panel of French firms. The main finding is that family firms are smaller by 30% in terms of sales. However, these firms also choose less volatile growth paths. Financial management patterns are consistent with the model : family firms incur less debt and hold more cash. The results hold after controlling for unoberved heterogeneity and potential confounding factors.

P4 - Laura Ballotta (Faculty of Finance, Cass Business School)
L.Ballotta@city.ac.uk
Efrem Bonfiglioli (Ernst & Young)

Multivariate Asset Models Using Levy Processes and Applications

In this paper we propose a multivariate asset model based on Levy processes for pricing of products written on more than one underlying asset. We investigate the properties of the model and introduce a multivariate generalization of some processes which are quite common in financial applications, such as time changed Brownian motions and jump diffusion processes. Finally, we explore the issue of model calibration for the proposed setting.

P5 - François Belot (Paris Dauphine University) - francois.belot@dauphine.fr

Excess Control Rights and Corporate Acquisitions

The typical French listed company exhibits a concentrated ownership structure with the largest shareholder typically holding more voting rights than cash flow rights. This paper studies the acquisitions made by French listed firms over the period 2000 through 2009 and investigates how such ownership characteristics affect acquirer abnormal returns and acquisition activity. Abnormal returns around

acquisitions are decreasing as the wedge between voting and cash flow rights increases. This result suggests that controlling shareholders use corporate acquisitions as a means of extracting private benefits at the expense of minority shareholders. The well-documented valuation discount associated with the divergence between voting and cash flow rights could be explained by less efficient acquisitions. The paper also shows that firms whose largest shareholder holds significant excess control rights are less likely to engage in M&A activity. This last finding raises the issue of sample selection bias, which has not been taken into account in earlier studies.

P6 - Carole Bernard (University of Waterloo) - c3bernar@uwaterloo.ca
Phelim Boyle (Wilfrid Laurier University)

Explicit Representation of Cost-Efficient Strategies

This paper uses the preference free framework proposed by Dybvig (1988) and Cox and Leland (1982,2000) to analyze dynamic portfolio strategies. In general there will be a set of dynamic strategies that have the same payoff distribution. We are able to characterize a lowest cost strategy (a "cost-efficient" strategy) and to give an explicit representation of it. As an application, for any given path-dependent strategy, we show how to construct a financial derivative that dominates in the sense of first-order stochastic dominance. We provide new cost-efficient strategies with the same payoff distributions as some well-known option contracts and this enables us to compute the relative efficiency of these standard contracts. We illustrate the strong connections between costefficiency and stochastic dominance.

P7 - Wolfgang Bessler (Justus-Liebig-University Giessen)
Wolfgang.Bessler@wirtschaft.uni-giessen.de
David Blake (Cass Business School)
Peter Lückoff (Justus-Liebig-University Giessen)
Ian Tonks (University of Bath)

Why does Mutual Fund Performance not Persist? The Impact and Interaction of Fund Flows and Manager Changes

This paper investigates the reasons for the lack of long-term persistence in the investment performance of actively managed equity mutual funds. We document that the responses of investors, fund managers, and investment management companies to past performance affect future performance. Conditioning on fund flows and manager changes allows us to predict future performance of both past outperforming (winner) and past underperforming (loser) funds. Recent winner funds, experiencing neither high inflows nor a manager change, outperform by 3.60 percentage points based on risk-adjusted returns in the following year, relative to winner funds suffering from both effects. The performance of the worst performing funds experiencing both the replacement of the fund manager (internal governance) and high outflows (external governance) enjoys a subsequent increase of 2.40 percentage points in the following year, relative to loser funds not experiencing these effects. Among loser funds, in particular, both mechanisms appear to interact strongly.

P8 - Stefano Bonini (Bocconi University & New York University)
stefano.bonini@unibocconi.it
Diana Boraschi-Diaz (Bocconi University)

Corporate Scandals and Capital Structure

We analyze whether companies involved in a security class action suit (SCAS) exhibit differential capital structure decisions, and if the information revealed by a corporate scandal affects the security issuances and stock prices of industry peers. Our findings show that before a SCAS is filed, companies involved in a scandal show a greater amount of security offerings and, due to equity mispricing, are more likely to use equity as a financing mechanism. Following the SCAS filing, they exhibit decreasing amount of total external finance raised and lower levels of book and market leverage. Industry peers' issuance patterns exhibit significant contagion, with reduced debt and equity issuance following the SCAS filing. Corporate scandals have also meaningful negative effects on stock prices and bond ratings. Similarly to capital structure, we document contagion at the industry level with peers' share prices yielding negative returns as well.

P9 - Christophe Boucher (ABN AMRO Advisors-QCG, Variances & University of Paris 1)
christophe.boucher@univ-paris1.fr
Bertrand Maillet (AAAdvisors-QCG, Variances & University of Paris 1)

Expected Returns across Time Scales

This paper studies the role of fluctuations in the aggregate price-earning ratio at different time scales for predicting stock returns and explore the channels through which returns are predicted. Using U.S. quarterly and international monthly data, we find that cycles in the price-earning ratio are strong and better predictors of future returns at short and intermediate horizons than the aggregate price-earning ratio and several other popular forecasting variables. Moreover, this predictability is economically profitable. The proposed method, based on a wavelet multiscaling framework, explicitly accounts for the variations at different time scales in expected cash-flow growth and expected returns.

P10 - Dilek Bulbul (Goethe University Frankfurt)
Claudia Lambert (Goethe University Frankfurt) - claudia.lambert@gmx.net

Credit Portfolio Modelling and its Effect on Capital Requirements: Empirical Evidence from German Banks

In the banking industry, several forces have made the implementation of sophisticated risk management instruments crucial in order to operate successfully. Setting a laboratory environment for 249 German banks we empirically investigate the economic fundamentals that make the use of sophisticated credit risk management instruments by banks more likely and examine the drivers affecting the depth of implementation and integration of credit risk management instruments. In particular, the adoption of credit derivatives and credit portfolio models is in the focus of our analysis. We find that sector concentration is the main determinant for the usage of credit portfolio models, while profit generation motives crucially influences a bank's decision to use credit derivatives. Moreover, we find that it is foremost competition that affects the depth of implementation and integration of sophisticated instruments. We provide a better understanding under which conditions sophisticated risk management instruments are extensively and selectively utilized across banks. Our study sheds light on practices of credit risk measurement and management.

P11 - Francesca Carrieri (Mc Gill University)
Ines Chaieb (University of Amsterdam)
Vihang Errunza (Mc Gill University)

Do Implicit Barriers Matter for Globalization?

In the banking industry, several forces have made the implementation of sophisticated risk management instruments crucial in order to operate successfully. Setting a laboratory environment for 249 German banks we empirically investigate the economic fundamentals that make the use of sophisticated credit risk management instruments by banks more likely and examine the drivers affecting the depth of implementation and integration of credit risk management instruments. In particular, the adoption of credit derivatives and credit portfolio models is in the focus of our analysis. We find that sector concentration is the main determinant for the usage of credit portfolio models, while profit generation motives crucially influences a bank's decision to use credit derivatives. Moreover, we find that it is foremost competition that affects the depth of implementation and integration of sophisticated instruments. We provide a better understanding under which conditions sophisticated risk management instruments are extensively and selectively utilized across banks. Our study sheds light on practices of credit risk measurement and management.

P12 - Christophe Chorro (Centre d'Économie de la Sorbonne)
Dominique Guégan (Centre d'Économie de la Sorbonne)
Florian Ielpo (Centre d'Économie de la Sorbonne) - florian.ielpo@ensae.org

Option Pricing for GARCH-type Models with Generalized Hyperbolic Innovations

In this paper, we provide a new dynamic asset pricing model for plain vanilla options on equity option indexes. Given the historical measure, the dynamics of assets are modeled by Garch-type models with generalized hyperbolic innovations and the pricing kernel is an exponential affine function of the state variables, we show that the risk neutral distribution is unique and implies again a generalized hyperbolic dynamics with changed parameters. We provide an empirical test for our pricing methodology on two data sets of options respectively

written on the French CAC 40 and the American SP 500. Then, using our theoretical result associated with Monte Carlo simulations, we compare this approach to natural competitors in order to test its efficiency. More generally, our empirical investigations analyze the ability of specific parametric innovations to reproduce market prices in the context of an exponential affine specification of the stochastic discount factor.

P13 - Yang Chunyu (McCombs School of Business, UT-Austin)
Hervé Roche (California Polytechnic State University) - hroche@calpoly.edu
Tompaidis Stathi (McCombs School of Business, UT-Austin)

Asset Selection and Under-Diversification with Financial Constraints and Income: Implications for Household Portfolio Studies

In this paper, we provide a new dynamic asset pricing model for plain vanilla options on equity option indexes. Given the historical measure, the dynamics of assets are modeled by Garch-type models with generalized hyperbolic innovations and the pricing kernel is an exponential affine function of the state variables, we show that the risk neutral distribution is unique and implies again a generalized hyperbolic dynamics with changed parameters. We provide an empirical test for our pricing methodology on two data sets of options respectively written on the French CAC 40 and the American SP 500. Then, using our theoretical result associated with Monte Carlo simulations, we compare this approach to natural competitors in order to test its efficiency. More generally, our empirical investigations analyze the ability of specific parametric innovations to reproduce market prices in the context of an exponential affine specification of the stochastic discount factor.

P14 - David Cicero (University of Delaware) - cicero@udel.edu
Swaminathan Kalpathy (Southern Methodist University)
Johan Sulaeman (Southern Methodist University)

Equity Analysts Affiliated with Corporate Lenders

Equity analysts affiliated with corporate lenders publish superior research on borrowers, consistent with private information sharing within financial institutions. Relative to other analysts, lender-affiliated analysts improve the accuracy of their earnings forecasts after a lending relationship is established, and they are more likely to amend their research on borrowers ahead of revelation of adverse credit-related information. Borrowers are also more likely to choose banks whose affiliated analysts maintain more favorable recommendations on their stock. Additional analyses suggest that these favorable recommendations can be partially explained by strategic bias induced by lender-affiliated analysts. Lending-related informational advantages persist beyond Regulation FD and the Global Settlement, but strategic use of bias ends with the Global Settlement. Stock market reactions to research modifications suggest investors appreciate the «specialness» of lender-affiliated analysts.

P15 - Ettore Croci (University of Milan, Bicocca) - ettore.croci@unimib.it
Halit Gonenc (University of Groningen)
Neslihan Ozkan (University of Bristol)

CEO Compensation, Family Control and Institutional Investors in Continental Europe

This paper investigates the impact of family control and institutional investors on CEO pay packages in Continental Europe, using a large data set of 915 listed firms with 4,045 firm-year observations from 14 countries over the period 2001-2008. We find that family control curbs the level of CEO total compensation which includes both cash and equity-based compensation. This effect is particularly accentuated in firms with family CEOs, indicating that controlling families do not use CEO compensation to expropriate wealth from minority shareholders. We also find that the impact of institutional ownership on CEO compensation varies depending on whether institutional investors are foreign or domestic. Our results show that domestic institutional investors play an active role in determining the level of CEO compensation by increasing the pay-for-performance sensitivity, while foreign institutional ownership increase CEO total compensation without aligning pay with performance. We also provide evidence that institutional investors partially counterbalance the negative effect of family control on CEO compensation, especially in family firms with professional CEOs, and increase the level of CEO total compensation.

P16 - Xin Deng (Nanyang Technological University) - deng0021@ntu.edu.sg
Huasheng Gao (Nanyang Technological University)

Do Nonmonetary Benefits Matter for Corporate Executives? Evidence from the Pay Premium for Quality of Life

Equity analysts affiliated with corporate lenders publish superior research on borrowers, consistent with private information sharing within financial institutions. Relative to other analysts, lender-affiliated analysts improve the accuracy of their earnings forecasts after a lending relationship is established, and they are more likely to amend their research on borrowers ahead of revelation of adverse credit-related information. Borrowers are also more likely to choose banks whose affiliated analysts maintain more favorable recommendations on their stock. Additional analyses suggest that these favorable recommendations can be partially explained by strategic bias induced by lender-affiliated analysts. Lending-related informational advantages persist beyond Regulation FD and the Global Settlement, but strategic use of bias ends with the Global Settlement. Stock market reactions to research modifications suggest investors appreciate the «specialness» of lender-affiliated analysts.

P17 - François Desmoulins-Lebeault (Grenoble École de Management)
francois.desmoulins-lebeault@grenoble-em.com

Hedge Funds Returns and Deviation from Normality during Crises

In classical financial theory, the marginal distribution of returns is supposed idiosyncratic and should have no relation with expected returns. However, in certain cases the deviations from normality of the returns on an asset or portfolio may signal properties associated with a risk premium. On a large and diverse database we show that, in time of crises, a negative premium is associated with deviations from normality in hedge funds returns. We postulate that this can be explained by the fact that non-Gaussian distributions tend to signal funds which make large use of derivatives. These funds will therefore present a non linear dependence structure with the market, allowing them to benefit from bull periods and resist well bear markets.

P18 - Jérôme Detemple (Boston University) - detemple@bu.edu
René Garcia (EDHEC)
Marcel Rindisbacher (Boston University)

Optimal Portfolio Allocations with Hedge Funds

This paper analyzes optimal investment decisions, in the presence of non-redundant hedge funds, for investors with constant relative risk aversion. Factor regression models with optionlike risk factors and no-arbitrage principles are used to identify and estimate the market price of hedge fund risk, the volatility coefficients of hedge fund returns and the correlation between hedge fund and market returns. Timing ability causes stochastic fluctuations in these return characteristics. Outside investors optimally hold hedge funds for diversification purposes and are motivated to hedge fluctuations in return components caused by timing ability. The paper examines the portfolio structure and behavior and the impact of timing and selection abilities. Incorporating carefully selected hedge fund classes in asset allocation strategies can be a source of economic gains.

P19 - Salima Djedidi (Paris Dauphine University) - djedidi.salima@voila.fr

Distances and Small Business Credit Constraints: the French Case

Deregulation and progress in information and communication technologies have increased the geographical expansion of banking structures and instruments. This makes banks operationally close to the borrowers. At the same time, banking industry consolidation have induced a geographical concentration of banking decision centers and strategic functions, leading to an increase of the functional distance that separates the decision center of a bank from its operational branches. The aim of this paper is to evaluate the impact of these two trends on SME lending. Our findings on French data show that increased functional distance and operational proximity are positively associated with the investment-cash flow sensitivity, considered as a measure of financing constraints. These adverse effects are particularly acute for small firms.

P20 - Ako Doffou (New England College of Finance) - adoff21@yahoo.com

New Methodologies in the Valuation of Interest Rate Options

This paper values interest rate options using an improved parametric pricing kernel in the Merton (1973) intertemporal capital asset pricing model framework. The pricing kernel is driven by the real interest rate, the Jensen's alpha, and the market volatility. Parameters in the pricing kernel are estimated using the Hansen (1982) two-step generalized method of moments. The results show that all three state variables are significant in the pricing kernel of LIBOR options. The Chebyshev polynomial pricing kernel dominates the iso-elastic power function pricing kernel. Finally, the five-term polynomial pricing kernel is superior to the fourth order polynomial which in turn is superior to the three-term expansion in the Hansen and Jagannathan (1997) distance measure comparison.

P21 - Art Durnev (Mc Gill University) - art.durnev@mcgill.ca

The Real Effects of Political Uncertainty: Elections and Investment Sensitivity to Stock Prices

We show that political uncertainty surrounding elections can affect how corporate investment responds to stock prices. In a large panel of elections around the world, investment is 40% less sensitive to stock prices during election years compared to non-election years. The decrease in investment-to-price sensitivity appears to be due to stock prices becoming less informative during election years making them noisier signals for managers to follow. Further, the drop in investment-to-price sensitivity is larger when election results are less certain, in countries with higher corruption, large state ownership, and weak standards of disclosure by politicians. Finally, we show that election uncertainty leads to inefficient capital allocation, reducing company performance.

P22 - Anders Ekholm (Hanken School of Economics)
Benjamin Maury (Hanken School of Economics) - maury@hanken.fi

External Shareholders: Incentives and Returns

We explore the relation between external shareholder incentives and investment returns using a unique transactions data set representing all the more than 1.3 million different shareholders active in the Finnish stock market during a 12-year period. We develop a novel Incentive Index that gauges how concentrated the shareholders' holdings are in each firm. We find that our Incentive Index is significantly positively related to the operating returns, as measured by ROA and ROI, suggesting that shareholders who focus their investments perform a valuable monitoring role. We also find that the Incentive Index is significantly positively related to stock returns.

P23 - Redouane Elkamhi (University of Iowa) - redouane-elkamhi@uiowa.edu
Min Jiang (University of Iowa)

Business Cycles and the Bankruptcy Code: A New Structural Approach

We incorporate macroeconomic conditions in the Broadie, Chernov and Sundaresan (2007) framework and provide closed-form expressions for the firm's levered asset, debt and equity values. Our framework nests important models in the literature: Leland (1994), François and Morellec (2004), and the static cases of Bhamra, Kuehn, and Strebulaev (2010) and Chen (2010). We find that the voluntary filing option for Chapter 11 engenders more ex-ante losses in firm value in recessions than in booms. These costs amount to circa 5% of the ex-ante firm value and are twice as large as those produced by a model that does not account for changes in economic conditions. We relate these economic costs to firm fundamentals, elasticity of intertemporal substitution and long-run economic uncertainty. We also show that in addition to macroeconomic conditions and liquidation costs, countercyclical distress costs and conflict of interests between debtors and creditors significantly affect the credit spread, equity premium and leverage puzzles.

P24 - Roberta Fredella (Bocconi University)
Pietro Perotti (University of Graz) - pietro.perotti@uni-graz.at
Barbara Rindi (Bocconi University)

Minimum Trade Unit Regulation and Market Quality

Financial market regulators often impose a minimum trade unit (MTU) to facilitate order execution, but no theoretical literature and little empirical evidence has so far been provided on this issue. This paper examines the effect of the unique natural experiment of Borsa Italiana, where in 2002 the MTU was exogenously reduced to one unit by the exchange. After the reduction, we observe a decrease both in the bid-ask spread and in the price impact of orders, as well as an increase in market depth at the best five levels of the book. The results are consistent with a model with asymmetric information, which shows how market quality varies under different regimes of transaction size regulation.

P25 - Stefan Frey (Leibniz University Hannover)
Patrick Herbst (Stirling University) - patrick.herbst@stir.ac.uk

The Influence of Buy-side Analysts on Mutual Fund Trading

Financial market regulators often impose a minimum trade unit (MTU) to facilitate order execution, but no theoretical literature and little empirical evidence has so far been provided on this issue. This paper examines the effect of the unique natural experiment of Borsa Italiana, where in 2002 the MTU was exogenously reduced to one unit by the exchange. After the reduction, we observe a decrease both in the bid-ask spread and in the price impact of orders, as well as an increase in market depth at the best five levels of the book. The results are consistent with a model with asymmetric information, which shows how market quality varies under different regimes of transaction size regulation.

P26 - Giulio Girardi (Suffolk University) - ggirardi@suffolk.edu
A. Tolga Ergun (Suffolk University)

How to Account for Interdependence of Risk in Financial Markets? A GARCH Approach to Conditional Value at Risk Estimation

The current economic recession has drawn the attention of many to the fragility of the financial system. The most common measure of risk, the Value-at-Risk (VaR), has been seriously criticized for its lack of ability to capture risk spillovers among financial institutions. In order to better account for interdependence of risk, Adrian and Brunnermeier (2009) introduced a new risk measure: CoVaR. CoVaR - Conditional Value at Risk - of institution i on j is defined as the Value at Risk of institution i conditional upon the Value at Risk of institution j. In their work the two authors estimate CoVaR measures by employing quantile regression. In this work we first modify the definition of CoVaR suggested by AB (2009) to both avoid possible endogeneity issues and facilitate the forecast analysis. Successively, we employ a three steps GARCH procedure to estimate CoVaR measures and we compare these estimates with the ones obtained following the quantile regression approach used by AB (2009). Finally, using a data sample of 12 months prior to the 2007-2008 financial crisis, we retrieve CoVaR measures via the proposed GARCH methodology to determine whether it would have been able to predict which institutions have contributed the most to the financial crisis.

P27 - Olesya Grishchenko (Penn State University) - olesya@psu.edu
Joel Vanden (Penn State University)
Jianing Zhang (Penn State University)

The Information Content of the Embedded Deflation Option in TIPS

In this paper we present an affine two-factor dynamic term structure model for pricing Treasury nominal and inflation-indexed bonds in the closed-form. The latter are formally referred to as TIPS. Two state variables that drive the dynamics of bond prices are nominal short rate and inflation. We estimate the model using 1997-2009 monthly prices of nominal Treasury notes and TIPS. The focus of the paper is on explicit modeling and computation of the embedded option value in TIPS that arises from the deflation protection of the principal paid at maturity. We

show that deflation option value has been positive during two periods in our sample: ‘deflation scare’ period in 2003-2004 and recently, in 2008-2009. We also show that time variation in the option value can predict future inflation rates and inflation volatility even in the presence of other popular macro variables used for inflation forecasts.

P28 - Mohamed Azzim Gulamhussen (Lisbon University Institute)
Carlos Pinheiro (Caixa Geral de Depósitos) - carlos.manuel.pinheiro@cgd.pt
Alberto Franco Pozzolo (Università degli Studi del Molise, MoFiR and Centro Luca D’Agliano)

Do Multinational Banks Create or Destroy Economic Value?

Multinational banks are a distinctive feature of today’s globalized economy, with some institutions now operating in more than 100 countries. Despite the thorough analyses of bank internationalization over the last decades, the literature has failed to provide clear evidence that cross-border expansion is a profitable process from a firm’s perspective. Following the long tradition of the analysis of the costs and benefits of focusing or diversifying the activities of a firm, in this paper we provide an answer to the question of whether bank cross-border diversification is value enhancing. In a large sample of more than 500 banks from 56 countries between 2001 and 2007, we find robust evidence of a statistically and economically significant diversification premium. Our results show that the benefits of scale and scope economies generated by multinational banks more than offset the typical agency costs of managing larger and more complex companies.

P29 - Taher Hamza (University of Sousse & LOG, University of Orleans)
tahahalim2000@yahoo.fr

A Leverage-Augmented Tree Factor Model and Default Risk Pricing: Evidence from France

We investigate a central and controversial research issue: is the default risk a systematic risk? We analyse 12 size, book-to-market and leverage sorted portfolios over the period 1995-2009 as well as the portfolio of distressed firms and test the explanatory power of the risk factors that best capture the default risk. First, we find robust evidence that the portfolio return requires systematically both size and value premium and that HML and SMB capture an additional risk missed by the market portfolio. Second, the leverage premium is positive for highly leveraged firms and vice versa. Third, we show a non significant relationship between both momentum and relative distress factors, and the portfolio return comovement. Lastly, the distress risk premium is robustly significant only for the distressed firms’ portfolio. Our results Our results advocate for researchers and practioners, a leverage-augmented three factor model to price accurately assets and to implement efficient portfolio strategies.

P30 - Jarrad Harford (University of Washington)
Mark Humphery (The University of New South Wales)
Ronan Powell (The University of New South Wales) - r.powell@unsw.edu.au

The Sources of Value Destruction in Acquisitions by Entrenched Managers

Prior work has established that entrenched managers make value-decreasing acquisitions. In this study, we ask how exactly they destroy that value. We hypothesize that rising equity values loosen financial constraints, much like free cash flow does, allowing entrenched managers to pursue more acquisitions in the first place. We further test whether entrenched managers simply overpay for good targets or actually choose targets with lower synergies. We find support for the latter. Overall, we find that value destruction by entrenched managers comes from a combination of factors. First, they disproportionately avoid private targets, which have been shown to be generally associated with value creation. Second, when they do buy private targets, they tend to use cash instead of equity, avoiding the creation of a valuable blockholder. Third, they are particularly active during times of high equity valuation, even though their own equity is not as highly valued as other bidders’ equity. Finally, they choose targets with low synergies, as shown by combined announcement returns and post-merger operating performance.

P31 - Georges Hübner (HEC Management School, University of Liege)
Marie Lambert (School of Business & Economics, Maastricht University and Solvay Brussels School of Economics & Management, Free University of Brussels)
marie_lambert82@hotmail.com

Comoment Risk and Stock Returns

This paper estimates higher-order comoment equity risk premiums for the US stock markets. We use an extension of the Fama and French (1993) method to infer the returns attached to a unit exposure to coskewness and cokurtosis risks in the US equity markets. The coskewness and cokurtosis premiums present significant monthly average returns of respectively 0.2% and 0.4% from March 1989 to June 2008. We test the ability of the moment-related premiums to explain the size and book-to-market (BTM) effects in stock returns. Coskewness and cokurtosis risks seem to be significant in explaining the stock returns of small caps and value stocks. The Four-Moment Asset Pricing Model even captures a higher proportion of the return variability of the portfolios sorted on size and book-to-market than an empirical Capital Asset Pricing Model. The higher-order comoment premiums do not subsume the empirical risk factors of Fama and French (1993) and Carhart (1997).

P32 - Doh-Shin Jeon (TSE, CEPR)
Stefano Lovo (HEC Paris) - lovo@hec.fr

Natural Barrier to Entry in the Credit Rating Industry

This paper examines whether there is a natural barrier to entry in the credit rating industry. We consider an infinite horizon model in which each period, an original incumbent faces competition from an entrant randomly selected from a pool of ex ante identical potential entrants. The incumbent's accuracy is imperfect, constant and known while each entrant's true accuracy is unknown and can be perfect or completely noisy. In the benchmark in which the signal that a CRA receives is public information, we find that the market provides either a right or a socially excessive incentive to experiment with entrants. On the contrary, when the signal is private information, the experimentation never occurs. Our result suggests that a rather incompetent CRA can dominate the market without being worried about entry of potentially more competent entrants and can explain the current failure of the credit rating industry. We derive policy implications.

P33 - Erik Kole (Econometric Institute, Erasmus University Rotterdam)
kole@ese.eur.nl
Dick Van Dijk (Econometric Institute, Erasmus University Rotterdam)

How to Identify and Predict Bull and Bear Markets?

Characterizing financial markets as bullish or bearish comprehensively describes the behavior of a market. However, because these terms lack a unique definition, several fundamentally different methods exist to identify and predict bull and bear markets. We compare methods based on rules with methods based on econometric models, in particular Markov regime-switching models. The rules-based methods purely reflect the direction of the market, while the regime-switching models take both signs and volatility of returns into account, and can also accommodate booms and crashes. The out-of-sample predictions of the regime-switching models score highest on statistical accuracy. To the contrary, the investment performance of the algorithm of Lunde and Timmermann (2004) is best. With a yearly excess return of 10.5\% and Sharpe ratio of 0.60, it outperforms the other methods and a buy-and-hold strategy.

P34 - Yoram Landskroner (Or Yehuda Center for Academic Studies)
Alon Raviv (Brandeis International Business school) - araviv@brandeis.edu

The 2007-2009 Financial Crisis and Executive Compensation: an Analysis and a Proposal for a Novel Structure

During the 2007-2009 crises financial institutions have come under increasing pressure from regulators, politicians and shareholders to change their compensation practices in order to remove the incentive for short-term excessive risk taking In this paper we analyze how commonly used executive compensation plans can lead to two socially undesirable outcomes: excessive risk taking at one extreme and complete freeze of risky activities (new lending) on the other. We propose adding a new component to the executive compensation, which is paid only if the value of the firm will be located in some predetermined range. These compo-

nents will push the executive towards the first best solution in which a moderate (internal solution) level of assets risk will be optimal because of the convex relationship between assets risk and compensation value.

P35 - David Le Bris (LEO, University of Orleans) - david.lebris@gmail.com

What is a Market Crash?

Identifying market crashes can be problematic. In a stable financial environment, the same price variation in percentage will result in greater negative impact than during a highly volatile period. In order to take into account changes of volatility throughout time, a new method is proposed, one which allows to adjust each price variation to accurately reflect its financial environment. This adjustment is made by measuring each price variation in number of standard-deviations calculated over the prior period. These adjusted variations can then be ranked therefore permitting the identification of market crashes. This method is tested on four long term series. Results on the French market, for example, are highly consistent with history. WWI caused major stock adjusted variations despite a low level of volatility and low price variations in percentage. Contemporary markets however are characterized more so by a high level of volatility than a time of frequent crashes.

P36 - Jeremie Lefebvre (IESEG School of Management) - j.lefebvre@ieseg.fr

BlockTrades and Market Liquidity on Euronext Paris

This paper analyzes block trades (the upstairs market) on Euronext Paris. Previous studies concentrated on price effects and trading costs of block trades. We add to the literature by investigating liquidity effects around block trades with the perspective of market fragmentation. On the cross-sectional dimension, we show that stocks that have an active upstairs market are more liquid and have a larger trading volume on the downstairs market, compared to other stocks. We analyze the time-series dimension using panel vector autoregression with daily measures of trading activity and liquidity. We find that over time, low liquidity on the main market does not induce investors to route their orders to the upstairs market. The results show that the upstairs market is not a substitute for the downstairs market, but is a complement. Overall, the findings contradict the cream-skimming hypothesis in favor of the risk sharing hypothesis.

P37 - Simona Mateut (University of Nottingham)
Paul Mizen (University of Nottingham)
Ydriss Ziane (Sorbonne Graduate Business School) - ziane.iae@univ-paris1.fr

Trade Credit Extension, Inventories or Credit Sales?

This paper tests two recent theoretical explanations provided in the literature for the reasons why firms extend trade credit. Using a large sample of French firms on the last decade, our results suggest that trade credit extension is correlated with the characteristics of the goods sold. However, we show that financially constrained firms face a trade-off between inventories and trade credit extended and this holds for producers of both differentiated and standardized goods. Our results suggest that the diversion value of the goods alone cannot fully explain the provision of trade credit, as financially constrained firms have to reduce their costly stocks by increasing sales on credit.

P38 - Bernadette Minton (Ohio State University, Fisher College of Business)
Jérôme Taillard (Boston College, Carroll School of Management)
taillard@bc.edu
Rohan Williamson (Georgetown University, McDonough School of Business)

Do Independence and Financial Expertise of the Board Matter for Risk Taking and Performance?

We examine how risk taking and firm value are related to independence and financial expertise of the board for a large sample of U.S. financial institutions both before and during the financial crisis. During the crisis, financial expertise is negatively related to both changes in Tobin's Q and cumulative stock returns. The effect is stronger for larger banks. Results on independence and performance during the crisis are mixed. However, independence is associated with a significantly higher probability of getting TARP funds, while financial expertise is not. In the run-up to the crisis, market-based measures of risk are negatively related to the percent of independent directors and positively related to financial expertise. Furthermore, both stock performance prior to the crisis and leverage are positively related to the financial expertise of the board. These associations are again primarily driven by large banks in our sample. Overall, our results are consistent with financial expertise being associated with more risk taking and higher firm value prior to the crisis and lower performance when the crisis hits.

P39 - Alain Monfort (CREST, Banque de France, University of Maastricht)
Jean-Paul Renne (Banque de France) - jean-paul.renne@banque-france.fr

Default, Liquidity and Crises: an Econometric Framework

In this paper, extending the work by Gourieroux, Monfort and Polimenis (2006), we present a general discrete-time affine framework aimed at jointly modeling yield curves that are associated with different issuers. The underlying fixed-income securities may differ both in terms of credit quality or in terms of liquidity. The risk factors follow discrete-time Gaussian processes, with drifts and variance-covariance matrices that are subject to regime shifts described by a Markov chain with (historical) non-homogenous transition probabilities. While flexible, the model remains tractable and amenable to empirical estimation. This is illustrated by an application on sovereign euro-zone yields. Specifically, the common dynamics of French, German and Italian sovereign yield curves are estimated using weekly data spanning the period from 1999 to early 2010. The dynamics of the yield curves are satisfyingly explained by both observable factors and unobservable ones.

P40 - Dang Bang Nguyen (Judge School of Business, Cambridge University)
b.nguyen@jbs.cam.ac.uk
Kasper Nielsen (Hong Kong University of Science and Technology)

What Death Can Tell: Are Executives Paid for Their Contributions to Firm Value?

An efficient managerial labor market should compensate executives according to their contribution to shareholder value. We provide novel empirical evidence about the relationship between executive pay and managerial contribution to value by exploiting the exogenous variation resulting from stock price reactions to sudden deaths. We find, first, that the managerial labor market is characterized by positive sorting: managers with high contributions to value obtain higher pay. We find, second, that executives appear, on average, to retain about 80% of the value they create. Overall, our results are informative about the workings of the managerial labor market.

P41 - Van Thi Tuong Nguyen (Catholic University of Leuven)
thituongvan.nguyen@econ.kuleuven.be
Piet Sercu (Catholic University of Leuven)

Tactical Asset Allocation with Commodity Futures: Implications of Business Cycle and Monetary Policy

While Gorton and Rouwenhorst (2005) suggest using business cycle in tactical asset allocation with commodity futures, Jensen et al (2002) suggest using monetary policy in guiding the timing of investment. We investigate whether it is useful to watch both. The performance of out-of-sample optimal portfolios show that the proposed strategy with commodity futures performs better than (i) any stand-alone assets (stocks, bonds, commodity futures); (ii) the optimal portfolio without commodity futures and (iii) strategies that consider only one type of information. Diverging from Gorton and Rouwenhorst (2005), we suggest to divide a business cycle into three stages (early, middle and late). To exploit the implication of business cycle in tactical asset allocation, we use the average duration of a recession or an expansion to divide a cycle which is announced by NBER into ex ante stages Our strategy works not only for US but also for British and Japanese investors.

P42 - David Offenberg (Loyola Marymount University) - doffenberg@lmu.edu
Miroslava Straska (Ohio University)
Gregory Waller (Ohio University)

Who Gains From Buying Bad Bidders?

Prior studies suggest that takeovers of firms with poor acquisition histories can create value, but none provide evidence that they indeed do so. We document that the premium received by target shareholders is higher when the value loss from the target's prior acquisitions is larger. However, the gains to target shareholders seem to be offset by the losses to acquiring shareholders. The average announcement return to acquiring shareholders is negative and decreasing in the value loss from the target's prior acquisitions. Additionally, the combined acquirer and target value created in these takeovers is insignificant. These results suggest that the value lost from target firms' prior acquisitions is not recovered through disciplinary takeovers.

P43 - Enrico Onali (Bangor Business School) - e.onali@bangor.ac.uk

Moral Hazard, Dividends and Risk in Banks

This paper is the first investigation of the interplay between dividends and risk taking in banks. I examine the role of dividends as a risk-shifting mechanism that can exacerbate moral hazard, controlling for standard determinants of dividends in nonfinancial firms. My main findings show that banks that are close to depleting their capital pay more dividends to their shareholders, suggesting that dividends are used to shift risk from bank owners to the taxpayer. These findings support recent policy proposals that include restrictions on dividends as part of a set of early regulatory responses to bank distress (Geneva Report, Brunnermeier, 2009).

P44 - Frédéric Palomino (EDHEC Business School)
frederic.palomino@edhec.edu
Eloïc Peyrache (HEC Paris)

On CEO Appointment and Compensation

CEO compensation has received a lot of attention in the recent past, above all the widening gap between its level and that of the compensation of other employees. However, this increase in CEO pay was accompanied by changes in the structure of CEO pay (i.e., the increased use of stock options) and changes in CEO appointment (boards of directors choosing CEOs outside the firm rather than inside). In this article, we propose a amended version of the standard principal-agent model that provides a rationale for the simultaneous increases in (i) CEO pay, (ii) use of stock options in compensation schemes and (iii) hiring of CEOs externally. Furthermore, we derive new testable implications regarding compensation packages proposed to internally promoted and externally chosen CEOs.

P45 - Amir Rubin (Simon Fraser University) - arubin@sfu.ca
Alexander Vedrashko (Simon Fraser University)

Market Timing and Managerial Talent

This paper analyzes the relation between CEO trading performance in her company's stock and the quality of the CEO in running the company. A negative relation is expected if CEOs use their access to important nonpublic information to enrich themselves at the expense of shareholders. In this case, CEO trading profits are associated with higher levels of agency costs and reduced company performance. An alternative view is that a positive relation between CEO trading profits and firm performance is expected because both types of decisions require an understanding of the firm and the economic environment. The empirical results of the paper show that on average CEOs trade well and time their trade much better than the average investor. More importantly, this paper finds that CEOs who trade in their firm's stock better than their peers demonstrate superior performance in running their firms.

P46 - Clovis Rugemintwari (University of Limoges) -
clovis.rugemintwari@unilim.fr

Investigation on the Comparative Persistence and Convergence of Risk and Non-Risk Adjusted Bank Capital Ratios

We depart from the fact that in Europe, unlike the leverage ratio, risk-based capital ratios are formally under capital regulation with specified minimum thresholds to be respected. Building on this difference, we study their comparative persistence and convergence. For this purpose, we borrow the graphical analysis of Lemmon et al. (2008) and use the empirical partial adjustment model. Overall, consistent with the findings from the corporate finance literature, we find that bank capital structure is quite stable over long periods of time: banks that have high (low) capital ratios tend to remain as such for over eight years. Nevertheless, we find that even though all future capital ratios are influenced by initial capital ratios, this influence seems comparatively more relevant for the non risk-based (or leverage) capital ratio highlighting its high persistent phenomenon. Our findings also point to the role played by market participants in the trend and the relative rapid convergence of the risk-adjusted capital ratios compare to the simple leverage ratio. Our results are thus broadly supportive of recent policy initiatives that aim to strengthen the bank capital regulation by introducing a minimum leverage ratio and by simultaneously improving market discipline.

P47 - Elvira Sojli (Rotterdam School of Management, Erasmus University)
Wing Wah Tham (Erasmus School of Economics, Erasmus University)
tham@ese.eur.nl

The Impact of Foreign Government Investments on Corporate Performance: Evidence from the U.S.

Foreign and politically connected large investors, like foreign government investors, improve firm value through the provision of foreign market access and government-related contracts. In the short run, the market welcomes foreign government investments in expectation of potential monitoring and internationalization benefits. In the long run, the target firms' degree of internationalization and Tobin's q increase substantially after foreign government investments. The increase in q is directly related to the number of government-related contracts granted by the investing countries. The target companies contribute to the investors' markets by transferring technological know-how, increasing their competitiveness, and providing certification for their markets.

P48 - Patricio Valenzuela (European University Institute)
patricio.valenzuela@eui.eu

Rollover Risk and Corporate Bond Spreads

This paper examines whether rollover risk is priced on corporate bond spreads. Using a novel data set and new proxies for rollover risk and market illiquidity, the empirical analysis developed reveals that market illiquidity affects corporate bond spreads beyond a liquidity premium through a "rollover risk channel". This effect is statistically significant and financially important during episodes of market illiquidity, as in the recent U.S. subprime crisis, with speculative bonds and bonds issued by financial corporations being among the most affected. The results are significant even after controlling by a powerful set of variables and non-linear effects, are robust to alternative proxies of market illiquidity, bond and time-fixed effects, and potential endogeneity bias. This paper has important implications for the literature on the modeling of corporate bond spreads in periods of financial distress and in the current debate regarding the effects of financial crises and the regulation of financial corporations.

P49 - Philip Valta (Swiss Finance Institute & Ecole Polytechnique Fédérale de Lausanne) - valta@hec.fr

Competition and the Cost of Debt

This paper empirically investigates how the intensity of product market competition affects the cost of debt. Using a large sample of loans to publicly traded US manufacturing firms, I provide evidence that an intensification of product market competition among firms significantly increases the cost of bank loans. The analysis reveals that the effect is strongest in industries with high illiquidity and specificity of assets. This finding indicates that the liquidation value of assets is an important channel through which competition affects the cost of debt. Moreover, I find that loans to firms that operate in more competitive industries contain more covenants restricting the firms' financing and dividend policies. Overall, the results suggest that banks explicitly take into account the risk arising from product market competition when pricing and designing debt contracts.