AUCKLAND CENTRE FOR FINANCIAL RESEARCH

NEW ZEALAND FINANCE MEETING

17 - 19 December 2018

Programme

KIA ORA AND WELCOME

I would like to welcome you to the 2018 New Zealand Finance Meeting, organised by the Auckland Centre for Financial Research at the Auckland University of Technology. This is the eighth year that the Auckland Centre for Financial Research has organised this meeting, and we have come a long way since we started hosting the conference in 2011 when it was called the Auckland Finance Meeting. Since its inception, our aim has been to bring leading researchers together to present and discuss their high-quality research. Over the years, the NZFM has grown in quality, quantity and indeed reputation. This year, we have accepted close to 100 papers that were selected from about 300 submissions. I am delighted to say that all of the accepted papers are of a very high standard.

I would like to extend my appreciation to our valued sponsors for their continuing support: Financial Research Network (FIRN), New Zealand Superannuation Fund, Thomson Reuters, the Reserve Bank of New Zealand, Pacific Basin Finance Journal, and the AUT Business School. Many of these sponsors have been supporting the academic efforts of the Auckland Centre for Financial Research since we started, and their financial support and engagement with us is crucial to the success of this event.

Many people have been involved in putting together this year's conference, and I would like to thank them all. Special thanks to our Conference keynote speaker, Professor Annette Vissing-Jørgensen, University of California, Berkeley, Haas School of Business. Furthermore, I would like to thank our Doctoral Symposium speakers and moderators, Professors Christina Atanasova, Wolfgang Bessler, and Roberto Pascual. I am very thankful to the members of the program selection committee, whose quality reviews have been essential to the development of an outstanding conference programme. Many thanks to other members of the organising committee, especially Mrs Tracy Skolmen. She has done an outstanding job in putting many parts of this conference together. Her efforts have made the organisation and running of this event a very smooth process.

Finally, I hope you will all have a great conference, and a memorable time in Queenstown and in Aotearoa, New Zealand.

Alireza Tourani-Rad
Deputy Dean, Professor of Finance, Auckland University of Technology
Acting Director of the Auckland Centre for Financial Research

AUCKLAND CENTRE FOR FINANCIAL RESEARCH

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Wolfgang Bessler, Justus-Liebig University Giessen
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José da Fonseca, Auckland University of Technology
Robert Faff, University of Queensland
Adrian Fernandez-Perez, Auckland University of Technology
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Aaron Gilbert, Auckland University of Technology
Ivan Indriawan, Auckland University of Technology
Madhu Kalimipalli, Wilfrid Laurier University
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Kathleen Walsh, University of Technology Sydney
Peiming Wang, Auckland University of Technology
Christian Wolff, University of Luxembourg
Shaojun Zhang, Hong Kong Polytechnic University
Remco Zwinkels, VU University Amsterdam

KEYNOTE SPEAKER

Professor Annette Vissing-Jørgensen, University of California, Berkeley

MEETING ORGANIZERS

Alireza Tourani-Rad, Auckland University of Technology, New Zealand
Ivan Indriawan, Main Conference, Auckland University of Technology, New Zealand
Ayesha Scott, Doctoral Symposium, Auckland University of Technology, New Zealand
Tracy Skolmen, Coordinator, Auckland University of Technology, New Zealand

KEYNOTE SPEAKER

Professor Annette Vissing-Jørgensen
University of California, Berkeley
Haas School of Business

Annette Vissing-Jørgensen holds the Arno A. Rayner Chair in Finance and Management at the Haas School of Business and is the chair for the finance group. Her research focuses on empirical asset pricing, monetary policy, household finance and entrepreneurship. Her research thus spans both asset pricing and corporate finance. She is a research associate in the NBER's Asset Pricing program, Monetary Economics program, and Economic Fluctuations and Growth program and is a research fellow in the CEPR's Financial Economics program. She is an Associate Editor of the Journal of Finance and (as of 2014) a director of both the American Finance Association and the European Finance Association.

BEST PAPER AWARDS

We would like to thank and acknowledge the sponsors of our Best Paper Awards. These awards will be presented during the conference dinner.

NZFM 2018 Best Paper Award (NZD2,000)

Sponsored by: NZSUPERFUND Te Kaitiaki Tahua Penihana Kaumātua o Aotearoa

NZFM 2018 Runner-Up Award (NZD1,000)

Sponsored by: NZSUPERFUND Te Kaitiaki Tahua Penihana Kaumātua o Aotearoa

Pacific-Basin Finance Journal Research Excellence Award (USD1,000)

Sponsored by:

Doctoral Symposium Best Paper Award (NZD750)

Sponsored by: AUCKLAND CENTRE FOR FINANCIAL RESEARCH

VENUE INFORMATION

2018 NEW ZEALAND FINANCE MEETING
17 - 19 December 2018
Crowne Plaza Queenstown, New Zealand

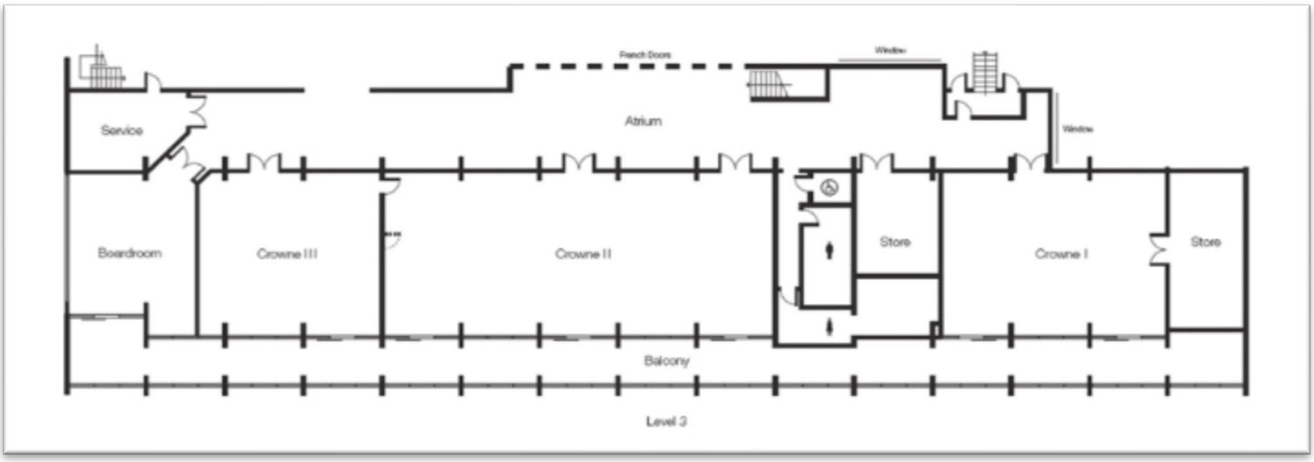
The **welcome reception and registration** will be in the Conference Centre Atrium on level 3 of the Crowne Plaza, 93 Beach Street, Queenstown. You will be able to register during any break times throughout the conference.

All sessions and streams will be in the Conference Centre Rooms on level 3 of the Crowne Plaza, 93 Beach Street, Queenstown. (Please have a look at the map on the next page for the room locations).

The Wakatipu Room, Skyline is situated high above the international resort of Queenstown and beautiful Lake Wakatipu and accessed by a scenic gondola.

MEETING VENUE MAP

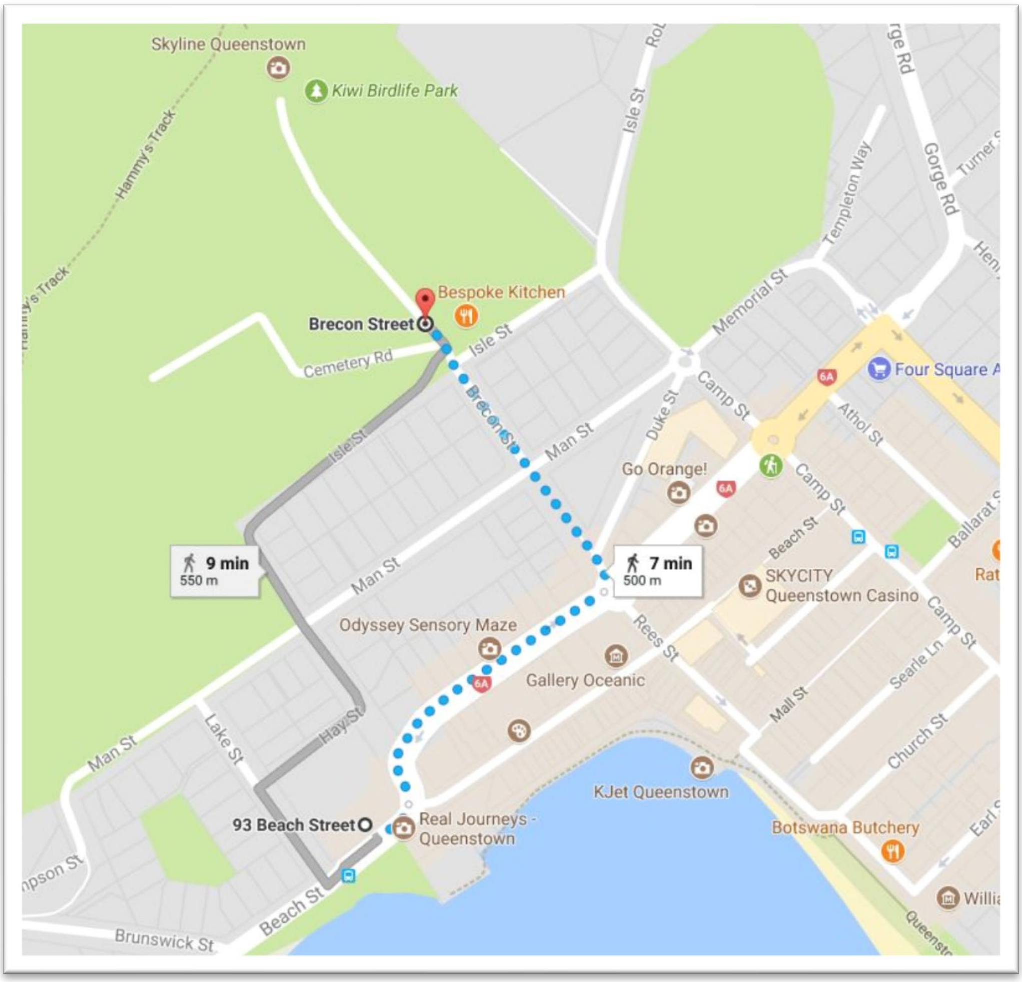
2018 NEW ZEALAND FINANCE MEETING
17 - 19 December 2018
Level 3 Conference Centre, Crowne Plaza, Queenstown, New Zealand



LOCATION MAP FOR GONDOLA TO SKYLINE

Skyline Queenstown: Brecon St, Queenstown 9300, New Zealand

- You may wish to join the group walking from the hotel to the Gondola at 17:45 pm and again at 18:30 pm
- You will need your lanyard for access to the Gondola and the Wakatipu Room



DETAILED PROGRAMME – DOCTORAL SYMPOSIUM

17 December 2018
Level 3 Conference Centre, Crowne Plaza, Queenstown, New Zealand

2018 DOCTORAL SYMPOSIUM ORGANISERS:

Ayesha Scott, Auckland University of Technology
Alireza Tourani-Rad, Auckland University of Technology

08:00 - 08:15	**REGISTRATION**	**ATRIUM**
	SESSION 1	**BOARDROOM**
08:15 - 08:30	**Alireza Tourani-Rad & Ayesha Scott** Welcome	
08:30 - 09:30	**Wolfgang Bessler, Justus-Liebig University Giessen**	
	Wolfgang Bessler is a Professor of Finance & Banking at Justus-Liebig University in Giessen and a research fellow at the Center for Financial Studies at Goethe-University in Frankfurt. He has previously held faculty positions at Syracuse University, Rensselaer Polytechnic Institute and Hamburg University. He currently serves on the advisory and editorial board of various journals including the European Journal of Finance, Journal of International Financial Markets, Institutions & Money, International Review of Financial Analysis and Journal of Multinational Financial Management. He is a board member of the Midwest Finance Association, the Multinational Finance Society, and the European Shadow Financial Regulatory Committee. His research interest includes financial markets and institutions, securities markets, corporate finance and governance as well as asset management and derivatives. He has published extensively in international journals including the Review of Finance, Journal of Financial Stability, Journal of Banking and Finance, Journal of Corporate Finance, European Journal of Finance, European Financial Management, and European Journal of Operational Research, among others. He recently published articles on hedge fund activism, capital structure, zero leverage, portfolio optimization, mutual fund performance persistence, bank risk factors and hedging of sovereign risks.	
09:30 - 10:30	**Christina Atanasova, Simon Fraser University**	
	Christina Atanasova is an Associate Professor in Finance at the Beedie School of Business at Simon Fraser University, Canada. She holds a PhD in Finance from the University of Leeds, UK. She has been in the faculty at the University of York, a Visiting Professor at Université Dauphine Paris, and an Erskine fellow at the University of Canterbury. Her research has focused on issues in empirical corporate finance such as corporate governance, capital structure and risk management. She has published in leading academic and practitioner journals. She has been an associate editor for the Bulletin of Economic Research since 2004 and is currently a member of the editorial board of the Financial Analyst Journal.	
10:30 - 11:00	**COFFEE/TEA BREAK**	**ATRIUM**
11:00 - 12:00	**Roberto Pascual, University of the Balearic Islands**	
	Roberto Pascual has a Ph.D. in Economics by Universidad Carlos III de Madrid, Spain. He has been Associate Professor at the Business Department of the University of the Balearic Islands (UIB) since 2006. He is currently teaching Financial Economics and Financial Markets to undergraduate students at UIB, and Market Microstructure courses in Ph.D./MBA programs at the Pompeu Fabra University (Barclona, 2009-present) and the Autonomous University (Barcelona, 2009-2016). His main area of expertise is Empirical Market Microstructure, covering topics such as high-frequency trading, circuit breakers, liquidity provision in order-driven markets, market-making costs, and limit order book dynamics. His research has been published in academic journals such as the Journal of Financial Markets, Journal of Banking and Finance, Journal of Financial Econometrics, or Energy Economics. He has held visiting research positions at the Salomon Center of the Stern School of Business - New York University, the European Center for Advanced Research in Economics and Statistics (ECARES) - Université Libre de Bruxelles, and the International Center for Finance of the Yale School of Management - Yale University.	
12:00 - 13:30	**LUNCH BREAK**	**THREESIXTY**

PROGRAMME – DOCTORAL SYMPOSIUM

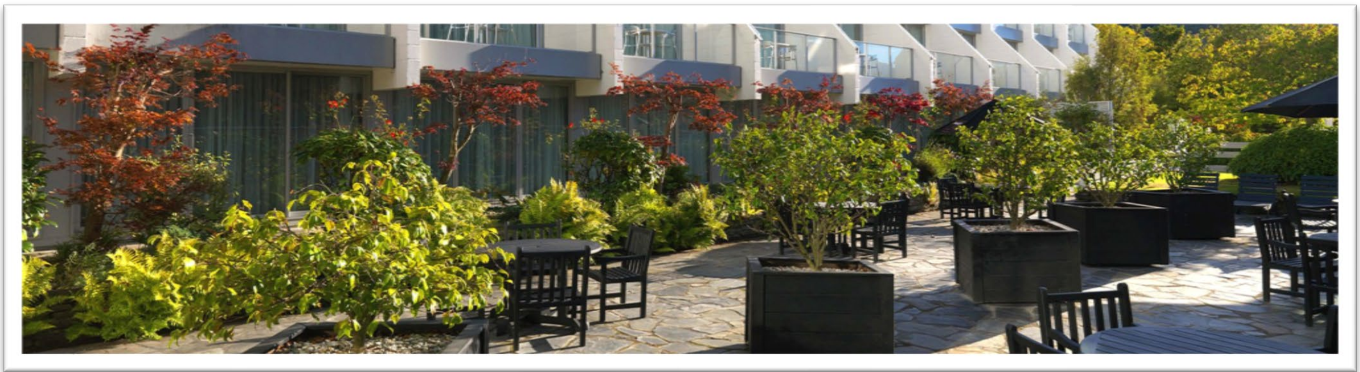
17 December 2018
Level 3 Conference Centre, Crowne Plaza, Queenstown, New Zealand

13:30 - 15:30 **CHAIR:**	**SESSION 2A** **Professor Roberto Pascual, University of the Baleric Islands**	**BOARDROOM**
Paper: **Presenter:** **Discussant:**	**PREDICTING STOCK RETURNS USING FIRM CHARACTERISTICS: A BAYESIAN MODEL AVERAGING APPROACH** Shan Chen, City University of Hong Kong Baoqing Gan, University of Technology Sydney	
Paper: **Presenter:** **Discussant:**	**BILATERAL AND COUNTRY-SPECIFIC DRIVERS OF GEOPOLITICAL RISK TRANSMISSION** Mudassar Hasan, Massey University Sanghyun Hong, University of Canterbury	
Paper: **Presenter:** **Discussant:**	**SENSITIVITY TO SENTIMENTS: SOCIAL VS NEWS IMPACTS ON STOCK MARKETS – A COMPARISON USING TEXTUAL ANALYSIS** Baoqing Gan, University of Technology Sydney Shan Chen, City University of Hong Kong	
Paper: **Presenter:** **Discussant:**	**EXPLORING LIQUIDITY RISK** Sanghyun Hong, University of Canterbury Mudassar Hasan, Massey University	
13:30 - 15:30 **CHAIR:**	**SESSION 2B** **Professor Christina Atanasova, Simon Fraser University**	**CROWNE III**
Paper: **Presenter:** **Discussant:**	**THE DETERMINANTS OF IPO WITHDRAWAL - EVIDENCE FROM EUROPE** Pia Helbing, Trinity College Dublin Lubna Rahman, University of New South Wales	
Paper: **Presenter:** **Discussant:**	**CORPORATE SOCIAL RESPONSIBILITY AND CAPITAL ALLOCATION EFFICIENCY** Shengze Xu, Auckland University of Technology Pia Helbing, Trinity College Dublin	
Paper: **Presenter:** **Discussant:**	**EMPLOYEE FRIENDLINESS AND CORPORATE INNOVATION: EVIDENCE FROM QUASI-EXOGENOUS NATURAL EXPERIMENTS** Lubna Rahman, University of New South Wales Thuy Lien Nguyen, The University of Adelaide	
Paper: **Presenter:** **Discussant:**	**CEO CHARACTERISTIC AND CORPORATE DISCLOSURE** Thuy Lien Nguyen, The University of Adelaide Shengze Xu, Auckland University of Technology	
15:30 - 16:00	**COFFEE/TEA BREAK**	**ATRIUM**

DETAILED PROGRAMME – DOCTORAL SYMPOSIUM

17 December 2018
Level 3 Conference Centre, Crowne Plaza, Queenstown, New Zealand

16:00 - 17:30 **CHAIR:**	**SESSION 3A** **Professor Alireza Tourani-Rad, Auckland University of Technology**	**BOARDROOM**
Paper: **Presenter:** **Discussant:**	**DIVIDEND SMOOTHING AND THE ALLOCATION OF INTERNAL CASH FLOW** Bardia Khorsand, Australian National University George Smyrnis, University of Sydney	
Paper: **Presenter:** **Discussant:**	**PRICE REACTIONS OF U.S. EQUITIES TO NATURAL DISASTERS: INDUSTRY-BASED EVIDENCE** Ihtisham Abdul Malik, The University of Queensland Bardia Khorsand, Australian National University	
Paper: **Presenter:** **Discussant:**	**MOTIVATED SAVING: THE IMPACT OF PROJECTIONS ON RETIREMENT SAVING INTENTIONS** George Smyrnis, University of Sydney Ihtisham Abdul Malik, The University of Queensland	
16:00 - 17:30 **CHAIR:**	**SESSION 3B** **Professor Wolfgang Bessler, Justus-Liebig University Giessen**	**CROWNE III**
Paper: **Presenter:** **Discussant:**	**HOW DO CREDIT CONSTRAINTS IMPACT INNOVATION?: EVIDENCE FROM VIETNAM** Lan Nguyen, Griffith University Isaac (Guangqian) Pan, Australian National University	
Paper: **Presenter:** **Discussant:**	**RISK SHARING, CREDITOR DIVERSITY, AND BANK REGULATION** Isaac (Guangqian) Pan, Australian National University Matjaz Maletic, Tilburg University	
Paper: **Presenter:** **Discussant:**	**CHINESE SLOWDOWN AND THE NOMINAL TERM STRUCTURES OF THE U.S. AND GERMAN INTEREST RATES** Matjaz Maletic, Tilburg University Lan Nguyen, Griffith University	
17:30 - 18:30	**WELCOME RECEPTION**	**ATRIUM/ COURTYARD**



PROGRAMME OVERVIEW – NEW ZEALAND FINANCE MEETING 2018

2018 NEW ZEALAND FINANCE MEETING
17 - 19 December 2018
Level 3 Conference Centre, Crowne Plaza, Queenstown, New Zealand

DAY 1	**Monday, 17 December 2018**	**17:00 - 18:30**
17:30 - 18:30	**REGISTRATION & WELCOME RECEPTION**	**ATRIUM/COURTYARD**

DAY 2	**Tuesday, 18 December 2018**	**08:00 - 17:45**
08:00 - 08:30	**REGISTRATION**	**ATRIUM**
08:30 - 10:00	**STREAM A**	
SESSION: A.1	Gender Diversity	BOARDROOM
SESSION: A.2	Banking I	CROWNE I
SESSION: A.3	Theoretical Finance I	CROWNE II
SESSION: A.4	Asset Pricing I	CROWNE III
10:00 - 10:30	**COFFEE/TEA BREAK**	**ATRIUM**
10:30 - 12:00	**STREAM B**	
SESSION: B.1	Behavioral Finance I	BOARDROOM
SESSION: B.2	Asset Pricing II	CROWNE I
SESSION: B.3	Financial Econometrics	CROWNE II
SESSION: B.4	Corporate Directors	CROWNE III
12:00 - 13:00	**LUNCH BREAK**	**THREESIXTY**
13:00 - 14:00	**KEYNOTE:** **Professor Annette Vissing-Jørgensen** University of California, Berkeley, Haas School of Business **The Federal Reserve and the Stock Market**	**CROWNE II**
14:15 - 15:45	**STREAM C**	
SESSION: C.1	Theoretical Finance II	BOARDROOM
SESSION: C.2	Corporate Finance I	CROWNE I
SESSION: C.3	Behavioral Finance II	CROWNE II
SESSION: C.4	Banking II	CROWNE III
15:45 - 16:15	**COFFEE/TEA BREAK**	**ATRIUM**
16:15 - 17:45	**STREAM D**	
SESSION: D.1	Option Markets	BOARDROOM
SESSION: D.2	Corporate Finance II	CROWNE I
SESSION: D.3	Fixed Income Securities	CROWNE II
SESSION: D.4	Investments I	CROWNE III
19:00 - 22:00	**CONFERENCE DINNER**	**WAKITIPU ROOM** **SKYLINE QUEENSTOWN**

PROGRAMME OVERVIEW – NEW ZEALAND FINANCE MEETING 2018

2018 NEW ZEALAND FINANCE MEETING
17 - 19 December 2018
Level 3 Conference Centre, Crowne Plaza, Queenstown, New Zealand

DAY 3	Wednesday, 19 December 2018	08:00 - 16:30
08:00 - 08:30	**REGISTRATION**	**ATRIUM**
08:30 - 10:00	**STREAM E**	
SESSION: E.1	Investments II	BOARDROOM
SESSION: E.2	Market Microstructure I	CROWNE I
SESSION: E.3	Mergers and Acquisitions	CROWNE II
SESSION: E.4	Volatility	CROWNE III
10:00 - 10:30	**COFFEE/TEA BREAK**	**ATRIUM**
10:30 - 12:00	**STREAM F**	
SESSION: F.1	Corporate Finance III	BOARDROOM
SESSION: F.2	Corporate Governance	CROWNE I
SESSION: F.3	Financial Innovation	CROWNE II
SESSION: F.4	Financial Analysts	CROWNE III
12:00 - 13:30	**LUNCH BREAK**	**THREESIXTY**
13:30 - 15:00	**STREAM G**	
SESSION: G.1	Capital Structure	BOARDROOM
SESSION: G.2	Market Microstructure II	CROWNE I
SESSION: G.3	Textual Analysis and Information Disclosure	CROWNE II
SESSION: G.4	Corporate CEOs	CROWNE III
15:00 - 15:30	**COFFEE/TEA BREAK**	**ATRIUM**
15:30 - 16:30	**STREAM H**	
SESSION: H.1	Investments III	BOARDROOM
SESSION: H.2	Foreign Exchange	CROWNE I
SESSION: H.3	Alternative Investments	CROWNE II
SESSION: H.4	Theoretical Finance III	CROWNE III

DETAILED PROGRAMME – NEW ZEALAND FINANCE MEETING 2018

2018 NEW ZEALAND FINANCE MEETING
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DAY 1	**Monday, 17 December 2018**	**17:00 – 18:30**
17:00 - 17:30	**REGISTRATION**	**ATRIUM**
17:30 - 18:30	**WELCOME RECEPTION**	**ATRIUM/COURTYARD**

DAY 2	**Tuesday, 18 December 2018**	**08:00 - 17:45**
08:00 - 08:30	**REGISTRATION**	**ATRIUM**
08:30 - 10:00	**STREAM A**	
SESSION: A.1 **CHAIR:**	**Gender Diversity** **Shusen Qi, Xiamen University**	**BOARDROOM**
Paper: **Presenter:** **Discussant:**	**WHEN THEY WORK WITH WOMEN, DO MEN GET ALL THE CREDIT?** Shusen Qi, Xiamen University David Smith, Massey University	
Paper: **Presenter:** **Discussant:**	**EXECUTIVES' GENDER, PROSPECT THEORY BIAS AND INSIDER TRADING** Saba Sehrish, Massey University Shusen Qi, Xiamen University	
Paper: **Presenter:** **Discussant:**	**FEMALE CFOS AND CORPORATE ACCOUNTING FRAUD: DOES BOARD GENDER DISCRIMINATION PLAY A ROLE?** David Smith, Massey University Saba Sehrish, Massey University	
SESSION: A.2 **CHAIR:**	**Banking I** **Rebel Cole, Florida Atlantic University**	**CROWNE I**
Paper: **Presenter:** **Discussant:**	**DOES BANK COMPETITION INCREASE BANK LIQUIDITY CREATION? A STATE-LEVEL PERSPECTIVE** Seungho Choi, University of New South Wales Rebel Cole, Florida Atlantic University	
Paper: **Presenter:** **Discussant:**	**LEGAL ORIGIN, CREDITOR PROTECTION AND BANK LENDING AROUND THE WORLD** Rebel Cole, Florida Atlantic University Jean-Pierre Fenech, Monash University	
Paper: **Presenter:** **Discussant:**	**WHY DO BANKS ISSUE CONTINGENT CONVERTIBLE BONDS?** Jean-Pierre Fenech, Monash University Seungho Choi, University of New South Wales	
SESSION: A.3 **CHAIR:**	**Theoretical Finance I** **Mark Schroder, Michigan State University**	**CROWNE II**
Paper: **Presenter:** **Discussant:**	**CAN ILLIQUIDITY BE PRICED IN AN ACTIVE SECONDARY MARKET? THEORY AND EVIDENCE** Pallab Dey, University of New South Wales Wei Hu, Curtin University	
Paper: **Presenter:** **Discussant:**	**PRIVATE INFORMATION, SECURITIES LENDING, AND ASSET PRICES** Mark Schroder, Michigan State University Pallab Dey, University of New South Wales	

Paper:	**INFORMATION, INSIDER TRADING, REGULATION, EXECUTIVE RELOAD STOCK OPTIONS AND INCENTIVES**	
Presenter:	Wei Hu, Curtin University	
Discussant:	Mark Schroder, Michigan State University	
SESSION: A.4	**Asset Pricing I**	**CROWNE III**
CHAIR:	**Annette Vissing-Jørgensen, University of California, Berkeley**	
Paper:	**MODELLING SECTOR-LEVEL ASSET PRICES**	
Presenter:	Ivan Diaz-Rainey, University of Otago	
Discussant:	Yihui Lan, University of Western Australia	
Paper:	**FIRM-SPECIFIC INFORMATION AND STOCK RETURN**	
Presenter:	Yihui Lan, University of Western Australia	
Discussant:	Dong Wook Lee, Korea University Business School	
Paper:	**DOLLAR-WEIGHTED RETURN ON AGGREGATE CORPORATE SECTOR: HOW IS IT DISTRIBUTED ACROSS COUNTRIES?**	
Presenter:	Dong Wook Lee, Korea University Business School	
Discussant:	Ivan Diaz-Rainey, University of Otago	
10:00 - 10:30	**COFFEE/TEA BREAK**	**ATRIUM**
10:30 - 12:00	**STREAM B**	
SESSION: B.1	**Behavioral Finance I**	**BOARDROOM**
CHAIR:	**Maren Baars, University of Münster**	
Paper:	**AN ALTERNATIVE BEHAVIORAL EXPLANATION FOR THE MAX EFFECT**	
Presenter:	Maren Baars, University of Münster	
Discussant:	Frank Scrimgeour, University of Waikato	
Paper:	**INVESTOR OVERCONFIDENCE AND THE SECURITY MARKET LINE: NEW EVIDENCE FROM CHINA**	
Presenter:	Xing Han, University of Otago	
Discussant:	Maren Baars, University of Münster	
Paper:	**OIL PRICES AND STOCK MARKET ANOMALIES**	
Presenter:	Frank Scrimgeour, University of Waikato	
Discussant:	Xing Han, University of Otago	
SESSION: B.2	**Asset Pricing II**	**CROWNE I**
CHAIR:	**Ghon Rhee, University of Hawaii**	
Paper:	**RANK, SIGN, AND MOMENTUM**	
Presenter:	Ghon Rhee, University of Hawaii	
Discussant:	Barry Williams, Monash University	
Paper:	**INVESTOR SENTIMENT DYNAMICS, THE CROSS-SECTION OF STOCK RETURNS AND THE MAX EFFECT**	
Presenter:	Muhammad Cheema, University of Waikato	
Discussant:	Ghon Rhee, University of Hawaii	
Paper:	**THE CONFLICT BETWEEN SYSTEMIC RISK AND IDIOSYNCRATIC RISK**	
Presenter:	Barry Williams, Monash University	
Discussant:	Muhammad Cheema, University of Waikato	
SESSION: B.3	**Financial Econometrics**	**CROWNE II**
CHAIR:	**Erik Schlogl, University of Technology Sydney**	
Paper:	**CAN SMALL TRANSACTION COSTS HAVE NON-VANISHING EFFECT ON EQUILIBRIUM PRICES? THE AFFIRMATIVE ANSWER**	
Presenter:	Sergey Isaenko, Concordia University	
Discussant:	Erik Schlogl, University of Technology Sydney	

Paper: **Presenter:** **Discussant:**	**QUANTIFYING THE MODEL RISK INHERENT IN THE CALIBRATION AND RECALIBRATION OF OPTION PRICING MODELS** Erik Schlogl, University of Technology Sydney Jianhui Li, University of Otago	
Paper: **Presenter:** **Discussant:**	**HOW DO US OPTION TRADERS "SMIRK" ON CHINA: EVIDENCE FROM FXI OPTIONS MARKET** Jianhui Li, University of Otago Sergey Isaenko, Concordia University	
SESSION: B.4 **CHAIR:**	**Corporate Directors** **Alireza Tourani-Rad, Auckland University of Technology**	**CROWNE III**
Paper: **Presenter:** **Discussant:**	**DOES THE MANDATORY ADOPTION OF OUTSIDE DIRECTORS IMPROVE FIRM PERFORMANCE?** Yasutomo Tsukioka, Kwansei Gakuin University Ying Dou, Monash University	
Paper: **Presenter:** **Discussant:**	**WHY DO DIRECTORS JOIN TROUBLED FIRMS?** Ying Dou, Monash University Alireza Tourani-Rad, Auckland University of Technology	
Paper: **Presenter:** **Discussant:**	**THE VALUE OF ACADEMICS: EVIDENCE FROM ACADEMIC INDEPENDENT DIRECTOR RESIGNATIONS IN CHINA** Alireza Tourani-Rad, Auckland University of Technology Yasutomo Tsukioka, Kwansei Gakuin University	
12:00 - 13:00	**LUNCH BREAK**	**THREESIXTY**
13:00 - 14:00	**KEYNOTE:** Professor Annette Vissing-Jørgensen, University of California, Berkeley **The Federal Reserve and the Stock Market** This talk will focus on my recent work on the large impact of the Federal Reserve on the stock market (Cieslak, Morse and Vissing-Jorgensen, "Stock Returns over the FOMC Cycle", 2018) and on the stock market as a central driver of Federal Reserve policy (Cieslak and Vissing-Jorgensen, "The Economics of the Fed Put", 2018).	**CROWNE II**
14:15 - 15:45	**STREAM C**	
SESSION: C.1 **CHAIR:**	**Theoretical Finance II** **Chu Zhang, HKUST**	**BOARDROOM**
Paper: **Presenter:** **Discussant:**	**DEEP LEARNING FACTOR ALPHA** Guanhao Feng, City University of Hong Kong Soohun Kim, Georgia Institute of Technology	
Paper: **Presenter:** **Discussant:**	**ARBITRAGE PORTFOLIOS IN LARGE PANELS** Soohun Kim, Georgia Institute of Technology Chu Zhang, HKUST	
Paper: **Presenter:** **Discussant:**	**RISK-NEUTRAL BETA AND IDIOSYNCRATIC DOWNSIDE RISK OF INDIVIDUAL STOCKS** Chu Zhang, HKUST Guanhao Feng, City University of Hong Kong	
SESSION: C.2 **CHAIR:**	**Corporate Finance I** **Tatyana Sokolyk, Brock University**	**CROWNE I**
Paper: **Presenter:** **Discussant:**	**HOW DO FIRMS CHOOSE LEGAL FORM OF ORGANIZATION?** Tatyana Sokolyk, Brock University Winston Wu, University of Sydney	
Paper: **Presenter:** **Discussant:**	**FIRM LIFE CYCLE AND LOAN CONTRACT TERMS** Mostafa Hasan, Curtin University Tatyana Sokolyk, Brock University	

Paper:	**IMPUTATION CREDITS AND TRADING AROUND EX-DIVIDEND DAY: NEW EVIDENCE IN AUSTRALIA**	
Presenter:	Winston Wu, University of Sydney	
Discussant:	Mostafa Hasan, Curtin University	
SESSION: C.3	**Behavioral Finance II**	**CROWNE II**
CHAIR:	**Robert Durand, Curtin University**	
Paper:	**THE DECISION MAKING OF A FINANCIAL PSYCHOPATH**	
Presenter:	Robert Durand, Curtin University	
Discussant:	Ayesha Scott, Auckland University of Technology	
Paper:	**DOES GOOD LUCK MAKE PEOPLE OVERCONFIDENT? EVIDENCE FROM A NATURAL EXPERIMENT IN CHINA**	
Presenter:	Bin Zhao, NYU Shanghai	
Discussant:	Robert Durand, Curtin University	
Paper:	**RECONCILING DIVERGENT FINDINGS ON THE SPEED OF LEVERAGE ADJUSTMENT**	
Presenter:	Joye Khoo, Curtin University	
Discussant:	Bin Zhao, NYU Shanghai	
SESSION: C.4	**Banking II**	**CROWNE III**
CHAIR:	**Zhentao Liu, Xiamen University**	
Paper:	**REGULATORY CAPITAL AND INTERNAL CAPITAL TARGETS: AN EXAMINATION OF THE AUSTRALIAN BANKING INDUSTRY**	
Presenter:	James Cummings, Macquarie University	
Discussant:	Zhentao Liu, Xiamen University	
Paper:	**DOES DODD-FRANK WALL STREET REFORM ACT CHANGED ATTITUDE OF U.S. BANK HOLDING COMPANIES TOWARDS CREDIT AND INTEREST DERIVATIVES?**	
Presenter:	Xiepeng Wei, University of Canterbury	
Discussant:	James Cummings, Macquarie University	
Paper:	**UNEMPLOYMENT INSURANCE AS AN AUTOMATIC ECONOMIC STABILIZER: EVIDENCE FROM BANK LENDING**	
Presenter:	Zhentao Liu, Xiamen University	
Discussant:	Xiepeng Wei, University of Canterbury	
15:45 - 16:15	**COFFEE/TEA BREAK**	**ATRIUM**
16:15 - 17:45	**STREAM D**	
SESSION: D.1	**Option Markets**	**BOARDROOM**
CHAIR:	**David Kemme, University of Memphis**	
Paper:	**THE INFORMATION CONTENT OF SHORT SELLING AND PUT OPTION TRADING: WHEN ARE THEY SUBSTITUTES?**	
Presenter:	David Kemme, University of Memphis	
Discussant:	Sebastian Gehricke, University of Otago	
Paper:	**CROSS SECTION OF OPTION RETURNS AND VOLATILITY-OF-VOLATILITY**	
Presenter:	Xinfeng Ruan, Auckland University of Technology	
Discussant:	David Kemme, University of Memphis	
Paper:	**THE IMPLIED VOLATILITY SMIRK IN THE VXX OPTIONS MARKET**	
Presenter:	Sebastian Gehricke, University of Otago	
Discussant:	Xinfeng Ruan, Auckland University of Technology	
SESSION: D.2	**Corporate Finance II**	**CROWNE I**
CHAIR:	**Jordan Neyland, George Mason University**	
Paper:	**DO LAWYERS MATTER IN INITIAL PUBLIC OFFERINGS?**	
Presenter:	Jordan Neyland, George Mason University Antonin Scalia Law School	
Discussant:	Audra Boone, Texas Christian University	

Paper: **Presenter:** **Discussant:**	**PRODUCT DIFFERENTIATION, BENCHMARKING, AND CORPORATE FRAUD** Audra Boone, Texas Christian University Bobo Zhang, University of Warwick	
Paper: **Presenter:** **Discussant:**	**SHINING LIGHT ON CORPORATE POLITICAL SPENDING: EVIDENCE FROM SHAREHOLDER ENGAGEMENT** Bobo Zhang, University of Warwick Jordan Neyland, George Mason University Antonin Scalia Law School	
SESSION: D.3 **CHAIR:**	**Fixed Income Securities** **Junbo Wang, City University of Hong Kong**	**CROWNE II**
Paper: **Presenter:** **Discussant:**	**REGULATORY REFORM AND MULTIPLE CREDIT RATINGS** He Huang, University of Sydney Junbo Wang, City University of Hong Kong	
Paper: **Presenter:** **Discussant:**	**STRATEGIC PORTFOLIO MANAGEMENT: EVIDENCE FROM A NATURAL EXPERIMENT** Yubo Liu, Xiamen University He Huang, University of Sydney	
Paper: **Presenter:** **Discussant:**	**RETURN SYNCHRONICITY IN THE BOND MARKET** Junbo Wang, City University of Hong Kong Yubo Liu, Xiamen University	
SESSION: D.4 **CHAIR:**	**Investments I** **Sheryl-Ann Stephen, Butler University**	**CROWNE III**
Paper: **Presenter:** **Discussant:**	**RISK ANALYSIS OF PENSION FUNDS INVESTMENT CHOICES** Emawtee (Banita) Bissoondoyal-Bheenick, Monash University Sheryl-Ann Stephen, Butler University	
Paper: **Presenter:** **Discussant:**	**POLITICAL REGIMES, INVESTMENT AND ELECTORAL UNCERTAINTY** Sheryl-Ann Stephen, Butler University Ji (George) Wu, Massey University	
Paper: **Presenter:** **Discussant:**	**WHEN TO GO ABROAD: ECONOMIC POLICY UNCERTAINTY AND CHINESE FIRM'S OVERSEAS INVESTMENT** Ji (George) Wu, Massey University Emawtee (Banita) Bissoondoyal-Bheenick, Monash University	
19:00 - 22:00	**CONFERENCE DINNER**	**WAKITIPU ROOM SKYLINE QUEENSTOWN**

DAY 3	Wednesday, 19 December 2018	08:00 - 16:30
08:00 - 08:30	**REGISTRATION**	**ATRIUM**
08:30 - 10:00	**STREAM E**	
SESSION: E.1	**Investments II**	**BOARDROOM**
CHAIR:	**Adrian Fernandez-Perez, Auckland University of Technology**	
Paper:	**A COMPREHENSIVE APPRAISAL OF STYLE-INTEGRATION METHODS ACROSS FUTURES CLASSES**	
Presenter:	Adrian Fernandez-Perez, Auckland University of Technology	
Discussant:	Birgit Müller, Darmstadt University of Technology	
Paper:	**ASSET GROWTH, STYLE INVESTING, AND MOMENTUM**	
Presenter:	Kuan-Cheng Ko, National Chi Nan University	
Discussant:	Adrian Fernandez-Perez, Auckland University of Technology	
Paper:	**THE REMARKABLE RELEVANCE OF CHARACTERISTICS FOR MOMENTUM PROFITS**	
Presenter:	Birgit Müller, Darmstadt University of Technology	
Discussant:	Kuan-Cheng Ko, National Chi Nan University	
SESSION: E.2	**Market Microstructure I**	**CROWNE I**
CHAIR:	**Roberto Pascual, University of the Balearic Islands**	
Paper:	**RISK PERCEPTIONS AND INTERNATIONAL STOCK MARKET LIQUIDITY**	
Presenter:	Rui Ma, Massey University	
Discussant:	Roberto Pascual, University of the Balearic Islands	
Paper:	**BULK VOLUME CLASSIFICATION UNDER THE MICROSCOPE**	
Presenter:	Roberto Pascual, University of the Balearic Islands	
Discussant:	Ivan Indriawan, Auckland University of Technology	
Paper:	**THE IMPACT OF TICK SIZES ON TRADER BEHAVIOR: EVIDENCE FROM CRYPTOCURRENCY EXCHANGES**	
Presenter:	Jiri Svec, University of Sydney	
Discussant:	Rui Ma, Massey University	
SESSION: E.3	**Mergers and Acquisitions**	**CROWNE II**
CHAIR:	**Wolfgang Bessler, University of Giessen**	
Paper:	**INDUSTRY EXPERIENCE OF BOARD, CEO, AND ACQUISITION PERFORMANCE**	
Presenter:	Wei-Hsien Li, National Central University	
Discussant:	Wolfgang Bessler, University of Giessen	
Paper:	**EQUITY-BASED GOLDEN PARACHUTES IN MERGERS AND ACQUISITIONS**	
Presenter:	Joshua Shemesh, Monash University	
Discussant:	Wei-Hsien Li, National Central University	
Paper:	**THE EFFECTS OF CORPORATE GOVERNANCE REFORMS ON MERGERS AND ACQUISITIONS IN JAPAN**	
Presenter:	Wolfgang Bessler, University of Giessen	
Discussant:	Joshua Shemesh, Monash University	
SESSION: E.4	**Volatility**	**CROWNE III**
CHAIR:	**Jin Zhang, University of Otago**	
Paper:	**A MULTI-FACTOR MODEL OF IDIOSYNCRATIC VOLATILITY**	
Presenter:	Yichao Zhu, Australian National University	
Discussant:	Marinela Finta, Singapore Management University	
Paper:	**MODELING VXX UNDER JUMP DIFFUSION WITH STOCHASTIC LONG-TERM MEAN**	
Presenter:	Jin Zhang, University of Otago	
Discussant:	Yichao Zhu, Australian National University	

Paper:	COMMODITY RETURN PREDICTABILITY: EVIDENCE FROM IMPLIED VARIANCE, SKEWNESS AND THEIR RISK PREMIA	
Presenter:	Marinela Finta, Singapore Management University	
Discussant:	Jin Zhang, University of Otago	
10:00 - 10:30	**COFFEE/TEA BREAK**	ATRIUM
10:30 - 12:00	**STREAM F**	
SESSION: F.1	**Corporate Finance III**	BOARDROOM
CHAIR:	**Chia-Feng (Jeffrey) Yu, University of Adelaide**	
Paper:	EXIT AS GOVERNANCE: QUALIFIED FOREIGN INSTITUTIONAL INVESTORS, STATE CONTROL, AND STOCK PRICE CRASH RISK	
Presenter:	Jing Chi, Massey University	
Discussant:	Chia-Feng (Jeffrey) Yu, University of Adelaide	
Paper:	TOURNAMENT INCENTIVES AND INSTITUTIONAL OWNERSHIP	
Presenter:	Chia-Feng (Jeffrey) Yu, University of Adelaide	
Discussant:	Leon Li, University of Waikato	
Paper:	EFFECTS OF EARNINGS MANAGEMENT STRATEGY ON EARNINGS PREDICTABILITY: A QUANTILE REGRESSION APPROACH BASED ON OPPORTUNISTIC VERSUS EFFICIENT EARNINGS MANAGEMENT	
Presenter:	Leon Li, University of Waikato	
Discussant:	Jing Chi, Massey University	
SESSION: F.2	**Corporate Governance**	CROWNE I
CHAIR:	**Woojin Kim, Seoul National University Business School**	
Paper:	CONTROL BEYOND OWNERSHIP: SUBCONTRACTORS OF LARGE BUSINESS GROUPS	
Presenter:	Woojin Kim, Seoul National University Business School	
Discussant:	Emma Zhang, Monash University	
Paper:	MILITARY EXECUTIVE, CORPORATE FRAUD AND PERFORMANCE IN CHINA	
Presenter:	Liping Zou, Massey University	
Discussant:	Woojin Kim, Seoul National University Business School	
Paper:	DISTRACTED AUDITORS	
Presenter:	Emma Zhang, Monash University	
Discussant:	Liping Zou, Massey University	
SESSION: F.3	**Financial Innovation**	CROWNE II
CHAIR:	**Wenrui Zhang, Chinese University of Hong Kong**	
Paper:	AWARD-WINNING CEOS AND CORPORATE INNOVATION	
Presenter:	Hang (Mia) Pham, Monash University	
Discussant:	Xinxin Wang, UNC Kenan-Flagler	
Paper:	THE LEVERAGING OF SILICON VALLEY: VENTURE DEBT IN THE INNOVATION ECONOMY	
Presenter:	Xinxin Wang, UNC Kenan-Flagler	
Discussant:	Wenrui Zhang, Chinese University of Hong Kong	
Paper:	STOCK MARKET LIBERALIZATION AND INNOVATION	
Presenter:	Wenrui Zhang, Chinese University of Hong Kong	
Discussant:	Hang (Mia) Pham, Monash University	
SESSION: F.4	**Financial Analysts**	CROWNE III
CHAIR:	**Udi Hoitash, Bentley University**	
Paper:	PERFORMANCE EVALUATION OF CHINESE EQUITY ANALYSTS	
Presenter:	Yeguang Chi, Shanghai Advanced Institute of Finance, Shanghai Jiaotong University	
Discussant:	Udi Hoitash, Bentley University	

Paper:	**DO SELL-SIDE ANALYSTS' QUALIFICATIONS MITIGATE THE ADVERSE EFFECTS OF ACCOUNTING REPORTING COMPLEXITY?**	
Presenter:	Udi Hoitash, Bentley University	
Discussant:	Reuben Segara, University of Sydney	
Paper:	**ANALYST TIPPING: EVIDENCE ON FINNISH STOCKS**	
Presenter:	Reuben Segara, University of Sydney	
Discussant:	Yeguang Chi, Shanghai Advanced Institute of Finance, Shanghai Jiaotong University	
12:00 - 13:30	**LUNCH BREAK**	**THREESIXTY**
13:30 - 15:00	**STREAM G**	
SESSION: G.1	**Capital Structure**	**BOARDROOM**
CHAIR:	**Christina Atanasova, Simon Fraser University**	
Paper:	**FIRM DIVERSIFICATION AFFECTS LIQUIDITY MANAGEMENT: THE ROLE OF LINES OF CREDIT**	
Presenter:	Christina Atanasova, Simon Fraser University	
Discussant:	Balagopal Gopalakrishnan, Indian Institute of Management Ahmedabad	
Paper:	**EQUITY ISSUES AND DEBT RESTRUCTURING: EVIDENCE FROM AN EMERGING MARKET**	
Presenter:	YoungKyung Ko, UNITAR International University	
Discussant:	Christina Atanasova, Simon Fraser University	
Paper:	**RISK-SENSITIVE BASEL REGULATIONS AND FIRMS' ACCESS TO CREDIT: DIRECT AND INDIRECT EFFECTS**	
Presenter:	Balagopal Gopalakrishnan, Indian Institute of Management Ahmedabad	
Discussant:	YoungKyung Ko, UNITAR International University	
SESSION: G.2	**Market Microstructure II**	**CROWNE I**
CHAIR:	**Ivan Indriawan, Auckland University of Technology**	
Paper:	**THE IMPACT OF CROSS-LISTING ON HIGH-FREQUENCY TRADING**	
Presenter:	Ivan Indriawan, Auckland University of Technology	
Discussant:	Takao Kusakawa, Kochi University of Technology	
Paper:	**KEYNES'S BEAUTY CONTEST IN STOCK MARKETS: AN EXPERIMENTAL STUDY**	
Presenter:	Takao Kusakawa, Kochi University of Technology	
Discussant:	Bao Doan, University of New South Wales	
Paper:	**DO INVESTORS DIFFERENTIATE BETWEEN UNCERTAINTY AND RISK: EVIDENCE FROM TRADING AROUND U.S. MACROECONOMIC NEWS**	
Presenter:	Bao Doan, University of New South Wales	
Discussant:	Jiri Svec, University of Sydney	
SESSION: G.3	**Textual Analysis and Information Disclosure**	**CROWNE II**
CHAIR:	**Aaron Gilbert, Auckland University of Technology**	
Paper:	**LINGUISTIC COMPLEXITY AND COST OF EQUITY CAPITAL**	
Presenter:	Aaron Gilbert, Auckland University of Technology	
Discussant:	Jiexiang Huang, University of Otago	
Paper:	**MEDIA TONE AND CEO HUMAN CAPITAL**	
Presenter:	Jiexiang Huang, University of Otago	
Discussant:	Juliane Krug, University of New South Wales	
Paper:	**WHO BENEFITS FROM BROKER ID DISCLOSURE?**	
Presenter:	Juliane Krug, University of New South Wales	
Discussant:	Aaron Gilbert, Auckland University of Technology	

SESSION: G.4	**Corporate CEOs**	**CROWNE III**
CHAIR:	**Lingwei Li, Australian National University**	
Paper:	**PILOT CEOs AND CORPORATE CASH HOLDINGS**	
Presenter:	Lingwei Li, Australian National University	
Discussant:	Harvey Nguyen, Massey University	
Paper:	**MILITARY CEOs AND BANK LOAN CONTRACTS**	
Presenter:	Harvey Nguyen, Massey University	
Discussant:	Emdad Islam, University of New South Wales	
Paper:	**INVENTOR CEOs**	
Presenter:	Emdad Islam, University of New South Wales	
Discussant:	Lingwei Li, Australian National University	
15:00 - 15:30	**COFFEE/TEA BREAK**	**ATRIUM**
15:30 - 16:30	**STREAM H**	
SESSION: H.1	**Investments III**	**BOARDROOM**
CHAIR:	**Chayawat Ornthanalai, University of Toronto**	
Paper:	**SPEED AND EXPERTISE IN STOCK PICKING: OLDER, SLOWER, AND WISER?**	
Presenter:	Chayawat Ornthanalai, University of Toronto	
Discussant:	Buhui Qiu, University of Sydney	
Paper:	**DELEVERAGING, MARKET LIQUIDITY, AND FUNDING LIQUIDITY CRISIS: A NATURAL EXPERIMENT**	
Presenter:	Buhui Qiu, University of Sydney	
Discussant:	Chayawat Ornthanalai, University of Toronto	
SESSION: H.2	**Foreign Exchange**	**CROWNE I**
CHAIR:	**Nina Karnaukh, Ohio State University**	
Paper:	**THE DOLLAR AHEAD OF FOMC TARGET RATE CHANGES**	
Presenter:	Nina Karnaukh, Ohio State University	
Discussant:	Ingomar Krohn, University of Warwick	
Paper:	**FX PREMIA AROUND THE CLOCK**	
Presenter:	Ingomar Krohn, University of Warwick	
Discussant:	Nina Karnaukh, Ohio State University	
SESSION: H.3	**Alternative Investments**	**CROWNE II**
CHAIR:	**Danika Wright, University of Sydney**	
Paper:	**LIQUIDITY CONSTRAINTS, HOME EQUITY AND RESIDENTIAL MORTGAGE LOSSES**	
Presenter:	Hung Do, Massey University	
Discussant:	Danika Wright, University of Sydney	
Paper:	**HOME ADVANTAGE: THE HOME BIAS IN RESIDENTIAL REAL ESTATE**	
Presenter:	Danika Wright, University of Sydney	
Discussant:	Hung Do, Massey University	
SESSION: H.4	**Theoretical Finance III**	**CROWNE III**
CHAIR:	**Xiaotian Zhang, Saint Mary's College of California**	
Paper:	**LABOR AS A MONITOR OF THE CEO: EVIDENCE OF POWER PLAY IN OUTSOURCING**	
Presenter:	Xiaotian Zhang, Saint Mary's College of California	
Discussant:	Markus Baldauf, University of British Columbia	
Paper:	**CONTRACTING FOR FINANCIAL EXECUTION**	
Presenter:	Markus Baldauf, University of British Columbia	
Discussant:	Xiaotian Zhang, Saint Mary's College of California	

ABSTRACTS

Online versions of all papers can be found by going to the Academic Programme that is on our website:

STREAM A, SESSION 1

WHEN THEY WORK WITH WOMEN, DO MEN GET ALL THE CREDIT?

Shusen Qi, Xiamen University
Steven Ongena, University of Zurich, Swiss Finance Institute, KU Leuven & CEPR
Hua Cheng, Nankai University

ABSTRACT
We study discrimination against female entrepreneurs. We analyze bank lending to 6,422 firms in 22 transition countries, both at the extensive and intensive margin. We find that gender discrimination occurs only if a firm is both managed and owned by females, especially in localities where gender bias is acute or more domestic banks are present. In contrast if either the top manager or owner is male, we find no evidence of discrimination. Importantly, these results are not driven by females having inferior skills to males.

EXECUTIVES' GENDER, PROSPECT THEORY BIAS AND INSIDER TRADING

Saba Sehrish, Massey University
David K. Ding, Massey University
Nuttawat Visaltanachoti, Massey University

ABSTRACT
This study provides evidence that insider trading by female executives is subject to higher behavioural bias than male executives. We find that trades by female insiders are more likely to be affected by prospect theory bias as they buy (sell) their company's stocks due to high (low) prospect theory value and earn subsequent lower (higher) returns. Despite the evidence of female insiders' biased trading, our study indicates that the bias is reduced significantly when female executives buy stocks of their own company. This implies that although female insiders' decision making is influenced by heuristic system of thinking, however the rational brain may override their intuitive thinking when critical decisions are to be made. The positive relation between prospect theory bias and female insiders' trading holds for routine trades, all executive positions, sub-periods and various market conditions. The findings are robust to insider and firm characteristics. Overall, our study suggests that highly experienced insiders' possession of superior information cannot eliminate behavioural biases among gender. The findings contribute to the understanding of academics, investors, practitioners and policy makers by explaining gender differences in behaviourally biased insider trading.

FEMALE CFOS AND CORPORATE ACCOUNTING FRAUD: DOES BOARD GENDER DISCRIMINATION PLAY A ROLE?

Jing Liao, Massey University
Xutang Liu, Massey University
David Smith, Massey University

ABSTRACT
We investigate the influence of female chief financial officers (CFOs) on corporate accounting fraud. Using a sample of 2,290 Chinese listed firms for the period from 2003 to 2015, we find female CFOs are significantly less likely to engage in accounting fraud. Interestingly, the strength of gender effect is subject to the characteristics of the board. The CFO gender effect is only significant in subsamples with boards that do not discriminate against women in access to directorships. This result indicates that when the overall lack of gender parity is prevalent, such as in the Chinese setting, female executives are more likely to play a role in more conservative areas, such as accounting. In addition, female executives are able to provide effective monitoring only in better-governed firms with less gender discrimination. We also find the negative association between female CFO and accounting fraud is more pronounced when the firm has a less powerful CEO and when the CFO holds the directorship simultaneously.

STREAM A, SESSION 2

DOES BANK COMPETITION INCREASE BANK LIQUIDITY CREATION? A STATE-LEVEL PERSPECTIVE

Seungho Choi, University of New South Wales

ABSTRACT

The proper role of regulations regarding bank competition is to encourage depressed local credit market. Does enhanced competition through bank deregulation revive local economy? Exploiting staggered bank deregulation events in the United States, I document that state-level bank deregulation does, on average, not significantly affect state-level bank liquidity creation, which is an explicit bank-side channel to add value to local market. In addition, state-level subsample analysis and bank-level analysis show that states and banks respond to the state-level deregulation events differently. My results suggest that the policy, that is applied to all heterogeneous banks and states in the same way, does not fit all.

LEGAL ORIGIN, CREDITOR PROTECTION AND BANK LENDING AROUND THE WORLD

Rebel A. Cole, Florida Atlantic University
Rima Turk-Ariss, International Monetary Fund Washington, DC

ABSTRACT

In this study, we investigate whether bankers make more loans when they enjoy superior creditor protection. We formulate a number of hypotheses, which we test using bank-level data from 31 developed countries and 96 developing countries over the period 2000-2006 and using a random-effects model that controls for bank heterogeneity as well as a between-effects model. We find that bankers allocate a significantly lower portion of their assets to risky loans: (i) when they enjoy French civil-law legal origin rather than English common-law legal origin; (ii) when creditors' rights are stronger; (iii) when their banks are smaller and better capitalized; and (iv) when the controlling shareholder is a State or foreign entity. We also find that bankers in developing countries, but not in developed countries, allocate a significantly larger portion of their assets to risky loans when legal enforcement of creditor rights is more efficient. Overall, these results provide strong support for the theory of legal origin but provide only mixed support for the "power" theories of credit.

WHY DO BANKS ISSUE CONTINGENT CONVERTIBLE BONDS?

Barry Williams, Monash University
Shao Lei Tan, Monash University
Jean-Pierre Fenech, Monash University

ABSTRACT

Bubbles are episodes where observed prices differ from what they should be. Exploiting the concept of spatial autocorrelation, we use data for 1,006,036 individual transactions yielding 80,113 postcode-month records on Sydney property prices from February 1996 to December 2015 to create a proxy for bubbles for both apartments and houses. Bubbles exhibit positive and robust relationships to proxies for investors seeking lottery-like outcomes. Given the definition of bubbles, the presence of a bubble need not be related to changes in prices. We establish, however, that there are positive relationships of returns of Sydney apartments and houses.

STREAM A, SESSION 3

CAN ILLIQUIDITY BE PRICED IN AN ACTIVE SECONDARY MARKET? THEORY AND EVIDENCE

Pallab Dey, University of New South Wales
Peter L. Swan, University of New South Wales

ABSTRACT

Commencing with a Lucas (1978)-type representative investor but with differing endowments, we develop a new theoretical model of counterparty trading inclusive of frictions to show that no type of symmetric liquidity costs, arising either from exogenous costs or from order-flow asymmetric in-formation, can be priced. This is because seller costs cancel out the buyer costs correctly identified in Amihud and Mendelson's (1986a) seminal theoretical model. We test our generalization of the Lucas model utilizing NYSE (US) equity market microstructure data to show that we cannot reject our main hypothesis that buyer and seller preferences are identical. In doing so, we question extant theories of illiquidity pricing which treat the buyer and seller asymmetrically in active secondary markets. We split up contemporaneous measures of transaction costs into their buy (upside) and sell (downside) components to find they are priced with similar magnitudes and opposite signs.

PRIVATE INFORMATION, SECURITIES LENDING, AND ASSET PRICES

Mahdi Nezafat, Michigan State University
Mark Schroder, Michigan State University

ABSTRACT

We analyze the role of private information in the equity loan market in a rational–expectations model with endogenous short–sale constraints. We show that when a group of investors is inhibited from participating in the equity loan market, excess demand for short selling, driven by either privately informed investors or liquidity traders, allows equity lenders to charge a fee for lending their shares. We show that information asymmetry among investors, arising from private information, reduces the expected lending fee; reduces short–selling risk, measured by the volatility of the lending fee; and has an ambiguous effect on the expected return.

INFORMATION, INSIDER TRADING, REGULATION, EXECUTIVE RELOAD STOCK OPTIONS AND INCENTIVES

David B. Colwell, University of New South Wales
David Feldman, University of New South Wales
Wei Hu, Curtin University

ABSTRACT

Executives, typically, have insider information. Consequently, conventional executive stock options (ESOs) may fail in aligning executive and shareholder interests. We examine this issue by introducing a theoretical model that studies how insider portfolio optimization can reduce the effectiveness of firms' executive incentive schemes. The study provides policy implications for the regulation required to maintain the effectiveness of such schemes. We offer a proposal for granting executive stock reload options, in combination with insiders' blackout trading restriction. We show how this proposal might be calibrated to prevent harmful effects of insider trading on the one hand, while allowing fairness to executives on the other. We, thus, suggest a welfare-improving mechanism.

STREAM A, SESSION 4

MODELLING SECTOR-LEVEL ASSET PRICES

Daniel J. Tulloch, University of Oxford
Ivan Diaz-Rainey, University of Otago
I.M. Premachandra, University of Otago

ABSTRACT

We present a modelling approach for sector asset pricing studies that incorporates sector-level risk factors, sub-group portfolios, and structural break point tests that are better at isolating the time-varying nature and the firm-specific component of returns. The sub-group portfolios show considerable subsector heterogeneity, while the asset pricing model using local risk factors and inductive structural breaks results in a superior model (R^2of 80.42% relative to R^2 of 68.79% of 'conventional' models). Finally, we show that 28% of the variance of residuals, normally assumed to be the firm-specific component of returns, can be attributed to the changing relationship between sector returns and risk premia.

FIRM-SPECIFIC INFORMATION AND STOCK RETURNS

Ha T Nguyen, University of Western Australia
Yihui Lan, University of Western Australia
Sirimon Treepongkaruna, University of Western Australia

ABSTRACT

Our paper focuses on the controversial issue on whether greater stock return nonsynchronicity (or lower R2) reflects more or less firm-specific information in stock prices. Using the U.S. stocks from 1925 to 2016 in the asset pricing context, we gauge informativeness using (absolute) idiosyncratic volatility together with nonsynchronicity (relative idiosyncratic volatility). We relate these two prominent information measures to firm-specific return characteristics by considering return residual momentum, skewness, jumps and information signal formation as measured by information discreteness. We find that for the nonsynchronicity-sorted portfolios, the average return is significantly positive only in the highest quintile, but the difference in average returns between the extreme quintile portfolios becomes significantly positive once controlling for size and value. Most importantly, in every quintile of idiosyncratic volatility, the return differences between the extreme quintile portfolios are positive and significant. In addition, controlling for the two information measures shed on the stock performance related to firm-specific return characteristics found in the previous literature. The Fama-Macbeth regression results show that stock return nonsynchronicity explains cross-sectional returns differently in high-jump and low-jump periods.

DOLLAR-WEIGHTED RETURN ON AGGREGATE CORPORATE SECTOR: HOW IS IT DISTRIBUTED ACROSS COUNTRIES?

Lingxia Sun, Nankai University
Dong Wook Lee, Korea University Business School

ABSTRACT

This paper computes the dollar-weighted returns (DWRs) on the aggregate corporate sector in each of the 43 sample countries, and shows that the DWRs in U.S. dollars are similar across countries. In contrast, the local-currency DWRs are found to be different across countries, suggesting a role played by currency in the parity of DWRs. It turns out that countries that are financially closed have a higher DWR in local currency but a lower return on their currencies and, consequently, DWRs in U.S. dollars converge across countries. The speed of convergence in DWR (in U.S. dollars) is also related to financial openness. That is, the convergence of a country's DWR to the global benchmark is faster, the more financially open is the country. Taken together, our results are consistent with a version of efficient international capital markets where capital flows in such a way that the marginal product of capital is equalized across countries.

STREAM B, SESSION 1

AN ALTERNATIVE BEHAVIORAL EXPLANATION FOR THE MAX EFFECT

Hannes Mohrschladt, University of Muenster
Maren Baars, University of Muenster

ABSTRACT

Stocks with high maximum daily returns in the previous month (MAX) yield low future returns. We examine the underlying sources of this MAX effect and present three empirical arguments that question the common presumption that investors with lottery preferences cause an overvaluation of high-MAX stocks. First, high-MAX stocks are comparably unattractive for investors with cumulative prospect theory preferences. Second, we find no price pressure from lottery investors after high-MAX observations but immediate price reversals. Hence, the MAX return itself seems to be the source of the overvaluation. Third, the MAX effect reverses if the MAX return can be linked to an earnings announcement. These findings are perfectly in line with a behavioral phenomenon called strength-weight bias: Investors usually overreact towards extreme high-strength news such that high-MAX stocks tend to be overvalued. However, they underreact if the MAX return is accompanied by reliable high-weight news such as earnings announcements.

INVESTOR OVERCONFIDENCE AND THE SECURITY MARKET LINE: NEW EVIDENCE FROM CHINA

Xing Han, University of Otago
Kai Li, Macquarie University
Youwei Li, University of Hull

ABSTRACT

This paper documents a highly downward sloping security market line (SML) in China, which is more puzzling than the typical "flattened" SML in the US, and is difficult to be explained by existing theories of low-beta anomaly. We develop a theoretical model to explain the puzzling low-beta anomaly in China. Consistent with the model implications, we show that the slope of the SML becomes more "inverted" when investors become overconfident with increased trading volume. We also find that high-beta stocks are the most traded stocks and are linked with the lowest risk-adjusted returns, leading to a much greater profitability of the betting-against-beta strategy in China than in the developed markets. Mutual fund evidence in China reinforces the view that institutional investors actively exploit the portfolio implications of a downward sloping SML by shying away from high-beta stocks and betting on low-beta stocks for superior performance.

OIL PRICES AND STOCK MARKET ANOMALIES

Muhammad A. Cheema, University of Waikato
Frank Scrimgeour, University of Waikato

ABSTRACT

This paper examines the relationship between oil prices and stock market anomalies in China, the largest oil importer country in the world. Prior literature documents both a positive and negative relationship between oil prices and the stock market. The explanation of a positive relationship is supported by the argument that rising oil prices are interpreted as a positive signal by investors. Consequently, rising oil prices lead stock prices above their fundamental values and that they subsequently correct. Therefore, we hypothesise that stock market anomalies are stronger following rising oil prices since returns associated with anomalies reflect mispricing. The results, consistent with the hypothesis, show stronger return predictability for individual anomalies following an increase in oil prices than for a decrease in oil prices. The results are even stronger once we construct a mispricing score based on composite mispricing of all the anomalies.

STREAM B, SESSION 2

RANK, SIGN, AND MOMENTUM

Tsung-Yu Chen, Shanghai Business School
Pin-Huang Chou, National Central University
Kuan-Cheng Ko, National Chi Nan University
Ghon Rhee, University of Hawaii

ABSTRACT

Non-parametric measures, such as rank and sign of daily returns, capture a series of information arriving continuously in small amounts while mitigating overreaction to infrequent dramatic changes in stock prices. Momentum strategies formed on the basis of rank and sign generate significant profits for short-term holding periods and exhibit no long-term return reversals. More importantly, rank and sign momentum strategies subsume traditional price momentum, but not vice versa. We further show that rank and sign momentum profits are less affected by investors' overreaction to salient price movement and are less vulnerable to crash risk.

INVESTOR SENTIMENT DYNAMICS, THE CROSS-SECTION OF STOCK RETURNS AND THE MAX EFFECT

Muhammad Cheema, University of Waikato
Gilbert V. Nartea, University of Canterbury

ABSTRACT

Recent evidence shows that investor sentiment is a contrarian predictor of stock returns with speculative stocks earning lower (higher) future returns than safe stocks following high (low) sentiment states. We extend this argument by conditioning expected stock returns on sentiment dynamics and show that the mispricing of speculative and safe stocks worsens with sentiment continuations but is corrected with sentiment transitions, consistent with the view that the mispricing of these stocks is sentiment-driven. We show that the unconditional contrarian return predictability of sentiment, at least in the short-run, is due to the returns of stocks in sentiment transitions. Results show that ex post, sentiment is a momentum predictor if subsequent sentiment continues; and a contrarian predictor if subsequent sentiment transitions. We also show that the MAX effect can either be positive or negative contingent on sentiment dynamics and that the absence of a MAX effect following Low sentiment states suggested by prior studies is due to the completely offsetting negative MAX effect when sentiment continues in a Low state, and the positive MAX effect when sentiment transitions from a High to a Low state.

THE CONFLICT BETWEEN SYSTEMIC RISK AND IDIOSYNCRATIC RISK

Barry Williams, Monash University
Jean Pierre Fenech, Monash University

ABSTRACT

We highlight the role revenue portfolio diversification plays in determining idiosyncratic and systemic risk in a global sample of large banks. We find that increased bank revenue diversification reduces idiosyncratic risk but increases systemic risk, while also demonstrating that increased bank equity will not necessarily reduce idiosyncratic risk. Bank size and market concentration have a role in the relationship between bank revenue portfolio composition and systemic risk. We argue that the current stance of the global regulatory architecture may not necessarily be effective in reducing bank systemic risk in the future.

STREAM B, SESSION 3

CAN SMALL TRANSACTION COSTS HAVE NON-VANISHING EFFECT ON EQUILIBRIUM PRICES? THE AFFIRMATIVE ANSWER

Sergey Isaenko, Concordia University

ABSTRACT

This paper finds a linear-quadratic equilibrium in the stock market with a lot of small investors where a bid–ask spread faced by one investor increases with the number of traded shares. The latter effect is modelled by means of transaction costs which are convex in the number of traded shares. It is expected that in the limit of very small transaction costs optimal strategies and the stock price should converge to those in the market without these costs. I show, however, that the latter does not have to be the case and very small transitory price impacts can have a dramatic effect on the equilibrium stock price. This effect emerges because optimal allocations of investors depend on the ratio, rather than sizes, of transaction costs paid by different types of investors.

QUANTIFYING THE MODEL RISK INHERENT IN THE CALIBRATION AND RECALIBRATION OF OPTION PRICING MODELS

Yu Feng, University of Technology Sydney
Ralph Rudd, University of Cape Town
Christopher Baker, University of Cape Town
Qaphela Mashalaba, University of Cape Town
Melusi Mavuso, University of Cape Town
Erik Schlogl, University of Technology Sydney

ABSTRACT
The renowned statistician George E. P. Box wrote that "essentially, all models are wrong, but some are useful." This is certainly true in finance, where many models and techniques that have been extensively empirically invalidated remain in widespread use, not just in academia, but also (perhaps especially) among practitioners. At times, the way models are used directly contradicts the model assumptions: As observed market prices change, parameters in option pricing models, which are assumed to be time–invariant, are recalibrated, often on a daily basis. Incorrect models, and model misuse, represent a source of risk that is being increasingly recognised - this is called "model risk." In this paper, we focus on two particular aspects of model risk: the inability of a chosen model to fit observed market prices at a given point in time (calibration error) and the model risk due to recalibration of model parameters (in contradiction to the model assumptions). In this context, we follow the approach of Glasserman and Xu (2014) to use relative entropy as a consistent premetric in order to quantify these two sources of model risk in a common framework, and consider the trade–offs between them when choosing a model and the frequency with which to recalibrate to the market. We illustrate this approach applied to the models of Black and Scholes (1973) and Heston (1993), using option data for Apple (AAPL) and Google (GOOG).

HOW DO US OPTION TRADERS "SMIRK" ON CHINA: EVIDENCE FROM FXI OPTIONS

Jianhui Li, University of Otago
Sebastian Gehricke, University of Otago
Jin E. Zhang, University of Otago

ABSTRACT
To explain post-earnings-announcement drift (PEAD), we suggest expected growth risk, which is measured as covariance between stock returns and expected future real GDP growth rates. We find that both expected growth rates and expected growth risk monotonically increase with standardized unexpected earnings, and expected growth risk is significantly priced in the cross-section of returns. The model including expected growth risk alone explains PEAD satisfactorily. We also find that after adjustment for expected growth risk, the systematic relation of PEAD with the degree of limits-to-arbitrage disappears. This indicates that the empirical evidence supporting the mispricing hypothesis due to limits-to-arbitrage is a consequence of the failure in incorporating appropriate risk and the drift is a manifestation of expected growth risk.

STREAM B, SESSION 4

DOES THE MANDATORY ADOPTION OF OUTSIDE DIRECTORS IMPROVE FIRM PERFORMANCE?

Yasutomo Tsukioka, Kwansei Gakuin University

ABSTRACT
This paper examines the economic consequences of the introduction of regulations that mandate listed firms adopt outside directors. The Japanese Companies Act was revised in June 2014, and this revision required listed firms to adopt at least one outside director. Although half of the listed firms had no outside directors before the revision of this act, almost all listed firms now have outside directors. I find that mandatory adopters experience a significant increase in profitability and corporate governance quality relative to voluntary adopters after the act was revised. This evidence suggests that the adoption of outside directors enhances firm performance in mandatory adopters. Moreover, this study reveals that the adoption of independent outside directors improves firm performance more than adopting affiliated outside directors.

WHY DO DIRECTORS JOIN TROUBLED FIRMS?

Ying Dou, Monash University

ABSTRACT
Why do independent directors join poorly performing firms? Studies show that directors have strong incentives to work for prestigious firms. Yet, more than 70% of the poorly performing firms are able to fill their board vacancies. We show that directors who join these firms do not appear to be poor quality directors. They are more likely to obtain powerful positions on the new boards. Subsequent analyses suggest that the announcements of such director appointments trigger a significantly positive market reaction at firms that already have these directors on boards. This positive price effect appears to be driven by a reduced level of competition for the powerful positions among independent directors on these boards.

THE VALUE OF ACADEMICS: EVIDENCE FROM ACADEMIC INDEPENDENT DIRECTOR RESIGNATIONS IN CHINA

Jun Chen, Auckland University of Technology
Alexandre Garel, Auckland University of Technology,
Alireza Tourani-Rad, Auckland University of Technology

ABSTRACT
In this paper, we use academic independent director resignations induced by the introduction of the Regulation 11 prohibiting academics from holding positions in Chinese public companies to examine their contribution to firm value. We document a negative market reaction to the issuance of the Regulation 11 and to the academic director resignations. The negative market reaction to academic director resignations is sizeable, hold with respect to a matched sample of non-academic director resignations and in a multivariate regression setting further controlling for the influence of firm and board characteristics. We next use heterogeneity in the market response to academic director resignations to study what the market values in academic directors. We find supportive evidence of monitoring, advising, and networking value contributions. Finally, we examine the long-term consequences of academic resignations on firm value. We document a decrease in firm profitability in the two years following the resignations. We find convergent results when we examine the long-term returns of firms experiencing the loss of at least one academic director. Overall, our results are consistent with a positive contribution of academic independent directors to firm value.

STREAM C, SESSION 1

DEEP LEARNING FACTOR ALPHA

Guanhao Feng, City University of Hong Kong
Nicholas G. Polson, University of Chicago
Jianeng Xu, University of Chicago

ABSTRACT
Does a factor model exist that explains all anomalies? To address this questions we provide an automated factor search algorithm that generates long-short spread factors within deep learning. This performs a deep search over a multi-layer space of multivariate characteristics used for security sorting with one asset pricing objective: minimizing alphas. Sorting securities on firm characteristics, a common practice in finance, can be viewed as a nonlinear activation function. Our deep factor are trained greedily and we use a time series regression with deep factors over a benchmark models, such as Fama-French. We have designed a train-validation-test study for monthly U.S. equity returns from 1975 to 2017 and 56 published firm characteristics. In an out-of-sample evaluation, deep factor alpha provides a forecasting improvement over a benchmark with factors that offer significant alphas.

ARBITRAGE PORTFOLIOS IN LARGE PANELS

Soohun Kim, Georgia Institute of Technology
Robert A. Korajczyk, Northwestern University
Andreas Neuhierl, University of Notre Dame

ABSTRACT
We propose new methodology to estimate arbitrage portfolios by utilizing information contained in firm characteristics for both abnormal returns and factor loadings. The methodology gives maximal weight to risk-based interpretations of characteristic predictive power before any attribution to abnormal returns. We apply the methodology in simulated factor economies and on a large panel of U.S. stock returns from 1965-2014. The methodology works well in simulation and in out-of-sample portfolios of U.S. stocks. Empirically, we find the arbitrage portfolio has significant (statistically and economically) alphas relative to several popular asset pricing models and annualized Sharpe ratios ranging from 0.67 to 1.16. Data mining driven alphas imply that performance of the strategy should decline after the discovery of pricing anomalies. However, we find that the abnormal returns on the arbitrage portfolio do not decrease significantly over time.

RISK-NEUTRAL BETA AND IDIOSYNCRATIC DOWNSIDE RISK OF INDIVIDUAL STOCKS

Chu Zhang, Hong Kong University of Science and Technology
Gang Li, Hong Kong Polytechnic University

ABSTRACT
We use options data to infer risk-neutral market beta and the idiosyncratic skewness. We relax the assumption of zero risk-neutral idiosyncratic skewness imposed in the literature and assume that the idiosyncratic component of the market model follows the exponentially modified normal distribution under the risk-neutral probability. We find that for many stocks, the idiosyncratic skewness is not zero. Stocks with negative (positive) idiosyncratic skewness have lower (higher) market betas than those estimated in the literature.

HOW DO FIRMS CHOOSE LEGAL FORM OF ORGANIZATION?

Tatyana Sokolyk, Brock University
Rebel A. Cole, Florida Atlantic University

ABSTRACT

In this study, we analyze the firm's choice of legal form of organization ("LFO"). We find that only about one in three firms begins operations as a proprietorship, while almost as many begin as limited liability companies and as corporations. Moreover, this distribution is remarkably stable over the first seven years of the firm's life. Fewer than one in ten firms changes LFO during its first seven years. Those that do change LFO disproportionately move to a more complex form, primarily from proprietorship to a form with limited liability. Our analysis of the firm's initial choice of LFO reveals that a firm chooses LFO based upon factors that include access to capital markets, tax consequences, and personal liability and risk exposure. At start-up, the entrepreneur chooses a LFO that can accommodate the expected future complexity of her firm.

FIRM LIFE CYCLE AND LOAN CONTRACT TERMS

Gerald J. Lobo, University of Houston
Mostafa Monzur Hasan, Curtin University
Abu Amin, Central Michigan University
Jiri Tresl, Central Michigan University

ABSTRACT

Using a sample of 13,065 firm-quarter observations of U.S. publicly traded firms from 1994 to 2015, we show that loan spreads follow a U shape over the life cycle of a firm. In particular, the cost of corporate borrowing decreases from the introduction to the growth stage and reaches the bottom in the mature phase. Loan spreads increase in the shake-out phase and peak in the decline phase. This result is mimicked when analysing the probability of covenant violations. Non-pricing terms of loan contracts, such as debt maturity and loan securitization follow the inverse U shape and U shape pattern, respectively, as well. The results are not specific to any benchmark stages. They are also not driven by unobserved firm level heterogeneity or by the use of specific firm life cycle measures. Overall, the results suggest that private credit markets take into account the distinct stages of firm development when setting loan pricing and loan characteristics.

IMPUTATION CREDITS AND TRADING AROUND EX-DIVIDEND DAY: NEW EVIDENCE IN AUSTRALIA

Andrew Grant, University of Sydney
P. Joakim Westerholm, University of Sydney
Wei Wu, University of Sydney

ABSTRACT

This study examines the ex-day trading behaviour using daily ownership records aggregated by investor class under the novel environment of Australia. Domestic shareholders who have a strong preference for imputation credits capture franking credits by buying fully-franked stocks cum-dividend and selling them ex-dividend; the opposite is true for foreign shareholders. Dividend yield is the determinant factor of the choice of stock for the transfer of franking credits whereas risks and transaction costs are less relevant. We do not attribute our results to ex-day trading, arguing that, due to the 45-day holding period requirement, ownership transfer should take place at a longer horizon. Furthermore, domestic institutions act as liquidity providers to foreign investors and domestic individuals, who tend to initiate trading before the stock goes ex-dividend.

STREAM C, SESSION 3

THE DECISION MAKING OF A FINANCIAL PSYCHOPATH

Corey A. Shank, Dalton State College
Brice Dupoyet, Florida International University
Robert Durand, Curtin University
Fernando M. Patterson, North Carolina Central University

ABSTRACT
In this paper, we examine the relationship between psychopathic personality traits and financial risk and time preferences amongst business majors. 118 Business majors participated in this study by completing the revised Psychopathic Personality Inventory test to examine their psychopathic personality traits and the Dynamic Experiments for Estimating Preferences test to determine risk and time preferences. Given the prevalence of anti-social behavior amongst finance majors, we first examine fundamental differences between finance majors and other business majors. We find that finance majors are significantly more narcissistic and less fearless than other business majors. Furthermore, we find that psychopathy is related to more linear utility function, and negatively related to loss aversion. Additionally, we find that this result is primarily driven by the secondary trait of Self-Centered Impulsivity and primary trait Rebellious Nonconformity. Moreover, the results show that Self-Centered Impulsivity is negatively related to the present bias while psychopathy is negatively related to the discounting rate. Overall we find that these traits may be beneficial to more rational financial decisions.

DOES GOOD LUCK MAKE PEOPLE OVERCONFIDENT? EVIDENCE FROM A NATURAL EXPERIMENT IN CHINA

Huasheng Gao, Fudan University
Donghui Shi, Shanghai Stock Exchange
Bin Zhao, NYU Shanghai

ABSTRACT
This paper examines the changes in trading behavior for retail investors who win an allotment for the IPO subscription. We find that retail investors who win such an allotment subsequently become more overconfident relative to retail investors who do not: the former group trade more frequently and lose more money. This effect is not explained by the wealth effect or house money effect. Overall, our evidence indicates that the experience of good luck makes people more overconfident about their prospect.

RECONCILING DIVERGENT FINDINGS ON THE SPEED OF LEVERAGE ADJUSTMENT

Joye Khoo, Curtin University

ABSTRACT
Estimates of firms' speeds of leverage adjustment (SOAs) vary wildly. Studies producing these estimates impose a strong constraint: An average SOA is estimated for all firms in a sample. Using finite mixture models (FMM) we uncover four distinct types of behaviors characterizing SOAs. The four behaviors in this regard can be classified as: Nearly stable (SOA = 2%); slower adjusters (SOA = 28%); faster adjusters (SOA = 62%) and drifters (SOA = -3%) who slowly move away from estimated leverage targets.

STREAM C, SESSION 4

REGULATORY CAPITAL AND INTERNAL CAPITAL TARGETS: AN EXAMINATION OF THE AUSTRALIAN BANKING INDUSTRY

James Cummings, Macquarie University
Kassim J. Durrani, University of Sydney

ABSTRACT
Using a unique but confidential database, this study examines the capital management practices of Australian banks under the Basel regulatory framework. We find evidence of a negative relationship between the internally targeted capital buffers of banks and the current state of the economic cycle. This finding supports the view that the capital conservation buffer and countercyclical capital buffer under the Basel III rules are necessary reforms to address the tendency of banks to manage their capital buffers in a pro-cyclical fashion. However, we also find evidence of forward-looking capital management: Banks set higher capital targets when economic activity is gathering momentum and the demand for loanable funds is increasing. We find clear evidence that banks adjust their actual capital buffers having regard to the pre-defined target capital levels established within the banks.

DOES DODD-FRANK WALL STREET REFORM ACT CHANGED ATTITUDE OF U.S. BANK HOLDING COMPANIES TOWARDS CREDIT AND INTEREST DERIVATIVES?

Jędrzej Białkowski, University of Canterbury
Huong Dieu Dang, University of Canterbury
Xiepeng Wei, University of Canterbury

ABSTRACT
This paper investigates response of U.S. bank holding companies to introduction The Dodd-Frank Wall Street Reform Act (DFA). By examining 151 U.S. bank holding companies with total asset higher than 1 billion, we find that in post-DFA period, banks' contribution to systemic risk was substantially reduced. Moreover, we found usage of credit and interest rate derivatives held for hedging have weakened impact on systemic risk. On other hand, our scrutiny reveals that the individual banks' risks increase and performance decrease. Finally, we show that in regulator environment defined by DFA, the usage of interest and credit derivatives contribute less to the systemic risk.

UNEMPLOYMENT INSURANCE AS AN AUTOMATIC ECONOMIC STABILIZER: EVIDENCE FROM BANK LENDING

Li Yuehua, Shanghai University of Finance and Economics
Liu Zhentao, Xiamen University
Pei Sha, National University of Singapore

ABSTRACT
We find that unemployment insurance (UI) is a double-edged sword from the perspective of bank lending. UI protection reduces income uncertainty and leads to a greater demand for bank credit, driven by more consumer loans and industrial and commercial loans. However, UI also increases the expected unemployment risk, dampening the demand for long-term mortgage loans. Unemployment insurance improves loan quality in normal periods, but the association reverses in bad economic conditions. Mistaking higher UI as a positive signal, banks reduce their provisions. These factors combined lead to a more severe credit crunch during a recession for banks in states with higher UI. While improving bank profits, the increased credit demand can also elevate bank risk as borrowers' creditability deteriorates. Our results suggest that the contribution of UI as an automatic economic stabilizer should be evaluated more cautiously.

STREAM D, SESSION 1

THE INFORMATION CONTENT OF SHORT SELLING AND PUT OPTION TRADING: WHEN ARE THEY SUBSTITUTES?

David Kemme, University of Memphis

ABSTRACT
Using January 2005 – June 2007 trading data for all NYSE stocks we identify the informational patterns and impact of exogenous shocks in short sales and option trades upon stock price changes. We find that short sales have more predictive power than put option trades. However, if short selling volume is low put options trading does have predictive power and thus may be a substitute used by informed investors.

CROSS SECTION OF OPTION RETURNS AND VOLATILITY-OF-VOLATILITY

Xinfeng Ruan, Auckland University of Technology

ABSTRACT
This paper presents a robust new finding that there is a significantly negative relation be-tween the equity option returns and the forward-looking volatility-of-volatility (VOV). After controlling for numerous existing option and stock characteristics, the VOV effect remains significantly negative. It also survives many robustness checks. A conceptual model provided in this paper reveals the pricing mechanism behind the VOV effect, i.e., the negative relation is due to the negative market price of the VOV risk. As investors dislike the VOV risk, they are willing to pay a high premium to hold options on high VOV stocks. The high-low return spread on option portfolios sorted on VOV cannot be explained by standard risk factors, and survives the double sorting on a variety of control variables. This confirms that the VOV effect is economically and statistically significant.

THE IMPLIED VOLATILITY SMIRK IN THE VXX OPTIONS MARKET

Sebastian Gehricke, University of Otago
Jin E. Zhang, University of Otago

ABSTRACT

This is the first paper to document and analyze the empirical characteristics of the VXX options market, providing useful information for developing a realistic VXX option pricing model. We extend the methodology developed by Zhang and Xiang (2008) in order to study the term structure and time series of the VXX option implied volatility curves. The implied volatility curve is quantified through three factors; the level, slope and curvature. After quantifying the implied volatility curves of the VXX options market, we show that they are not usually a smirk, as for S&P 500 options, but rather an upward-sloping line with some convexity. As the option's maturity increases usually the level (exact at-the-money implied volatility) increases, the slope decreases and curvature increases. The level and slope factors seem to mean-revert, while the curvature factor does not follow an easily identified pattern.

STREAM D, SESSION 2

DO LAWYERS MATTER IN INITIAL PUBLIC OFFERINGS?

Thomas W. Bates, Arizona State University
Jordan B. Neyland, George Mason University
Jin (Roc) Lv, Australia National University

ABSTRACT

We find that law firm fixed effects contribute more to the explained variation in IPO underpricing than underwriter fixed effects. This result is robust to controls for issuer and deal characteristics, as well as time and industry fixed effects. We confirm the persistence in underpricing for legal advisers and propose a link between issuers' law firms and post-IPO litigation risk. Legal adviser fixed effects provide significant explanatory power in models of post-IPO litigation outcomes, and law firm reputation is a significant determinant of underpricing. However, the explanatory power of reputation is small relative to the law firm fixed effect. The remaining unexplained variation likely results from issuers selecting legal advisers based on the issuer's unique risk profile and law firm's expertise.

PRODUCT DIFFERENTIATION, BENCHMARKING, AND CORPORATE FRAUD

Audra Boone, Texas Christian University
William Grieser, Texas Christian University
Rachel Li, Michigan State University
Parth Venkat, U.S. Securities and Exchange Commission

ABSTRACT

We find that firms with lower product market differentiation exhibit significantly lower rates of fraud. This relationship is more pronounced for complex firms and is robust to controlling for various measures of competition, predictors of fraud, and industry heterogeneity. To help establish causality, we show this relationship holds when we exploit changes in product differentiation stemming from rivals' IPO and acquisition activity. Finally, we find that IPOs (and acquisitions) of rivals facilitate the detection of fraud for firms with ex ante greater product differentiation. Overall, our findings suggest that lower differentiation disciplines firms by facilitating fraud detection through a benchmarking channel.

SHINING LIGHT ON CORPORATE POLITICAL SPENDING: EVIDENCE FROM SHAREHOLDER ENGAGEMENT

Bobo Zhang, University of Warwick

ABSTRACT

This paper studies corporate political transparency through the lens of shareholder engagements. I analyse factors explaining activist shareholders' target decision and likelihood of successful engagements. Using hand-collected public announcements of engagement outcomes, I find that stock market reacts positively to successful engagement and negatively to a subset of unsuccessful engagements in politically active companies. Similar reactions are also found using institutional investors' holding data. Investors' aversion to hidden risk and disciplinary effect of increased transparency could potentially explain the market reactions. Collectively, the results suggest that stock market investors value political transparency, especially in politically active companies.

STREAM D, SESSION 3

REGULATORY REFORM AND MULTIPLE CREDIT RATINGS

He Huang, University of Sydney
Jiri Svec, University of Sydney
Eliza Wu, University of Sydney

ABSTRACT

This paper studies the role of multiple credit ratings in the corporate bond market. By examining the change in regulatory use of multiple ratings after the Dodd-Frank Act (Dodd-Frank), we find that the elimination of ratings from regulatory requirements reduces the demand for third ratings, which are typically provided by Fitch. Specifically, firms are less likely to seek a third rating for newly issued bonds, especially for those with split ratings from Moody's and S&P. In addition, we find that third ratings become less informative following Dodd-Frank with a smaller market impact on credit spreads, especially for firms with current ratings on opposite sides of the high yield (HY) - investment grade (IG) boundary. Overall, the results challenge the existence of small CRAs, which shed light on the consequence of Dodd-Frank, and are important in that it is related to the competition in the rating industry and the cost of borrowing for issuers.

STRATEGIC PORTFOLIO MANAGEMENT: EVIDENCE FROM A NATURAL EXPERIMENT

Michael Yubo Liu, Xiamen University

ABSTRACT

This paper examines strategic portfolio management by studying portfolio decisions and transactions of U.S. insurers. Using Hurricane Katrina as an exogenous shock, I find evidence that supports strategic portfolio management for insurers. Anticipating bond fire sales by affected insurers, unaffected insurers build up cash holdings by selling bonds before Hurricane Katrina, and purchase back the same bonds from affected insurers at fire sale prices after Hurricane Katrina. On average, unaffected insurers earn α of about 0.70 bps per week for their bond portfolios. Stocks of public unaffected insurers also earn α of about 70 bps per month. This is consistent with models in which unconstrained investors take advantage of the price pressure from constrained investors. These results highlight the strategic portfolio management motive for an important institutional investor in the U.S. bond market.

RETURN SYNCHRONICITY IN THE BOND MARKET

Haoyu Gao, Central University of Finance and Economics
Junbo Wang, City University of Hong Kong
Junchao Xiao, The Hong Kong Polytechnic University

ABSTRACT

This paper studies the information interpretation of return synchronicity in the corporate bond market. We find that bonds rated at investment grade, bonds with no rating splits and bonds issued by publicly listed firms are associated with higher levels of bond return synchronicity. Bond-years with credit rating change announcement exhibit lower return synchronicity and this effect is more pronounced for rating downgrades. Our findings verify the event intensity rationale and remain robust after a variety of sensitivity tests.

STREAM D, SESSION 4

RISK ANALYSIS OF PENSION FUNDS INVESTMENT CHOICES

Emawtee (Banita) Bissoondoyal-Bheenick, Monash University
Robert Brooks, Monash University
Hung Xuan Do, Massey University

ABSTRACT

Using a sample from January 1990 to December 2016 of monthly asset classes, we provide a consistent method of classifying the investment options of Australian Superannuation funds and assess their risk level by using two alternative methods of defining investment options. Our analysis provides a more consistent method to compare the risk-return relationships of Superannuation investment options. Using a varying coefficient panel estimation technique which allows for the movement of the asset classes over time, we estimate risk using alternative model specifications including the capital asset pricing model, Fama French three factor, Fama French four factor and Fama French five factor model. We find that while risk increases across different investment options from moderate to aggressive options, using different percentages of identifying a balance fund does not impact on risk measure over the longer term. We equally find that risk-return relationships of investment options are not sensitive to the modelling framework except in the crisis analysis, where the Fama French five factor model provides the more informative and reliable method of risk estimation.

POLITICAL REGIMES, INVESTMENT AND ELECTORAL UNCERTAINTY

Isaac Marcelin, University of Maryland Eastern Shore
Sheryl-Ann K. Stephen, Butler University
Fassil Fanta, Brenau University
Mussie Tecklezion, University of Wisconsin Green Bay

ABSTRACT
This study looks at firms' investment spending in fixed and intangible assets around three types of national elections: presidential, joint presidential, and legislative and parliamentary elections. Investments in fixed assets decline by up to 2% during presidential elections, and 4.44% in joint presidential, and legislative elections. On the other hand, intangible investments decrease by 4.36% in parliamentary election years. Moreover, investment responses to electoral shocks differ markedly within political systems and countries' institutional settings. Investment levels shift significantly downward in pre- and resume in post-election years. The electoral effect results in a net loss in investment over the election cycle.

WHEN TO GO ABROAD: ECONOMIC POLICY UNCERTAINTY AND CHINESE FIRM'S OVERSEAS INVESTMENT

Ji (George) Wu, Massey University
Dongmin Kong, Zhongnan University of Economics and Law
Yiwen Wu, Massey University
Jian Zhang, Southwestern University of Finance and Economics

ABSTRACT
We study how economic policy uncertainty (EPU) influences firms' overseas investment in Chinese listed companies. We find a significant negative relationship between EPU and firms' overseas investment after controlling for firm characteristics and macroeconomic variables. Chinese firms seem to reduce their overseas investment on fixed income securities when facing a policy uncertainty. The negative relationship is more pronounced for financially constrained firms relying on government subsidies and have low overseas revenues and SOEs. Firms located in high marketization regions can mitigate the negative effect of EPU on firms' overseas investment. Our results remain significant when considering endogeneity problems. We contribute to the literature focusing on the interaction between EPU and corporate investment.

STREAM E, SESSION 1

A COMPREHENSIVE APPRAISAL OF STYLE-INTEGRATION METHODS ACROSS FUTURES CLASSES

Adrian Fernandez-Perez, Auckland University of Technology
Ana-Maria Fuertes, University of London
Joëlle Miffre, Audencia Business School

ABSTRACT
The paper conducts a comprehensive analysis of different style-integration methods in equity index, currency, fixed income and commodity futures markets. We compare empirically the naïve equal-weighting integration (EWI) and various sophisticated style-weighting allocations that determine the style exposures using past data according to utility maximization, style rotation, volatility-timing, cross-sectional pricing or principal components criteria inter alia. The analysis conducted per futures market and cross-markets reveals that the naïve equal-weights integrated portfolio is unrivalled, in terms of performance by any of the sophisticated style-integrated portfolios. The findings are robust to variants of the sophisticated integrations, longer estimation windows, scoring schemes, data snooping tests, and sub-period analyses.

ASSET GROWTH, STYLE INVESTING, AND MOMENTUM

Pin-Huang Chou, National Central University
Kuan-Cheng Ko, National Chi Nan University
Nien-Tzu Yang, National United University

ABSTRACT
We establish a significant and robust connection between asset growth (AG) and style investing by showing that past style returns constructed based on AG and size significantly predict future stock returns. Motivated by this notion, we propose a style momentum strategy based on AG and size and find that it dominates price momentum and size-BM style momentum in generating momentum profits. We examine three explanations for this predictability, including risk exposure to common factor, the style-chasing hypothesis and the limited-attention theory. Empirical evidence shows that the AG-based style momentum profit is induced because investors neglect the AG-based style performance, consistent with the limited-attention explanation but not risk exposure to the investment factor nor the style-chasing arguments. Further, we show that the profitability of the AG-based style momentum is robust to different time periods partitioned by several time-series predictors.

THE REMARKABLE RELEVANCE OF CHARACTERISTICS FOR MOMENTUM PROFITS

Birgit Müller, Darmstadt University of Technology
Sebastian Müller, German Graduate School of Management and Law

ABSTRACT

Inspired by Bandarchuk and Hilscher (2013), this paper is the first to provide a comprehensive analysis of a large set of momentum enhancing strategies for global equity markets. Our findings reveal the relevance of characteristics in enhancing and explaining momentum after accounting for possible interrelations with idiosyncratic volatility and extreme past returns. Out of a set of eighteen stock characteristics, we find particularly age, book-to-market, maximum daily return, R2, information diffusion, and 52-week high price to matter for momentum profits. Overall, and consistent with behavioral explanation attempts, momentum appears to work best for hard-to-value firms with high information uncertainty. There are however substantial cross-country differences with regard to which characteristics truly enhance momentum. Our results imply that the link between idiosyncratic volatility, extreme past returns, and momentum profits itself is unable to comprehensively explain enhanced momentum returns and corroborate the heterogeneity of stock markets around the globe.

STREAM E, SESSION 2

RISK PERCEPTIONS AND INTERNATIONAL STOCK MARKET LIQUIDITY

Rui Ma, Massey University
Hamish D. Anderson, Massey University
Ben R. Marshall, Massey University

ABSTRACT

We show, using data for 57 countries over the 1990–2015 period, that investors' risk perceptions are an important determinant of international stock market liquidity. Increased risk perception reduces liquidity around the world, and its impact is not subsumed by other well-documented market-level determinants of liquidity. The effect is pervasive, but is stronger in countries with higher GDP per capita, more trade openness, stronger governance, a more individualistic culture, and no short-selling constraints. It is not driven by periods of extreme changes in risk perception, expansionary or recessionary phases of the business cycle, or the way liquidity is measured.

BULK VOLUME CLASSIFICATION UNDER THE MICROSCOPE

Magdalena Massot, University of the Balearic Islands
Samarpan Nawn, Indian Institute of Management Udaipur
Roberto Pascual, University of the Balearic Islands

ABSTRACT

We evaluate the bulk volume classification (BVC) method of Easley et al. (2016). Our focus is on markets where algorithmic trading strategies govern the order flow and trade initiation no longer signals informed trading. So, we account for all sources of buying or selling pressure (order submissions, revisions, and cancellations) to gauge BVC's accuracy in estimating the net order flow (NOF). We show that the BVC accuracy could be as high as 92.4% for 5-minute time bars, and as low as 50.9% for 1-second time bars. The BVC renders more accurate estimates of the NOF than of the trade-based order imbalance (OI). Indeed, for relatively small bars the OI is itself a pretty poor proxy of the NOF. The BVC-based NOF is a better proxy for the HFT-related NOF component than for the non-HFTs'. Finally, the BVC accuracy rate decreases with pre-trade opacity, monitoring intensity, the non-ATs' contribution to the NOF, the HFTs' message-to-trade ratio, and the absolute magnitude of the price change between bars. In posterior versions of this paper, we will also evaluate the BVC's capacity to (i) capture the information embedded in the net order flow, and (ii) signal order flow toxicity.

THE IMPACT OF TICK SIZES ON TRADER BEHAVIOR: EVIDENCE FROM CRYPTOCURRENCY EXCHANGES

Anne H. Dyhrberg, University of Sydney
Sean Foley, University of Sydney
Jiri Svec, University of Sydney

Abstract

This paper analyses the effect of a tick size on a major cryptocurrency exchange where spreads are unconstrained, assets have limited fundamental value and tick sizes are extremely small, which facilitates undercutting. Using a unique high frequency dataset surrounding a significant increase in tick sizes on the cryptocurrency exchange Kraken, we find that undercutting decreases, leading to traders posting more and larger limit orders. Transaction costs and short-term volatility both decrease, contrary to previous findings in equity markets. We show that when spreads are unconstrained, market quality can be improved by increasing extremely small tick sizes. Our findings contribute to the optimal tick size debate, with particular implications for cryptocurrency and foreign exchange markets, where tick sizes are typically very small.

STREAM E, SESSION 3

INDUSTRY EXPERIENCE OF BOARD, CEO, AND ACQUISITION PERFORMANCE

Debarati Bhattacharya, Duquesne University
Ya-Yun Kao, CTBC Bank
Wei-Hsien Li, National Central University
S. Ghon Rhee, University of Hawaii

ABSTRACT
Empirical research has typically highlighted the individual importance of boards' and CEOs' target industry experience in diversifying acquisitions. This study examines the collective impact of expert boards and CEOs on acquisition performance, providing new insight into the CEO-board relationship. Our evidence supports the vigilant-advisor, resource provisioning, and "shared experience" theories that take three distinct views of the CEO-board relationship. Acquirers with expert boards earn an additional 1.7 (7.4) percentage points when the CEOs are new to the target industry (also experts) compared to those generated by "non-experienced" boards (expert boards alone). Our findings are robust against a variety of concerns. Generalist CEOs and public targets exacerbate the effect of shared experience, whereas less powerful CEOs and private targets heighten the resource provisioning effect.

EQUITY-BASED GOLDEN PARACHUTES IN MERGERS AND ACQUISITIONS

Jing He, Macquarie University
Joshua Shemesh, Monash University

ABSTRACT
The existence and magnitude of golden parachutes have been a long-standing controversy amongst researchers and practitioners. We hand-collect data on the composition of golden parachutes to examine whether equity-based golden parachutes are used to protect managers and benefit shareholders. The results show that target CEO equity-based golden parachutes reduce the likelihood of M&A completion, and enhance target shareholder return in completed M&A deals. Overall, this paper sheds new light on equity-based incentives and determinants of M&A patterns.

THE EFFECTS OF CORPORATE GOVERNANCE REFORMS ON MERGERS AND ACQUISITIONS IN JAPAN

Wolfgang Bessler, Justus Liebig University Giessen
Gerrit Henrich, Justus Liebig University Giessen

ABSTRACT
Fast trading competition and information diffusion naturally arise with the development of trading technology such as HFT and increasing disclosure requirements from market regulators. We study the role of fast trading at different speed by introducing speed competition in a financial market with information diffusion process. Such information diffusion reflects that information diffuses gradually in financial markets or different assessment or view of information among investors, which can be significant and persistent. By introducing trading speed competition in to a benchmark information diffusion model, we show that trading speed competition and faster information diffusion can impede the market quality. Improvement on market transparency and trading technology through speed up the information transparency and fast-trading competition can have unintended and negative impact on market quality.

STREAM E, SESSION 4

A MULTI-FACTOR MODEL OF IDIOSYNCRATIC VOLATILITY

Thijs van der Heijden, University of Melbourne
Qi Zeng, University of Melbourne
Yichao Zhu, Australian National University

ABSTRACT
We propose a multi-factor model to explain the co-movement in the cross-section of idiosyncratic equity return volatilities (IVOL), motivated by a standard dynamic capital structure model in which the CAPM holds for asset returns. Empirically we show that three factors capture the IVOL co-movement: average IVOL (CIV) to account for time-series variation generated by time-varying average leverage, and leverage (LIV), and size (SIV) to explain the cross-section. The negative return-IVOL relation is mainly from the common component of IVOL, not the residual.

MODELING VXX UNDER JUMP DIFFUSION WITH STOCHASTIC LONG-TERM MEAN

Sebastian A. Gehricke, University of Otago
Jin Zhang, University of Otago

ABSTRACT

We develop a model for the VXX, the most actively traded VIX futures exchange-traded note (ETN), using Duffie, Pan, and Singleton's (2000) affine jump diffusion, where the volatility process has jumps and a stochastic long-term mean. We calibrate the model parameters using the VIX term structure data and show that our model provides the theoretical link between the VIX, VIX futures and the VXX. Our model can be used for pricing VIX futures, the VXX and other short-term VIX futures exchange-traded products (ETPs). Our model could be extended to price options on the VXX and other short-term VIX futures ETPs.

COMMODITY RETURN PREDICTABILITY: EVIDENCE FROM IMPLIED VARIANCE, SKEWNESS AND THEIR RISK PREMIA

Marinela Finta, Singapore Management University
José Renato Haas Ornelas, Banco Central do Brasil

ABSTRACT

This paper investigates the role of realized, implied and risk premium moments (variance and skewness) for commodities' future returns. We estimate these moments from high frequency and commodity futures option data that results in forward-looking measures. Risk premium moments are computed as the difference between implied and realized moments. We highlight, from a cross-sectional and time series perspective, the strong positive relation between commodity returns and implied skewness. Moreover, we emphasize the high performance of skewness risk premium. Additionally, we show that their portfolios exhibit the best risk-return trade-off. Most of our results are robust to other factors such as the momentum and roll yield.

STREAM F, SESSION 1

EXIT AS GOVERNANCE: QUALIFIED FOREIGN INSTITUTIONAL INVESTORS, STATE CONTROL, AND STOCK PRICE CRASH RISK

Feng Xie, Massey University
Jing Chi, Massey University
Jing Liao, Massey University

ABSTRACT

This study investigates the impact of the Qualified Foreign Institutional Investors (QFIIs) on stock price crash risk in China through a governance mechanism, threat of exit. Using a sample of 1,944 Chinese A-share listed firms over the period from 2003 to 2015, this study finds that investment horizon and existence of multiple QFIIs in the portfolio firm exert credible exit threat to discipline management, and in turn, reduce stock price crash risk. It further provides empirical evidence that QFIIs exert a strong governance force through site visits to the portfolio firms, and in turn, reduce stock price crash risk. The results are robust when controlling for possible endogeneity.

TOURNAMENT INCENTIVES AND INSTITUTIONAL OWNERSHIP

Chia-Feng (Jeffrey) Yu, University of Adelaide
Paul Brockman, Lehigh University
Chee Cheong, University of Adelaide
Ralf Zurbruegg, University of Adelaide

ABSTRACT

This study examines the impact of internal tournament competition on corporate ownership structure. We posit that institutional investors are sophisticated and understand the incentive-alignment mechanism of internal tournaments, thereby being attracted to buying and holding tournament-oriented firms. We first formalize this insight in a model and then test its empirical implications using 25 years of market data. We find strong support for our hypothesis that internal tournament incentives leads to higher institutional ownership and that these findings are robust to alternative measures of tournament competition and to potential endogeneity issues. Overall, this study uncovers a novel linkage between corporate tournaments and institutional ownership.

EFFECTS OF EARNINGS MANAGEMENT STRATEGY ON EARNINGS PREDICTABILITY: A QUANTILE REGRESSION APPROACH BASED ON OPPORTUNISTIC VERSUS EFFICIENT EARNINGS MANAGEMENT

Leon Li, University of Waikato

ABSTRACT

This study argues that the managerial choice of earnings management strategy may be contingent upon a firm's information asymmetry and such a strategy affects the firm's earnings predictability. Measuring the information asymmetry by earnings predictability based on the subsequent dispersion in analysts' forecasts and employing a quantile regression to analyze 28,383 U.S. firm-year observations obtained from 1988 to 2014, this study reports that the effect of earnings management strategy on earnings predictability is non-uniform. Specifically, the amount of absolute discretionary accruals negatively (positively) relate to the subsequent dispersion in analysts' forecasts in the low (high) quantiles of the latter. These results support our hypothesis that a firm may implement efficient or opportunistic earnings management strategies according to the degree of information asymmetry between the firm's management and corporate outsiders.

STREAM F, SESSION 2

CONTROL BEYOND OWNERSHIP: SUBCONTRACTORS OF LARGE BUSINESS GROUPS

Woojin Kim, Seoul National University Business School

ABSTRACT

Using unique data on subcontractors of the 34 largest business groups in Korea, we find that the profit rates of the subcontractors of a large business group are more similar to one another than they are to the rates of their industry peers. The pattern is more pronounced when the subcontractors' profit rates are low, but mitigated following a regulatory change in 2010 which banned the large business groups from coercively obtaining production cost information from their subcontractors. We further find that prices of the supplied product decrease when quantities increase for these subcontractors, and that their revenue-production elasticity is much lower than their non-subcontractor counterparts. As a participating incentive in such unequal economic partnership, we find large volume benefits to these subcontractors in their sales and operating income, together with the reduced overhead cost and higher IPO probability. Overall, our results suggest that large business groups in emerging markets may de facto exercise their control beyond the formal ownership boundary based on their unbalanced market power and reputation.

MILITARY EXECUTIVE, CORPORATE FRAUD AND PERFORMANCE IN CHINA

Lin Lin, Massey University
Liping Zou, Massey University
Nhut Hoang Nguyen, Massey University

ABSTRACT

It is commonly believed that military service places a strong emphasis on duty, dedication, and firm will, thus would instil self-discipline and promote ethical behaviour. This paper investigates the relationship between corporate executives with military experience and investment decision, financial policy, ethical behaviour, and firm performance, in a Chinese setting. Results suggest that Chinese military executives are more likely to commit corporate frauds, compared to their non-military peers. Sociology and psychology research conclude that military experience leads to aggressiveness, overconfidence, and is associated with an increase in risk-taking behaviour. We find in China, firms run by military executives invest less, have lower expenditure on research and development, take more risk, retain less earnings, and under-perform. Further robustness test using propensity score matching approaches, confirms the overall findings in the basic panel specifications. Our results also indicate that military executives hold lower level of academic degree relative to non-military executives. This may help to explain the unethical behaviour from the military executives. This paper shed some extra lights on issues related to executives with military experiences on corporate governance, corporate activities, as well as the role that ethics play in corporate world, an issue of particular interest in China.

DISTRACTED AUDITORS

Ying Dou, Monash University
Emma Zhang, Monash University

ABSTRACT

An auditor is unlikely to allocate equal or time-invariant amounts of effort to all clients in the portfolio. This study exploits exogenous attention shocks to assess the value of auditors. When an audit office is temporarily distracted, some of its clients experience a sharp decline in auditor attention (i.e., the treatment firms), while others do not (i.e., the control firms). The treatment clients experience a 0.002 more negative CAR than the control clients, especially if the distraction is strong or the clients are relatively unimportant to the audit office. In the longer term, auditor distraction causes higher levels of earnings management, crash risk, stock return volatility, and directors' workload. We conduct several robustness checks including analyzing a positive shock to auditor attention that makes an auditor less distracted.

AWARD-WINNING CEOS AND CORPORATE INNOVATION

Hang Pham, Monash University
Chris Veld, Monash University
Yulia Veld-Merkoulova, Monash University

ABSTRACT

We examine the roles of award-winning chief executive officers (CEOs) in corporate innovative activities. We find no significant difference in corporate innovation outputs between media award-winning CEOs and a matched sample of predicted winners. However, firms headed by winners of non-media awards generate, on average, 0.54% more patents and 0.35% more citations per patent the year after the award. Firms led by winners of non-media awards also exhibit a better employee treatment following the award year, which results in better employee commitment and productivity, eventually leading to higher innovation success. Firms headed by winners of media awards attract a larger coverage of financial analysts following the award year, which exerts more pressure on managers to meet short-term goals and hence impedes the firm's long-term innovation projects. Our findings are consistent with the view that firms led by media award-winning CEOs do not always engage in more innovative activities because of the "burden of celebrity." Winners of non-media awards are not affected by this burden.

THE LEVERAGING OF SILICON VALLEY: VENTURE DEBT IN THE INNOVATION ECONOMY

Jesse Davis, University of North Carolina
Adair Morse, University of California
Xinxin Wang, University of North Carolina

ABSTRACT

Venture debt is now observed in 28-40% of venture financings. We model and document how this early-stage leveraging can affect firm outcomes. In our model, a venture capitalist maximizes firm value through financing. An equity-holding entrepreneur chooses how much risk to take, trading o↵ the financial benefit against his preference for continuation. By extending the runway, utilizing venture debt can reduce dilution, thereby aligning the entrepreneur's incentives with the firm's. The resultant risk-taking increases firm value, but the leverage puts the startup at greater risk of failure. Empirically, we show that early-stage ventures take on venture debt when it is optimal to delay financing: such firms face higher potential dilution and exhibit lower pre-money valuations. Consistent with this notion, such firms take eighty-two fewer days between financing events. This strategy induces higher failure rates: $125,000 more venture debt predicts 6% higher closures. However, conditional on survival, venture debt-backed firms have 7-10% higher acquisition rates. Our study highlights the role of leverage in the risking-up of early-stage startup firms. Aggregation of these tradeoffs is important for understanding venture debt's role in the real economy.

STOCK MARKET LIBERALIZATION AND INNOVATION

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Xuan Tian, Tsinghua University
Bohui Zhang, Chinese University of Hong Kong
Wenrui Zhang, Chinese University of Hong Kong

ABSTRACT

We investigate the effect of stock market liberalization on technological innovation. Using a sample of 20 economies that experience stock market liberalization, we find that these economies exhibit a higher level of innovation output after liberalization, and this effect is disproportionately stronger in more innovative industries. The relaxation of financial constraints (the financing channel) and enhanced risk-sharing between domestic and foreign investors (the risk-sharing channel) are two plausible mechanisms that allow stock market liberalization to promote innovation. We, however, do not find supportive evidence for the corporate governance channel. Finally, we show that technological innovation is a mechanism through which stock market liberalization affects economic growth. Our paper provides new insights into the real effects of stock market liberalization on growth and on the economy.

STREAM F, SESSION 4

PERFORMANCE EVALUATION OF CHINESE EQUITY ANALYSTS

Yeguang Chi, Shanghai Jiaotong University

ABSTRACT

I construct and study a comprehensive novel dataset on Chinese equity analysts. I find the analysts possess significant forecasting skill. First, I find that more favorable recommendations predict better stock performance for at least six months after the recommendation. Second, the value of analyst recommendations is larger for smaller stocks and for the initial analyst coverage on a given stock. Third, I find evidence for analysts' learning on the job. Fourth, I observe some persistence in analyst skill, but it quickly mean-reverts. Finally, I show a simple feasible trading strategy following analyst recommendations to outperform the market by 11.60% annually.

DO SELL-SIDE ANALYSTS' QUALIFICATIONS MITIGATE THE ADVERSE EFFECTS OF ACCOUNTING REPORTING COMPLEXITY?

Rani Hoitash, Bentley University
Udi Hoitash, Northeastern University
Ari Yezegel, Bentley University

ABSTRACT

The renowned statistician George E. P. Box wrote that "essentially, all models are wrong, but some are useful." This is certainly true in finance, where many models and techniques that have been extensively empirically invalidated remain in widespread use, not just in academia, but also (perhaps especially) among practitioners. At times, the way models are used directly contradicts the model assumptions: As observed market prices change, parameters in option pricing models, which are assumed to be time–invariant, are recalibrated, often on a daily basis. Incorrect models, and model misuse, represent a source of risk that is being increasingly recognised—this is called "model risk." In this paper, we focus on two particular aspects of model risk: the inability of a chosen model to fit observed market prices at a given point in time (calibration error) and the model risk due to recalibration of model parameters (in contradiction to the model assumptions). In this context, we follow the approach of Glasserman and Xu (2014) to use relative entropy as a consistent premetric in order to quantify these two sources of model risk in a common framework and consider the trade–offs between them when choosing a model and the frequency with which to recalibrate to the market. We illustrate this approach applied to the models of Black and Scholes (1973) and Heston (1993), using option data for Apple (AAPL) and Google (GOOG).

ANALYST TIPPING: EVIDENCE ON FINNISH STOCKS

Reuben Segara, University of Sydney

ABSTRACT

Market analysts typically present their views on firms through publicly released recommendation reports and revisions, in which they 'upgrade' or 'downgrade' their stock picks. Traders can earn substantial profits if they have access to the information in these reports in advance of their public release. Analysts have an incentive to tip their major clients by earning commission on informed trades. Using data from the Nasdaq Helsinki between 2001 - 2014, we find evidence of analyst tipping. Trading patterns reveal that domestic institutional investors buy recommended stocks from four days prior to upgrades and sell from one day prior to downgrades. We also find evidence that the Market Abuse Directive slightly reduced analyst tipping in the two years following its implementation.

STREAM G, SESSION 1

FIRM DIVERSIFICATION AFFECTS LIQUIDITY MANAGEMENT: THE ROLE OF LINES OF CREDIT

Christina Atanasova, Simon Fraser University

ABSTRACT

I examine whether organizational form matter for corporate liquidity, focusing on the effect of business diversification on firms' choice between bank lines of credit and cash holdings. I find that diversified firms have relied on bank lines of credit more than their focused counterparts, as they have increased their liquidity in the last two decades. I test several theoretical explanations for this finding. First, I find no evidence that diversified firms with lower aggregate risk (beta) have a higher probability of obtaining credit lines or use higher amounts of revolving credit than the higher beta firms. However, high idiosyncratic risk of borrowers hinders their access to credit lines. This effect is larger for smaller and for non-investment grade firms. My results are consistent with the monitored liquidity insurance hypothesis, where diversified firms with lower liquidity risk and hedging demand use more bank lines of credit.

EQUITY ISSUES AND DEBT RESTRUCTURING: EVIDENCE FROM AN EMERGING MARKET

YoungKyung Ko, UNITAR International University

ABSTRACT

This paper examines whether new equities in an emerging economy are issued more to finance new investment opportunities or to recapitalize existing assets in place. Using a sample of 3,184 follow-on primary common stock issues offered by Korean publicly-traded firms between 2000 and 2013, we find that more than a third of the total proceeds are issued to creditors in direct exchange for debt. We also find that equity issuers are in severe financial distress prior to the issue, and more likely to experience a subsequent change in control. The proceeds are used more to replace existing debt than to increase R&D. These findings suggest that one important function of new equities in emerging markets may be to recapitalize existing assets through debt restructuring or control transfers than to finance growth options.

RISK-SENSITIVE BASEL REGULATIONS AND FIRMS' ACCESS TO CREDIT: DIRECT AND INDIRECT EFFECTS

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Joshy Jacob, Indian Institute of Management, Ahmedabad
Sanket Mohapatra, Indian Institute of Management, Ahmedabad

ABSTRACT

This paper examines the impact of risk-sensitive Basel regulations on access to debt and cost of debt for firms with varying characteristics around the world, and investigates how firms cope through reliance on alternative financing sources and adjustments to their capital investments. We find that the implementation of Basel II regulations had a significant impact on the credit availability for firms. The results indicate that debt financing has become more difficult for the lower-rated firms in the post-Basel II period. Firms mitigate the shortage in bank credit induced by the regulation through a combination of higher trade credit, lower pay-outs, and reduced capital investments. In particular, lower-rated firms substitute reduced bank credit with increased reliance on accounts payables. Such firms also lower their payouts to shareholders, in an effort to maintain their liquidity. We also find that the lower-rated firms experience a significant decline in their capital investment in the post-Basel II period, implying an active response to the deterioration in access to credit. Our key results are robust to alternative estimations that control for changes in credit demand and credit supply shocks, and inclusion of bank-specific variables obtained from loan-level information. The findings of the paper substantially contribute to the understanding of the real effects of risk-sensitive bank capital regulations.

STREAM G, SESSION 2

THE IMPACT OF CROSS-LISTING ON HIGH-FREQUENCY TRADING

Olga Dodd, Auckland University of Technology
Bart Frijns, Auckland University of Technology
Ivan Indriawan, Auckland University of Technology
Roberto Pascual, University of the Balearic Islands

ABSTRACT

We empirically examine the impact of US cross-listing on high-frequency trading (HFT) of Canadian stocks during the period 2005–2017. We document that Canadian stocks cross-listed on the NYSE have higher levels of HFT in their home market compared their non-cross-listed counterparts. We also find a significant increase in HFT of Canadian cross-listed stocks in the home market following the cross-listing event. In contrast, the introduction of HFT tax in Canada in April 2012 has a significant negative impact on HFT of Canadian cross-listed stocks. Finally, we test potential channels of the documented increase in HFT after cross-listing. We document a significant increase in HFT of cross-listed stocks around US news announcements. We also test cross-market arbitrage channel and find that HFT in the US market significantly increases HFT in Canadian market. However, we find no evidence that HFT activity is related to the level of mispricing between the US and Canadian markets.

KEYNES'S BEAUTY CONTEST IN STOCK MARKETS: AN EXPERIMENTAL STUDY

Shinichi Hirota, Waseda University
Takao Kusakawa, Kochi University of Technology
Tatsuyoshi Saijo, Kochi University of Technology
Yasuhiko Tanigawa, Waseda University

ABSTRACT

We experimentally examine the validity of Keynes's 'beauty contest' analogy in stock markets: professional investors trade based not on their own fundamental valuations of stocks but on others' valuations. To this end, we designed a laboratory stock market with informed and less-informed traders and explored whether the behaviour of the former is affected by the valuations of the latter. We found informed traders participate in the beauty contest: their trades and market prices are affected by less-informed traders' valuations. Our experimental evidence suggests real-world stock prices are likely to fluctuate due to the mass psychology of the market.

DO INVESTORS DIFFERENTIATE BETWEEN UNCERTAINTY AND RISK: EVIDENCE FROM TRADING AROUND U.S. MACROECONOMIC NEWS

Bao Doan, University of New South Wales
F. Douglas Foster, University of Sydney
Li Yang, University of New South Wales

ABSTRACT
We provide new evidence on the impact of changes in risk and uncertainty on market participation (trading activity) by investigating these effects simultaneously. We document that a sustained increase in trading activity is coupled with a rise in risk and dramatic drop in uncertainty after the Federal Open Market Committee (FOMC) meetings. Following the non-FOMC news releases, trading activity increases modestly with an increase in risk, but unchanged uncertainty. The evidence suggests that uncertainty affects investors decision to participate to market more than risk does. Limited participation due to higher uncertainty before the FOMC news releases may induce premium to uncertainty in addition to risk that explains the well-documented pre-FOMC announcement drift (Lucca and Moench, Journal of Finance, 2015).

STREAM G, SESSION 3

LINGUISTIC COMPLEXITY AND COST OF EQUITY CAPITAL

Alexandre Garel, Auckland University of Technology, Labex ReFi
Aaron Gilbert, Auckland University of Technology
Ayesha Scott, Auckland University of Technology

ABSTRACT
In this paper, we investigate how linguistic complexity relates to a company's cost of equity capital. When management uses linguistic complexity to obfuscate information, we expect shareholders to perceive a greater risk and hence to require a greater return on equity. Our results show that, within a given firm, a decrease in the readability of the annual report is associated with an increase in the cost of equity capital. Greater linguistic complexity may result from managerial obfuscation but can also be a by-product of greater intrinsic business complexity. Complementary analyses support the influence of linguistic complexity on the cost of equity capital through an obfuscation channel. Finally, we provide evidence that the effect of linguistic complexity is robust to controlling for the quantity of information disclosed.

MEDIA TONE AND CEO HUMAN CAPITAL

Jiexiang Huang, University of Otago
Helen Roberts, University of Otago
Eric K.M. Tan, University of Queensland

ABSTRACT
This study investigates the direct association between media tone and CEO human capital through the effects of media tone on CEO opportunity pay. Using CEO pay slice (CPS) as a measure of CEO opportunity pay, we find that negative media tone is associated with a reduction in CEO opportunity pay. The finding extends the theoretical framework explaining the importance and influence of media on corporate governance. Consistent with theoretical predictions, we find that the media serve as an effective external governance mechanism in the presence of firms with good internal governance. The evidence suggests that media tone plays an important role as an external monitor, moderating corporate governance through the dissemination of news.

WHO BENEFITS FROM BROKER ID DISCLOSURE?

Juliane D. Krug, University of New South Wales
Peter L. Swan, University of New South Wales
Joakim Westerholm, University of Sydney

ABSTRACT
Unlike virtually all market microstructure research that is, of necessity, restricted to actual trades, we analyse the underlying orders prior to their disguise in the form of trades to examine trading cost implications for institutional investors and households separately. We investigate three unique policy changes conducted on Finnish NASDAQ OMX Helsinki stock market in March 2006, June 2008 and April 2009. We find for all participants that transaction costs substantially improve with an enhanced level of information disclosure. The reintroduction of ex post broker identities improved transaction costs by over 3.7 bps per order. Overall market volume declined by 12% (trade count, 30%) when ex ante broker identities were removed in the first event and by a further 8% (trade count, 18%) in the second when ex post identities were removed.

STREAM G, SESSION 4

PILOT CEOS AND CORPORATE CASH HOLDINGS

Lili Chen, Australian National University
Lingwei Li, Australian National University
Marvin Wee, Australian National University

ABSTRACT
We examine the effect of situation awareness developed from aviation training and experiences on corporate cash policies. We find that firms led by pilot CEOs are more likely to have higher cash holdings and higher market value of cash holdings. The findings suggest that pilot CEOs have greater situation awareness, and that these CEOs are more likely to plan ahead to cope with future liquidity needs. In additional tests, we find the level of pilot certification is associated with corporate cash holdings and the value of cash holdings. These findings provide further evidence that situation awareness can be developed through training and aviation experience. We also find that the effect of pilot CEOs on corporate cash holdings is more pronounced for firms with high growth opportunities and firms with financial constraints. These results indicate that pilot CEOs tend to hold more cash when they are aware of future opportunities and risks.

MILITARY CEOS AND BANK LOAN CONTRACTS

Huu Nhan Duong, Monash University
Harvey Nguyen, Massey University
Mia Hang Pham, Monash University
Van Hoang Vu, University of Newcastle

ABSTRACT
We show that banks charge lower loan costs for firms run by CEOs with a military background. Our findings are robust to controlling for other CEO characteristics and addressing endogeneity issues using propensity score matching and instrumental variable analysis. Firms with military CEOs are also subject to lower collateral requirements and covenant restrictions. Further results suggest that the effect of military CEOs on bank loans arises as a result of the role of military CEOs in improving firm information environment and reducing firm risk. Overall, our findings highlight the importance of CEO military experience in shaping the costs and designs of private debt contracts.

INVENTOR CEOS

Emdad Islam, University of New South Wales
Jason Zein, University of New South Wales

ABSTRACT
One-in-five U.S. high-technology firms are led by CEOs with hands-on innovation experience as inventors. Firms led by "Inventor CEOs" are associated with higher quality innovation, especially when the CEO is a high-impact inventor. During an Inventor CEO's tenure, firms file a greater number of patents and more valuable patents in technology-classes where the CEO's hands-on experience lies. Utilizing plausibly exogenous CEO turnovers to address the matching of CEOs to firms suggests these effects are causal. The results can be explained by an Inventor CEO's superior ability to evaluate, select and execute innovative investment projects related to their own hands-on experience.

STREAM H, SESSION 1

SPEED AND EXPERTISE IN STOCK PICKING: OLDER, SLOWER, AND WISER?

Romain Boulland, ESSEC Business School
Chay Ornthanalai, University of Toronto
Kent L. Womack, University of Toronto

ABSTRACT
There are significant differences among sell-side analysts in how frequently they revise recommendations. We show that much of this variation is an analyst-individual trait. Analysts who change their recommendations more slowly make recommendations that are more influential and generate better portfolio returns. Examining the sources of differing investment value, we find that recommendations of slower-revising analysts are more likely to "lead the pack," and revised following corporate disclosures that are harder to assess by non-stock experts. Analysts tend to change recommendations less frequently as their career progresses; however, recommendation speed-style is the only robust predictor of their recommendation value.

DELEVERAGING, MARKET LIQUIDITY, AND FUNDING LIQUIDITY CRISIS: A NATURAL EXPERIMENT

Buhui Qiu, University of Sydney
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ABSTRACT

Does deleveraging affects financial institutions' funding market liquidity and funding constraints? We use the forced deleveraging of structured mutual funds during the 2015 Chinese stock market crash as a natural experiment to study the causal impact of deleveraging on market liquidity, funding constraint and performance. Our regression-discontinuity-design analysis shows that deleveraging has a large and negative impact on fund equity unit market liquidity. Our difference-in-differences analysis further shows that deleveraging results in large decreases in fund flows, stock and cash holdings, and fund performance in subsequent quarters, with the impact being channelled through the deterioration of equity unit market liquidity.

STREAM H, SESSION 2

THE DOLLAR AHEAD OF FOMC TARGET RATE CHANGES

Nina Karnaukh, Ohio State University

ABSTRACT

I find that the U.S. dollar appreciates over the two-day period before contractionary monetary policy decisions at scheduled Federal Open Market Committee (FOMC) meetings and depreciates over the two-day period before expansionary monetary policy decisions. The federal funds futures rate forecasts these dollar movements with a 22% R^2. A high federal funds futures spread three days in advance of an FOMC meeting not only predicts the target rate rise, but also predicts a rise in the dollar over the subsequent two-day period. A simple trading strategy, which exploits this predictability, exhibits a 0.93 Sharpe ratio. My findings imply that information about monetary policy changes is reflected first in the fixed income markets, and only later becomes reflected in currency markets.

FX PREMIA AROUND THE CLOCK

Ingomar Krohn, University of Warwick
Philippe Mueller, University of Warwick
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ABSTRACT

We dissect return dynamics in the foreign exchange market into different components over the 24 hour day and revisit well-known trading strategies such as carry and momentum. Using high-frequency data on G10 currencies we show that positive average returns for going long foreign currencies are almost entirely generated during U.S. main trading hours. During U.S. overnight periods on the other hand, all but one (the Yen) depreciate versus the U.S. dollar. Returns from the carry and dollar carry strategies are largely generated intraday, while momentum strategies are most profitable overnight. This new evidence sheds light on our understanding of currency markets and has important implications for future theoretical and empirical work.

STREAM H, SESSION 3

LIQUIDITY CONSTRAINTS, HOME EQUITY AND RESIDENTIAL MORTGAGE LOSSES

Hung Do, Massey University
Daniel Rösch, University of Regensburg
Harald Scheule, University of Technology, Sydney

ABSTRACT

This paper analyses how borrower liquidity constraints and home equity drive the realized loss rates given mortgage default using loan-level data. We define defaulted loans with zero loss as cures and those with non-zero loss as non-cures. We find robust evidence that borrower liquidity constraints and positive equity explain cure, while negative equity explains non-zero loss. Borrower liquidity is related to the probability of cure in a v-shape fashion. The findings imply a separation of the cure and loss processes in mortgage loss models and their applications such as loan pricing and bank capital regulation.

HOME ADVANTAGE: THE HOME BIAS IN RESIDENTIAL REAL ESTATE

Danika Wright, University of Sydney
María B. Yanotti, University of Tasmania
Mardi Dungey, University of Tasmania & CAMA, Australian National University

ABSTRACT

Do home-biased residential real estate investors purchase and perform differently than those investors who look for opportunities further away? We identify a large sample of investors in the property market and measure the proximity of their purchase from their existing residential location. It is hypothesised that, in line with the results of home bias in other investment markets such as equities, there is a preference among residential real estate investors to buy nearby and that this bias affects their returns. The home bias can be used to optimise housing market lending criteria and to inform housing investment policy. It should also be considered in household portfolio allocation decisions and has broad implications for how psychology affects financial decision-making.

STREAM H, SESSION 4

LABOR AS A MONITOR OF THE CEO: EVIDENCE OF POWER PLAY IN OUTSOURCING

Jongmoo Jay Choi, Temple University
Jose M. Plehn-Dujowich, Powerlytics, Inc. USA
Ming Ju, Louisiana Tech University
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ABSTRACT

We develop a theory of a cooperative power game between the CEO and labor in corporate outsourcing, and test the model's predictions concerning the decision to outsource, division of profit, and post-outsourcing firm performance using a sample of outsourcing deals by U.S. firms. In accord with the model, we find that a firm is more likely to outsource the greater is CEO power, the greater is the firm's production cost, and the more homogeneous is the industry. And the outsourcing decision does not affect the CEO's share of profits, and CEO power is positively related to post-outsourcing performance. Interestingly poor prior firm performance moderates power dynamics between the CEO and labor. The implication is that in addition to the traditional governance mechanisms such as board institutional investors or market discipline, labor can also be an effective managerial monitor when the firm undergoes a major restructuring.

CONTRACTING FOR FINANCIAL EXECUTION

Markus Baldauf, University of British Columbia
Christoph Frei, University of Alberta
Joshua Mollner, Northwestern University

ABSTRACT

Financial contracts often specify reference prices whose values are undetermined at the time of contracting, which introduces the possibility that one side manipulates them to the detriment of the other. Motivated by this, we study a stylized model of financial contracting between a client, who wishes to trade a large position, and her broker. Depending on the contract offered, the broker may have an incentive to schedule the client's trades so as to manipulate the reference prices specified in the contract. We find that a simple contract based on the volume-weighted average price (VWAP) emerges as uniquely optimal solution to a principal-agent problem between the client and her broker. This result explains the popularity of guaranteed VWAP contracts in equity trading and suggests a direction for improvement upon the status quo in other asset classes.

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NOTES

NOTES

2019 New Zealand Derivative Markets Conference

The Auckland Centre for Financial Research at the Auckland University of Technology will be hosting its annual derivative markets conference. We invite academics and professionals to submit papers related to derivative markets and products.

DATE and LOCATION

8th - 9th August 2019, Queenstown, New Zealand

SPECIAL ISSUE

The Journal of Futures Markets has dedicated a special issue to selected papers presented at the conference.

KEYNOTE SPEAKER:

Prof. Robert I. Webb, University of Virginia, US

PAPER SUBMISSION:

The deadline for paper submission: 15 April 2019 through the conference website
Authors will be informed of the outcome of their submission by 15 May 2019.

REGISTRATION:

Deadline for registration is 15 June 2019.

FOR MORE INFORMATION, PLEASE VISIT:

https://acfr.aut.ac.nz/dmc2019

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