# 9th International Paris Finance Meeting

## December 20, 2011

Novotel Paris les Halles Hotel
Place Marguerite de Navarre
75001 PARIS

**www.eurofidai.org/december2011.html**

European financial data institute
www.eurofidai.org

INSTITUT CDC
POUR LA RECHERCHE

# Meeting's organization

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-Financial Markets price, AFFI-FNEGE price...).

**More information:**
**www.affi.asso.fr**

Eurofidai (European Financial Data Institute) is an academic institute funded by the French National Center for Scientific Research (CNRS).

Its mission is to **develop European stock exchange databases that are useful to finance academic researchers.** That's why Eurofidai works in creating **verified, controlled, homogeneous databases over long periods.**

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

**More information:**
**www.eurofidai.org**

## Numbers

323 papers were submitted for presentation at the meeting. Of this number, only 53 were accepted indicating rigorous selection criteria.

In 2011, submissions were received from France (88), the United States (38), Canada (34), Germany (22), United Kingdom (18), Italy (14), Australia (11), China (11), Netherlands (11), Switzerland (9), Belgium (8), Portugal (7), other European countries (27) and 25 from the rest of the world.

Based on presenter's affiliation, the 53 accepted articles came from France (15), Canada (8), the USA (8), Germany (4), the Netherlands (4), China (2), Italy (2), Portugal (2), Switzerland (2), Denmark (1), Greece (1), Luxembourg (1), Norway (1), Spain (1) and the United Kingdom (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)

# 2011 Scientific Committee

Sessions were organized by :

Yacine Aït-Sahalia (Princeton University and NBER)
Nihat Aktas (SKEMA Business School)
Hervé Alexandre (Paris Dauphine University)
Marie Hélène Broihanne (University of Strasbourg)
François Degeorge (University of Lugano)
Bernard Dumas (INSEAD)
Patrice Fontaine (Eurofidai and University of Grenoble 2)
Thierry Foucault (HEC Paris)
Edith Ginglinger (Paris Dauphine University)
Ulrich Hege (HEC Paris)
Abraham Lioui (EDHEC)
Sophie Moinas (Toulouse School of Economics)
Franck Moraux (University of Rennes 1)
Patrick Navatte (University of Rennes 1)
Joël Petey (University of Strasbourg)
François Quittard-Pinon (University of Lyon 1)

They were helped by :

Michel Dubois (University of Neuchâtel)
Georges Gallais-Hamono (University of Orleans)
Isabelle Girerd-Potin (University of Grenoble 2)
Christophe Godlewski (University of Strasbourg)
Sonia Jimenez-Garcès (Eurofidai and University of Lyon 2)
Maxime Merli (University of Strasbourg)
Dang Bang Nguyen (University of Cambridge)
Marie Pfiffelmann (University of Strasbourg)
Sébastien Pouget (Toulouse School of Economics)
Patrick Roger (University of Strasbourg)
Laurent Weill (University of Strasbourg)

# Program

08h00 Registrations

08h30 Asset Pricing/Historical Finance
Room Van Gogh

09h00 Mergers & Acquisitions
Room Cezanne

09h00 Portfolio Management
Room Pissarro

09h00 Market and Credit Risks
Room Caillebotte

10h30 **Coffee Break**

11h00 International Finance
Room Van Gogh

11h00 Corporate Finance
Room Cezanne

11h00 Insurance/Interest Rates/Asset Pricing
Room Caillebotte

11h00 Mutual Funds/Financial Risks
Room Pissarro

11h00 Eurofidai financial databases presentation
Room Renoir

13h00 **Lunch**

14h30 Market Microstructure/Liquidity
Room Van Gogh

14h30 Corporate Governance 1
Room Cézanne

14h30 Financial Econometrics
Room Pissarro

14h30 Financial Banking/Financial Intermediation
Room Caillebotte

16h00 **Coffee Break**

16h30 Behavioral Finance
Room Van Gogh

16h30 Corporate Finance 2
Room Cezanne

16h30 Financial Crisis
Room Caillebotte

16h30 Corporate Governance 2
Room Pissarro

16h30 Eurofidai financial databases presentation
Room Renoir

18h00 **Cocktail**

## 08h30 Asset Pricing/Historical Finance

Chairman: A. Lioui (EDHEC) Room Van Gogh

**THE PRICE OF PROSPECTIVE LENDING: EVIDENCE FROM THE SECURITY LENDING MARKET**
Melissa Porras Prado (Nova School of Business and Economics)
Discussant: Michelle Sisto (International University of Monaco)

**ASSET PRICES AND THE HETEROGENEOUS IMPACT OF NEWS**
Roberto Marfè (Swiss Finance Institute and University of Lausanne)
Discussant: Sami Attaoui (Rouen Business School)

**THE STOCK-BOND COMOVEMENTS IN THE PARIS BOURSE: HISTORICAL EVIDENCE**
David Le Bris (BEM Bordeaux); Amir Rezaee (ISG Paris)
Discussant: Sofiane Aboura (Paris Dauphine University)

**INFLATION, STOCK MARKET AND LONG-TERM INVESTORS: REAL EFFECTS OF CHANGING DEMOGRAPHICS**
Arie Gozluklu (Warwick Business School)
Discussant: Christophe Boucher (University of Paris 1)

## 09h00 Market and Credit Risks

Chairman: C. Bernard (University of Waterloo) Room Caillebotte

**COMARGIN: A SYSTEM TO ENHANCE FINANCIAL STABILITY**
Jorge Cruz (Simon Fraser University); Jeffrey Harris (University of Delaware) Christophe Hurlin (University of Orleans); Christophe Pérignon (HEC Paris)
Discussant: Carole Bernard (University of Waterloo)

**MODEL IMPLIED CREDIT SPREADS**
Gunnar Grass (HEC Montreal)
Discussant: Jean-Paul Renne (Banque de France)

**TIME-VARYING ASSET VOLATILITY AND THE CREDIT SPREAD PUZZLE**
Redouane Elkhami (University of Toronto); Jan Ericsson (Mc Gill University); Min Jiang (University of Iowa)
Discussant: Simon Dubecq (Banque de France & CREST)

## 09h00 Mergers & Acquisitions

Chairman: N. Aktas (SKEMA Business School) Room Cézanne

**ACQUISITIONS AS LOTTERIES: DO MANAGERIAL GAMBLING ATTITUDES INFLUENCE TAKEOVER DECISIONS?**
Christoph Schneider (University of Mannheim); Oliver Spalt (Tilburg University)
Discussant: Ligang Zhong (Queen's University)

**COMPETITION AND DYNAMICS OF TAKEOVER CONTESTS**
Ricardo Calcagno (EM Lyon Business School); Sonia Falconieri (Cass Business School)
Discussant: Irina Debruyne Demidova (University of Lille - Nord de France)

**CULTURAL VALUES, CEO RISK AVERSION AND CORPORATE TAKEOVERS**
Thorsten Lehnert (University of Luxembourg); Bart Frijns; Aaron Gilbert; Alireza Tourani-Rad (Auckland University of Technology)
Discussant: Markus Fischer (Goethe University Frankfurt)

## 09h00 Portfolio Management

Chairman: M. H. Broihanne (University of Strasbourg) Room Pissarro

**DOES INSTITUTIONAL OWNERSHIP MATTER FOR INTERNATIONAL STOCK RETURN COMOVEMENT?**
Jose Faias (Catolica Lisbon School of Business and Economics); Miguel Ferreira; Pedro Santa-Clara (NOVA School of Business and Economics); Pedro Matos (Darden School of Business)
Discussant: Adrien Verdelhan (MIT Sloan School of Management)

**OUTSOURCING IN THE INTERNATIONAL MUTUAL FUND INDUSTRY: AN EQUILIBRIUM VIEW**
Oleg Chuprinin; Massimo Massa; David Schumacher (INSEAD)
Discussant: Louis Raes (Tilburg University)

**ASSET ALLOCATION OVER THE LIFE CYCLE: HOW MUCH DO TAXES MATTER?**
Holger Kraft (Goethe University); Marcel Marekwica (Copenhagen Business School); Claus Munk (Aarhus University)
Discussant: Jean-Claude Cosset (HEC Montreal)

## 11h00 Insurance/Interest Rates/Asset Pricing

Chairman: F. Quittard-Pinon (University of Lyon 1) Room Caillebotte

**FINANCIAL BOUNDS FOR INSURANCE CLAIMS**
Carole Bernard (University of Waterloo); Steffen Vanduffel (Vrije Universiteit Brussel)
Discussant: Roberto Marfè (Swiss Finance Institute & University of Lausanne)

**FISCAL POLICY, DEFAULT RISK AND EURO AREA SOVEREIGN BOND SPREADS**
Vladimir Borgy (Banque de France); Thomas Laubach (Goethe University Frankfurt); Jean-Paul Renne; Jean-Stéphane Mesonnier (Banque de France)
Discussant: Christophe Pérignon (HEC Paris)

**THE IMPACT OF GOVERNMENT INTERVENTIONS ON CDS AND EQUITY MARKETS**
Frederic Schweikhard (MIT Sloan School of Management); Zoe Tsesmelidakis (MIT Sloan School of Management & Goethe University Frankfurt)
Discussant: Gunnar Grass (HEC Montreal)

**AN ANALYSIS OF THE ULTRA LONG-TERM YIELDS**
Simon Dubecq (Banque de France & CREST); Christian Gourieroux (ENSAE)
Discussant: Olesya Grischenko (Federal Reserve Board)

## 11h00 Mutual Funds/Financial Risks

Chairman: G. Gallais-Hamono (University of Orleans) Room Pissarro

**SEX MATTERS: GENDER AND PREJUDICE IN THE MUTUAL FUND INDUSTRY**
Alexandra Niessen-Ruenzi; Stefan Ruenzi (University of Mannheim)
Discussant: Melissa Porras Prado (Nova School of Business and Economics)

**MARKET LIQUIDITY AND EXPOSURE OF HEDGE FUNDS**
Arjen Siegmann (VU University Amsterdam); Denitsa Stefanova (VU University Amsterdam and Duisenberg School of Finance)
Discussant: Raul Gonzalez (University of Geneva)

**RUNNING FOR THE EXIT: DISTRESSED SELLING AND ENDOGENOUS CORRELATION IN FINANCIAL MARKETS**
Rama Cont; Lakshithe Wagalath (Paris VI University)
Discussant: Christoph Becker (Frankfurt School of Finance & Management)

**AN ECONOMIC EVALUATION OF THE MODEL RISK FOR RISK MODELS**
Bertrand Maillet; Christophe Boucher (A.A.Advisors-QCG (ABN AMRO), Variances and University of Paris-1); Patrick Kouontchou (Variances and University of Metz)
Discussant: Arie Gozluklu (Warwick Business School)

## 11h00 Corporate Finance

Chairman: F. Derrien (HEC Paris) Room Cézanne

**AN EXPLICIT TEST FOR CAPITAL STRUCTURE CONVERGENCE**
Angelos Antzoulatos; Constantinos Lambrinoudakis; Emmanouel Tsiritakis (University of Piraeus); Kostas Koufopoulos (University of Warwick)
Discussant: Christoph Schneider (University of Mannheim)

**CAPITAL STRUCTURE AND DEBT PRIORITY**
Sami Attaoui (Rouen Business School); Patrice Poncet (ESSEC Business School)
Discussant: Thorsten Lehnert (University of Luxembourg)

**CORPORATE COST OF BORROWING: TRACE ON SYNDICATED LOANS**
Markus Fischer (Goethe University Frankfurt)
Discussant: Constantinos Lambrinoudakis (University of Piraeus)

## 11h00 International Finance

Chairman: B. Dumas (INSEAD) Room Van Gogh

**SOVEREIGN RISK PREMIA**
Nicola Borri (LUISS University); Adrien Verdelhan (MIT Sloan School of Management)
Discussant: Rui Albuquerque (Boston University School of Management and Catolica-Lisbon School of Business and Economics)

**CAN THE FED TALK THE HIND LEGS OFF THE STOCK MARKET?**
Sylvester Eijffinger; Ronald Mahieu; Louis Raes (Tilburg University)
Discussant: Jose Faias (Catolica-Lisbon School of Business and Economics)

**ARE CROSS-LISTED FIRMS SUPERIOR TARGETS? EVIDENCE FROM SHORT- AND LONG-RUN PERFORMANCE OF US BIDDERS**
Jean-Claude Cosset; Siham Meknassi (HEC Montreal)
Discussant: Marcel Marekwica (Copenhagen Business School)

## 11h00 Eurofidai financial databases presentation

Room Renoir

## 14h30 Corporate Governance 1

Chairman: E. Ginglinger (Paris Dauphine University) Room Cezanne

**THE IMPACT OF RISK AND MONITORING ON CEO EQUITY INCENTIVES**
Ana Albuquerque (Boston University & Portuguese Catholic University); George Papadakis (Boston University School of Management); Peter Wysocki (University of Miami School of Business)
Discussant: Alminas Zaldokas (INSEAD)

**NEW DOGS NEW TRICKS: CEO TURNOVER, CEO-RELATED FACTORS, AND INNOVATION PERFORMANCE**
Frederick Bereskin (University of Delaware); Hsu Po-Hsuan (University of Hong Kong)
Discussant: Hannes Wagner (Bocconi University)

**PAY-FOR-LUCK IN CEO COMPENSATION: MATCHING AND EFFICIENT CONTRACTING**
Pierre Chaigneau; Nicolas Sahuguet (HEC Montreal)
Discussant: Sergei Kovbasyuk (Einaudi Institute for Economics and Finance)

## 14h30 Financial Banking/Financial Intermediation

Chairman: H. Alexandre (Paris Dauphine University) Room Caillebotte

**THE IMPACT OF GOVERNMENT OWNERSHIP ON BANK RISK PROFILE AND LENDING BEHAVIOUR**
Ianotta Giuliano; Giacomo Nocera; Andrea Sironi (Bocconi University)
Discussant: Frederic Lobez (Lille 2 University)

**LAX LENDING STANDARDS AND CAPITAL REQUIREMENTS**
Pedro Gete (Georgetown University and IE); Nathalie Tiernan (Georgetown University)
Discussant: Jean-Stéphane Mesonnier (Banque de France)

**WERE MULTINATIONAL BANK TAKING EXCESSIVE RISKS BEFORE THE RECENT FINANCIAL CRISIS?**
M.A. Gulamhussen (Lisbon University Institute); Carlos Pinheiro (Caixa Geral de Depositos); Alberto Franco Pozzolo (Università degli Studi del Molise, MoFiR and Centro Studi Luca D'Agliano)
Discussant: Marcin Wojtowicz (VU University Amsterdam and Tinbergen Institute)

## 14h30 Financial Econometrics

Chairman: Y. Ait-Sahalia (Princeton University & NBER) Room Pissarro

**STRESSING CORRELATIONS AND VOLATILITIES - A CONSISTENT MODELING APPROACH**
Christoph Becker; Wolfgang M. Schmidt (Frankfurt School of Finance & Management)
Discussant: Arjen Siegmann (VU University Amsterdam)

**RECOVERING NONLINEAR DYNAMICS FROM OPTION PRICES**
Alexandre Engulatov; Raul Gonzalez (University of Geneva); Olivier Scaillet (University of Geneva and Swiss Finance Institute)
Discussant: Lakshithe Wagalath (Paris VI University)

**DO RETURN PREDICTION MODELS ADD ECONOMIC VALUE?**
Tolga Cenesizoglu (HEC Montreal); Allan Timmermann (USCD-Rady)
Discussant: Eric Jacquier (MIT Sloan School of Management)

## 14h30 Market Microstructure/Liquidity

Chairman: T. Foucault (HEC Paris) Room Van Gogh

**SUBSIDIZING LIQUIDITY: THE IMPACT OF MAKE/TAKE FEES ON MARKET QUALITY**
Katya Malinova; Andreas Park (University of Toronto)
Discussant: Thierry Foucault (HEC Paris)

**A DYNAMIC LIMIT ORDER MARKET WITH FAST AND SLOW TRADERS**
Peter Hoffmann (European Central Bank, Financial Research Division)
Discussant: Andra Ghent (Baruch College)

**WHY DO LISTED FIRMS PAY FOR MARKET MAKING IN THEIR OWN STOCK?**
Bernt Arne Odegaard (University of Stavanger); Johannes Skjeltorp (Norges Bank)
Discussant: Tse-Chun Lin (University of Hong Kong)

## 16h30 Corporate Governance 2

Chairman: U. Hege (HEC Paris) Room Pissarro

**INSTITUTIONAL INVESTMENT HORIZON AND CORPORATE FINANCING DECISIONS**
Ligang Zhong (Queen's University)
Discussant: Ricardo Calcagno (EM Lyon Business School)

**CORPORATE GOVERNANCE AND INTERNATIONAL TRADE SHOCKS**
Mario Daniele Amore (Copenhagen Business School); Alminas Zaldokas (INSEAD)
Discussant: Pierre Chaigneau (HEC Montreal)

**THE LIFE CYCLE OF FAMILY OWNERSHIP: INTERNATIONAL EVIDENCE**
Julian Franks; Paolo Volpin (London Business School); Colin Mayer (University of Oxford); Hannes Wagner (Bocconi University)
Discussant: Claire Célérier (Banque de France)

## 16h30 Behavioral Finance

Chairman: S. Moinas (Toulouse School of Economics) Room Van Gogh

**OVERCONFIDENT INDIVIDUAL DAY TRADERS: EVIDENCE FROM A NATURAL EXPERIMENT**
Wei-Yu Kuo (National Chengchi University); Tse-Chun Lin (University of Hong Kong)
Discussant : Katya Malinova (University of Toronto)

**HOUSEHOLDS LEARNING IN THE DARK: NEW EVIDENCE FROM RETAIL TRADERS**
Jean-Noël Barrot (HEC Paris)
Discussant : Peter Hoffmann (Universitat Pompeu Fabra)

**SUBPRIME MORTGAGES, MORTGAGE CHOICE, AND HYPERBOLIC DISCOUNTING**
Andra Ghent (Baruch College, CUNY)
Discussant : Bernt Arne Odegaard (University of Stavanger)

## 16h30 Corporate Finance 2

Chairman: P. Navatte (University of Rennes 1) Room Cézanne

**FINANCING CONSTRAINTS, PRODUCT MARKET COMPETITION, AND BUSINESS CYCLE SENSITIVITY**
Peter Pontuch (Paris Dauphine University)
Discussant: Philip Valta (HEC Paris)

**CORPORATE PAYOUT POLICY AND CHANGES IN HOUSING PRICES**
Sara Ding (University of San Francisco); John Kose (New-York University); Samir Saadi (Queen's University); Ni Yang (Shanghai Jiao Tong University)
Discussant: Frederick Bereskin (University of Delaware)

**COMPETITIVE PRESSURE AND CORPORATE POLICIES**
Laurent Frésard; Philip Valta (HEC Paris)
Discussant: Peter Pontuch (Paris Dauphine University)

## 16h30 Financial Crisis

Chairman: J. Petey (University of Strasbourg) Room Caillebotte

**THE PAULSONS PLAN'S COMPETITIVE EFFECTS**
Eric de Bodt (Lille 2 University); Frederic Lobez (Lille 2 University)
Discussant: Carlos Pinheiro (Caixa Geral de Depositos)

**HOW USEFUL IS THE MARGINAL EXPECTED SHORTFALL FOR THE MEASUREMENT OF SYSTEMIC EXPOSURE? A PRACTICAL ASSESSMENT**
Julien Idier; Gildas Lame; Jean-Stéphane Messonnier (Banque de France)
Discussant: Giacomo Nocera (Bocconi University)

**CDOs AND THE FINANCIAL CRISIS: CREDIT RATINGS AND FAIR PREMIA**
Marcin Wojtowicz (VU University Amsterdam and Tinbergen Institute)
Discussant: Pedro Gete (Georgetown University and IE)

## 16h30 Eurofidai financial databases presentation

Room Renoir

08h30

# Asset Pricing/Historical Finance

Chairman: A. Lioui (EDHEC)

## THE PRICE OF PROSPECTIVE LENDING: EVIDENCE FROM THE SECURITY LENDING MARKET

**Melissa Porras Prado (Nova School of Business and Economics)**
Discussant: Michelle Sisto (International University of Monaco)

Institutional investors can generate revenue by lending shares to short sellers. In this paper, I show that security prices incorporate expected future security lending profit. To determine whether institutional investors anticipate lending profits, I look at price behavior following a failure-todeliver in the equity lending market. Failure-to-deliver represents situations in which it is difficult to locate securities available for borrowing, leading to high bargaining power for the lender and prospective increases in lending profits. The results of this study imply that overpricing caused by the presence of short sale constraints is not solely due to the restriction of negative information but also partly a result of rational capitalized lending revenue.

## ASSET PRICES AND THE HETEROGENEOUS IMPACT OF NEWS

**Roberto Marfè (Swiss Finance Institute and University of Lausanne)**
Discussant: Sami Attaoui (Rouen Business School)

This paper analyzes a general equilibrium exchange economy with a continuum of agents who have «catching up with the Joneses» preferences and differ with respect to the curvature of their utility functions and - as a peculiarity - the impact of news about uncertainty. The dynamic redistribution of wealth among the agents generates endogenously the state-dependent preferences of the representative agent and the variation in the pricing kernel volatility, i.e. the price of risk. The model exhibits many of the empirically observed properties of the unconditional and conditional moments of stock returns. Indeed, the new source of heterogeneity has a strong impact on asset prices whereas heterogeneity in risk aversion has just a marginal effect once it is estimated from individual data. In particular the heterogeneous impact of news helps in explaining the equity premium and risk-free rate puzzles, the high and countercyclical Sharpe ratio, the long-horizon predictability of excess returns and the GARCH and leverage effects in return volatility.

## THE STOCK-BOND COMOVEMENTS IN THE PARIS BOURSE: HISTORICAL EVIDENCE

**David Le Bris (BEM Bordeaux); Amir Rezaee (ISG Paris)**
Discussant: Sofiane Aboura (Paris Dauphine University)

Using some recently developed 19th century Paris Bourse price indices we study the stock-bond monthly return comovements over a period of 76 years. The comovements of stocks not only with government bonds, as is the case in the majority of studies on this subject, but also with corporate bonds have been considered in this paper. A multivariate Dynamic Conditional Correlation GARCH (DCC GARCH) model has been implemented to assess the varying correlation between stock and bond returns. We do obtain fluctuate but always highly positive conditional stock-bond correlations. We suggest two possible sources of high correlation: the nature of the stocks in 19th century which were issued with fixed dividend rates and the zero inflation due to the Gold standard. A further study of the stock-bond relations conducted by the implementation of the Granger causality tests shows that, as we approach the end of the 19th century, the corporate bond market becomes more and more dominant in terms of price adjustment and therefore more efficient.

## INFLATION, STOCK MARKET AND LONG-TERM INVESTORS: REAL EFFECTS OF CHANGING DEMOGRAPHICS

**Arie Gozluklu (Warwick Business School)**
Discussant: Christophe Boucher (University of Paris 1)

This paper shows the common demographic component shared by equity and bond yields. Life-cycle patterns in investment behavior appear as predictable components in financial yields and inflation. The slow-evolving time-series covariation due to changing population age structure explains two empirical puzzles: i) strong comovement between equity and bond markets, ii) positive correlation between equity yields and inflation. Out-of-sample forecasts, VAR simulations and predictive regressions support this conjecture. Specifications including both financial yields and a model-based demographic variable improve both equity and bond return predictability. A cross-country panel documents the cross-sectional variation of the demographic effect and explains the differences in comovement between equity and bond markets across countries.

# 09h00 Market and Credit Risks

## Chairman: C. Bernard (University of Waterloo)

### COMARGIN: A SYSTEM TO ENHANCE FINANCIAL STABILITY

**Jorge Cruz (Simon Fraser University); Jeffrey Harris (University of Delaware); Christophe Hurlin (University of Orleans); Christophe Pérignon (HEC Paris)**

Discussant: Carole Bernard (University of Waterloo)

In this paper, we present a new collateral system, called CoMargin, for derivatives exchanges. CoMargin depends on both the tail risk of a given market participant and its interdependence with others participants. This collateral system aims at internalizing market interdependencies and enhancing the stability and resiliency of the financial system. CoMargin can be estimated by a model-free scenario-based methodology, backtested using formal statistical tests, and generalized to any number of market members. We show that CoMargin outperforms existing margining systems, in particular when both trading similarity and comovement among underlying assets increase. We investigate the effects on the stability of the financial system of increasing the number of market participants and of adding new derivatives to be cleared.

### MODEL IMPLIED CREDIT SPREADS

**Gunnar Grass (HEC Montreal)**

Discussant: Jean-Paul Renne (Banque de France)

I propose a new procedure for extracting probabilities of default from structural credit risk models based on model implied credit spreads (MICS) and implement this approach assuming a barrier option framework nesting the Merton (1974) model of capital structure. MICS are the increase in the payout to debtholders necessary to oset the impact of an increase in asset variance on the option value of debt and equity. In contrast to real-world credit spreads, MICS do not contain risk premia for default timing and recovery uncertainty, thus yielding a purer estimate of physical default probabilities. Relative to a standard distance to default (DD) measure, my measure (i) predicts higher credit risk for safe rms and lower credit risk for rms with high volatility and leverage (ii) requires fewer parameter assumptions (iii) clearly outperforms the DD measure when used to predict corporate default.

### TIME-VARYING ASSET VOLATILITY AND THE CREDIT SPREAD PUZZLE

**Redouane Elkhami (University of Toronto); Jan Ericsson (Mc Gill University); Min Jiang (University of Iowa)**

Discussant: Simon Dubecq (Banque de France & CREST)

Structural credit risk models have faced difficulties in matching observed market credit spreads while simultaneously matching default rates, recoveries, leverage and risk premia - a shortcoming that has become known as the credit spread puzzle. We ask whether stochastic asset volatility, as an extension to this model class, has the ability to help resolve this puzzle. We identify that although there are three ways in which uncertainty about asset risk can influence spreads (asset risk volatility itself, dependence between the levels of risk and asset value and finally volatility risk premia), in a calibration setting only the volatility risk premium channel is economically significant. We show that this feature of a stochastic asset risk model allows it to match historical spreads and equity volatility as well. We also provide estimates of the required variance risk premia.

09h00

# Mergers & Acquisitions

Chairman: N. Aktas (SKEMA Business School)

## ACQUISITIONS AS LOTTERIES: DO MANAGERIAL GAMBLING ATTITUDES INFLUENCE TAKEOVER DECISIONS?

**Christoph Schneider (University of Mannheim); Oliver Spalt (Tilburg University)**

Discussant: Ligang Zhong (Queen's University)

This paper analyzes takeover announcements for public US targets from 1987 to 2008. Consistent with the hypothesis that gambling attitudes matter for takeover decisions, both acquiror announcement returns and expected synergies are lower in acquisitions where the target's stock has characteristics similar to those of attractive gambles. Offer price premium and target announcement returns are higher in these deals. The effects are stronger in companies where managers are more entrenched, where the disciplining force of product market competition is lower, where recent acquiror performance has been poor, during economic downturns, for younger CEOs in the acquiring firm, and for acquirors headquartered in areas in which local gambling propensity is higher. Targets with lottery features are more likely to receive takeover bids and direct evidence from synergy disclosure data shows that the market reacts less favorably to higher synergy forecasts if they are issued in the context of a lottery acquisition. Overall, our results suggest that corporate acquisitions are influenced by managerial gambling attitudes and that value destruction for acquirors in gambling-related transactions is substantial.

## COMPETITION AND DYNAMICS OF TAKEOVER CONTESTS

**Ricardo Calcagno (EM Lyon Business School); Sonia Falconieri (Cass Business School)**

Discussant: Irina Debruyne Demidova (University of Lille - Nord de France)

This paper analyzes a general equilibrium exchange economy with a continuum of agents who have «catching up with the Joneses» preferences and differ with respect to the curvature of their utility functions and - as a peculiarity - the impact of news about uncertainty. The dynamic redistribution of wealth among the agents generates endogenously the state-dependent preferences of the representative agent and the variation in the pricing kernel volatility, i.e. the price of risk. The model exhibits many of the empirically observed properties of the unconditional and conditional moments of stock returns. Indeed, the new source of heterogeneity has a strong impact on asset prices whereas heterogeneity in risk aversion has just a marginal effect once it is estimated from individual data. In particular the heterogeneous impact of news helps in explaining the equity premium and risk-free rate puzzles, the high and countercyclical Sharpe ratio, the long-horizon predictability of excess returns and the GARCH and leverage effects in return volatility.

## CULTURAL VALUES, CEO RISK AVERSION AND CORPORATE TAKEOVERS

**Thorsten Lehnert (University of Luxembourg); Bart Frijns; Aaron Gilbert; Alireza Tourani-Rad (Auckland University of Technology)**

Discussant: Markus Fischer (Goethe University Frankfurt)

Using some recently developed 19th century Paris Bourse price indices we study the stock-bond monthly return comovements over a period of 76 years. The comovements of stocks not only with government bonds, as is the case in the majority of studies on this subject, but also with corporate bonds have been considered in this paper. A multivariate Dynamic Conditional Correlation GARCH (DCC GARCH) model has been implemented to assess the varying correlation between stock and bond returns. We do obtain fluctuate but always highly positive conditional stock-bond correlations. We suggest two possible sources of high correlation: the nature of the stocks in 19th century which were issued with fixed dividend rates and the zero inflation due to the Gold standard. A further study of the stock-bond relations conducted by the implementation of the Granger causality tests shows that, as we approach the end of the 19th century, the corporate bond market becomes more and more dominant in terms of price adjustment and therefore more efficient.

# 09h00 Portfolio Management

Chairman: M. H. Broihanne (University of Strasbourg)

## DOES INSTITUTIONAL OWNERSHIP MATTER FOR INTERNATIONAL STOCK RETURN COMOVEMENT?

**Jose Faias (Catolica Lisbon School of Business and Economics); Miguel Ferreira; Pedro Santa-Clara (NOVA School of Business and Economics); Pedro Matos (Darden School of Business)**

**Discussant: Adrien Verdelhan (MIT Sloan School of Management)**

There has been a long dispute about the relative importance of country versus industry diversification. We test the hypothesis that institutional ownership affects the relative importance of country and industry effects in explaining stock returns world- wide. We find that industry effects become relatively more important than country effects as more institutions hold a larger share of a firms shares. Additionally, industry effects dominate country effects among stocks in the top quartile of ownership by institutions, especially by foreign-based ones. Our findings show that cross-border portfolio affect return variation across national stock markets and international diversification.

## OUTSOURCING IN THE INTERNATIONAL MUTUAL FUND INDUSTRY: AN EQUILIBRIUM VIEW

**Oleg Chuprinin; Massimo Massa; David Schumacher (INSEAD)**

**Discussant: Louis Raes (Tilburg University)**

We apply a principal-agent framework to explain differential performance of funds managed by the contractor management company on behalf of other mutual funds families (outsourced funds) and the performance of the company's own brand of funds (inhouse funds). We find that in companies that manage both fund categories, inhouse funds outperform outsourced by 1.14% annually or by 50%-75% of their expense ratio. Using a matching sample approach, we show that that the performance gap between the affiliated inhouse and outsourced funds is greater than that in the unaffiliated pair, suggesting that inhouse funds benefit from the subsidization by outsourced. The subsidization effect is weaker if the management company's business is highly dependent on its relationship with the original fund family and is weaker when the family and the subcontractor are located in different countries. Our evidence indicates that crosstrading between inhouse and outsourced funds is instrumental in transferring performance. In particular, inhouse funds facing steep outflows sell their assets mostly to the affiliated outsourced funds that serve as liquidity providers. Overall, out results are consistent with an equilibrium view in which subsidization is a part of the incentive compensation of the agent.

## ASSET ALLOCATION OVER THE LIFE CYCLE: HOW MUCH DO TAXES MATTER?

**Holger Kraft (Goethe University); Marcel Marekwica (Copenhagen Business School); Claus Munk (Aarhus University)**

**Discussant: Jean-Claude Cosset (HEC Montreal)**

We study the welfare effect of tax-optimizing portfolio decisions in a life cycle model with unspanned labor income and realization-based capital gain taxation. For realistic parameterizations of our model, certainty equivalent welfare gains from fully tax-optimized portfolio decisions are less than 2% of present financial wealth and lifetime income compared to a heuristic portfolio policy ignoring the taxation of profits (capital gains, interest and dividend payments). Compared to a heuristic portfolio policy that only ignores the realization-based feature of capital gain taxation and instead assumes mark-to-market taxation, these gains are less than 0.5%. However, if capital gains are forgiven at death (as in the U.S.), investors with strong bequest motives face substantial welfare costs when not tax-optimizing theirportfolio decisions towards the end of the life cycle.

# 11h00 Insurance/Interest Rates/Asset Pricing

Chairman: F. Quittard-Pinon (University of Lyon 1)

## FINANCIAL BOUNDS FOR INSURANCE CLAIMS

**Carole Bernard (University of Waterloo); Steffen Vanduffel (Vrije Universiteit Brussel)**

Discussant: Roberto Marfè (Swiss Finance Institute & University of Lausanne)

In this paper insurance claims are priced using an indifference pricing principle. We first revisit the traditional economic framework and then extend it to include the presence of a complete financial market. In this context we derive lower bounds for claims' prices, and these bounds correspond to the market prices of some explicitly known financial payoffs. In particular we show that the discounted expected value is no longer valid as a classical lower bound for insurance prices in general, and has to be corrected by a covariance term which reflects the interaction between the insurance claim and the financial market. The paper is illustrated by examples with equity-linked insurance contracts subject to financial and mortality risk.

## FISCAL POLICY, DEFAULT RISK AND EURO AREA SOVEREIGN BOND SPREADS

**Vladimir Borgy (Banque de France); Thomas Laubach (Goethe University Frankfurt); Jean-Paul Renne; Jean-Stéphane Mesonnier (Banque de France)**

Discussant: Christophe Pérignon (HEC Paris)

This paper develops an arbitrage-free affine term structure model of potentially defaultable sovereign bonds to model a cross-section of six euro area government bond yield curves. We make use of the coexistence of a common monetary policy under European Monetary Union, which determines the short end of the yield curve that is common to all countries, and decentralized debt policies which drive expected default probabilities and thereby spreads at the long end. When applying this model to yield curves over the period January 1999 to March 2010, we find strong evidence for a break in the relationship between the fiscal variable and the default intensities in 2008. Despite using no latent factors, our model produces an excellent fit to both yield levels and spreads.

## THE IMPACT OF GOVERNMENT INTERVENTIONS ON CDS AND EQUITY MARKETS

**Frederic Schweikhard (MIT Sloan School of Management); Zoe Tsesmelidakis (MIT Sloan School of Management & Goethe University Frankfurt)**

Discussant: Gunnar Grass (HEC Montreal)

We question the impact of government guarantees on the pricing of default risk in credit and stock markets and, using a Merton-type credit model, provide evidence of a structural break in the valuation of U.S. bank debt in the course of the 2007-2009 financial crisis, manifesting in a lowered default boundary, or, under the pre-crisis regime, in higher stock-implied credit spreads. A possible explanation is the asymmetric treatment for debt and equity from rescue measures that tend to favor creditors. The discrepancies are driven by several variables including firm size, default correlation, and high ratings, thus corroborating our too-big-to-fail hypothesis.

## AN ANALYSIS OF THE ULTRA LONG-TERM YIELDS

**Simon Dubecq (Banque de France & CREST); Christian Gourieroux (ENSAE)**

Discussant: Olesya Grischenko (Federal Reserve Board)

The discounting of very long-term cash-flows is crucial for the valuation of long-term investment projects. In this paper, we analyze the market prices of US government bonds with very long-term time-to-maturity, and emphasize some statistical specificities of very long-term zero-coupon rates, that standard Gaussian affine term structure models do not account for. In addition, we describe and estimate three Gaussian Nelson-Siegel affine term structure models, and highlight the model characteristics, which are necessary to match the dynamics of very long-term interest rates.

## 11h00 Mutual Funds/Financial Risks

Chairman: G. Gallais-Hamono (University of Orleans)

### SEX MATTERS: GENDER AND PREJUDICE IN THE MUTUAL FUND INDUSTRY

**Alexandra Niessen-Ruenzi; Stefan Ruenzi (University of Mannheim)**
Discussant: Melissa Porras Prado (Nova School of Business and Economics)

We suggest customer based discrimination as one potential explanation for the low fraction of females in the mutual fund industry. Consistent with investors being prejudiced and stereotyping female fund managers as less skilled, we find that female managed funds experience significantly lower inflows. This result is obtained using market data as well as experimental data. While we document some behavioral differences between male and female fund managers, performance is virtually identical. This shows that rational statistical discrimination can not explain the lower inflows into female managed funds. Evidence based on an implicit association test conducted in a laboratory setting supports the notion that there is prejudice against females in finance.

### MARKET LIQUIDITY AND EXPOSURE OF HEDGE FUNDS

**Arjen Siegmann (VU University Amsterdam); Denitsa Stefanova (VU University Amsterdam and Duisenberg School of Finance)**
Discussant: Raul Gonzalez (University of Geneva)

We examine whether the drastic improvement in liquidity in the US stock market after 2003 has impacted the systematic exposures of hedge funds to the US-stock market. The relation between market exposure and Amihud's illiquidity measure reverses significantly around a breakpoint situated somewhere around 2003. The results are robust to different fund selection criteria, volatility timing, the presence of illiquid holdings and the exact position of the break point. Using the returns to a pairs trading strategy as a sorting criterion for creating portfolios, we find that the effect is strongest for funds that have a significantly positive loading on the pairs trading return. The results suggest that before 2003, time-varying illiquidity led to a time-varying long bias in US-stock market exposure. The reversal of the relationship points towards liquidity timing by hedge funds in the most recent period.

### RUNNING FOR THE EXIT: DISTRESSED SELLING AND ENDOGENOUS CORRELATION IN FINANCIAL MARKETS

**Rama Cont; Lakshithe Wagalath (Paris VI University)**
Discussant: Christoph Becker (Frankfurt School of Finance & Management)

We propose a simple multiperiod model of price impact from trading in a market with multiple assets, which illustrates how feedback effects due to distressed selling lead to endogenous correlations between asset classes. We show that distressed selling by investors exiting a fund may have non-negligible impact on the realized correlations between returns of assets held by the fund. These feedback effects may lead to positive realized correlations between fundamentally uncorrelated assets, as well as an increase in correlations across all asset classes and in the fund's volatility which is exacerbated in scenarios in which the fund undergoes large losses. We obtain analytical expressions for the realized covariance and show that the realized covariance may be decomposed as the sum of a fundamental covariance and a liquidity-dependent 'excess' covariance. Our results provide insight into the nature of spikes in correlation associated with the failure or liquidation of large funds.

### AN ECONOMIC EVALUATION OF THE MODEL RISK FOR RISK MODELS

**Bertrand Maillet; Christophe Boucher (A.A.Advisors-QCG (ABN AMRO), Variances and University of Paris-1); Patrick Kouontchou (Variances and University of Metz)**
Discussant: Arie Gozluklu (Warwick Business School)

The recent experience from the global financial crisis has raised serious doubts about the accuracy of standard risk measures as a tool to quantify extreme downward risks. Standard risk measures are subject to a "model risk" due to the specification and estimation uncertainty. We propose a general adjustment of the Value-at-Risk to compute risk measures robust to the model risk. The proposed procedure aims empirically adjusting the imperfect quantile estimate assessing the good quality of VaR models such as frequency exceptions, independence of violations and magnitude of violations. Based on a long sample of U.S. data, we find an inverse U-shape relation between VaR model errors and the horizon: corrections (for model errors) are higher for short-term horizons but are also increasing for long-term horizons. We also provide a fair comparison between the main risk models using the same metric that corresponds to model risk required corrections.

## 11h00 Corporate Finance

Chairman: F. Derrien (HEC Paris)

### AN EXPLICIT TEST FOR CAPITAL STRUCTURE CONVERGENCE

**Angelos Antzoulatos; Constantinos Lambrinoudakis; Emmanouel Tsiritakis (University of Piraeus); Kostas Koufopoulos (University of Warwick)**

Discussant: Christoph Schneider (University of Mannheim)

We test for leverage convergence across a set of US firms. There is one big convergent club detected. The convergence happens in rates: leverage has the same rate of change across the firms of the big club. Firms belonging to the big club are bigger, more profitable, have more tangible assets, fewer growth opportunities and higher payout ratios than the rest of the firms and exhibit counter-cyclical leverage over the business cycle. These characteristics imply that big club firms are financially unconstrained. Our contribution to the ongoing debate for the existence of convergence among firms' leverage is twofold: (i) to obtain our results, we do not impose any of the direct or indirect restrictions used in the existing literature and so we avoid all pitfalls associated with them and (ii) we can distinguish constrained from unconstrained firms, without having to employ any of the classification criteria used in the literature.

### CAPITAL STRUCTURE AND DEBT PRIORITY

**Sami Attaoui (Rouen Business School); Patrice Poncet (ESSEC Business School)**

Discussant: Thorsten Lehnert (University of Luxembourg)

In a simple structural model, we derive closed form solutions for the market values of a defaultable firm's debt and equity when debt has a heterogeneous priority structure - under the form of senior and junior bonds - and the absolute priority rule prevails. The firm is subject to liquidity and solvency risks and liquidation is immediate upon bankruptcy. We investigate the two-sided issue of optimal capital structure and optimal debt priority. We also examine the spread differential between senior and junior bonds.

### CORPORATE COST OF BORROWING: TRACE ON SYNDICATED LOANS

**Markus Fischer (Goethe University Frankfurt)**

Discussant: Constantinos Lambrinoudakis (University of Piraeus)

This paper measures the spillover effect of increased information transparency in the corporate bond market on the cost of private debt using a natural experiment, the introduction of TRACE, a mandatory reporting and public dissemination system for over-the-counter corporate bond trades. I find that TRACE reduces the relative syndicated loan spread of bond-issuing firms compared to firms without bonds. Further, during the introduction of TRACE, firms with bonds that are already covered by TRACE pay lower spreads than firms with bonds that are not yet captured by TRACE. This suggests a positive spillover effect of TRACE on loan spreads that is not only present for firms with bonds compared to firms without bonds, but also one that was visible among firms with bonds.

# 11h00 International Finance

## Chairman: B. Dumas (INSEAD)

### SOVEREIGN RISK PREMIA

**Nicola Borri (LUISS University); Adrien Verdelhan (MIT Sloan School of Management)**
Discussant: Rui Albuquerque (Boston University School of Management and Catolica-Lisbon School of Business and Economics)

Emerging countries tend to default when their economic conditions worsen. If bad times in an emerging country correspond to bad times for the US investor, then foreign sovereign bonds are particularly risky. We explore how this mechanism plays out in the data and in a general equilibrium model of optimal borrowing and default. Empirically, the higher the correlation between past foreign and US bond returns, the higher the average sovereign excess returns. In the model, sovereign defaults and bond prices depend not only on the borrowers' economic conditions, but also on the lenders' time-varying risk-aversion.

### CAN THE FED TALK THE HIND LEGS OFF THE STOCK MARKET?

**Sylvester Eijffinger; Ronald Mahieu; Louis Raes (Tilburg University)**
Discussant: Jose Faias (Catolica-Lisbon School of Business and Economics)

Deliberately or not, by providing its stance on the prospects of the economy, rationalizing past decisions or announcing future actions, central banks influence financial markets' expectations of its future policy. In bad times, monetary policy communication inducing an upward revision of the path of future policy is good news for stocks. During an expansion the effect is weak and on average negative. The response of equities to central bank talk depends critically on the business cycle. There are strong industry specific effects of monetary policy actions and communication. These industry effects relate to the variation in cyclicality of different industries. Firm-specific effects of monetary policy relate to the leverage, the size and the price-earnings ratio of firms.

### ARE CROSS-LISTED FIRMS SUPERIOR TARGETS? EVIDENCE FROM SHORT- AND LONG-RUN PERFORMANCE OF US BIDDERS

**Jean-Claude Cosset; Siham Meknassi (HEC Montreal)**
Discussant: Marcel Marekwica (Copenhagen Business School)

We examine the impact of the cross-listing status of target firms and cross-country institutional differences on short- and long-run performance of US bidders in cross-border acquisitions. We show that acquirers realize higher long-run returns when acquiring foreign targets cross-listed on US markets, suggesting a more successful post-merger integration and greater merger synergies. Moreover, we find that lower integration of the target market to global economies and higher cultural differences result in higher bidder's announcement-period returns when acquiring targets cross-listed in the US. This result suggests that cross-listing may play a significant role in lowering the acquisition costs induced by market segmentation. We also provide new evidence for the hypothesis of corporate governance transfer through mergers and acquisitions by examining its effects on acquirer returns. We show that, in the long term, the acquirer benefits from transferring its good corporate governance practices to the target.

14h30

# Corporate Governance 1

Chairman: E. Ginglinger (Paris Dauphine University)

## THE IMPACT OF RISK AND MONITORING ON CEO EQUITY INCENTIVES

**Ana Albuquerque (Boston University & Portuguese Catholic University); George Papadakis (Boston University School of Management); Peter Wysocki (University of Miami School of Business)**

Discussant: Alminas Zaldokas (INSEAD)

This paper uses a novel empirical setting to explore the association between a firm's operational risk, managerial monitoring costs, and the level of CEO equity incentives. We investigate a sample of supplier firms that rely on a few large customers for the bulk of their revenues. We predict that supplier firms with higher customer concentration face both higher exogenous idiosyncratic risk and lower monitoring costs and, as a result, will rely less on equity-based managerial incentive compensation contracts. Our empirical results support this prediction.

## NEW DOGS NEW TRICKS: CEO TURNOVER, CEO-RELATED FACTORS, AND INNOVATION PERFORMANCE

**Frederick Bereskin (University of Delaware); Hsu Po-Hsuan (University of Hong Kong)**

Discussant: Hannes Wagner (Bocconi University)

This paper examines how CEO turnover and CEO-related factors influence innovation in the sample period 1993-2005. We find that CEO turnover is associated with significantly greater quantity and quality of future innovation, measured with the number of patents, citations, patents per research and development dollar, and citations per patent in the subsequent three year and five-year periods. New internal CEOs are associated with more and better innovation than new external CEOs. We also find that innovation quantity and quality are positively associated with CEO overconfidence, option compensation, and information asymmetries. These empirical results remain robust to controlling for potential endogeneity issues and confirm the critical role of CEOs in innovation performance.

## PAY-FOR-LUCK IN CEO COMPENSATION: MATCHING AND EFFICIENT CONTRACTING

**Pierre Chaigneau; Nicolas Sahuguet (HEC Montreal)**

Discussant: Sergei Kovbasyuk (Einaudi Institute for Economics and Finance)

Theoretical models of CEO compensation have recently been challenged by empirical findings at odds with their predictions. This includes pay-for-luck, i.e., the evidence that exogenous and contractible shocks to performance have an effect on CEO pay. We develop a simple model of efficient contracting with matching between firms and managers. We show that the optimal contract is a long-term contract which is designed to retain and insure the manager. We also show that this optimal contract can be implemented using call options based on a single performance measure which generally does not filter out luck. Our model can explain major anomalies documented in the literature: pay-for-luck, asymmetric pay-for-luck, and the correlation between pay-for-luck and bad corporate governance.

## 14h30 Financial Banking/Financial Intermediation

Chairman: H. Alexandre (Paris Dauphine University)

### THE IMPACT OF GOVERNMENT OWNERSHIP ON BANK RISK PROFILE AND LENDING BEHAVIOUR

**Ianotta Giuliano; Giacomo Nocera; Andrea Sironi (Bocconi University)**
Discussant: Frederic Lobez (Lille 2 University)

We use cross country data on a sample of 210 large Western European banks during the ten year period from 2000 to 2009 to evaluate the impact of government ownership on bank risk and lending activity across the economic and political cycles. Three main results emerge from our analysis. First, government-owned banks have a lower default risk but higher insolvency risk than private ones, indicating that they benefit from a government protection mechanism in the form of explicit and/or implicit guarantees. Second, government owned banks lending behavior across the economic cycle is not significantly different from the one of private banks. Finally, European government owned banks are subject to political influence and increase their lending more than private ones during election years. These results are all consistent with the political view of bank government ownership and have important policy implications for the recently nationalized European banks.

### LAX LENDING STANDARDS AND CAPITAL REQUIREMENTS

**Pedro Gete (Georgetown University and IE); Nathalie Tiernan (Georgetown University)**
Discussant: Jean-Stéphane Mesonnier (Banque de France)

Banking competition generates excessive low-quality lending if banks decide their optimal screening and lending intensities without internalizing that their behavior alters the pool of borrowers faced by other banks. Banks choose to spend too much time finding new customers rather than screening them, leading to an inefficiently high level of credit. This paper conducts a quantitative study of this market failure and then shows how capital requirements remedy it. First, we present a calibrated model whose predictions concerning the quantity and quality of credit are in line with recent U.S. business cycles. Second, we show that the externality amplifies the effects of economic shocks. Banks' capital and lending are too volatile. Capital requirements can reduce this excessive volatility if banks' capital is more expensive than the cost of external funds for the banks. Optimal capital requirements should be time-varying because the market failure is increasing in the amount of banking competition, and varies with both bank funding costs and borrowers' productivity.

### WERE MULTINATIONAL BANK TAKING EXCESSIVE RISKS BEFORE THE RECENT FINANCIAL CRISIS?

**M.A. Gulamhussen (Lisbon University Institute); Carlos Pinheiro (Caixa Geral de Depositos); Alberto Franco Pozzolo (Università degli Studi del Molise, MoFiR and Centro Studi Luca D'Agliano)**
Discussant: Marcin Wojtowicz (VU University Amsterdam and Tinbergen Institute)

The recent financial crisis has made it clear that the relationship between bank internationalization and risk is complex. The previous widespread argument that multinational banks benefit from portfolio diversification therefore reducing their overall riskiness has been radically questioned on the grounds that they face perverse incentives, leading instead to excessive risk taking. Since both theses ground on solid theoretical arguments, the prevailing effect is an empirical issue. In this paper, we study the relationship between bank internationalization and risk in the period prior to the recent financial crisis. We consider market based forward looking (EDF and CDS) and balance sheet based backward looking (Z-score) measures of excess risk for a sample of 384 listed banks from 56 countries between 2001 and 2007, and relate them to the degree of internationalization of banking activity. We find robust evidence that international diversification increases bank risk.

# Financial Econometrics

Chairman: Y. Ait-Sahalia (Princeton University & NBER)

## STRESSING CORRELATIONS AND VOLATILITIES - A CONSISTENT MODELING APPROACH

**Christoph Becker; Wolfgang M. Schmidt (Frankfurt School of Finance & Management)**
Discussant: Arjen Siegmann (VU University Amsterdam)

We propose a new approach to the definition of stress scenarios for volatilities and correlations. Correlations and volatilities depend on a common market factor, which is the key to stressing them in a consistent and intuitive way. Our approach is based on a new asset price model where correlations and volatilities depend on the current state of the market, which captures market-wide movements in equity-prices. For sample portfolios we compare correlations and volatilities in a normal market and under stress and explore consequences for value-at-risk. We compare our modeling approach with multivariate GARCH models. For all data analyzed our model proved to be superior in capturing the dynamics of volatilities and correlations.

## RECOVERING NONLINEAR DYNAMICS FROM OPTION PRICES

**Alexandre Engulatov; Raul Gonzalez (University of Geneva); Olivier Scaillet (University of Geneva and Swiss Finance Institute)**
Discussant: Lakshithe Wagalath (Paris VI University)

Using the wavelet-Galerkin method for solving partial integro-differential equations, we derive an implement computationally efficient formula for pricing European options on assets driven by multivariate jump-diffusions. This pricing formula is then used to solve the inverse problem of estimating the corresponding risk-neutral coefficient functions of the underlying jump-diffusions from observed option data. The ill-posedness of this estimation problem is proved, and a consistent estimation technique employing Tikhonov regularization is proposed. Using S&P 500 Index option data, it is shown that the coefficient functions in a stochastic volatility model with jumps are nonlinear, contrary to the affine specification widely used in the literature.

## DO RETURN PREDICTION MODELS ADD ECONOMIC VALUE?

**Tolga Cenesizoglu (HEC Montreal); Allan Timmermann (USCD-Rady)**
Discussant: Eric Jacquier (MIT Sloan School of Management)

This paper shows that statistical and economic measures of forecasting performance weight forecast errors very differently and that return forecasts from models with time-varying mean and variance, when used to guide the portfolio choice of an investor with power utility, can lead to significant improvements over the forecasts from a model that assumes a constant return distribution. Specifically, models with constant mean and volatility tend to overestimate the right tail of the return distribution and so lead to stock allocations that are on average too large with resulting lower average utility for risk averse investors. Our results demonstrate that return prediction models can add economic value even when they fail to produce accurate forecasts of mean returns and suggest the need for focusing on broader measures of distributional accuracy when evaluating the economic value of return prediction models.

# Market Microstructure/Liquidity

Chairman: T. Foucault (HEC Paris)

## SUBSIDIZING LIQUIDITY: THE IMPACT OF MAKE/TAKE FEES ON MARKET QUALITY

**Katya Malinova; Andreas Park (University of Toronto)**
Discussant: Thierry Foucault (HEC Paris)

In recent years most equity trading platforms moved to subsidize the provision of liquidity. Under such a make/take fee structure, submitters of limit orders typically receive a rebate upon execution of their orders, while submitters of market orders pay higher fees. We study the impact of this, now prevalent, fee structure on market quality, trader costs, and trading activity by analyzing the introduction of liquidity rebates on the Toronto Stock Exchange. Using a proprietary dataset, we find that the liquidity rebate structure leads to decreased spreads, increased depth, increased volume, and intensified competition in liquidity provision. Explicitly accounting for exchange fees and rebates, we find that trading costs for market orders did not decrease and that revenues for liquidity providers increase. The rebates have led to an increase in intermediation by liquidity providers, but we find no evidence that this increase led to higher costs for retail traders.

## A DYNAMIC LIMIT ORDER MARKET WITH FAST AND SLOW TRADERS

**Peter Hoffmann (European Central Bank, Financial Research Division)**
Discussant: Andra Ghent (Baruch College)

We extend Foucault's (1999) dynamic limit order market by allowing for heterogeneity in traders' ability to revise limit orders after the arrival if new information. Fast traders' limit orders do not risk being picked off when interaction with slow traders, resembling high-frequency traders speed advantage over human market participants. Depending on the magnitude of the winner's curse, this heterogeneity may increase or decrease trading volume and therefore social welfare. Overall, the presence of fast traders leads to a welfare loss for slow traders unless it triggers a move from a low-trade to a high-trade equilibrium.

## WHY DO LISTED FIRMS PAY FOR MARKET MAKING IN THEIR OWN STOCK?

**Bernt Arne Odegaard (University of Stavanger); Johannes Skjeltorp (Norges Bank)**
Discussant: Tse-Chun Lin (University of Hong Kong)

A recent innovation in equity markets is the introduction of market maker services paid for by the listed companies themselves. We investigate why firms are willing to pay a cost to improve the secondary market liquidity of their shares. We show that a contributing factor in this decision is the likelihood that the firm will interact with the capital markets in the near future, either because they have capital needs, or that they are planning to repurchase shares. We also find significant reductions in liquidity risk and cost of capital for firms that hire a market maker. Firms that prior to hiring a market maker have a high loading on a liquidity risk factor, reduce their liquidity risk down to a level similar to that of the larger and more liquid stocks on the exchange.

# 16h30 Corporate Governance 2

Chairman: U. Hege (HEC Paris)

## INSTITUTIONAL INVESTMENT HORIZON AND CORPORATE FINANCING DECISIONS

**Ligang Zhong (Queen's University)**

Discussant: Ricardo Calcagno (EM Lyon Business School)

Traditional literatures document that the longer-term institutional investor serves as a better monitoring mechanism and is associated with better corporate policy. In this paper, I exam its impact on corporate financing decisions and find an entrenchment effect of long-term institutional holdings for the first time. I find that institutional investment horizon is negatively associated with firms' likelihood of issuing equity and debt and is also negatively associated with the amount of the security issuance; in addition, firms with a longer institutional investment horizon adjust their capital structure at a slower pace, issuing more debt when over-levered and issuing less debt when under-levered, ceteris paribus. Firms' management department seems aware of the entrenchment cost and issue shorter-term debt to counteract the effect. It seems that long-term institutional investors act as the friction in the corporate financing process due to their higher portfolio rebalancing cost compared with short-term institutional investors.

## CORPORATE GOVERNANCE AND INTERNATIONAL TRADE SHOCKS

**Mario Daniele Amore (Copenhagen Business School); Alminas Zaldokas (INSEAD)**

Discussant: Pierre Chaigneau (HEC Montreal)

We study how the quality of corporate governance affects firms' reaction to the competitive environment. Our identification relies on exogenous variations in both corporate governance and product market competition experienced by U.S. firms in the late 1980s. While the Canada-U.S. Free Trade Agreement of 1989 increased foreign competition, the Business Combination laws, passed between 1985 and 1991 in thirty U.S. states, weakened corporate governance. We find that the operating and stock market returns of firms subject to worse corporate governance were more negatively affected by the subsequent increase in competitive pressures. We also find that worse corporate governance impaired the exporters' ability to benefit from the reduction in export tariffs to Canada. The differences in performance are related to lower financial constraints of well governed firms.

## THE LIFE CYCLE OF FAMILY OWNERSHIP: INTERNATIONAL EVIDENCE

**Julian Franks; Paolo Volpin (London Business School); Colin Mayer (University of Oxford); Hannes Wagner (Bocconi University)**

Discussant: Claire Célérier (Banque de France)

This paper offers a cross-country comparison of the ownership of private and public firms, and its evolution over time. We show that in countries with strong investor protection, developed financial markets and active markets for corporate control, family control follows a life cycle: family firms evolve into widely held companies as they age. In countries with weak investor protection, less developed financial markets and inactive markets for corporate control, family control is very persistent over time. Also, while family control in high investor protection countries is concentrated in industries with low investment opportunities and low M&A activity, this is not so in countries with low investor protection, where the presence of family control in an industry is unrelated to investment opportunities and M&A activity.

## 16h30 Behavioral Finance

Chairman: S. Moinas (Toulouse School of Economics)

### OVERCONFIDENT INDIVIDUAL DAY TRADERS: EVIDENCE FROM A NATURAL EXPERIMENT

**Wei-Yu Kuo (National Chengchi University); Tse-Chun Lin (University of Hong Kong)**

Discussant : Katya Malinova (University of Toronto)

We take advantage of a natural experiment in the Taiwan futures market to investigate the overconfident behavior and the performance of day traders. Since October 2007, investors can commit to be literally “day traders” to enjoy halved margin deposit by closing the day-trade position on the same day. This ex ante nature provides us a laboratory without potential biases from other trading motivations and disposition effect. The result shows that the 3,470 individual day traders on average make a significantly loss of 61.5 (26.7) thousand New Taiwan dollars after (before) transaction costs. This implies that these day traders are not only overconfident in precision of information but also having biased interpretation of information. We also find that trading is hazardous to the overconfident losers, but not to the winners. Last, the evidence suggests that more experienced individual investors exhibit more aggressive day trading behavior.

### HOUSEHOLDS LEARNING IN THE DARK: NEW EVIDENCE FROM RETAIL TRADERS

**Jean-Noël Barrot (HEC Paris)**

Discussant : Peter Hoffmann (Universitat Pompeu Fabra)

This paper uses a new dataset a and specific feature of the French stock exchange to study the behavior of individual investors actively trading stocks. Consistent with prior literature, the trading activity of individual investors increases (decreases) following high (low) performance. I carefully split individual investors’ performance into (i) excess performance and (ii) performance related to the exposure of their trades to risk factors such as the market premium, the excess returns on small stocks and the excess returns on value stocks. I show that trading activity reacts to both (i) and (ii) and that this does not seem to be explained by any strategic behavior. Instead, a simple model where individual investors are ex ante uncertain about their ability and factor exposure and trade to learn about them generates predictions consistent with the above evidence as well as additional predictions about learning dynamics that are also borne out by the data.

### SUBPRIME MORTGAGES, MORTGAGE CHOICE, AND HYPERBOLIC DISCOUNTING

**Andra Ghent (Baruch College, CUNY)**

Discussant : Bernt Arne Odegaard (University of Stavanger)

This paper examines the implications of offering households the choice between traditional fully-amortizing mortgages that require substantial down payments (CPMs) and mortgages that involve lower initial payments (LIPs) because of a lower down payment requirement and a non-traditional amortization structure. I examine the issue in an equilibrium model in which households make decisions as if they discount hyperbolically rather than exponentially. Allowing households access to LIPs exacerbates rather than mitigates the undersaving problem. However, in the benchmark parameterization, the expected lifetime utility of a newly born household is higher in the economy that allows households access to LIPs.

16h30

# Corporate Finance 2

Chairman: P. Navatte (University of Rennes 1)

## FINANCING CONSTRAINTS, PRODUCT MARKET COMPETITION, AND BUSINESS CYCLE SENSITIVITY

Peter Pontuch (Paris Dauphine University)

Discussant: Philip Valta (HEC Paris)

We analyze the interactions between financing constraints and product market competition. The literature on financially constrained firms suggests that their investment is sensitive to cash-flows, and that they are subject to a flight to quality in capital markets during economic downturns. Constrained firms face restricted access to external finance exactly when internal funds fall, leading to a vicious circle dynamics. We argue that internal cash flows in competitive industries are more exposed to aggregate shocks, thereby amplifying these adverse dynamics. We find significant support for this hypothesis in firms' operating profitability and fixed investment: the adverse effects of financing constraints are increasing in the level of product market competition. Market valuations do not take into account these differences in fundamental risk. Unconstrained firms in competitive industries earn positive abnormal returns, especially following periods of macroeconomic distress. Lastly, we show that financing constraints affect competitive mechanisms within industries. The industry average level of financing constraints tends to reduce the intraindustry mean-reversion of firm profitability.

## CORPORATE PAYOUT POLICY AND CHANGES IN HOUSING PRICES

Sara Ding (University of San Francisco); John Kose (New-York University); Samir Saadi (Queen's University); Ni Yang (Shanghai Jiao Tong University)

Discussant: Frederick Bereskin (University of Delaware)

We study how corporate payout policy responds to changing investor tastes for non-dividend over dividend paying stocks following an increase in housing prices. Exploiting the crossregional dispersion in housing prices within the U.S. market, we find a significant negative effect of growth in housing prices on local firm's propensity to pay and to initiate dividends, and on its dividend yield, payout ratio as well as total payout. Such housing effect is particularly strong for small firms, young firms, volatile firms, and low profitability firms. Our findings are insensitive to the choice of model specification and estimation method. They are also robust to controlling for several firm-specific variables, macro-economic variables, market sentiment, and dividend premium (proxy for dividend catering). In contrast to recent criticisms against catering theory, we find that dividend premium loads positively at state level. Moreover, we report weaker market reactions to dividend changes when local housing prices increase. This study is the first to establish a relationship between growth in housing prices and corporate policy decisions. It also introduces geography as a determinant of payout policy.

## COMPETITIVE PRESSURE AND CORPORATE POLICIES

Laurent Frésard; Philip Valta (HEC Paris)

Discussant: Peter Pontuch (Paris Dauphine University)

This paper examines the impact of increased product market competition on corporate investment and financing decisions. Using reductions in import tariff rates as a source of variation in competitive pressure, we find that firms simultaneously reduce capital and R&D investment, increase cash reserves and equity, and decrease debt in response to intensified product market competition. These adjustments are especially strong among industry followers and firms that operate at the technological core of their industry, and in more competitive markets. Also, the impact of competition turns out to be magnified when firms are exposed to greater financing risk. Overall, our results highlight that competitive pressures play a considerable role in driving the allocation of resources within firms.

## 16h30 Financial Crisis

### Chairman: J. Petey (University of Strasbourg)

**THE PAULSONS PLAN'S COMPETITIVE EFFECTS**

**Eric de Bodt (Lille 2 University); Frederic Lobez (Lille 2 University)**
**Discussant: Carlos Pinheiro (Caixa Geral de Depositos)**

The joint plan by the U.S. Treasury and the Federal Deposit Insurance Corporation, announced on Monday, October 13, 2008, represented the largest financial transfer from taxpayers to financial institutions in U.S. history. Existing academic studies have analyzed whether this massive state intervention improved the recipients' financial health with a focus on the wealth effects for shareholders and creditors. An investigation of investor reactions to the initial Paulson plan announcement and 247 subsequent capital injection transactions reveals that this public intervention was everything but neutral with respect to competition among participants in the financial industry. The results suggest that the "too-big-to-fail" effect was in play. Concerns about potential competitive distortion effects are reinforced by the negative reactions of rivals' stock market prices to capital injections directed toward large recipients.

**HOW USEFUL IS THE MARGINAL EXPECTED SHORTFALL FOR THE MEASUREMENT OF SYSTEMIC EXPOSURE? A PRACTICAL ASSESSMENT**

**Julien Idier; Gildas Lame; Jean-Stéphane Messonnier (Banque de France)**
**Discussant: Giacomo Nocera (Bocconi University)**

We explore the practical relevance from a supervisor's viewpoint of a recent but already popular market-based indicator of the systemic importance of financial institutions, the marginal expected shortfall (MES). The MES of an institution can be defined as its expected equity loss when the market itself is in its left tail. We compute the dynamic MES developed by Brownlees and Engle (2010) for a panel of 65 large US banks over the last decade and a half. Running panel regressions of the MES on bank characteristics, we first find that the MES can be partly rationalized in terms of standard balance sheet indicators of bank health and systemic importance, but also that these relationships changed widely over time. We then ask whether the cross section of the MES can help to identify ex ante, i.e. before a crisis unfolds, which institutions are the more likely to suffer the most severe losses ex post, i.e. once it has unfolded. Unfortunately, using the recent crisis as a natural experiment, we find that standard balance-sheet metrics like the tier one solvency ratio are better able to predict equity losses conditional to a true crisis.

**CDOs AND THE FINANCIAL CRISIS: CREDIT RATINGS AND FAIR PREMIA**

**Marcin Wojtowicz (VU University Amsterdam and Tinbergen Institute)**
**Discussant: Pedro Gete (Georgetown University and IE)**

We use the market standard Gaussian copula model to show that fair spreads on CDO tranches are much higher than fair spreads on similarly-rated corporate bonds. Yield enhancement on tranches is attributed to concentration of risk premia. Our findings imply that credit ratings are not sufficient for pricing, which is surprising given their central role in structured finance markets. This illustrates limitations of the rating methodologies being solely based on estimates of real-world payoff prospects. We further demonstrate that prices and ratings of CDO tranches have low stability and therefore they are likely to decline significantly more than prices and ratings of corporate bonds if credit conditions deteriorate. The pace and severity of re-pricing and downgrading of CDO tranches is further exacerbated by default contagion.

# ABOUT EUROFIDAI

**Eurofidai (European Financial Data Institute) is an academic institute funded by the French National Center for Scientific Research (CNRS). Its mission is to develop European financial databases that are useful to finance academic researchers. That's why Eurofidai works in creating verified, controlled, homogeneous databases over long periods.**

## Financial databases

### European daily stock data

The current daily stock database covers the period from 1977 to 2010 (France) and 1986 to 2010 (other European countries) for companies quoted on all the European countries. This global stocks database consists of more than 80 000 securities. It provides verified and proven data over a long timeframe, which is what sets it apart from other currently available stock databases.

Traditional stock exchanges: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom / Electronic stock exchanges (also called MTF): Chi-X, Nasdaq OMX Europe, Nordic Growth Market, Plus Markets, Stockholm AktieTorget, Tradegate, Turquoise.

### Indexes & factors

Different indexes are available on Eurofidai website:

- Daily traditional index data for Europe and Asia (1980-2010)
- Indexes calculated by Eurofidai for European countries (1977-2010 for France and 1986-2010 for other European countries):
  - General and sector indexes
  - Factors and specific indexes (taking into account market, size & momentum factors)

### Spot exchange rates

1975-2010

### European mutual funds

Eurofidai built a historical european mutual funds database, which has no equivalent in Europe. It contains mutual funds over a long period (1980-2010) and for a large sample of funds (more than 100,000 funds), ensuring a strong diversity of funds in terms of investment strategy and domicile.

This database is divided between funds quoted over the counter and funds listed on official markets (ETF...) and provides information on prices (net asset value, subscription and redemption prices, dividend...) and information on fund's characteristics (name, type, nature of target investors, currency, issuer, manager, fees, investment policy and fund asset allocation...).

### Corporate actions

Corporate Actions regulate the life of a company and they interest professional and academic researchers because they may change the value of a company's security. Eurofidai provides to its users an organized and classified corporate actions database (1977-2011) for equities and mutual funds, which reports information on corporate events affecting companies (name change, sector change, general meeting, merger, change of capital structure, liquidation, bankruptcy proceedings, class actions…) and their securities (split, issue conditions, purchase/exchange offer…) for more than 150.000 instruments.

## High performance computing

To process the data that comprises its databases, Eurofidai has invested in high output computing capabilities. Researchers who are interested in short term access to high performance and volume computing, can call on Eurofidai for its expertise in this domain. Thanks to «cloud computing» technology, Eurofidai can provide researchers with an «on demand» computer cluster for the required duration, without  them leaving their office.

## Document database

Another Eurofidai mission consists of building a bibliographical database on the research production in European Universities and research centers: finance thesis and working papers since the year 2000, with the link to the original document.