AUCKLAND CENTRE FOR FINANCIAL RESEARCH

AUCKLAND FINANCE MEETING

18 - 20 December 2017

Programme

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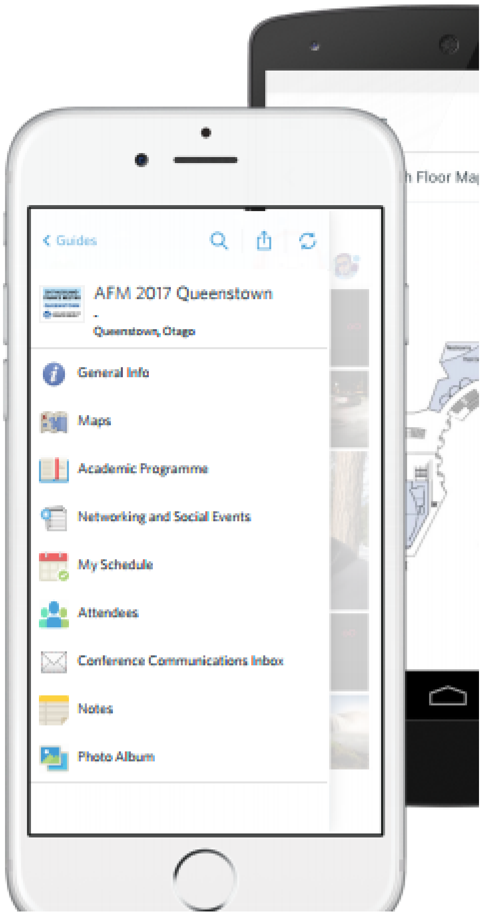

KIA ORA AND WELCOME

Welcome to the 2017 Auckland Finance Meeting hosted by the Auckland Centre for Financial Research at the Auckland University of Technology. This is the seventh year that the Auckland Centre for Financial Research organises the Auckland Finance Meeting, and we have come a long way since we started hosting the conference in 2011. Since its inception, the meeting's focus has always been on bringing leading researchers together to present and discuss high-quality and cutting-edge finance research. Over the years, the AFM has grown in quality, quantity and hopefully reputation. When we started in 2011, the AFM hosted less than 35 papers, selected from about 90 submissions. This year, the programme hosts about 120 papers that were selected from about 300 submissions. The focus of the AFM has always been on quality over quantity and I am pleased to say that all of the accepted papers are of a very high quality.

I would like to extend my appreciation to our valued sponsors for their continuing support: New Zealand Superannuation Fund, the Securities Industry Research Centre of Asia (SIRCA), CFA Institute, The Reserve Bank of New Zealand, 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 are involved in putting together a conference, and I would like to thank all of those involved. Special thanks to our keynote speakers, Professor Darrell Duffie and Professor Robert Webb. Their contributions to this conference are invaluable and I am very grateful for this.

I would also like to thank the members of the program selection committee, whose quality reviews are essential to the development of an outstanding conference programme.

I would like to thank Mrs Tracy Skolmen. She has done a magnificent job in putting many parts of this conference together. Her efforts have made the organisation and running of this event a very smooth process. Thank you so much Tracy!

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

Bart Frijns
Professor of Finance, Auckland University of Technology
Director of the Auckland Centre for Financial Research

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Joakim Westerholm, University of Sydney
Christian Wolff, University of Luxembourg
Shaojun Zhang, , Hong Kong
Remco Zwinkels, VU University Amsterdam

KEYNOTE SPEAKERS

Professor Darrell Duffie, Stanford University, USA
Professor Robert I. Webb, University of Virginia, Charlottesville, USA

MEETING ORGANIZERS

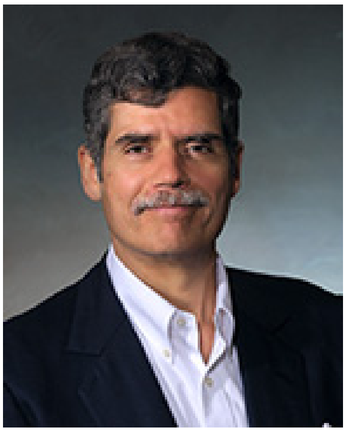
Professor Bart Frijns, Director of ACFR, Auckland University of Technology, New Zealand
Tracy Skolmen, Dept. Coordinator, Auckland University of Technology, New Zealand

KEYNOTE SPEAKERS

Professor Darrell Duffie, Stanford University, USA

Darrell Duffie is the Dean Witter Distinguished Professor of Finance at the Graduate School of Business, Stanford University. He is a member of the Financial Advisory Roundtable of the New York Federal Reserve Bank, a fellow and member of the Council of the Econometric Society, a research fellow of the National Bureau of Economic Research, a fellow of the American Academy of Arts and Sciences, and the immediate past president of the American Finance Association. Duffie's research concerns valuation and risk in financial markets. He is the author, most recently, of How Big Banks Fail— and What to Do about It and a coauthor of The Squam Lake Report—Fixing the Financial System (both published by Princeton University Press in 2010).

Professor Robert I Webb, University of Virginia, Charlottesville, USA



Bob Webb is the Paul Tudor Jones II Research Professor at the McIntire School of Commerce at the University of Virginia in Charlottesville, USA. Bob also held a joint appointment at the Korea Advanced Institute of Science and Technology business school for three years.

Bob serves as the Editor of the Journal of Futures Markets—a leading finance journal that specializes in academic articles on futures, options, and other derivative securities. His experience includes: trading fixed income securities for the Investment Department of the World Bank (Consultant); trading financial futures and options on the floor of the Chicago Mercantile Exchange (Member); designing new financial futures and option contracts for the Chicago Mercantile Exchange (Senior Financial Economist); analysing the effects of deregulating the financial services industry, among others, at the Executive Office of the President, Office of Management and Budget; (Senior Financial Economist) examining issues related to international futures markets at the U.S. Commodity Futures Trading Commission (Senior Financial Economist). Bob has also consulted on risk management issues for the Asian Development Bank in Manila. He formerly taught at the Graduate School of Business at the University of Southern California.

Bob earned his M.B.A. and Ph.D. degrees in finance from the University of Chicago and his B.B.A. degree from the University of Wisconsin at Eau Claire. Bob has published his research in a number of academic journals including the Journal of Econometrics, the Journal of Business and Economic Statistics, the Journal of Futures Markets, and the Southern Economic Journal among others. He has also published commentary on contemporary issues in the financial press including: The Wall Street Journal; Investor's Business Daily; the Nihon Keizai Shimbun; MK Economic Newspaper; and the Nikkei Weekly. He is the author or co-author of the books, Shock Markets: Trading Lessons for Volatile Times (FT [Financial Times] Press 2013); Trading Catalysts: How Events Move Markets and Create Trading Opportunities (FT Press 2007); and Macroeconomic Information and Financial Trading (Blackwell 1994).

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.

AFM 2017 Best Paper Award — NZD2,000

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AFM 2017 Runner-Up Award — NZD1,000

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2017 CFA Institute Asia-Pacific Capital Markets Research Award — USD1,000

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Pacific-Basin Finance Journal Research Excellence Award — USD1,000

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Sirca Paper Award — NZD1,000

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Doctoral Symposium Best Paper Award — NZD750

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VENUE INFORMATION

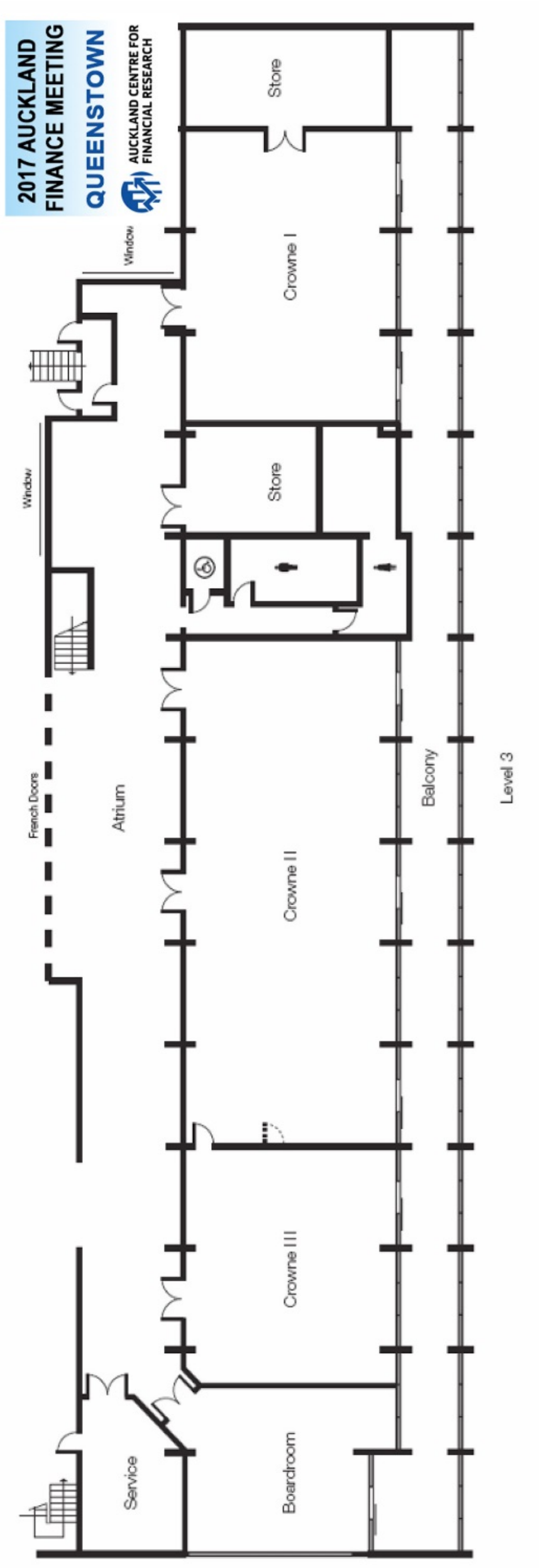
2017 AUCKLAND FINANCE MEETING
18 - 20 December 2017
Crowne Plaza
Queenstown, New Zealand

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

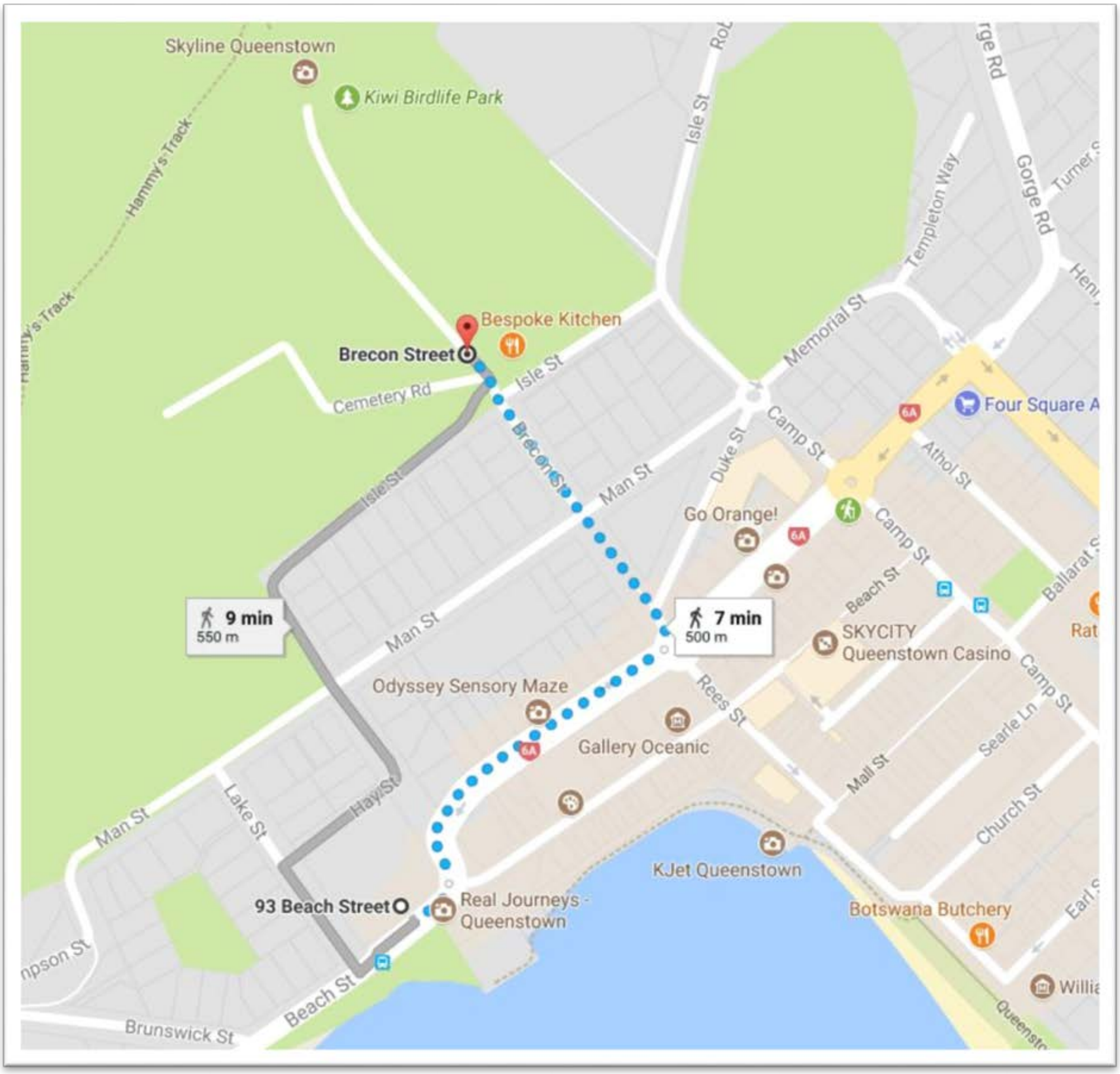


LOCATION MAP FOR GONDOLA TO SKYLINE

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

18 December 2017
Level 3 Conference Centre, Crowne Plaza, Queenstown, New Zealand

2017 DOCTORAL SYMPOSIUM ORGANISERS:

Alexandre Garel, Auckland University of Technology
Bart Frijns, Auckland University of Technology

Monday, 18th December 2017

07:30 - 08:00	**REGISTRATION**	**ATRIUM**
08:00 - 10:00	**SESSION 1**	**BOARDROOM**
CHAIR:	**PROFESSOR WOLFGANG BESSLER, JUSTUS-LIEBIG UNIVERSITY GIESSEN**	

Wolfgang Bessler is a professor of finance and banking at Justus-Liebig University 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 corporate and governance as well as asset management. 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, and European Financial Management, and European Journal of Operational Research, among others. He recently published articles on bank risk factors, systematic risk exposures of banks, hedging fixed income securities during the financial crises, hedge fund activism, portfolio optimization, and performance persistence.

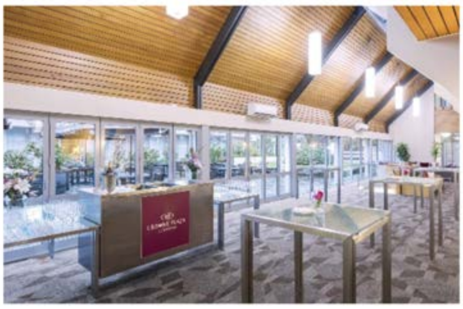
Paper Presentations

Paper: **Global warming and asset pricing**
Presenter: Mihir Tirodkar (University of Auckland)
Discussant: Xiping Lee (Massey University)

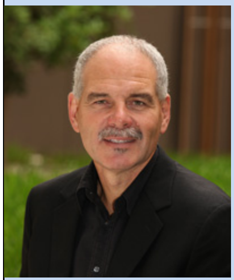
Paper: **Stock Market Liquidity and Trading Activity: Is China Different?**
Presenter: Rui Ma (Massey University)
Discussant: Shuang Liu (University of Sydney)

Paper: **Persistence of Hedge Funds**
Presenter: Mui Kuen Yuen (Massey University)
Discussant: Brett Doran (Griffith University)

10:00 - 10:30	**COFFEE/TEA BREAK**	**ATRIUM**



10:30 - 12:30	SESSION 2	BOARDROOM
CHAIR:	**PROFESSOR ROBERT FAFF, UNIVERSITY OF QUEENSLAND**	



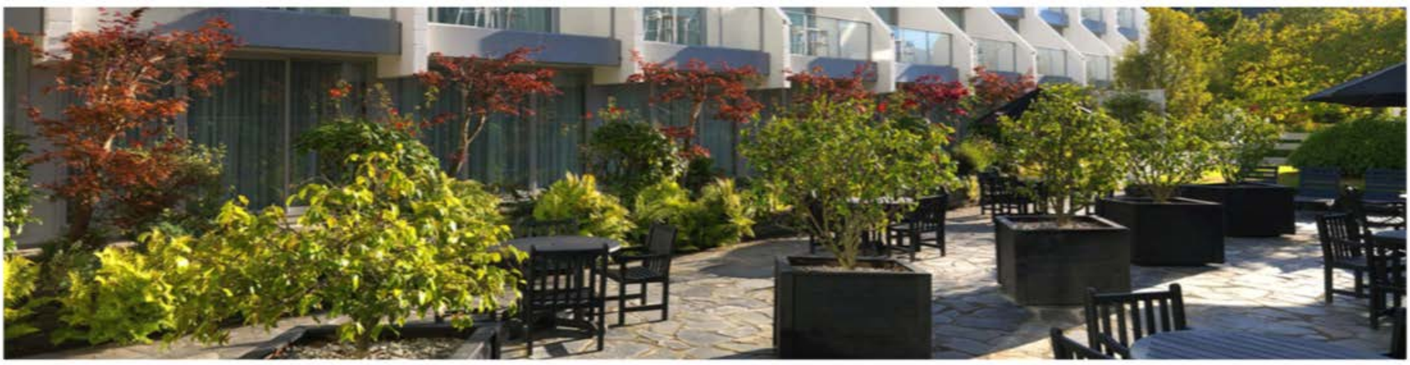
Robert's research interests include asset pricing, risk modelling, managed fund performance, behavioural finance, corporate governance and market efficiency.

Robert Faff has over 30 years' experience as an active researcher in the accounting and finance disciplines. He is currently Professor of Finance at the UQ Business School, University of Queensland. Prior to that he was Professor of Finance and the Director of Research in the Department of Accounting and Finance at Monash University (2002-2010). He is also a Visiting Professor at the University of Strathclyde, Glasgow (since 2001) and held a visiting professorship at the University of Leeds until early 2010 (2006-2010). Prior to this, for 6 years he held the position of Research Professor of Finance at RMIT (1996-2002). His research publications list exceeds 270 articles in a broad range of refereed international finance, accounting and economics journals (across 74 different titles) including the Journal of Financial Economics; Journal of Business; Journal of Financial and Quantitative Analysis; Journal of Banking and Finance; Energy Economics; Journal of Economic Behaviour and Organization and Journal of International Business Studies. A recent article in the Pacific-Basin Finance Journal (2005), "Ranking of Finance Programs in the Asia-Pacific Region: An Update", by Kam Chan, Carl Chen and Peter Lung, assessed the research productivity of 170 Finance Departments at universities based in the Asia Pacific region. The article ranks finance professors based on weighted Journal of Finance - equivalent page counts across 21 journals, and according to this measure over the period 1990-2004, Robert ranked number one in the Asia Pacific region. Over the years, he has been a CI on 13 successful ARC grants (SPIRT, Discovery and Linkage grants) attracting aggregate funding in excess of $2 million. In addition, Robert is the current Editor of Accounting and Finance (since 2002); has presented in excess of 100 research seminars/workshops at domestic and international universities; and has supervised in excess of 30 successful PhD students.

Paper Presentations

Paper:	**The Trimmed Bootstrap: Evidence from international markets and inflation adjusted returns**
Presenter:	Brett Doran (Griffith University)
Discussant:	Mui Kuen Yuen (Massey University)
Paper:	**What Drives the Dispersion Effect, Investor Sentiment or Conditional Equity Premium?**
Presenter:	Shuang Liu (University of Sydney)
Discussant:	Rui Ma (Massey University)
Paper:	**Investigation of systemic risk contribution using an accounting based measure**
Presenter:	Xiping Lee (Massey University)
Discussant:	Mihir Tirodkar (University of Auckland)

12:30 - 13:30	LUNCH BREAK	THREESIXTY



13:30 - 15:00	SESSION 3.1	BOARDROOM
CHAIR:	**PROFESSOR ANAND VIJH, UNIVERSITY OF IOWA**	

Anand Vijh is currently the Professor of Finance and the Marvin and Rose Lee Pomerantz Chair in Finance in the Tippie College of Business at the University of Iowa. He obtained his Ph.D. in Finance from the University of California at Berkeley in 1987 and has been an active researcher and educator since then. His research includes a diverse set of topics in corporate finance, investments, options, and accounting disclosure. He has written several papers in these areas, especially in the areas of mergers and acquisitions and divestitures. His research has been published in many top-tier journals in finance, including The Journal of Finance, Journal of Financial Economics, The Review of Financial Studies, The Journal of Business, and Management Science. Many times his research has been summarized and cited in the popular press, including the Wall Street Journal, the Economist, the New York Times, the Washington Post, and the Business Week. He has also taught a diverse set of courses, including Managerial Finance, Corporate Finance, Investments, Derivatives, and International Finance.

Paper Presentations

Paper:	**Market Competition and Corporate Innovation Relation: Revisit and New Insights**
Presenter:	Chong Chen (City University of Hong Kong)
Discussant:	John Fan Zhang (Auckland University of Technology)
Paper:	**Cultural Diversity and capital structures of multinational firms**
Presenter:	John Fan Zhang (Auckland University of Technology)
Discussant:	Chong Chen (City University of Hong Kong)

15:00 - 15:30	COFFEE/TEA BREAK	ATRIUM

15:30 – 17:00	SESSION 3.2	BOARDROOM

Paper:	**Watching the Wolves: Unveiling the Moderating Role of Corporate Governance on CEO Power**
Presenter:	Lubna Rahman (UNSW)
Discussant:	Xioli Wan (University of Auckland)
Paper:	**Optimal Contracting in a Principal-Agent-Subagent Model**
Presenter:	Qing Liu (Boston University)
Discussant:	Lubna Rahman (UNSW)
Paper:	**Financial Globalization and the International Transmission of Interest Rate Shocks: The Federal Reserve and China**
Presenter:	Xioli Wan (University of Auckland)
Discussant:	Qing Liu (Boston University)

17:30 - 18:30	WELCOME RECEPTION	ATRIUM/COURTYARD

PROGRAMME OVERVIEW – AUCKLAND FINANCE MEETING 2017

2017 AUCKLAND FINANCE MEETING
18 - 20 December 2017
Level 3 Conference Centre, Crowne Plaza, Queenstown, New Zealand

DAY 1	**Monday, 18 December 2017**	**13:00 - 17:00**
12:30 – 13:00	**REGISTRATION**	**ATRIUM**
13:00 - 15:00	**STREAM A**	
SESSION: A.1	**Analyst Coverage**	**CROWNE I**
SESSION: A.2	**Behavioral Finance**	**CROWNE II**
SESSION: A.3	**International Financial Markets**	**CROWNE III**
15:00 - 15:30	**COFFEE/TEA BREAK**	**ATRIUM**
15:30 - 17:30	**STREAM B**	
SESSION: B.1	**Quantitative Finance I**	**CROWNE I**
SESSION: B.2	**Market Microstructure I**	**CROWNE II**
SESSION: B.3	**Market Anomalies**	**CROWNE III**
17:30 - 18:30	**WELCOME RECEPTION**	**ATRIUM/ COURTYARD**

DAY 2	**Tuesday, 19 December 2017**	**08:00 - 17:45**
07:30 – 08:00	**REGISTRATION**	**ATRIUM**
08:00 - 10:00	**STREAM C**	
SESSION: C.1	**Quantitative Finance II**	**BOARDROOM**
SESSION: C.2	**Corporate Innovation**	**CROWNE I**
SESSION: C.3	**Banking**	**CROWNE II**
SESSION: C.4	**Market Microstructure II**	**CROWNE III**
10:00 - 10:30	**COFFEE/TEA BREAK**	**ATRIUM**
10:30 - 12:00	**STREAM D**	
SESSION: D.1	**Portfolio Optimization**	**BOARDROOM**
SESSION: D.2	**Mergers and Acquisitions I**	**CROWNE I**
SESSION: D.3	**Informed Trading**	**CROWNE II**
SESSION: D.4	**Panel Session: Meet the Editors**	**CROWNE III**
12:00 - 13:00	**LUNCH BREAK**	**THREESIXTY**

2017 AUCKLAND FINANCE MEETING
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13:00 - 14:00	**KEYNOTE: DARREL DUFFIE, STANFORD UNIVERSITY**	**CROWNE II**
Title:	**Bank Capital and Financial Market Liquidity**	
Abstract:	Space on the balance sheets of major dealer banks is much more expensive than before the Great Financial Crisis of 2007-2009. Increased regulatory capital requirements and much higher bank funding costs have added significant frictions to some important over-the-counter markets, especially those requiring collateral or involving the intermediation of low-risk assets. Some of the increased reluctance by big banks to use their balance sheets for intermediation is caused by increased funding costs that have nothing to do with regulatory capital requirements. Now that the creditors of big banks are less likely to be bailed out with government capital, they are requiring much higher credit spreads. Using models and evidence, I show that bank credits spreads are approximately equal to the extra return (above and beyond the fair market return) that banks must earn on their trading activities to compensate their shareholders for the use of their balance sheets.	
14:15 - 15:45	**STREAM E**	
SESSION: E.1	**Corporate Practices**	**BOARDROOM**
SESSION: E.2	**Mergers and Acquisitions II**	**CROWNE I**
SESSION: E.3	**Market Microstructure III**	**CROWNE II**
SESSION: E.4	**Bond Markets**	**CROWNE III**
15:45 - 16:15	**COFFEE/TEA BREAK**	**ATRIUM**
16:15 - 17:45	**STREAM F**	
SESSION: F.1	**Mutual Funds I**	**BOARDROOM**
SESSION: F.2	**Asset Pricing**	**CROWNE I**
SESSION: F.3	**Investments I**	**CROWNE II**
SESSION: F.4	**Corporate Finance I**	**CROWNE III**
18:00 - 19:00	firn Financial Research Network **WOMEN'S EVENT** *FIRN – the Financial Research Network – is the premier network of finance researchers across Australia and recently New Zealand. The FIRN Women initiative aims at providing networking support, professional skills development and a collective voice for women working in finance academia. FIRN Women in conjunction with AUT welcome you to networking drinks prior to the conference dinner to discuss gender equity in finance.*	**WAKATIPU ROOM SKYLINE QUEENSTOWN**
19:00 - 22:00	**CONFERENCE DINNER**	**WAKATIPU ROOM SKYLINE QUEENSTOWN**

(PLEASE DON'T FORGET YOUR LANYARD)

DAY 3	**Wednesday, 20 December 2017**	**08:00 - 17:45**
08:00 - 08:30	**REGISTRATION**	**ATRIUM**
08:30 - 10:00	**STREAM G**	
SESSION: G.1	**Credit Risk**	**BOARDROOM**
SESSION: G.2	**Corporate Governance**	**CROWNE I**
SESSION: G.3	**Corporate Finance II**	**CROWNE II**
SESSION: G.4	**Short-selling**	**CROWNE III**
10:00 - 10:30	**COFFEE/TEA BREAK**	**ATRIUM**
10:30 - 12:00	**STREAM H**	
SESSION: H.1	**Option Markets**	**BOARDROOM**
SESSION: H.2	**CEO Compensation**	**CROWNE I**
SESSION: H.3	**Corporate Finance III**	**CROWNE II**
SESSION: H.4	**Return Predictability**	**CROWNE III**
12:00 - 12:45	**LUNCH BREAK**	**THREESIXTY**
12:45 - 13:45	**KEYNOTE: ROBERT WEBB, UNIVERSITY OF VIRGINIA**	**CROWNE II**
Title:	**A Brief History of Financial Innovations and Markets**	
Abstract:	This talk discusses the origins and evolution of financial innovations and markets with particular emphasis on developments during the last 50 years in derivative securities and markets. The factors affecting: what we trade; where we trade; how we trade; and how quickly we trade are discussed and the implications for policymakers, practitioners and academics alike are assessed.	
13:45 – 14:00	**BEST PAPER AWARDS CEREMONY**	**CROWNE II**
14:15 - 15:45	**STREAM I**	
SESSION: I.1	**Asset Pricing Models**	**BOARDROOM**
SESSION: I.2	**Capital Structure**	**CROWNE I**
SESSION: I.3	**Mutual Funds II**	**CROWNE II**
SESSION: I.4	**Investments II**	**CROWNE III**
15:45 - 16:15	**COFFEE/TEA BREAK**	**ATRIUM**
16:15 - 17:45	**STREAM J**	
SESSION: J.1	**Corporate Finance IV**	**BOARDROOM**
SESSION: J.2	**Corporate Finance V**	**CROWNE I**
SESSION: J.3	**News and Market Reactions**	**CROWNE II**
SESSION: J.4	**Debt Contracts**	**CROWNE III**

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DAY 1	Monday, 18 December 2017	13:00 - 17:00
12:30 - 13:00	**REGISTRATION**	**ATRIUM**
13:00 - 15:00	**STREAM A**	
SESSION: A.1	**Analyst Coverage**	**CROWNE I**
CHAIR:	**Thomas Shohfi, Rensselaer Polytechnic Institute**	
Paper:	**Mutual Funds and Affiliated Analyst Recommendations: Optimism or Information Sharing?**	
Presenter:	Doowon Lee, University of Newcastle	
Discussant:	Thi Mai Lan Nguyen, University of Adelaide	
Paper:	**Resources and Workload: Heterogeneous Impact on Analysts' Performance**	
Presenter:	Thi Mai Lan Nguyen, University of Adelaide	
Discussant:	Thomas Shohfi, Rensselaer Polytechnic Institute	
Paper:	**Implications of Buy-Side Analysts' Participation in Public Earnings Conference Calls**	
Presenter:	Thomas Shohfi, Rensselaer Polytechnic Institute	
Discussant:	Doowon Lee, University of Newcastle	
SESSION: A.2	**Behavioral Finance**	**CROWNE II**
CHAIR:	**Bryan Lim, University of Melbourne**	
Paper:	**A New Index of Housing Sentiment**	
Presenter:	Lasse Bork, Aalborg University	
Discussant:	Bryan Lim, University of Melbourne	
Paper:	**Discretionary Trading and Inattention During the 2010 FIFA World Cup**	
Presenter:	Philip Drummond, Australian National University	
Discussant:	Lasse Bork, Aalborg University	
Paper:	**The Mean Streets of Sydney**	
Presenter:	Robert Durand, Curtin University	
Discussant:	Philip Drummond, Australian National University	
Paper:	**Disagreement is Bad News**	
Presenter:	Bryan Lim, University of Melbourne	
Discussant:	Robert Durand, Curtin University	
SESSION: A.3	**International Financial Markets**	**CROWNE III**
CHAIR:	**Ivalina Kalcheva, University of California - Riverside**	
Paper:	**Cross-Listing Decisions of Firms and Output Specialization**	
Presenter:	Abraham Agyemang, Massey University	
Discussant:	Jianfu Shen, Hang Seng Management College	
Paper:	**Monetary Policy and currency Returns: the Foresight Saga**	
Presenter:	Igor Pozdeev, the University of St. Gallen	
Discussant:	Abraham Agyemang, Massey University	
Paper:	**Fundamental Analysis and Stock Returns in International Equity Markets**	
Presenter:	Jianfu Shen, Hang Seng Management College	
Discussant:	Ivalina Kalcheva, University of California - Riverside	
Paper:	**Business Group Affiliation, Price Informativeness, and Asymmetric Corporate Disclosure: International Evidence**	
Presenter:	Ivalina Kalcheva, University of California - Riverside	
Discussant:	Igor Pozdeev, the University of St. Gallen	
15:00 - 15:30	**COFFEE/TEA BREAK**	**ATRIUM**

15:30 - 17:00	**STREAM B**	
SESSION: B.1	**Quantitative Finance I**	**CROWNE I**
CHAIR:	**Jose Da Fonseca, Auckland University of Technology**	
Paper:	**A Consistent Stochastic Model of the Term Structure of Interest Rates for Multiple Tenors**	
Presenter:	Erik Schlögl, University of Technology Sydney	
Discussant:	Jose Da Fonseca, Auckland University of Technology	
Paper:	**Addressing the Confusion Between Hyperbolic Memory and Regime Switching in the Second Moment: A Markov Regime-Switching Hyperbolic GARCH Model**	
Presenter:	Yanlin Shi, Macquarie University	
Discussant:	Wenjun Zhang, Auckland University of Technology	
Paper:	**Changing Probability Measures in GARCH Option Pricing Models**	
Presenter:	Wenjun Zhang, Auckland University of Technology	
Discussant:	Yanlin Shi, Macquarie University	
Paper:	**Semivariance and Semiskew Risk Premiums in Currency Markets**	
Presenter:	Jose Da Fonseca, Auckland University of Technology	
Discussant:	Erik Schlögl, University of Technology Sydney	
SESSION: B.2	**Market Microstructure I**	**CROWNE II**
CHAIR:	**Ivan Indriawan, Auckland University of Technology**	
Paper:	**Intended and Unintended Consequences of Dark and Block Trading Regulation**	
Presenter:	Angelo Aspiris, University of Sydney	
Discussant:	Ivan Indriawan, Auckland University of Technology	
Paper:	**Message Traffic Restrictions and Relative Pricing Efficiency: Evidence from Index Futures Contracts and Exchange-Traded Funds**	
Presenter:	Andrew Lepone, Macquarie University	
Discussant:	Po-Lin (Bolin) Wu, Thammasat University	
Paper:	**Capturing the Order Imbalance with Hidden Markov Model: A Case of SET50 and KOSPI50**	
Presenter:	Po-Lin (Bolin) Wu, Thammasat University	
Discussant:	Angelo Aspiris, University of Sydney	
Paper:	**Market Quality around Macroeconomic News Announcements: Evidence from the Australian Stock Markets**	
Presenter:	Ivan Indriawan, Auckland University of Technology	
Discussant:	Andrew Lepone, Macquarie University	
SESSION: B.3	**Market Anomalies**	**CROWNE III**
CHAIR:	**Tai-Yong Roh, Auckland University of Technology**	
Paper:	**Dividend Premium Uncovered**	
Presenter:	Minh Viet Do, Monash University	
Discussant:	Tai-Yong Roh, Auckland University of Technology	
Paper:	**Return Drift following Stock Split Announcements**	
Presenter:	Philip Gharghori, Monash University	
Discussant:	Dongcheol Kim, Korea University	
Paper:	**Post-Earnings-Announcement Drift: Expected Growth Risk or Limits-to-Arbitrage?**	
Presenter:	Dongcheol Kim, Korea University	
Discussant:	Philip Gharghori, Monash University	
Paper:	**What Drives the Dispersion Anomaly?**	
Presenter:	Tai-Yong Roh, Auckland University of Technology	
Discussant:	Minh Viet Do, Monash University	
17:30 - 18:30	**WELCOME RECEPTION**	**ATRIUM/ COURTYARD**

DAY 2	Tuesday, 19 December 2017	08:00 - 17:45
07:30 - 08:00	**REGISTRATION**	**ATRIUM**
08:00 - 10:00	**STREAM C**	
SESSION: C.1 **CHAIR:**	**Quantitative Finance II** **Stafford Johnson, Xavier University**	**BOARDROOM**
Paper: **Presenter:** **Discussant:**	**A Demand-Based Equilibrium Model of Volatility Trading** Jin Zhang, University of Otago M. Humayun Kabir, Massey University	
Paper: **Presenter:** **Discussant:**	**Ad-hoc Analytic Option Pricing under Nonlinear GARCH with NIG Lévy Innovations** M. Humayun Kabir, Massey University Zheyao Pan, University of Otago	
Paper: **Presenter:** **Discussant:**	**Levy (co)jumps across International Equity Markets and FOMC News Announcements** Zheyao Pan, University of Otago Stafford Johnson, Xavier University	
Paper: **Presenter:** **Discussant:**	**Skewness-Adjusted Calibration Model** Stafford Johnson, Xavier University Jin Zhang, University of Otago	
SESSION: C.2 **CHAIR:**	**Corporate Innovation** **Aurobindo Ghosh, Singapore Management University**	**CROWNE I**
Paper: **Presenter:** **Discussant:**	**Effects of Chinese Imports on U.S. Firm Innovation: Evidence from the US-China Permanent Normal Trade Relation** Tao Chen, Nanyang Technological University Aurobindo Ghosh, Singapore Management University	
Paper: **Presenter:** **Discussant:**	**Overconfident CEOs as Outside Directors: Are They Better Facilitators for Innovation?** Susanna Lu, University of Waikato Tao Chen, Nanyang Technological University	
Paper: **Presenter:** **Discussant:**	**Did the Sarbanes-Oxley Act Impede Corporate Innovation? An Analysis of the Unintended Consequences of Regulation** Aurobindo Ghosh, Singapore Management University Susanna Lu, University of Waikato	
SESSION: C.3 **CHAIR:**	**Banking** **Xin Liu, Australian National University**	**CROWNE II**
Paper: **Presenter:** **Discussant:**	**Technical Efficiency of Islamic and Conventional Banks: Evidence from the Stochastic Meta-frontier Directional Distance Function Approach** Md Safiullah, University of Newcastle Amir Khalilzadeh, University of Lausanne	
Paper: **Presenter:** **Discussant:**	**Does Securitization Impair Bank Lending Relationship?** Xin Liu, Australian National University Md Safiullah, University of Newcastle	
Paper: **Presenter:** **Discussant:**	**Monitoring Transmission of Systemic Risk: Application of PLS-SEM in Financial Stress Testing** Necmi Avkiran, University of Queensland Xin Liu, Australian National University	
Paper: **Presenter:** **Discussant:**	**Measuring the Capital Shortfall of Large U.S. Banks** Amir Khalilzadeh, University of Lausanne Necmi Avkiran, University of Queensland	

SESSION: C.4 **CHAIR:**	**Market Microstructure II** **Katja Ignatieva, University of New South Wales**	**CROWNE III**
Paper: **Presenter:** **Discussant:**	**Algos Gone Wild: Are Order Cancellations in Financial Markets Excessive?** Marta Khomyn, University of Technology Sydney Katja Ignatieva, University of New South Wales	
Paper: **Presenter:** **Discussant:**	**Price Discovery Contribution of Proprietary and Agency Algorithmic Traders** Samarpan Nawn, Indian Institute of Management Calcutta Roberto Pascual, University of the Balearic Islands	
Paper: **Presenter:** **Discussant:**	**Order Exposure in High Frequency Markets** Roberto Pascual, University of the Balearic Islands Marta Khomyn, University of Technology Sydney	
Paper: **Presenter:** **Discussant:**	**Forecasting High Frequency Intra-Day Electricity Demand using Temperature** Katja Ignatieva, University of New South Wales Samarpan Nawn, Indian Institute of Management Calcutta	
10:00 - 10:30	**COFFEE/TEA BREAK**	**ATRIUM**
10:30 - 12:00	**STREAM D**	
SESSION: D.1 **CHAIR:**	**Portfolio Optimization** **Wolfgang Bessler, University of Giessen**	**BOARDROOM**
Paper: **Presenter:** **Discussant:**	**An Exact Test of the Improvement of the Minimum Variance Portfolio** Paskalis Glabadanidis, University of Adelaide Wolfgang Bessler, University of Giessen	
Paper: **Presenter:** **Discussant:**	**Hedging with an Edge: Parametric Currency Overlay** Jurij-Andrei Reichenecker, University of Liechtenstein Paskalis Glabadanidis, University of Adelaide	
Paper: **Presenter:** **Discussant:**	**Portfolio Optimization with Industry Return Prediction Models** Wolfgang Bessler, University of Giessen Jurij-Andrei Reichenecker, University of Liechtenstein	
SESSION: D.2 **CHAIR:**	**Mergers and Acquisitions I** **Danika Wright, University of Sydney**	**CROWNE I**
Paper: **Presenter:** **Discussant:**	**How do Firms Finance Investments in Markets with Business Groups? Evidence from Acquisitions by India's Listed Firms** Varun Jindal, Indian Institute of Management Calcutta Danika Wright, University of Sydney	
Paper: **Presenter:** **Discussant:**	**Do Investors Pay Attention to Proxy Voting Outcomes? Evidence from the M&A Setting** Lingwei Li, Australian National University Varun Jindal, Indian Institute of Management Calcutta	
Paper: **Presenter:** **Discussant:**	**Do Firms Adjust Their Acquisition Strategies in Response to Changes in Financial Reporting Incentives?** Danika Wright, University of Sydney Lingwei Li, Australian National University	
SESSION: D.3 **CHAIR:**	**Informed Trading** **Aaron Gilbert, Auckland University of Technology**	**CROWNE II**
Paper: **Presenter:** **Discussant:**	**Country Origins and Types of Institutional Investors, and Firm-specific Information Flows:** Jeong-Bon Kim, City University of Hong Kong Aaron Gilbert, Auckland University of Technology	
Paper: **Presenter:** **Discussant:**	**How Smart Is Institutional Trading?** Jianfeng Hu, Singapore Management University Jeong-Bon Kim, City University of Hong Kong	
Paper: **Presenter:** **Discussant:**	**Do Penalties Matter? The Impact of the Introduction of Financial Penalties in the United Kingdom for Insider Trading** Aaron Gilbert, Auckland University of Technology Jianfeng Hu, Singapore Management University	

SESSION: D.4 **MODERATOR:**	**Panel Session: Meet the Editors** **Bart Frijns, Auckland University of Technology**	**CROWNE III**
Panelist	**Robert Faff, University of Queensland - Editor of the Pacific Basin Finance Journal** The *Pacific-Basin Finance Journal* is aimed at providing a specialized forum for the publication of academic research on capital markets of the Asia-Pacific countries. *Impact Factor: 1.754.*	
Panelist	**Robert I. Webb, University of Virginia - Editor of the Journal of Futures Markets** The *Journal of Futures Markets* chronicles the latest developments in financial futures and derivatives. It publishes timely, innovative articles written by leading finance academics and professionals. *Impact Factor: 1.291.*	
Panelist	**Xue-zhong (Tony) He, University of Technology Sydney - Editor of the Journal of Economics Dynamics and Control** The *Journal of Economics Dynamics and Control* provides an outlet for publication of research concerning all theoretical and empirical aspects of economic dynamics and control as well as the development and use of computational methods in economics and finance. *Impact Factor: 1.000.*	
12:00 - 13:00	**LUNCH BREAK**	**THREESIXTY**
13:00 - 14:00	**KEYNOTE: DARRELL DUFFIE, STANFORD UNIVERSITY**	**CROWNE II**
Title: **Abstract:**	**Bank Capital and Financial Market Liquidity** Space on the balance sheets of major dealer banks is much more expensive than before the Great Financial Crisis of 2007-2009. Increased regulatory capital requirements and much higher bank funding costs have added significant frictions to some important over-the-counter markets, especially those requiring collateral or involving the intermediation of low-risk assets. Some of the increased reluctance by big banks to use their balance sheets for intermediation is caused by increased funding costs that have nothing to do with regulatory capital requirements. Now that the creditors of big banks are less likely to be bailed out with government capital, they are requiring much higher credit spreads. Using models and evidence, I show that bank credits spreads are approximately equal to the extra return (above and beyond the fair market return) that banks must earn on their trading activities to compensate their shareholders for the use of their balance sheets.	
14:15 - 15:45	**STREAM E**	
SESSION: E.1 **CHAIR:**	**Corporate Practices** **Ayesha Scott, Auckland University of Technology**	**BOARDROOM**
Paper: **Presenter:** **Discussant:**	**Analyst coverage and the Quality of Corporate Investment Decisions** Thomas To, University of Sydney Ayesha Scott, Auckland University of Technology	
Paper: **Presenter:** **Discussant:**	**Does Stock Market Liquidity Affect Real and Accrual-Based Earnings Management?** Ying Xia, Monash University Thomas To, University of Sydney	
Paper: **Presenter:** **Discussant:**	**Distracted Investors and Earnings Management** Ayesha Scott, Auckland University of Technology Ying Xia, Monash University	
SESSION: E.2 **CHAIR:**	**Mergers and Acquisitions II** **Alireza Tourani-Rad, Auckland University of Technology**	**CROWNE I**
Paper: **Presenter:** **Discussant:**	**Win-Stay, Lose-Shift: A Strategy of Serial Acquirers** Lyungmae Choi, City University of Hong Kong Anand Vijh, University of Iowa	
Paper: **Presenter:** **Discussant:**	**Minority Acquisitions and Information Risk: International and Cross-border Evidence** Peng (Peter) Huang, University of Waikato DuckKi Cho, University of Sydney	
Paper: **Presenter:** **Discussant:**	**Stock Merger Activity and Industry Performance** Anand Vijh, University of Iowa Peng (Peter) Huang, University of Waikato	

SESSION: E.3 **CHAIR:**	**Market Microstructure III** **Xue-zhong (Tony) He, University of Technology Sydney**	**CROWNE II**
Paper: **Presenter:** **Discussant:**	**Identifying Information Asymmetry in Securities Markets** Tao Li, City University of Hong Kong Richard Philip, University of Sydney	
Paper: **Presenter:** **Discussant:**	**Estimating Permanent Price Impact** Richard Philip, University of Sydney Xue-zhong (Tony) He, University of Technology Sydney	
Paper: **Presenter:** **Discussant:**	**Information Diffusion and Speed Competition** Xue-zhong (Tony) He, University of Technology Sydney Tao Li, City University of Hong Kong	
SESSION: E.4 **CHAIR:**	**Bond Markets** **Olga Dodd, Auckland University of Technology**	**CROWNE III**
Paper: **Presenter:** **Discussant:**	**Holdout Litigation and Sovereign Debt Enforcement** Prasanna Gai, University of Auckland Olga Dodd, Auckland University of Technology	
Paper: **Presenter:** **Discussant:**	**Investment Flexibility and Loan Contract Terms** Tram Vu, Monash University Prasanna Gai, University of Auckland	
Paper: **Presenter:** **Discussant:**	**The Impact of Rising Emerging Market Corporate Debt on Underlying Credit Risk** Olga Dodd, Auckland University of Technology Tram Vu, Monash University	
15:45 - 16:15	**COFFEE/TEA BREAK**	**ATRIUM**
16:15 - 17:45	**STREAM F**	
SESSION: F.1 **CHAIR:**	**Mutual Funds I** **Pratish Patel, California Polytechnic State University**	**BOARDROOM**
Paper: **Presenter:** **Discussant:**	**Inefficient Globalization of Finance: Evidence from Marketing-Oriented Overseas Expansions of Low-Skilled Mutual Fund Families** Si Cheng, Chinese University of Hong Kong Pratish Patel, California Polytechnic State University	
Paper: **Presenter:** **Discussant:**	**Asset Pricing Implications of your Mutual Fund Managers Constraints** Pratish Patel, California Polytechnic State University Si Cheng, Chinese University of Hong Kong	
SESSION: F.2 **CHAIR:**	**Asset Pricing** **Marcel Prokopczuk, Leibniz University Hannover**	**CROWNE I**
Paper: **Presenter:** **Discussant:**	**Investment Shocks and Asset Returns: International Evidence** Ruchith Dissanayake, Queensland University of Technology Marcel Prokopczuk, Leibniz University Hannover	
Paper: **Presenter:** **Discussant:**	**The Price of Liquidity Beta in China** Xinfeng Ruan, University of Otago Ruchith Dissanayake, Queensland University of Technology	
Paper: **Presenter:** **Discussant:**	**The Memory of Stock Return Volatility: Asset Pricing Implications** Marcel Prokopczuk, Leibniz University Hannover Xinfeng Ruan, University of Otago	

SESSION: F.3 **CHAIR:**	**Investments I** **Jiacui Li, Stanford University**	**CROWNE II**
Paper: **Presenter:** **Discussant:**	**The Price of Integrity** Chen Chen, Monash University Jiacui Li, Stanford University	
Paper: **Presenter:** **Discussant:**	**What Affects Factor Loading Uncertainty and Expected Returns? The Role of Accounting Quality** Charles Shi, National University of Singapore Chen Chen, Monash University	
Paper: **Presenter:** **Discussant:**	**Fund Flows, Slow-Moving Liquidity Provision, and Common Factors in Stock Returns** Jiacui Li, Stanford University Charles Shi, National University of Singapore	
SESSION: F.4 **CHAIR:**	**Corporate Finance I** **Alexander Vadilyev, Australian National University**	**CROWNE III**
Paper: **Presenter:** **Discussant:**	**The Cash Flow Sensitivity of Cash Dividends in Different Dividend Taxation Systems** Michael Keefe, Victoria University of Wellington Alexander Vadilyev, Australian National University	
Paper: **Presenter:** **Discussant:**	**Corporate Policy when Equity and Bond Holders Price Risk Differently** Robert Manolache, University of Melbourne Michael Keefe, Victoria University of Wellington	
Paper: **Presenter:** **Discussant:**	**Financial Development, Macro Uncertainty and Saving-Cash Flow Sensitivity** Alexander Vadilyev, Australian National University Robert Manolache, University of Melbourne	
18:00 - 19:00	firn Financial Research Network **WOMEN'S EVENT** FIRN – the Financial Research Network – is the premier network of finance researchers across Australia and recently New Zealand. The FIRN Women initiative aims at providing networking support, professional skills development and a collective voice for women working in finance academia. FIRN Women in conjunction with AUT welcome you to networking drinks prior to the conference dinner to discuss gender equity in finance.	**WAKITIPU ROOM SKYLINE QUEENSTOWN**
19:00 - 22:00	**CONFERENCE DINNER**	**WAKITIPU ROOM SKYLINE QUEENSTOWN**

DAY 3	**Wednesday, 20 December 2017**	**08:00 - 17:45**
08:00 - 08:30	**REGISTRATION**	**ATRIUM**
08:30 - 10:00	**STREAM C**	
SESSION: G.1 **CHAIR:**	**Credit Risk** **Jiri Svec, University of Sydney**	**BOARDROOM**
Paper: **Presenter:** **Discussant:**	**Default Probabilities of Privately Held Firms** Baeho Kim, Korea University Business School Jiri Svec, University of Sydney	
Paper: **Presenter:** **Discussant:**	**The Credit Scoring and Transmission Channels in the Non-Prime Mortgage Market** Timothy Riddiough, University of Wisconsin - Madison Baeho Kim, Korea University Business School	
Paper: **Presenter:** **Discussant:**	**The Impact of the Dodd-Frank Act on the Informational Content of Credit Ratings** Jiri Svec, University of Sydney Timothy Riddiough, University of Wisconsin - Madison	
SESSION: G.2 **CHAIR:**	**Corporate Governance** **Sebastian Trabert, University of Goettingen**	**CROWNE I**
Paper: **Presenter:** **Discussant:**	**Corporate Governance Reform and Risk-taking: Evidence from an Emerging Market** Suman Neupane, Griffith University, Brisbane, Australia Sebastian Trabert, University of Goettingen	
Paper: **Presenter:** **Discussant:**	**The Impact of Japan's Stewardship Code on Shareholder Voting** Yasutomo Tsukioka, Kwansei Gakuin University Suman Neupane, Griffith University, Brisbane, Australia	
Paper: **Presenter:** **Discussant:**	**Corporate Governance and the Volatility of Volatility** Sebastian Trabert, University of Goettingen Yasutomo Tsukioka, Kwansei Gakuin University	
SESSION: G.3 **CHAIR:**	**Corporate Finance II** **Garland Huang, University of New South Wales**	**CROWNE II**
Paper: **Presenter:** **Discussant:**	**Risk Committee, Corporate Risk-Taking and Firm Value** Borhan Bhuiyan, Massey University Garland Huang, University of New South Wales	
Paper: **Presenter:** **Discussant:**	**Do Firms Use Interim CEO Position as a Testing Ground for CEO Candidates** Xiaoxiao He, Southwestern University of Finance and Economics Borhan Bhuiyan, Massey University	
Paper: **Presenter:** **Discussant:**	**Corporate Risk-taking, Foreign Institutional Ownership, and the Role of Country-level Corporate Governance** Garland Huang, University of New South Wales Xiaoxiao He, Southwestern University of Finance and Economics	
SESSION: G.4 **CHAIR:**	**Short-selling** **Jun Chen, Auckland University of Technology**	**CROWNE III**
Paper: **Presenter:** **Discussant:**	**The World-Wide Source of Industry Information: The Industry Concentration of Short Sellers** Zsuzsa Huszar, National University of Singapore Jinjuan Ren, University of Macau	
Paper: **Presenter:** **Discussant:**	**The Loud Silence of Suppressed Short-Sale Demand** Jinjuan Ren, University of Macau Jun Chen, Auckland University of Technology	
Paper: **Presenter:** **Discussant:**	**Short Selling and Financial Reporting Quality: Evidence from Chinese AH shares** Jun Chen, Auckland University of Technology Zsuzsa Huszar, National University of Singapore	
10:00 - 10:30	**COFFEE/TEA BREAK**	**ATRIUM**

10:30 - 12:00	STREAM H
SESSION: H.1 CHAIR:	**Option Markets** BOARDROOM **Danjue Shang, Utah State University**
Paper: Presenter: Discussant:	**The Effect of Stock Market Indexing on Option Market Quality** Li Ge, Monash University Danjue Shang, Utah State University
Paper: Presenter: Discussant:	**Is Trading What Makes Prices Informative? Evidence from Option Markets** Danjue Shang, Utah State University Li Ge, Monash University
SESSION: H.2 CHAIR:	**CEO Compensation** CROWNE I **Jared Stanfield, University of New South Wales**
Paper: Presenter: Discussant:	**Explaining Downward-rigid CEO Compensation: An Information Asymmetry Perspective** Yiqing Lu, New York University Shanghai Jared Stanfield, University of New South Wales
Paper: Presenter: Discussant:	**CEO Inside Debt Compensation and Innovative Output** Ha Nguyen, University of Auckland Yiqing Lu, New York University Shanghai
Paper: Presenter: Discussant:	**CEO Option Compensation Can Be a Bad Option: Evidence from Product Market Relationships** Jared Stanfield, University of New South Wales Ha Nguyen, University of Auckland
SESSION: H.3 CHAIR:	**Corporate Finance III** CROWNE II **Xiaotian Tina Zhang, Saint Mary's College of California**
Paper: Presenter: Discussant:	**Technological Progress and Ownership Structure** Heng (Griffin) Geng, Victoria University of Wellington Zheng (Vycke) Wu, University of Sydney
Paper: Presenter: Discussant:	**The Dynamics of Internationalization and Impact of Foreign Institutional Ownership on Firm Performance** Zheng (Vycke) Wu, University of Sydney Xiaotian Tina Zhang, Saint Mary's College of California
Paper: Presenter: Discussant:	**Dynamic Adjustment of Board Structure: Evidence from China's Public Listed Companies** Xiaotian Tina Zhang, Saint Mary's College of California Heng (Griffin) Geng, Victoria University of Wellington
SESSION: H.4 CHAIR:	**Return Predictability** CROWNE III **Peiming Wang, Auckland University of Technology**
Paper: Presenter: Discussant:	**Partial Moment Momentum** Yang Gao, University of Sydney Prachi Deuskar, Indian School of Business
Paper: Presenter: Discussant:	**Margin Credit and Stock Return Predictability** Prachi Deuskar, Indian School of Business Peiming Wang, Auckland University of Technology
Paper: Presenter: Discussant:	**Out-of-sample Equity Premium Prediction: A Scenario Analysis Approach** Peiming Wang, Auckland University of Technology Yang Gao, University of Sydney
12:00 - 12:45	**LUNCH BREAK** THREESIXTY

12:45 - 13:45	KEYNOTE: ROBERT WEBB, UNIVERSITY OF VIRGINIA	CROWNE II
Title:	**A Brief History of Financial Innovations and Markets**	
Abstract:	This talk discusses the origins and evolution of financial innovations and markets with particular emphasis on developments during the last 50 years in derivative securities and markets. The factors affecting: what we trade; where we trade; how we trade; and how quickly we trade are discussed and the implications for policymakers, practitioners and academics alike are assessed.	
13.45 - 14.00	**BEST PAPER AWARDS CEREMONY**	**CROWNE II**
14:15 - 15:45	**STREAM I**	
SESSION: I.1 **CHAIR:**	**Asset Pricing Models** **Mark Doolan, Queensland University of Technology**	**BOARDROOM**
Paper: **Presenter:** **Discussant:**	**Limited Stock Market Participation and Conditional Consumption Asset Pricing** Chanik Jo, University of Toronto Mark Doolan, Queensland University of Technology	
Paper: **Presenter:** **Discussant:**	**Testing Ex-post Implications of Asset Pricing Models using Individual Stocks** Georgios Skoulakis, University of British Columbia Chanik Jo, University of Toronto	
Paper: **Presenter:** **Discussant:**	**Testing the Conditional CAPM using GARCH-type Models without any other Restrictions** Mark Doolan, Queensland University of Technology Georgios Skoulakis, University of British Columbia	
SESSION: I.2 **CHAIR:**	**Capital Structure** **Lee Dunham, Creighton University**	**CROWNE I**
Paper: **Presenter:** **Discussant:**	**The Effect of Governmental Major Customers on Corporate Capital Structure** Saud Althaqeb, Kuwait University Lee Dunham, Creighton University	
Paper: **Presenter:** **Discussant:**	**Fixed Asset Revaluation and External Financing during the Financial Crisis: Evidence from Korea** Young Jun Kim, Hankuk University of Foreign Studies Saud Althaqeb, Kuwait University	
Paper: **Presenter:** **Discussant:**	**Does a CEO's Hedging Ability Affect the Firm's Capital Structure?** Lee Dunham, Creighton University Young Jun Kim, Hankuk University of Foreign Studies	
SESSION: I.3 **CHAIR:**	**Mutual Funds II** **Thomas Ruf, University of New South Wales**	**CROWNE II**
Paper: **Presenter:** **Discussant:**	**Smart Beta, Smart Money** Yeguang Chi, Shanghai Jiaotong University Nataliya Gerasimova, Norwegian School of Economics	
Paper: **Presenter:** **Discussant:**	**House of Funds** Nataliya Gerasimova, Norwegian School of Economics Thomas Ruf, University of New South Wales	
Paper: **Presenter:** **Discussant:**	**Chasing Ghosts: What Determines Flows Into Funds Without Performance Histories?** Thomas Ruf, University of New South Wales Yeguang Chi, Shanghai Jiaotong University	

SESSION: I.4 **CHAIR:**	**Investments II** **CROWNE III** **Ajai Singh, University of Central Florida**
Paper: **Presenter:** **Discussant:**	**Customer Capital, Talents and Stock Returns** Yan Ji, Hong Kong University of Science and Technology Alexandre Garel, Auckland University of Technology
Paper: **Presenter:** **Discussant:**	**Business Cycles and the Cross-Section of Currency Returns** Steven Riddiough, University of Melbourne Yan Ji, Hong Kong University of Science and Technology
Paper: **Presenter:** **Discussant:**	**Trading Restrictions and Supply Effects** Ajai Singh, University of Central Florida Steven Riddiough, University of Melbourne
15:45 - 16:15	**COFFEE/TEA BREAK** **ATRIUM**
16:15 - 17:45	**STREAM J**
SESSION: J.1 **CHAIR:**	**Corporate Finance IV** **BOARDROOM** **Xueping Wu, City University of Hong Kong**
Paper: **Presenter:** **Discussant:**	**Indirect Benefits of Financial Globalization: Evidence from Small Firms' Growth Opportunities** Dong Wook Lee, Korea University Business School Justin Nguyen, Victoria University of Wellington
Paper: **Presenter:** **Discussant:**	**Economic Policy Uncertainty and Firm Tax Avoidance** Justin Nguyen, Victoria University of Wellington Xueping Wu, City University of Hong Kong
Paper: **Presenter:** **Discussant:**	**Advisors Lending to the Advised Acquirer as a Last Resort** Xueping Wu, City University of Hong Kong Dong Wook Lee, Korea University Business School
SESSION: J.2 **CHAIR:**	**Corporate Finance V** **CROWNE I** **Ting Yang, Auckland University of Technology**
Paper: **Presenter:** **Discussant:**	**Waiting for Certainty: Effects of the Economic Policy Uncertainty on Firm's CSR Investment** Ji (George) Wu, Massey University Ting Yang, Auckland University of Technology
Paper: **Presenter:** **Discussant:**	**The Impact of Corporate Social Responsibility on shareholder's wealth: Evidence from mergers** Yang Zhang, University of Technology Sydney Ji (George) Wu, Massey University
Paper: **Presenter:** **Discussant:**	**Political Favouritism and Investment Efficiency** Ting Yang, Auckland University of Technology Yang Zhang, University of Technology Sydney
SESSION: J.3 **CHAIR:**	**News and Market Reactions** **CROWNE II** **Leo Krippner, Reserve Bank of New Zealand**
Paper: **Presenter:** **Discussant:**	**December Doldrums, Investor Distraction, and Stock Market Reaction to Unscheduled News Events** Sudheer Chava, Georgia Institute of Technology Leo Krippner, Reserve Bank of New Zealand
Paper: **Presenter:** **Discussant:**	**Political Speeches and Stock Market Outcomes** Anastasios Maligkris, University of Miami Sudheer Chava, Georgia Institute of Technology
Paper: **Presenter:** **Discussant:**	**Asset market responses to conventional and unconventional monetary policy shocks in the United States** Leo Krippner, Reserve Bank of New Zealand Anastasios Maligkris, University of Miami

SESSION: J.4 **CHAIR:**	**Debt Contracts** **Eliza Wu, University of Sydney**	**CROWNE III**
Paper: **Presenter:** **Discussant:**	**Bond Covenants and Bankruptcy: The Good, the Bad, and the Irrelevant** Yaxuan Qi, City University of Hong Kong Eliza Wu, University of Sydney	
Paper: **Presenter:** **Discussant:**	**Incentive Fees: Do they bond underwriters and IPO issuers?** Brahim Saadouni, University of Manchester Yaxuan Qi, City University of Hong Kong	
Paper: **Presenter:** **Discussant:**	**The Impact of Government Guarantees on Banks' Wholesale Funding Costs and Risk-taking: Evidence from a Natural Experiment** Eliza Wu, University of Sydney Brahim Saadouni, University of Manchester	

ABSTRACTS

Online versions of all papers can be found by going to the Academic Programme that is on our website: https://acfr.aut.ac.nz/conferences-And-events/2017-auckland-finance-meeting/academic-programme

STREAM A, SESSION 1

Mutual Funds and Affiliated Analyst Recommendations: Optimism or Information Sharing?

Bobae Choi, University of Newcastle
Doowon Lee, University of Newcastle
Kyoungwon Mo, Chung-Ang University

ABSTRACT

This study examines whether the group affiliation between asset management firms and brokerage firms influences sell-side analyst recommendations. Using fund holdings data of mutual funds firms belonging to business groups in Korea (i.e., chaebols), we examine whether affiliated analysts differently treat stocks held by fund management firms in the same chaebol from other stocks. Our main results show that analysts provide less favourable recommendations and more accurate forecasts on affiliated stocks, indicating that analysts take advantage of information on those stocks shared with their affiliated fund managers. Although our overall results support the information sharing argument, analysts are found to be selectively optimistic to highly valuable stocks to affiliated fund managers.

Resources and Workload: Heterogeneous Impact on Analysts' Performance

Thi Mai Lan Nguyen, University of Adelaide
Chee Seng Cheong, University of Adelaide
Ralf Zurbruegg, University of Adelaide

ABSTRACT

We find the impacts resources and workload have on forecast accuracy are significantly different between superior and inferior analysts. Specifically, industry specific resources and workload tend to affect superior analysts significantly more relative to inferior analysts, whilst the latter are more likely affected by a change in generic resources and workload. Our findings imply that it is no longer informative to only study the aggregate effect of resources and/or workload on analysts' performance. It also suggests brokerage firms should consider offering different types of resources and having different workload policy to better enhance the forecasting performance for each group of analysts.

Implications of Buy-Side Analysts' Participation in Public Earnings Conference Calls

Andrew C. Call, Arizona State University
Nathan Y. Sharp, Texas A&M University
Thomas D. Shohfi, Rensselaer Polytechnic Institute

ABSTRACT

Using a sample of 81,000 transcripts for 3,300 companies from 2007 to 2016, we examine the frequency and nature of buy-side analysts' participation in the Q&A session of public earnings conference calls. We find that buy-side analysts ask questions on approximately 18% of all conference calls, with those employed by hedge funds (mutual funds) representing 47% (19%) of this participation. Buy-side analysts are more likely to appear on conference calls of smaller companies followed by fewer sell-side analysts, suggesting buy-side analysts are more likely to ask questions on conference calls hosted by companies with greater information uncertainty. Management prioritizes buy-side analysts during conference calls but discriminates against hedge fund analysts when firm short interest is high. We also find that, relative to sell-side analysts, buy-side analysts' interactions are shorter and their exchanges with management exhibit less favourable tone. Finally, we show that buy-side appearances on public earnings conference calls are associated with subsequent decreases in sell-side coverage, an immediate drop in stock returns, and increases in bid-ask spreads, implied volatility, and short interest.

STREAM A, SESSION 2

A New Index of Housing Sentiment

Lasse Bork, Aalborg University
Stig V. Møller, Aarhus University
Thomas Q. Pedersen, Aarhus University

ABSTRACT

We propose a new measure for housing sentiment and show that it accurately tracks expectations about future house price growth rates. We construct the housing sentiment index using partial least squares on household survey responses to questions about buying conditions for houses. We find that housing sentiment explains a large share of the time-variation in house prices during both boom and bust cycles and it strongly outperforms several macroeconomic variables typically used to forecast house prices.

Discretionary Trading and Inattention during the 2010 FIFA World Cup

Philip A. Drummond, Australian National University

ABSTRACT

This study demonstrates how limited attention can distort the temporal preferences of discretionary traders and induce exceptional market conditions. Following Ehrmann and Jansen (2017), this study uses FIFA World Cup matches that occur during trading hours as an exogenous shock to the opportunity cost of monitoring markets. This study demonstrates that World Cup football matches have an impact on contemporaneous trading and an asynchronous impact on the rest of the trading day. In particular, when World Cup matches occur in the middle of the trading day, there is an abnormal positive amount of trading between market open and kick-off time. Trades between 120 to 90 minutes before kick-off are 51.9% of a standard deviation higher than normal levels. This is due to a temporal substitution effect whereby traders submit their orders prior to kick-off in order to avoid trading during match time. During this pre-match period markets exhibit greater liquidity, volatility and price discovery. During matches, markets exhibit reduced liquidity, volatility and price discovery.

The Mean Streets of Sydney

Robert B. Durand, Curtin University
Danika J. Wright, Sydney 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.

Disagreement is Bad News

Bryan Lim, University of Melbourne

ABSTRACT

I investigate whether the documented relationship between disagreement and future returns is driven not by any of the previously proposed mechanisms but instead by negative correlation between disagreement and fundamentals (unexpected earnings). I posit a simple model in which negative skewness in fundamentals interacts with heterogeneous weights in adopting new signals, generating higher disagreement when the underlying fundamentals are low. Across a number of empirical tests, I find robust evidence that disagreement predicts fundamentals. Conditioning on the realized fundamental, the ability for disagreement to predict future returns is virtually completely attenuated. Additionally, consistent with my model and in-consistent with prior hypotheses, I find the negative correlation between monthly analyst dispersion and next-month returns is driven by a combination of positive serial correlation in dispersion and negative correlation between returns and contemporaneous dispersion.

STREAM A, SESSION 3

Cross-Listing Decisions of Firms and Output Specialization

Faruk Balli, Massey University
Xiaoling Li, Massey University
Hatice O. Balli, Massey University
Gregory-Allen R. Massey University
Agyemang Abraham, Massey University

ABSTRACT

This study examines how output concentration in the domestic and destination countries impacts the cross-listing decisions of firms. Implementing a gravity model on a sample of 1779 firms from OECD countries over a period of 20 years, this study reconciles the basics of international/macroeconomics theories and the cross-listing decision. We find that output concentration of countries in particular industries is an important indicator in the cross-listing destinations decisions of firms. Using firm and industry level data, we empirically show that firms from countries that are specialized in a specific output industry undertake more cross-listing. More interestingly, we show that these firms prefer to cross-list in markets that are less competitive in the industry they are operating, contrary to the theoretical frameworks. We also find, especially for firm level analysis that firms seek diversification opportunities in deciding the cross-listing destination and do not obey the gravity model restrictions.

Monetary Policy and Currency Returns: The Foresight Saga

Dmitry Borisenko, University of St. Gallen
Igor Pozdeev, University of St. Gallen

ABSTRACT

We document a drift in exchange rates before monetary policy changes across major economies. Currencies tend to depreciate by 0.7 percent over ten days before policy rate cuts and appreciate by 0.5 percent before policy rate increases. We show that available fixed income instruments allow to accurately forecast monetary policy decisions and thus that the drift is foreseeable and exploitable by investors. Our baseline specification of a trading strategy constructed by going long in currencies against USD before predicted local interest rate hikes and short in currencies before predicted cuts earns on average a statistically significant excess return of 37 basis points per ten-day period after trading costs. We further demonstrate that this return is robust to the choice of holding horizon and monetary policy forecast rule. Our results thus pose a major challenge for the risk-based explanations of the exchange rate dynamics and highlight an important side effect of monetary policy decisions.

Fundamental Analysis and Stock Returns in International Equity Markets

Chi Cheong Allen Ng, Hong Kong Polytechnic University
Jianfu Shen, Hang Seng Management College
S. Ghon Rhee, University of Hawaii

ABSTRACT

This paper investigates whether a simple fundamental analysis strategy yields significant returns to investors in 65 international equity markets. Financial strength signal, FSCORE proposed by Piotroski (2000), can distinguish winners from losers in overall stocks, glamour stocks and value stocks in most of these markets. The strategy by long value stocks with strong fundamental and short glamour stocks with weak fundamental can generate significantly positive return in 41 out of 65 markets. The profitability is still significant after controlling firm size, asset growth (or investment), profitability and momentum factors. Our results suggest that the anomaly by the fundamental analysis strategy can be explained by the hypothesis of the limits to arbitrage. The abnormal return is larger in the market if it is more difficult to arbitrage.

Business Group Affiliation, Price Informativeness, and Asymmetric Corporate Disclosure: International Evidence

Hyun A. Hong, University of California
Ivalina Kalcheva, University of California
Jeong-Bon Kim, City University of Hong Kong
Cheong H. Yi, City University of Hong Kong

ABSTRACT

We provide international evidence that stock price informativeness is lower for business-group affiliated companies than stand-alone ones, especially in cases when the ultimate owner is able to utilize opaque disclosure policy to achieve private gains, when a business group is large and has multiple layers, and in countries with weak legal enforcement. However, we find that stock price informativeness increases down the pyramidal chain where the affiliates at the bottom are more transparent to maximize their growth and investment opportunities. Further, this lower informativeness appears to arise since business-group organizational structure provides insiders with tools to extract rent by managing outside investors' expectations downwards as evidenced by the lower frequency of negative jumps in returns (news worse than expected) and higher frequency of positive jumps in returns (news better than expected). As a result, the affiliates capture positive unexpected cash flows by hoarding good news.

STREAM B, SESSION 1

A Consistent Stochastic Model of the Term Structure of Interest Rates for Multiple Tenors

Mesias Alfeus, University of Technology Sydney,
Martino Grasselli, Universit`a degli Studi di Padova
Erik Schlögl, University of Technology Sydney

ABSTRACT

Explicitly taking into account the risk incurred when borrowing at a shorter tenor versus lending at a longer tenor ("roll-over risk"), we construct a stochastic model framework for the term structure of interest rates in which a frequency basis (i.e. a spread applied to one leg of a swap to exchange one floating interest rate for another of a different tenor in the same currency) arises endogenously. This roll-over risk consists of two components, a credit risk component due to the possibility of being downgraded and thus facing a higher credit spread when attempting to roll over short–term borrowing, and a component reflecting the (systemic) possibility of being unable to roll over short–term borrowing at the reference rate (e.g., LIBOR) due to an absence of liquidity in the market. The modelling framework is of "reduced form" in the sense that (similar to the credit risk literature) the source of credit risk is not modelled (nor is the source of liquidity risk). However, the framework has more structure than the literature seeking to simply model a different term structure of interest rates for each tenor frequency, since relationships between rates for all tenor frequencies are established based on the modelled roll-over risk. We proceed to consider a specific case within this framework, where the dynamics of interest rate and roll-over risk are driven by a multifactor Cox/Ingersoll/Ross–type process, show how such model can be calibrated to market data, and used for relative pricing of interest rate derivatives, including bespoke tenor frequencies not liquidly traded in the market.

Addressing the Confusion between Hyperbolic Memory and Regime Switching in the Second Moment: A Markov Regime-Switching Hyperbolic GARCH Model

Yanlin Shia, Macquarie University
Kin-Yip Ho, Australian National University

ABSTRACT
This paper studies the confusion between the Hyperbolic GARCH (HGARCH) and Markov Regime-Switching GARCH (MRS-GARCH) processes. We firstly propose the cause of this confusion and provide simulation evidence. An MRS-HGARCH model is then developed to address the confusion. Our Monte Carlo studies demonstrate that this model can effectively distinguish between the pure HGARCH and pure MRS-GARCH processes. When the proposed model is further employed to fit simulations containing both hyperbolic memory and regime switching, it outperforms the ordinary HGARCH model. Moreover, the related statistical properties including the stationarity conditions and asymptotic behaviours of the maximum likelihood estimators of the MRS-HGARCH process are briefly investigated. Finally, an empirical study of the S&P 500 index re-turn is conducted which demonstrates that our MRS-HGARCH model can provide a more reliable estimator of the hyperbolic-memory parameter and outperform both the HGARCH and MRS-GARCH models.

Changing Probability Measures in GARCH Option Pricing Models

Wenjun Zhang, Auckland University of Technology
Jin E. Zhang, University of Otago

ABSTRACT
In this paper, we consider several option pricing models with stochastic volatility in the context of the generalized autoregressive conditional heteroskedastic (GARCH) processes. We propose a globally risk-neutral valuation relationship (GRNVR) to derive the model dynamics under risk-neutral measure and obtain the corresponding closed-form pricing formula for the Chicago Board Options Exchange Volatility Index (CBOE VIX). The parameters of the proposed models are then calibrated using the S&P 500 returns data and the CBOE VIX. Based on the empirical pricing performances, we observe that the proposed GRNVR generally performs better than the locally risk-neutral valuation relationship (LRNVR). We also provide theoretical justification of the proposed GRNVR.

Semivariance and Semiskew Risk Premiums in Currency Markets

José Da Fonseca, Auckland University of Technology
Edem Dawui, The World Bank

ABSTRACT
Using the model-free methodology proposed in the literature, a variance and skew swaps are extracted form currency options for several foreign exchange rates. Moreover, the variance and skew swaps can be decomposed into semivariance and semiskew swaps, these semiswaps are conditional to the evolution of the foreign exchange rate, and it is shown to have higher explanatory power for currency excess return. These semivariances enable the definition of a variance-skew swap that also possesses some explanatory power but is less informative than the semivariance swaps. From these quantities higher moment semirisk premiums can be computed and measure how tail risks are priced by the market. These semivariance and semiskew swaps are more informative than the standard or undecomposed variance and skew swaps, a result that contrasts with existing results for the equity index option market. This property seems to be related to the stochastic skewness nature of the smile that is specific to the currency market. Also, results show that crash risk extracted from currency options is short lived suggesting that foreign exchange long term views are better captured by second order related moments.

STREAM B, SESSION 2

Intended and Unintended Consequences of Dark and Block Trading Regulation

Angelo Aspiris, University of Sydney
Daniel Rigney, University of Sydney
P. Joakim Westerholm, University of Sydney
Sean Foley, University of Sydney

ABSTRACT
We exploit regulatory changes to the block trade definition in the Australian equities market to determine if the block threshold affects the level of pre-trade block and non-block trading activity. Using a one off change to the block trade thresholds and 12 quarterly revisions to block trades tiers as sources of exogenous variation we can draw casual inference on whether block trade and dark trades are substitutes or complements. Our results provide empirical evidence that (1) block sized thresholds constrain trading in the upstairs markets and (2) block and dark trading are complementary.

Message Traffic Restrictions and Relative Pricing Efficiency: Evidence from Index Futures Contracts and Exchange-Traded Funds

Andrew Lepone, Macquarie Graduate School of Management
Jun Wen, Macquarie Graduate School of Management
Jin Young Yang, Zayed University

ABSTRACT
This study examines the impact of message traffic restrictions on the relative pricing efficiency of futures market. It investigates the return correlation between index futures contracts and Exchange-Traded Funds (ETFs) against the implementation of four message traffic regulatory restrictions, namely the Cost Recovery Scheme in Australia (2012), the Integrated Fee Model in Canada (2012), and the Financial Transaction Tax in France (2012) and Italy (2013). Evidence indicates that the message traffic regulatory restrictions impose diverse impact on the relative pricing efficiency between futures and ETF markets. The cost allocation scheme based on message counts in Australia and Canada improves the return correlation, while the tax collection system based on quote value in Italy lowers the price consistency.

Capturing the Order Imbalance with Hidden Markov Model: A Case of SET50 and KOSPI50

Po-Lin Wu, Thammasat University
Wasin Siwasarit, Thammasat University

ABSTRACT
Based on the empirical evidence of the recent strand of the literature, Market Efficiency creation process is not instantaneous, but rather attains over short-horizon of time. With the low liquidity market, the price movement of financial assets can be predicted by order imbalance indicators. In contrast, in a more liquidity market, the predictability of return is significantly decreased. In this study, we implement one of the well-known machine learning models for pattern recognition known as the Hidden Markov Model (HMM) with order imbalance to forecast the price movement of selected stocks in markets with different levels of liquidity which are the Stock Exchange of Thailand (SET) and Korea Exchange (KRX). As the consequence, we can create an algorithmic trading strategy based on the states of risky assets captured by the models. The result is consistent with the previous literature that both the predictability of the models and the profitability of the strategy diminish as the frequency decreases and market liquidity increases. Remarkably, our model in the market with lower liquidity is able to generate signal that achieves average hit ratio of 83.38% in predicting the risky assets' positive price movement at frequency of 5 minutes.

Market Quality around Macroeconomic News Announcements: Evidence from the Australian Stock Markets

Ivan Indriawan, Auckland University of Technology

ABSTRACT
In this paper, I investigate market quality in the recently fragmented Australian stock markets during macroeconomic news announcements. I measure market quality in terms of the cost of trading, volatility sensitivity and persistence, and returns dependence. Using the largest 50 stocks, I document that during macroeconomic news announcements, market quality is generally higher in the ASX than in Chi-X. Transaction costs increase less in the ASX than in Chi-X. Information shocks have larger immediate impact but lower persistence in the ASX compared to Chi-X. The pattern of intraday serial dependence in returns also reveals that that order imbalances in the ASX have smaller impact than order imbalances in Chi-X, implying that the former offers greater price efficiency.

STREAM B, SESSION 3

Dividend Premium Uncovered

Daniel Chai, Monash University
Viet Do, Monash University
Maria Strydom, Monash University

ABSTRACT
Hartzmark and Solomon (2013) documented abnormal returns on expected dividend months in the US market and attribute it to price pressure on expected dividend paying stocks. However, they are unable to pinpoint the source of price pressure is from tax-related clientele effects or from catering effects. The Australian dividend imputation system provides two classes of dividends (franked and unfranked) that allow for more rigorous tests to be performed. The imputation tax system provide an ideal setting to untangle the drivers of the dividend month anomaly. Results indicate that dividend month premium also exist in Australian market. These excess returns are not due to rises in systematic risk or volatility. They are caused by price pressures instigated by short-term dividend seeking investors who purchase dividend-yielding stocks. Our finding show that both tax-related clientele effects and catering effects are responsible for such price pressure. Price pressure also change when regulation on dividend changed and the magnitude of price pressure also depend on investor sentiment. These findings have wide-reaching implications for future studies of dividend pricing in both Australia and in the US, as well as the investment community given the importance of dividend payouts in trading strategies.

Return Drift Following Stock Split Announcements

Philip Gharghori, Monash University
Annette Nguyen, Deakin University

ABSTRACT

The aim of this study is to examine why underreaction following stock split announcements persists over the long-term. To do so, we analyse long-run abnormal returns after split announcements over the period 1975-2011. A significant abnormal return of 5% p.a. is observed over the entire dataset but this finding is not robust across sub-periods or segregations based on market cap. It is also documented that abnormal returns can be enhanced by focusing on splitting firms that have not split previously within the last three years. A key result of this study is that abnormal returns are conditional on whether firms split again in the next three years. Unsurprisingly, firms that split again perform very well in the year after the current split. However, for the roughly two-thirds of the sample that do not split again, the abnormal return is -11%. This suggests that the average long-term underreaction following stock split announcements is difficult to exploit.

Post-Earnings-Announcement Drift: Expected Growth Risk or Limits-to-Arbitrage?

Dongcheol Kim, Korea University Business School
Deok-Hyeon Lee, Korea Development Bank
Byoung-Kyu Min, University of Sydney

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.

What Drives the Dispersion Anomaly?

Byoung-Kyu Min, University of Sydney
Buhui Qiu, University of Sydney
Tai-Yong Roh, Auckland University of Technology

ABSTRACT

This paper shows that the anomalous negative relation between dispersion in analysts' earnings forecast and future stock returns is driven by the information content of dispersion about future firm profitability. Greater dispersion predicts lower future profitability, and the return predictive power of dispersion disappears after controlling for its information content on future profitability. We propose disclosure manipulation as a potential explanation for the relation between dispersion and future profitability. Consistent with our conjecture, disclosure quality is inversely related to analysts' earnings forecast dispersion. Moreover, the return predictive power of dispersion decreases monotonically in disclosure quality and is no longer statistically significant in the post-Sarbanes- Oxley period during which disclosure manipulation is attenuated. Finally, our results remain robust to considering the previously suggested explanations for the dispersion anomaly, including short-sale constraints, leverage, and credit risk.

STREAM C, SESSION 1

A Demand-Based Equilibrium Model of Volatility Trading

Xinfeng Ruan, University of Otago
Jin E. Zhang**,** University of Otago

ABSTRACT

This paper is the first to provide a demand-based equilibrium model of volatility trading with three kinds of traders – dealers, asset managers and leveraged funds – which complements Eraker and Wu's (2017) consumption-based equilibrium model. Our theoretical results are consistent with existing empirical observations, and two endogenous cases reach the same conclusion. Our novel model links together risk aversion, market price of the volatility risk, variance risk premium, VIX futures price and return and futures trading activities. This allows us to test empirically the impact of the three traders' net positions on the VRP and the VIX futures return.

Ad-hoc Analytic Option Pricing under Nonlinear GARCH with NIG Lévy Innovations

Sharif Mozumder, University of Dhaka
Michael Dempsey, RMIT University
M. Humayun Kabirc, Massey University
Taufiq Choudhry, University of Southampton

ABSTRACT

This paper proposes an approximate closed-form option-pricing model based on a GARCH process with NIG (Normal Inverse Gaussian) Lévy innovations. We develop the mathematical framework and demonstrate how to obtain a closed-form solution to the option price when the return dynamics are characterized by NIG innovations that feed volatility from a GARCH process with NIG innovations. Using a sample of S&P 500 options data, we calibrate the proposed model alongside popular existing models at different points in time and for different sample sizes. We perform both in-sample and out-of-sample fitting. Overall, we find that our model performs significantly better than existing models both in-sample and out-of-sample.

Lévy (co)jumps across International Equity Markets and FOMC News Announcements

Kam Fong Chan, University of Queensland
Zheyao Pan, University of Otago

ABSTRACT

This study characterizes the discontinuous price movements and comovements of international equity markets using the Lévy model which distinguishes jumps with different amplitudes. The model identifies many large and infinitely small Lévy jumps in the international equity indices sampled at high frequency. By contrast, the conventional Poisson jump model misses particularly many of the small jumps. We also demonstrate that the high-frequency trading strategy triggered by large Lévy jumps yields sizeable realized returns. Furthermore, we find that concurrent large jumps across the international equity markets tend to occur more frequently than concurrent small jumps. We show that the Federal Open Market Committee (FOMC) announcements predominantly drive large jumps and cojumps in close proximity of the news releases. Large price jumps observed post FOMC announcements are associated with market uncertainty pertaining to monetary policy.

Skewness-Adjusted Calibration Model

R. Stafford Johnson, Xavier University
Amit Sen, Xavier University

ABSTRACT

The Black, Derman, and Toy (BDT) [1990] calibration model generates a binomial interest rate tree synchronized to the current spot yield curve. As a result, the model generates values for option-free bonds that are equal to their equilibrium prices, thus making the model arbitrage free. Given this feature, the model is readily extendable to valuing bonds with embedded options or bond and interest rate derivatives that are also arbitrage free. This arbitrage-free feature of the calibration model is one of the main reasons that many practitioners favour this model over equilibrium models that generate trees by estimating the up and down parameters based on the mean and variability of the underlying spot rate. The variability condition governing the upper and lower spot rates in the BDT calibration model, however, assumes that the interest rate's logarithmic return is normally distributed. Several empirical studies have provided evidence that the distributions of many securities and indexes exhibit persistent skewness. In this paper, we provide empirical evidence showing that increasing or decreasing interest rate trends are often characterized by end-of-the-period distributions that are skewed. We next show that when an equilibrium binomial interest rate model is adjusted for skewness such that its end-of-the-period binomial distribution is calibrated to a skewed distribution, the implied spot yield curves generated from the adjusted model will be consistent with interest rate expectation where spot yield curves have a tendency to be positively (negatively) sloped when the market expects interest rate to increase (decrease). Finally, we show that when the BDT model is calibrated to a positively or negatively-sloped yield curve that matches the implied yield curves of a skewness-adjusted equilibrium model, it loses its arbitrage-free feature if the model's variability condition is not adjusted for skewness. We then show how the BDT variability condition can be adjusted to reflect skewness, and by so doing, retain its arbitrage-free feature. The paper contributes to the literature on binomial interest rate modelling by providing empirical evidence of the significance of skewness when interest rates are increasing or decreasing, showing the consistency of an end-of-the period distribution and the implied yield curves for expected increasing and decreasing interest rate scenarios using a skewness-adjusted equilibrium model, and showing how the BDT model can be adjusted to reflect skewness in order to maintain its arbitrage-free feature.

STREAM C, SESSION 2

Effects of Chinese Imports on U.S. Firm Innovation: Evidence from the US-China Permanent Normal Trade Relation

Tao Chen, Nanyang Technological University
Huasheng Gao, Fudan University
Yuxi Wang, Nanyang Technological University

ABSTRACT
We examine the effect of United States' conferral of Permanent Normal Trade Relations (PNTR) on China - a policy that eliminates the uncertainty of future tariff increases associated with Chinese goods - on U.S. firm innovation. We find a significant increase in the number of patents and patent citations for U.S. firms that are affected by PNTR relative to firms that are not affected. This result is stronger for industries that experience a greater increase in Chinese goods following PNTR. Overall, our evidence suggests that Chinese imports induce U.S firms to invest more in innovative technology.

Overconfident CEOs as Outside Directors: Are They Better Facilitators for Innovation?

Lixiong Guo, University of New South Wales
Peter Huang, University of Waikato
Susanna Lu, University of Waikato

ABSTRACT
This paper examines the relation between director overconfidence and innovation. We find that firms with a higher proportion of overconfident directors on the board invest more in innovation, obtain more patents and patent citations, and achieve greater innovation efficiency. These firms also have higher firm value as measured by Tobin's Q and better operating performance. The results are robust to alternative measures of innovation and are not driven by firm-director matching, suggesting the relation is causal. In the cross-section, we find the effect on innovation output is concentrated in the firms with overconfident CEO and in innovative industries. Overall, our results show that overconfident directors facilitate more innovation.

Did the Sarbanes-Oxley Act Impede Corporate Innovation? An Analysis of the Unintended Consequences of Regulation

Jerry Cao, Singapore Management University
Aurobindo Ghosh, Singapore Management University
Jeremy Goh, Singapore Management University
F. Ted Tschang, Singapore Management University

ABSTRACT
We investigate whether innovation by publicly listed U.S. companies deteriorated significantly after the adoption of the Sarbanes-Oxley Act of 2002. Using data on patent filings as proxies for firms' innovative activities, we find firms' innovation as measured by patents and innovation efficiency dampened significantly after the enactment of the Act. The degree of impact is related to firm-specific characteristics such as the firm's value (Tobin's Q) and its measure of corporate governance (G-Index), as well as the firm's operating conditions (i.e., the firm being in an high-tech industry, and being delisted or not). We find evidence that the SOX's impact on firms is more pronounced for growth firms, firms with low governance scores, firms operating in high-tech industries and firms that continued to stay listed. In sum, the results suggest that the SOX has an unintended consequence of stifling corporate innovation.

STREAM C, SESSION 3

Monitoring transmission of systemic risk: Application of PLS-SEM in financial stress testing

Necmi K Avkiran, University of Queensland
Christian M Ringle, Hamburg University of Technology
Rand Low, University of Queensland

ABSTRACT
Regulators need a method that is versatile, easy to use and can handle complex path models with latent (not directly observable) variables. In a first application of partial least squares structural equation modelling (PLS-SEM) in financial stress testing, we demonstrate how PLS-SEM can be used to explain the transmission of systemic risk. We model this transmission of systemic risk from shadow banking to the regulated banking sector by a set of indicators (directly observable variables) that are sources of systemic risk in shadow banking and consequences of systemic risk measured in the regulated banking sector. Procedures for predictive model assessment using PLS-SEM are outlined in clear steps. Statistically significant results based on predictive modelling indicate that around 75% of the variation in systemic risk in the regulated banking sector can be explained by micro level and macro level linkages that can be traced to shadow banking (we use partially simulated data). The finding that micro level linkages have a greater impact on the contagion of systemic risk highlights the type of significant insight that can be generated through PLS-SEM. Regulators can use PLS-SEM to monitor the transmission of systemic risk, and the demonstrated skills can be transferred to any topic with latent constructs.

Measuring the Capital Shortfall of Large U.S. Banks

Eric Jondeau, University of Lausanne
Amir Khalilzadeh, University of Lausanne

ABSTRACT
We develop a new methodology to measure the capital shortfall of commercial banks in a market downturn. The measure, which we call Stressed Expected Loss (SEL), takes the structure of the individual banks balance sheet. The SEL is defined as the difference between the market value of the assets under the stress scenario and the book value of the deposits and short-term debt of the bank. We estimate the evolution of the probability of default and the SEL of the 31 largest commercial banks in the U.S. between 1996 and 2016. The probability of default in a downturn has been as high as 50% on average between 2008 and 2012. It is by now much smaller and close to 1% on average. In contrast, the SEL has been very high (slightly below $400 billion) during the great financial crisis. However, it is still at a relatively high level in the recent period, close to $200 billion.

Technical Efficiency of Islamic and Conventional Banks: Evidence from the Stochastic Meta-Frontier Directional Distance Function Approach

Md Safiullah, University of Newcastle

ABSTRACT
This study employs the stochastic meta-frontier (SMF) directional distance function approach to examine technical inefficiency of Islamic and conventional banks in 28 countries with specific attention to the impact of Shariah supervisory board (SSB)—an additional layer of governance in Islamic banks. Over the period 2003-2004, Islamic banks have lower group specific inefficiency but higher meta-inefficiency compared to their conventional counterparts, which is driven by Islamic banks' failure to adopt the best technology. The SSB is found to be conducive in reducing technical inefficiency of Islamic banks.

Does Securitization Impair Bank Lending Relationship?

Yupeng Lin, National University of Singapore
Xin Liu, Australian National University
Yihui Wang, Fordham University

ABSTRACT
We study whether and how corporate loan securitization through collateralized loan obligations (CLOs) has changed the nature of bank lending relationship. We use a large dataset of CLO collaterals to identify securitized loans and the relationship lenders. We show that even if a relationship lender securitizes a past loan, it continues to gain future lending business from the same borrower. The new loans from this securitization-funded relationship lender, when compared to loans from a traditional relationship lender, have fewer covenants, smaller amount of revolvers at higher costs, and larger amount of institutional term loans at lower costs. In addition, the new loans from these lenders are also more likely to be securitized. Our results suggest that lending relationship is impaired as securitization weakens monitoring efforts and reduces the information advantage of relationship banks. Yet, these lenders seem to be able to keep their relationship borrowers with their access to structured credit markets. Overall, our findings indicate that benefits of securitization coexist with its costs in relationship lending.

STREAM C, SESSION 4

Algos Gone Wild: Are Order Cancellations in Financial Markets Excessive?

Marta Khomyna, University of Technology Sydney
Tālis J. Putniņš, Stockholm School of Economics in Riga

ABSTRACT
We investigate whether the explosive growth in order-to-trade ratios and order cancellation rates in financial markets is something to be concerned about. We develop a simple theoretical model (which we test and calibrate with data) of a liquidity provider in a fragmented market, who monitors several sources of information and updates quotes to avoid being picked off (trading at stale prices). We find that recent growth in order-to-trade ratios is driven by fragmentation of trading across multiple venues as well as decreasing monitoring costs, with the increase in monitoring leading to improved liquidity. Our model explains why there is considerable cross-sectional heterogeneity in order-to-trade ratios, with higher ratios in more volatile stocks, higher price-to-tick stocks, lower volume stocks, and in ETFs compared to stocks. Our findings suggest that message taxes can have adverse effects on market making in securities that already have disadvantageous conditions for liquidity providers. Furthermore, message taxes create unlevel competition between trading venues due to higher order-to-trade ratios on venues with lower volume shares

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Price Discovery Contribution of Proprietary and Agency Algorithmic Traders

Samarpan Nawn, IIM Calcutta, India
Ashok Banerjee, IIM Calcutta, India

ABSTRACT

We investigate the relative roles of limit orders from proprietary algorithmic traders (PAT) and agency algorithmic traders (AAT) in the discovery of security prices in National Stock Exchange (NSE) of India. Our results suggest that AAT contributes more to price discovery compared to PAT. This challenges the modern notion that “speed is information,” since PAT includes the high-frequency traders (HFT). As AAT are primarily hired by institutional investors to execute their orders, our result shows that stock specific information is still in the hands of those traders who were traditionally viewed as informed. We also find no evidence to support the popular notion that fast traders use limit orders to “mislead” market participants about future price movements.

Order Exposure in High Frequency Markets

Roberto Pascual, University of the Balearic Islands

ABSTRACT

All major stock exchanges allow traders to hide their orders. We study whether, and how, high frequency traders (HFTs) – the majority of traders in many markets – use hidden orders, and the information content of these orders. In contrast to earlier studies from non-high frequency markets, HFTs use small share sizes to place hidden orders near the best quotes, which increases the probability and speed of execution. Although firm, order book, and market attributes that determine the decision (and amount of shares) to hide are similar for both HFTs and non-HFTs, survival (time to completion) and implementation shortfall analyses indicate that HFTs are more efficient in their hidden order execution in terms of the time to completion and fill rates. Although HFTs face higher execution costs, they enjoy lower non-execution costs, resulting in an overall lower total cost for hidden order execution. HFTs’ hidden orders have lower information shares compared to both their displayed orders and hidden orders of other traders, consistent with HFTs using hidden orders to front run others and in the process supply liquidity, rather than aggressively trade on information.

Forecasting High Frequency Intra-Day Electricity Demand using Temperature

James McCulloch, University of Technology, Sydney
Katja Ignatieva, University of New South Wales

ABSTRACT

This paper introduces a Generalised Additive Model (GAM) to link high frequency intraday (5-minute) aggregate electricity demand in Australia to the time of the day and intra-day temperature. We show a superior model fit when using Daylight Saving Time (DST), or clock time, instead of the standard (solar) time. We also introduce the time weighted temperature model that relates instantaneous electricity demand sensitivity to temperature as a function of the daily activity cycle. The results on DST and time weighted temperature modelling are novel in the literature and are important innovations in high frequency electricity demand forecasting. The overall accuracy of the proposed GAM specification in predicting demand is comparable to the accuracy of the commercial demand forecasting model used by the Australian Energy Market Operator (AEMO). The parsimonious GAM model provides a solid foundation for the development of more elaborate models for forecasting high frequency electricity demand.

STREAM D, SESSION 1

An Exact Test of the Improvement of the Minimum Variance Portfolio

Paskalis Glabadanidis, University of Adelaide

ABSTRACT

I propose an exact finite sample test of the risk reduction of the global minimum variance (GMV) portfolio. The GMV test statistic has a straightforward geometric and portfolio interpretation and complements the celebrated GRS test in Gibbons, Ross and Shanken (1989). In practical applications, the GMV test leads to a rejection of the null hypothesis of no improvement in the GMV portfolio more often than the GRS test rejects the null hypothesis of no improvement in the risk-return profile of the tangent portfolio. The power of the GMV test increases with the variance reduction of the global minimum variance portfolio. Using test asset returns scaled by pre-determined instrumental variables is equivalent to increasing the overall number of test assets and leads to substantial power gains.

Hedging with an Edge: Parametric Currency Overlay

Pedro Barroso, University of New South Wales
Marco J. Menichettiy, University of Liechtenstein
Jurij-Andrei Reichenecker, University of Liechtenstein

ABSTRACT

Campbell, Serfaty-De Medeiros, and Viceira (2010) propose an optimized method to hedge currency risk in portfolios of international equities. In a demanding out-of-sample test, incorporating both transaction costs and margin requirements, we find their method reduces risk in real time but also underperforms economically a naïve alternative or even a purely domestic portfolio. We propose modelling the currency hedging strategy as a function of characteristics proxying for expected returns and risk. We find using currency momentum, value, carry and autocorrelation significantly reduce the cost of hedging. Proxies for risk such as volatility, skewness, beta on volatility and equity sensitivity are irrelevant in our optimizations. Our optimal strategy is close to a fully hedged portfolio but with a sizable 29% gain in Sharpe ratio.

Portfolio Optimization with Industry Return Prediction Models

Wolfgang Bessler, Justus-Liebig-University Giessen
Dominik Wolff, Deka Investment GmbH

ABSTRACT

We postulate that utilizing return prediction models with fundamental, macroeconomic, and technical indicators instead of using historical averages should result in superior asset allocation decisions. We investigate the predictive power of individual variables for forecasting industry returns in-sample and out-of-sample and then analyse multivariate predictive regression models including OLS, a regularization technique, principal components, a target-relevant latent factor approach, and forecast combinations. The gains from using industry re-turn predictions are evaluated in an out-of-sample Black-Litterman portfolio optimization framework. We provide empirical evidence that portfolio optimization utilizing industry return prediction models significantly outperform portfolios using historical averages and those being passively managed.

STREAM D, SESSION 2

How do Firms Finance Investments in Markets with Business Groups? Evidence from Acquisitions by India's Listed Firms

Varun Jindal, Indian Institute of Management Calcutta
Rama Seth, Indian Institute of Management Calcutta

ABSTRACT

We propose a new order of financing investments based on the considerations of control and financial constraints in a market with the presence of business groups. Using a sample of 320 acquisitions, one of the largest forms of investments, made by India's publicly listed firms from 1998 through 2016, we test the relative propensity of group-affiliated firms as well as that of standalone (non-affiliated) firms to finance their investments with stock on one extreme and either cash or debt on the other extreme. We find that group-affiliated bidders have the highest propensity to finance their investments with stock when taking over firms affiliated with the same business group (within-group acquisitions) followed by standalone firms making acquisitions (standalone acquisitions). Finally, group-affiliated bidders acquiring either standalone firms or firms not affiliated with their group (outside-group acquisitions) have the lowest propensity to finance their investments with stock.

Do Investors pay Attention to Proxy Voting Outcomes? Evidence from the M&A Setting

Lingwei Li, Australian National University
Huai Zhang, Nanyang Technological University

ABSTRACT

Shareholders vote on proposed M&A deals. After confirming a positive association between the shareholder voting outcome and the post-merger operating performance, we test whether investors fully understand this relationship. There is no abnormal return around the time when the voting outcome becomes available, indicating a lack of attention to the voting result. We further show that post-merger abnormal stock returns are significantly higher for acquirers receiving higher approval rates. Consistent with mispricing, we find that the voting outcome reliably predicts post-merger earnings announcement returns and analyst forecast errors. What's more, the association between the voting outcome and post-merger stock returns is stronger when investors' attention to the voting outcome is distracted by same-day earnings announcements, when the marginal investor is less likely to be sophisticated, and when investors face limits of arbitrage. Overall, our results suggest that proxy voting outcomes are neglected by investors.

Do Firms adjust their Acquisition Strategies in Response to Changes in Financial Reporting Incentives?

Evan Chen, University of Sydney
Jiri Svec, University of Sydney
Danika Wright, University of Sydney

ABSTRACT

This paper studies the acquisition strategies of firms in response to different financial reporting incentives. We focus on the use of earnouts following changes to the accounting treatment of contingent consideration following the 2008 introduction of SFAS 141(R). The revised standards require earnout fair value to be recorded at acquisition date, while earnouts under the previous standards were only reported if, and when, they were paid. Our results indicate that earnout usage decreases in response to increased financial reporting costs of contingent liabilities. This decrease is strongest among financially constrained bidders, who are also observed to decrease participation in M&A markets. A Heckman probit model is employed to correct for sample selection bias. The implications of these findings for deal design and success are discussed.

STREAM D, SESSION 3

Country Origins and Types of Institutional Investors, and Firm-specific Information Flows: Evidence from Worldwide Institutional Ownerships

Li Jiang, Hong Kong Polytechnic University
Jeong-Bon Kim, University of Waterloo
Lei Pang, Hong Kong Baptist University

ABSTRACT

Using quarterly firm-level data on worldwide institutional ownership from 40 countries during the period of 1998–2006, this study investigates whether and how shareholdings by institutional investors affect the information environment, particularly the relative flow of firm-specific versus common information in the market. We find that shareholdings by foreign (especially U.S.), high-stake, and short-term institutions contribute more to the incorporation of firm specific information into stock return, thereby reducing stock return comovement, compared with domestic, low-stake, and long-term institutions, respectively. Our change analyses show that an increase in foreign (particularly U.S.), high-stake, and short-term institutional ownership leads to a subsequent decrease in stock return comovement, but not vice versa. Overall, our results are robust to a variety of sensitivity checks.

How Smart Is Institutional Trading?

JinGi Ha, Singapore Management University
Jianfeng Hu, Singapore Management University

ABSTRACT

We estimate daily aggregate order flow at the stock level from all institutional investors as well as for hedge funds and the other institutions separately. We achieve this by extrapolating the relation between quarterly institutional ownership in 13F filings, aggregate market order imbalance in TAQ, and a representative group of institutional investors' transaction data. We find that the estimated institutional order imbalance has positive price impact in the short term, which reverses in the long term. The \smart" order flow from hedge funds generates greater and more persistent price impact than the \dumb" order flow from all the other institutions. We also find that hedge funds trade on well-known anomalies around month ends while the other institutions do not.

Do Penalties Matter? The Impact of the Introduction of Financial Penalties in the United Kingdom for Insider Trading

Aaron Gilbert, Auckland University of Technology
Alireza Tourani-Rad, Auckland University of Technology

ABSTRACT

Criminal sanctions have become increasing frequently used as a deterrent for insider trading. However, there are increasingly argument and evidence to suggest this is unlikely to be effective. In this paper we look at the introduction of financial sanctions to a regime that already had criminal sanctions in place to investigate the impact of sanctions on the deterrence of insider trading. Specifically, we would expect that if financial sanctions are much easier to enforce, then you would expect the deterrence to increase by introducing financial sanctions. We investigate this within the context of the introduction of financial sanctions in the UK in 2001. Using a sample of London Stock Exchange listed UK companies, and a matched sample of Australian Stock Exchange listed companies, we find only weak evidence that the introduction of financial sanctions reduced the information asymmetry and improved the price efficiency in markets. Read in conjunction with Frijns et al. (2013) the results suggest sanctions have very little deterrence power, and it is likely instead to be the ability to detect and prosecute successful (Bhattacharya and Daouk).

STREAM E, SESSION 1

Analyst Coverage and the Quality of Corporate Investment Decisions

Thomas To, University of Sydney

ABSTRACT

In this paper we examine the effect of financial analysts on the quality of corporate investment decisions. We show that greater analyst coverage leads to higher total factor productivity, a finding that is robust after using both an instrumental variable approach and an experimental design that exploits exogenous reductions in coverage due to broker mergers and closures. We further show that the positive effect of analysts on productivity occurs only in opaque firms and firms with weaker investor protection suggesting that analysts improve investment decisions by playing an important role in information distribution and external monitoring.

Does Stock Market Liquidity Affect Real and Accrual-Based Earnings Management?

Dan Li, University of Hong Kong
Ying Xia, Monash University

ABSTRACT

We study the relationship between stock market liquidity and earnings management. Using a sample of U.S. public firms over the time period from 1993 to 2012, we find that firms with more liquid stocks have lower level of both real and accrual-based earnings management. The result is robust to the use of various measures of liquidity. We address the endogeneity problem by using instrumental variable approach and two sources of exogenous shocks to stock liquidity, i.e. stock split and Decimalization. These methods provide evidence of a causal effect of liquidity on earnings management. We further find that liquidity curbs earnings management by mitigating the information asymmetry between managers and shareholder and facilitating governance by large institutional investors.

Distracted Investors and Earnings Management

Alexandre Garel, Auckland University of Technology and Labex ReFi
Jose Martin-Flores, ESCP Europe and Labex ReFi
Arthur Petit-Romec, Université Côte d'Azur and Labex ReFi
Ayesha Scott, Auckland University of Technology

ABSTRACT

In this study, we examine whether investor distraction affects earnings management. We use a firm-level measure of investor distraction that captures times when institutional investors shift their attention to unrelated parts of their portfolios. Distracted investors temporarily loosen their monitoring intensity and managers may take advantage. Our main finding is that, when shareholders are distracted, managers engage more in earnings management by both manipulating accruals and real activities. Due to the exogenous nature of the measure of investor distraction, we argue that this association is causal. We further document that the presence of other monitoring forces such as analyst coverage and leverage diminishes the effect of investor distraction on earnings management.

STREAM E, SESSION 2

Win-Stay, Lose-Shift: A Strategy of Serial Acquirers

Sreedhar T. Bharath, Arizona State University.
DuckKi Cho, University of Sydney Business School
Lyungmae Choi, City University of Hong Kong

ABSTRACT

We show that serial acquirers over-extrapolate from their own past experiences while making future acquisition decisions: firms likely repeat (avoid) choices that have led to good (bad) outcomes from the past, even after controlling for aggregate time-series shocks, economic factors, rational learning about acquisition skill, and firm fixed effects. We also find that a firm experiencing high announcement returns in early acquisitions has a higher chance of becoming a serial acquirer. Moreover, serial acquirers with greater positive (negative) return experiences are more likely to initiate value-destroying (value-enhancing) mergers in terms of both market reaction and operating performance. This behaviour is consistent with a reinforcement learning heuristic. We also discover that higher institutional ownership mitigates serial acquirers' excessive acquisitiveness following good experiences, whereas financial expertise on corporate boards helps identify value-enhancing deals after bad outcomes. Finally, CEO over confidence increases after past firm successes, but remains immune to failures. Hence, past successes provoke future mergers by making managers more overconfident whereas negative experiences directly curb serial acquirers' acquisitiveness.

Minority Acquisitions and Information Risk: International and Cross-Border Evidence

Peng Huang, University of Waikato
Mark Humphery-Jenner, University of New South Wales
Ronan Powell, University College Dublin

ABSTRACT

This paper uses international data to analyse why firms do minority acquisitions. We hypothesize and show that minority acquisitions are more common for targets in countries with worse information environments. We show that the effect is stronger in diversifying acquisitions, deals for high-tech targets, and when the bidder has prior acquisition experience of the target country. PE-backed bidders are less likely to do minority bids in general. Minority deals are also more common in cross-border deals, especially if the bidder and target countries are distant, use different languages, or have different legal, governance, political and economic regimes. Minority acquisitions can also be a 'stepping stone' to a controlling acquisition, especially in countries with worse information environments. Our results suggest that bidders use minority acquisitions when they confront informational or integration barriers.

Stock Merger Activity and Industry Performance

Bo Meng, University of Iowa
Anand M. Vijh, University of Iowa

Abstract

We propose a continuous merger activity variable (MAV) as an alternative to discrete industry merger waves. Ranking industries by MAV within a quarter removes the market-wide trend and gives a powerful measure of relative industry stock merger activity that is associated with strong patterns in before and after industry returns and operating performance. During 1989-2015, bucket 1 containing industries with lowest MAV rank earns alpha of 0.30% per month higher than bucket 12 containing industries with highest MAV rank. Our evidence is consistent with industry misvaluation theory of stock merger activity by Rhodes-Kropf and Viswanathan (2004) rather than neoclassical theory.

STREAM E, SESSION 3

Identifying Information Asymmetry in Securities Markets

Kerry Back, Rice University
Kevin Crotty, Rice University
Tao Li, City University of Hong Kong

ABSTRACT

We propose and estimate a model of endogenous informed trading that is a hybrid of the PIN and Kyle models. When an informed trader trades optimally, both returns and order flows are needed to identify information asymmetry parameters. Empirical relationships between parameter estimates and price impacts and between parameter estimates and stochastic volatility are consistent with theory. We illustrate how the estimates can be used to detect information events in the time series and to characterize the information content of prices in the cross section. We also compare the estimates to those from other models on various criteria.

Estimating Permanent Price Impact

Richard Philip, University of Sydney

ABSTRACT

Traditional methods used to estimate the permanent price impact of a trade could be misspecified when a nonlinear relationship between permanent price impact and trade size exists, potentially changing research inferences. We augment existing vector auto regression (VAR) estimation methods to model the nonlinear relationship between permanent price impact and trade size. However, when we include additional variables to capture today's trading environment, it is difficult to estimate permanent price impact via traditional methods. We propose an alternative technique, a flexible reinforcement learning (RL) algorithm, which makes fewer assumptions about the data generating process and results in less estimation issues.

Information Diffusion and Speed Competition

Xue-zhong He, University of Technology Sydney
Junqing Kang, University of Technology Sydney

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

Holdout Litigation and Sovereign Debt Enforcement

Kartik Anand, Deutsche Bundesbank
Prasanna Gai, University of Auckland

ABSTRACT
We present a model that characterises the ex ante and ex post implications of holdout litigation, and which highlights the importance of debt ownership and jurisdictional competition in determining the efficacy of the legal threat to sovereign debt enforcement. Our optimal contracting framework allows a role for secondary markets to mitigate liquidity risk and a role for bankruptcy courts to adjudicate disputes. We endogenise the extent to which the bankruptcy regime is based on judge-made law and identify conditions under which the disciplining effect of holdout creditors prevails. Our model contributes to the policy debate on sovereign debt restructuring by formalising some of the insights in Bolton and Skeel's (2004) proposal for a sovereign bankruptcy framework.

Investment Flexibility and Loan Contract Terms

Viet Cao, Monash University
Viet Do, Monash University
Tram Vu, Monash University

ABSTRACT
We investigate if borrowers' flexibility in making adjustments in their investment decisions can influence loan contract terms. We test this relationship in the bank loan setting and find that borrowers with higher investment flexibility are subject to higher loan spreads. This result indicates that investment flexibility among borrowers is viewed as a potential to heightened moral hazard problems, and so the additional cost of more intense monitoring is passed on to borrowers. In addition to loan cost, banks are also observed to adjust other loan terms, including maturity, collateral, and covenant restrictions, in accordance with different levels of investment flexibility. Overall, our results provide support for both the real option and agency problem theories.

The Impact of Rising Emerging Market Corporate Debt on Underlying Credit Risk

Olga Dodd, Auckland University of Technology
Wing Chan, Wilfrid Laurier University
Madhu Kalimipalli, Wilfrid Laurier University

ABSTRACT
In this paper, we investigate how increased corporate leverage of emerging market firms in the post-crisis period impacted the underlying credit risk. We conduct a comprehensive study of how escalating emerging market corporate debt can impact distress risk for issuing firms. Using a firm-level credit risk, financial and balance sheet data of 350 firms from 23 emerging markets over an extended period 2002-15, we show that in the post-crisis (2010-2015) period, higher leverage significantly increases the PD of the firms; and lowers the DTD. The incremental leverage effects are most prominent in the Asian and Latin American region firms. Our results remain robust to endogeneity correction and alternate regression methodologies. We also explore and document possible firm- industry and country based risk channels through which higher leverage can impact credit risk in emerging markets.

STREAM F, SESSION 1

Inefficient Globalization of Finance: Evidence from Marketing-Oriented Overseas Expansions of Low-Skilled Mutual Fund Families

Si Cheng, Chinese University of Hong Kong
Massimo Massa, INSEAD
Hong Zhang, Tsinghua University

ABSTRACT
We study how the globalization of finance may unintendedly reduce market efficiency through low-skilled financial institutions. Particularly, it may allow these companies to achieve product differentiation by launching new products for "marketing" purposes rather than for the goal of improving investor welfare or market efficiency. Using a complete sample of global mutual funds, we find that low-skill fund companies are more likely to launch new funds that track less-explored foreign equity market indices. However, these new funds typically deliver lower returns and lower diversification benefits. The associated cross-border capital flows reduce price efficiency and liquidity.

Asset Pricing Implications of your Mutual Fund Manager's Constraints

Brian Ayash, California Polytechnic State University
Ziemowit Bednareky, California Polytechnic State University
Pratish Patel, California Polytechnic State University

ABSTRACT
By the end of 2015, U.S. mutual funds managed $15 trillion in assets. These funds control about 25% of the equity and 40% of the commercial paper market. As a result, regulations impacting these funds have asset pricing implications. In this paper, we analyse the liquidity management constraint imposed on these funds by the Investment Company Act of 1940. Due to the Act, some funds do not trade illiquid stocks. The non-tradability of these stocks leads to sub-optimal risk sharing. In a competitive equilibrium, we show that this constraint generates the “betting against beta” phenomenon.

STREAM F, SESSION 2

Investment Shocks and Asset Returns: International Evidence

Ruchith Dissanayake, University of Alberta
Akiko Watanabe, University of Alberta
Masahiro Watanabe, University of Alberta

ABSTRACT
Using a large cross section of stocks from over thirty countries, we examine the implications of investment-specific technological shocks for asset prices and macroeconomic quantities. We find that the negative risk premium associated with the investment shock is stronger and often significant in developed markets with greater access to capital, superior financial institutions, and stronger product market competition. The investment premium is related to, but not subsumed in, the value premium. The results underscore the importance of al-locative efficiency in the pricing of technological advances, and help reconcile the conflicting existing evidence from the U.S. market with different sample periods.

The Price of Liquidity Beta in China: A Sentiment-based Explanation

Michael Frömmel, Ghent University
Xing Han, University of Otago
Xinfeng Ruan, University of Otago

ABSTRACT
The conventional, risk-based view on liquidity beta is a dismal story for China: High liquidity beta stocks underperform low liquidity beta stocks by 1.17% per month in China. This striking pattern is robust to different weighting schemes, competing factor models, alternative liquidity measures, and other well-known determinants of cross-sectional returns. We propose a competing, sentiment-based explanation on the reversed pricing pattern. Consistent with our new perspective, liquidity beta is a negative return predictor at the firm level. Moreover, the return differential between high and low liquidity beta stocks is more dramatic following high market liquidity periods.

The Memory of Stock Return Volatility: Asset Pricing Implications

Marcel Prokopczuk, Leibniz University Hannover

ABSTRACT
This paper examines long memory volatility in the cross-section of stock returns. We show that long memory volatility is widespread in the U.S. and that the degree of memory can be related to firm characteristics such as market capitalization, book-to-market ratio, prior performance and price jumps. Long memory volatility is negatively priced in the cross-section. Buying stocks with shorter memory and selling stocks with longer memory in volatility generates significant excess returns of 1.71% per annum. Consistent with theory, we find that the volatility of stocks with longer memory is more predictable than stocks with shorter memory. This makes the latter more uncertain, which is compensated for with higher average returns.

STREAM F, SESSION 3

The Price of Integrity

Chen Chen, Monash University
Ying Xia, Monash University
Bohui Zhang, University of New South Wales

ABSTRACT

This paper examines the effect of integrity culture on financing costs. Using the users' accounts information released from AshleyMadison.com, a website designed to facilitate extramarital affairs, we capture integrity culture by measuring the number of users within a firm. We find a strong negative relationship between financee's integrity and financing costs (bank loan spread and cost of equity). Using the Massachusetts' Alimony Reform Law of 2011 as an exogenous shock to integrity measures and the instrumental variable approach, we establish that the decrease in financee's integrity increases both bank loan spread and cost of equity. We further explore how integrity affects financing costs and find that lower integrity level can increase the financing costs through opaque accounting information and excessive risk taking.

What Affects Factor Loading Uncertainty and Expected Returns? The Role of Accounting Quality

Charles Shi, National University of Singapore

ABSTRACT

Despite considerable research on associations between accounting quality and expected returns, much is yet to be learnt about specific mechanisms underlying the associations. Motivated by a recent theoretical work by Armstrong, Banerjee and Corona (2013), who show that a firm's expected return decreases in investor uncertainty about its factor loadings, we examine how firm-specific information quality affects expected returns through factor loading uncertainty. We document that the quality of accounting information is negatively associated with factor loading uncertainty, and, as a consequence, accounting quality is positively associated with the cross-section of expected returns due primarily to the factor loading uncertainty effect. The findings are robust with respect to alternative measures of accounting quality and various model specifications. Overall, these results improve our understanding of how accounting quality affects stock returns and of the mechanisms underlying the effect.

Fund Flows, Slow-Moving Liquidity Provision, and Common Factors in Stock Returns

Jiacui Li, Stanford University

ABSTRACT

Over the period of 1965-2015, retail investors frequently made large and uninformed capital reallocations at size and value style levels by trading equity mutual fund shares. Consistent with other market participants being slow to provide liquidity, fund flows are associated with large contemporaneous price impact which reverses in the subsequent years, explaining approximately 30% of SMB and HML factor return variance. Because price reversions are not accompanied by flow reversions, the evidence is inconsistent with standard "rational" or "behavioral" models with heterogeneous agents. Without slow-moving liquidity provision, flows would not be able to explain such a high fraction of broad-market price movements over long periods of time.

STREAM F, SESSION 4

The Cash Flow Sensitivity of Cash Dividends in Different Dividend Taxation Systems

Michael O'Connor Keefe, Victoria University of Wellington
Ratheshan Manickaratnam, Victoria University of Wellington

ABSTRACT

This paper investigates the cash flow sensitivity of cash dividends in different cash dividend taxation systems. Using a cross-country study, we find that a firm's dividend policy in a single dividend taxation system (relative to a double dividend taxation system) is more sensitive to cash flow as measured by the propensity to initiate a cash dividend, propensity to pay a cash dividend, and in the size of the cash dividend. Also, the sensitivity of cash flow on dividend policy is asymmetric. In particular, firms in single taxation systems adjust dividend policy more aggressively to negative than to positive cash flows.

Corporate Policy when Equity and Bond Holders Price Risk Differently
Hae Won (Henny) Jung, University of Melbourne
Robert Manolache, University of Melbourne
Qi Zeng, University of Melbourne

ABSTRACT
In a dynamic investment and financing model, we account for differences between equity and corporate bond holders' pricing of macroeconomic risk. In line with anecdotal and empirical evidence, we calibrate the bond investor's price of risk to be unconditionally higher than the equity investor's, as well as volatile and independent of the macroeconomy. Relative to a counterfactual scenario where both investors price risk identically, average market (book) leverage is 2.8 (3.3) percentage points lower, which reveals a new quantitatively significant channel to address the under-leverage puzzle. Also, in the scenario with heterogenous risk pricing, firms issue equity more frequently and invest less.

Financial Development, Macro Uncertainty and Saving–Cash Flow Sensitivity
Alexander Vadilyev, Australian National University

ABSTRACT
This paper shows that (1) the sensitivity of corporate saving to cash flow does *not* systematically decrease with a country's financial development, and (2) the sensitivity systematically increases with macro uncertainty. The first result occurs because income variability matters more for saving than external finance constraints and because income variability is strongly positively correlated with financial development. The second result occurs because macro uncertainty magnifies the effect of finance constraints on saving, raises the variability of income flows, and reduces the attractiveness of investment opportunities. Therefore, contrary to previous evidence, saving-cash flow sensitivity cannot be directly used to test for the benefits of financial development, but it can be used to test the impact of uncertainty on firms' demand for internal liquidity.

STREAM G, SESSION 1

Default Probabilities of Privately Held Firms
Jin-Chuan Duan, National University of Singapore
Baeho Kim, Korea University Business School
Woojin Kim, Seoul National University
Donghwa Shin, Princeton University

ABSTRACT
We estimate term structures of default probabilities for private firms using data consisting of 1,759 default events from 29,894 firms between 1999 and 2014. Each firm's default likelihood is characterized by a forward intensity model employing macro risk factors and firm-specific attributes. As private firms do not have traded stock prices, we devise a methodology to obtain a public-firm equivalent distance-to-default by projection which references the distance-to-defaults of public firms with comparable attributes. The fitted model provides accurate multi-period fore-casts of defaults, leading to both economically and statistically significant benefits over benchmark models. The reported interest rates charged to private firms are reflective of the estimated default term structure.

The Credit Scoring and Transmission Channels in the Non-Prime Mortgage Market
Jaime Luque, University of Wisconsin
Timothy Riddiough, University of Wisconsin

ABSTRACT
We provide a theory that rationalizes how credit scoring technologies control the flow of capital into the non-prime mortgage market. The home ownership rate, the source of mortgage capital, mortgage quantities, portfolio credit quality, and house prices are all determined endogenously in a general equilibrium model with embedded credit scoring. Lending regimes are identified and characterized in the context of lending-house price boom and bust. Adverse selection against secondary market investors and income misrepresentation are analysed as distortions to the transmission of credit quality information.

The Impact of the Dodd-Frank Act on the Informational Content of Credit Ratings

Jiri Svec, University of Sydney

ABSTRACT

In 2010, U.S. Congress passed the Dodd-Frank Act (Dodd-Frank) which outlined a series of regulatory reforms to the credit rating industry. We examine the extent to which the withdrawal of an exemption allowing the disclosure of nonpublic information to credit rating agencies affects the consensus across Moody's and S&P. As Fitch typically provides a third opinion after Moody's and S&P, we then test whether the elimination of ratings from regulatory requirements impacts the demand for Fitch ratings. Lastly, we quantify the informational content of Fitch ratings following Dodd-Frank by examining the market's response to ratings issued by Fitch. We find that the passage of Dodd-Frank leads to an increase in the issuance of split ratings for newly issued corporate bonds. Further, firms are less likely to seek a Fitch rating for newly issued bonds and Fitch ratings are less informative following Dodd-Frank with a smaller market impact on credit spreads.

STREAM G, SESSION 2

Corporate Governance Reform and Risk-taking: Evidence from an Emerging Market

Santosh Koirala, University of Strathclyde
Andrew Marshall, University of Strathclyde
Suman Neupane, Griffith University
Chandra Thapa, University of Strathclyde

ABSTRACT

Recent empirical evidence from developed markets suggest a negative effect of corporate governance reform (CGR) on a firm's risk-taking owing to higher compliance burden. We revisit this nexus in an emerging market setup that reflects relatively weaker market forces of corporate control and higher likelihood of expropriation by dominant insiders. Contrary to the evidence from developed markets, we find stricter CGR leads to higher corporate risk-taking in emerging markets. Further, we report that following stricter CGR, firms with higher ownership concentration and creditor stake pursue more risk-taking. Finally, our study also shows that risk-taking is an important channel through which CGR supplies higher firm valuation. Results of our study support the view that stringent regulatory interventions are positive in evolving regulatory environment of emerging markets.

The Impact of Japan's Stewardship Code on Shareholder Voting

Yasutomo Tsukioka, Kwansei Gakuin University

ABSTRACT

This study examines the impact of the Japanese version of the stewardship code on shareholder voting. Japan's stewardship code was published in February 2014, under which institutional shareholders are expected to discharge their stewardship responsibility through engagement and the exercise of voting. Some trust banks (Japanese institutions that combine the functions of commercial banks, depositary institutions, and trust companies) and insurance companies as well as mutual funds, pension funds, and foreign investors have signed up to the code. Using data of voting outcomes in shareholder meetings from 2010 to 2016, we find that Japan's stewardship code changes the voting behaviour of institutional shareholders. Trust banks that have accepted the code and have no lending relationship with investee firms, as well as insurance companies that have accepted the code, regardless of their lending relationships with investee firms, become opposed to top management appointments in the post-code period, when investee firms exhibit lower profitability than their industry peers. Furthermore, mutual fund, pension fund, and foreign investors are more likely to vote against top management appointment in firms with lower profitability after the implementation of the code.

Corporate Governance and the Volatility of Volatility

Alexander Merz, Georg-August-Universität Göttingen
Sebastian Trabert, Georg-August-Universität Göttingen

ABSTRACT

This paper is the first to provide empirical evidence on the effect of internal and external corporate governance mechanisms on both the volatility of corporate performance and the volatility of the volatility, or vol-of-vol. Since high vol-of-vol stocks, that is stocks with high degrees of uncertainty about risk, significantly underperform low vol-of-vol stocks, it is crucial for managers not to ignore the connection between governance structures and the vol-of-vol. We deal with endogeneity concerns inherent in such analyses by also using option-implied volatilities that by their forward-looking nature cannot be the cause of observed governance structures. We find strong evidence that board size and managerial entrenchment reduce the volatility and, against our expectations, also reduce the vol-of-vol. As such, it may be beneficial for firms to insulate managers from the market for corporate control in order to reduce the uncertainty about future stock returns. Results are robust to a variety of different tests and model specifications.

STREAM G, SESSION 3

Risk Committee, Corporate Risk-Taking and Firm Value

Md. Borhan Uddin Bhuiyan, Massey University
Muhammad A. Cheema, Waikato University
Yimei Man, Waikato University

ABSTRACT

We empirically examine the impact of the stand-alone risk committee on corporate risk-taking and firm value. We argue that the existence of a stand-alone risk committee enhances the quality of corporate governance which results in improved investor protection by reducing corporate risk-taking and enhancing firm value. We find several measures of risk-taking decline significantly for firms that have a stand-alone risk committee compared with firms that have a joint audit and risk committee. We also find that the presence of a stand-alone risk committee is positively associated with firm value. The evidence is consistent with the proposition that the firms with a stand-alone risk committee can effectively evaluate potential risks and implement a proper risk management system.

Do Firms Use Interim CEO Position as a Testing Ground for CEO Candidates

Xiaoxiao He, Southwestern University of Finance and Economics
Margaret Rui Zhu, City University of Hong Kong

ABSTRACT

Interim CEOs are conventionally treated as a seat-warmer during CEOs transition period, whose main mandate is to maintain firm operation until a qualified CEO successor is identified. However, a larger fraction of the interim CEOs is promoted to official CEOs after the interim period in reality. Theories suggest that firms could also use interim positions to try out potential contenders. This paper empirically examines a hand-collected dataset of interim CEOs turnovers and investigates the try-out motivation. We find supportive evidence that firms do use the interim period as a testing ground for potential CEOs. Specifically, we find that candidates with uncertain managerial qualification are more likely to be named as interim CEO rather than formal CEO directly. And interim CEOs are more likely to be promoted to formal CEOs if the firm has better performances during the interim period. The relationship between the interim performance and interim CEOs' promotion is robust against alternative stories such as distinct managerial effort among interim CEOs, difficulties in attracting optimal CEO successors, or different attractiveness of firms CEO position.

Corporate Risk-taking, Foreign Institutional Ownership, and the Role of Country-level Corporate Governance

Garland Huang, University of New South Wales

ABSTRACT

Employing a large sample of 17,698 firms across 42 countries, we document a positive impact of foreign institutional ownership (FIO) on corporate risk-taking. Further, FIO is found to be a substitute for country-level corporate governance in determining corporate risk-taking. It supports the view that foreign institutional investors play an important role in motivating managers to take risk in countries with weaker corporate governance. Various robustness tests and careful considerations of endogeneity confirm our main conclusions.

STREAM G, SESSION 4

The World-Wide Source of Industry Information: The Industry Concentration of Short Sellers

Zsuzsa Huszar, National University of Singapore

ABSTRACT

In a recent study, Boehmer et al. (2017) find that internationally short sellers' information advantage at the firm level is weaker than in the U.S. due to endogenous and exogenous short-sale constraints. Thus, we conjecture that internationally short sellers' private information is more prevalent at the industry and market level where the firm level short-sale constraints are less relevant. Using short sellers' industry concentration and capital exposure, we find that the top three most shorted industries are associated with 0.42 percent (1.17 percent) lower returns over the subsequent one month (three months) in our sample of 37 countries from 2006 to 2014. In addition, we also show that short sellers' industry concentration predicts stock market returns when the targeted industries are economically important in the country.

The Loud Silence of Suppressed Short-Sale Demand

Jinjuan Ren, University of Macau
Yinghui Yu, Singapore University of Social Science

ABSTRACT

Utilizing the special institutional setting in the Chinese securities market, we innovatively propose suppressed short-sale demand as a new measure of short-sale constraint. We employ the revealed short-sale volume of shortable stocks and use a hedonic model to estimate the suppressed short-sale demand for non-shortable stocks. A higher short-sale demand being suppressed indicates a more binding short-sale constraint. Consistent with Miller (1977)'s overvaluation theory, we find that suppressed short-sale demand negatively predicts future returns, and such relation concentrates among firms with poor information environment. Consistent with Diamond and Verrecchia (1987)'s reduced-pricing-efficiency theory, we find that a higher suppressed short-sale demand is associated with a greater price delay and a stronger post-earnings-announcement-drift.

Short Selling and Financial Reporting Quality: Evidence from Chinese AH shares

Jun Chen, Auckland University of Technology

ABSTRACT

This paper investigates whether short sale's monitoring on firms' financial reporting quality is conditional on the regulatory quality of the markets and the strength of internal control at firm level. Using data of Chinese cross-listing AH-shares over the period of 2010 to 2015, we find that short sale plays a monitoring role in restricting accrual earnings management in A-share markets but not in the H-share market. This difference is explained by the inferiority of the regulatory quality of A-share markets compared to that of the H-share market, and is accentuated when the cross-listing AH-share firms have weak internal control. Taken together, the results indicate that short sellers impose strong monitoring on reporting quality when they perceive a great likelihood of managerial expropriation in a weak legal environment, or in firms with weak internal control.

STREAM H, SESSION 1

The Effect of Stock Market Indexing on Option Market Quality

Eric C. Chang, University of Hong Kong
Li Ge, Monash University
Tse-Chun Lin, University of Hong Kong
Xiaorong Ma, University of Hong Kong

ABSTRACT

Using Russell index reconstitution as the identification strategy, we examine how the option market quality is affected by the indexing in stock market. Evidence from regression discontinuity design shows that the option liquidity and trading continuity, measured by the number of zero trading days, is significantly lower if the firm is at the top of Russell 2000 index, compared with a similar sized firm that is at the bottom of Russell 1000 index. The drop in number of zero trading days in option is likely to be due to the increased trading from transient institutional investors who benchmark their performance to indexes and trade option as part of their strategies.

Is Trading What Makes Prices Informative? Evidence from Option Markets

Danjue Shang, Utah State University

ABSTRACT

I investigate the information content in the implied volatility spread, which is the spread in implied volatilities between a pair of call and put options with the same strike price and time-to-maturity. I find that even volatilities implied from untraded options contain information about future stock performance. The trading strategy based on the information contained in the actively traded options does not necessarily outperform its counterpart derived from the untraded options. This is inconsistent with the previous research suggesting that the information contained in the implied volatility spread largely results from the price pressure induced by informed trading in option markets. Further analysis suggests that the magnitude of this spread is associated with the measures of option illiquidity and underlying risk-neutral higher moments. A larger spread is associated with higher option illiquidity, and smaller risk-neutral variance, more negative risk-neutral skewness, and seemingly larger risk-neutral kurtosis. I design a calibration study which reveals that the non-normality of the underlying risk-neutral return distribution relative to the Brownian motion can give rise to the implied volatility spread through the channel of early exercise premium.

STREAM H, SESSION 2

Explaining Downward-rigid CEO Compensation: An Information Asymmetry Perspective

Yiqing Lü, New York University Shanghai

ABSTRACT

CEO compensation rarely gets cut, and almost every component in-creased in early 2000. I consider a two-period contracting problem in which a board is privately informed of its CEO's matching quality with the firm. The board faces a trade-off: Revealing good information makes the CEO work harder, but it is costly. To save the information revelation cost in the earlier period, the board commits to a back-loaded compensation plan that features only upward adjustments in fixed and performance-based pay. This paper also considers extensions in which CEOs have transferable skills and sheds light on bonus caps and compensation disclosure policies.

CEO Inside Debt Compensation and Innovative Output

Ha Nguyen, University of Auckland

ABSTRACT

This study investigates the association between CEOs' inside debt compensation and innovative outputs measured by patents and citations. I find that CEO inside debt compensation is negatively correlated with innovative outputs in high technology firms. In addition, the association between pension benefits and innovative outputs is more negative in high technology firms than in non-high technology firms. Finally, I also find a significant negative link between pension benefits and innovative outputs in highly technology-intensive firms.

CEO Option Compensation Can Be a Bad Option: Evidence from Product Market Relationships

Jared Stanfield, University of New South Wales

ABSTRACT

The executive compensation literature has inconclusive findings for the impact of CEO option-based compensation on firm value. We hypothesize that having major customers raises the costs associated with option compensation, leading to a lower optimal level for CEO option-based compensation. Using import tariff cuts as exogenous shocks to existing customer relationships, we find strong empirical support for this hypothesis. Firms with large customers dramatically reduce CEO option-based compensation following tariff reductions. When CEO option compensation is not reduced, firm value declines as major customer relationships weaken. Our study provides new insights into how important stakeholders shape executive compensation decisions.

STREAM H, SESSION 3

Technological Progress and Ownership Structure

Heng Geng, Victoria University of Wellington
Harald Hau, University of Geneva and Swiss Finance Institute
Sandy Lai, University of Hong Kong

ABSTRACT

Innovation processes under patent protection generate holdup problems if complementary patents are owned by different firms. We show that in line with Hart and Moore (1990), shareholder ownership overlap across firms with patent complementarities helps mitigate such holdup problems and correlates significantly with higher patent investment and more patent success as measured by future citations. The positive innovation effect is strongest for concentrated overlapping ownership and for the cases in which the overlapping shareholders are dedicated investors.

The Dynamics of Internationalization and Impact of Foreign Institutional Ownership on Firm Performance

Zheng (Vycke) Wu, University of Sydney
Shumi Akhtar, University of Sydney
P. Joakim Westerholm, University of Sydney

ABSTRACT

In this paper we investigate the connection between foreign institutional ownership and company performance across a large sample of firms from representative countries. We find a general positive relation between foreign institutional ownership and stock returns. Domestic institutional ownership is negatively related to stock returns and positively related to operating performance. These results are robust to the inclusion of controls for macroeconomic factors and country and firm specific differences in diversification and globalization. This paper provides new evidence that there are clear corporate performance benefits up to a certain level of foreign institutional ownership, and that the likely link between ownership structure and firm performance is the corporate governance.

Dynamic Adjustment of Board Structure: Evidence from China's Public Listed Companies

Yunhe Li, East China Normal University
Xiaotian Tina Zhang, Saint Mary's College of California

ABSTRACT
Using data of China's listed companies, the paper investigates how companies (both SOEs and POEs) adjust their board structure in China. We find that 45 percentage firms changed their board size or board independence during every two-year interval from 2007 to 2013. The adjustment speed in board structure is different between the state-owned enterprises (SOEs) and privately-owned enterprises (POEs). Moreover, the board independence changes are dominated by the monitoring-driven adjustment for SOEs, and by the advisory-driven adjustment for POEs. The board size changes are dominated by the advisory-driven adjustment for SOEs, and by the monitoring-driven adjustment for POEs. We further find that firm performance for SOEs are improved only by the monitoring-driven adjustment toward target board structure, while that for POEs are improved only by the advisory-driven adjustment. The findings offer insight into the dynamic adjustment of board structure in an emerging economy of China where companies achieve economic efficiency in response to their environment.

STREAM H, SESSION 4

Partial Moment Momentum

Yang Gao, University of Sydney Business School
Henry Leung, University of Sydney Business School
Stephen Satchell, University of Sydney Business School & University of Cambridge

ABSTRACT
Despite the fact that momentum strategies have been shown to generate significant positive returns by many previous studies, momentum can experience extreme weakness during periods of economic upheaval, especially during financial crises. Consistent with the literature, we find that momentum profits benefit from persistent trends of the market which can be predicted by market volatility. We propose partial moments-based (PM-based) momentum trading strategies and find that our partial moments-based (PM-based) momentum trading strategies outperform plain momentum and volatility-scaled momentum strategies. Our best performing PM-based strategy shows an annualized Sharpe ratio of 1.32 during the financial crisis period of 2008-2012, compared to an annualized Sharpe ratio of -0.54 from a benchmark 6 × 6 plain momentum strategy. An explanation of this strong profitability is that investors can distinguish between good and bad risk. Our results are robust across different momentum strategies and multiple time periods.

Margin Credit and Stock Return Predictability

Prachi Deuskar, Indian School of Business
Nitin Kumar, Indian School of Business
Jeramia Allan Poland, Indian School of Business

ABSTRACT
Margin credit, the excess debt capacity of investors buying securities on the margin, predicts lower aggregate stock returns, outperforming other forecasting variables pro-posed in the literature. Its out-of-sample R^2 of 7.5% at the monthly horizon is more than twice that of the next best predictor. A margin-credit-strategy generates a Sharpe ratio of 0.95 and 1.28 in expansions and recessions, respectively. Margin credit carries information about future discount rates and cash flows. It anticipates lower future dividend, earnings, and GDP growth and higher future risk measured by higher VIX, average equity correlation, macro and financial uncertainty, and lower intermediary equity ratio.

Out-of-sample equity Premium Prediction: A Scenario Analysis Approach

Feifang Hu,
Xiaoxiao Tang,
Peiming Wang, Auckland University of Technology

ABSTRACT
We propose two methods of equity premium prediction with a single and multiple predictors respectively and evaluate their out-of-sample performance using US stock data with 15 popular predictors for equity premium prediction. The first method defines three scenarios in terms of the expected returns under the scenarios and assumes a Markov chain governing the occurrence of the scenarios over time. It employs predictive quantile regressions of excess return on a predictor for three quantiles to estimate the occurrence of the scenarios over an in-sample period and the transition probabilities of the Markov chain, predicts the expected returns under the scenarios, and generates an equity premium forecast by combining the predicted returns under three scenarios with the estimated transition probabilities. The second method generates an equity premium forecast by combining the individual forecasts from the first method across all predictors. For most of predictors, the first method outperforms the benchmark method of historical average and the traditional predictive linear regression with a single predictor both statistically and economically, and the second method consistently performs better than several competing methods used in the literature. The performance of our methods is further examined under different scenarios and economic conditions, and is robust for two different out-of-sample periods and specifications of the scenarios.

Time-varying Stock Market Participation and Conditional Consumption-based Asset pricing

Redouane Elkamhi, University of Toronto
Chanik Jo, University of Toronto

ABSTRACT

Conditional consumption asset pricing has had limited success empirically - the implied risk aversion ranges from -3000 to 2000 in Nagel and Singleton (2011) and -250 to 600 in Roussanov (2014). We develop an equilibrium model where heterogeneous investors optimally choose to exit or enter the market. Non-financial income in conjunction with a constraint gives rise to state-dependent market participation, resulting in limited risk-sharing among remaining shareholders and hence a reasonable required price of risk. Our model also shows why previous empirical tests assuming full market participation can imply large or even negative risk aversion. We conduct an empirical test of our theory using the Consumer Expenditure data. Our conditional test shows that only a reasonable boundary of risk aversion (e.g., 4 to 40) is enough to explain the dynamic of equity premium.

Testing Ex-post Implications of Asset Pricing Models using Individual Stocks

Soohun Kim, Georgia Institute of Technology
Georgios Skoulakis, University of British Columbia

ABSTRACT

This paper develops an over-identified IV approach that uses past beta estimates and firm characteristics as instruments for estimating ex-post risk premia while addressing the error-in-variables problem in the two-pass cross-sectional regression method. The approach is developed in the context of large cross sections of individual stocks and short time series. We establish the N-consistency of the resulting IV ex-post risk premia estimator and obtain its asymptotic distribution along with an estimator of its asymptotic variance-covariance matrix. These results are then used to develop new tests for asset pricing model implications. Empirically, we examine a number of popular asset pricing models and find support for the recent q-factor model proposed by Hou, Xue, and Zhang (2015).

Testing the Conditional CAPM using GARCH-type Models without any other Restrictions

M.B. Doolan, Queensland University of Technology
D.R. Smith, Queensland University of Technology

ABSTRACT

We develop a new approach to testing conditional asset pricing models that avoids placing restrictions on the price of risk. The only assumption made in the model is on the form of the dynamics of the conditional covariance matrix of asset returns. Existing GARCH-based models require an assumption on the price of risk, which we avoid in our approach. We illustrate the methodology by testing a conditional version of the simple single-factor CAPM using monthly returns and show that accounting for time varying betas using our preferred model, which uses daily returns and accounts for the autocovariance in daily returns to model conditional monthly volatilities, reduces average absolute alphas by 32% compared with an unconditional model. Ultimately, we are unable to reject the null hypothesis that the conditional CAPM prices the size and industry sorted portfolios but reject the model for the Fama-French 25 portfolios.

STREAM I, SESSION 2

The Effect of Governmental Major Customers on Corporate Capital Structure

Saud Althaqeb, Kuwait University

ABSTRACT

This paper examines the impact of dealing with governments as major customers on firms' capital structures and investment policies. Firms with government (nongovernment) customers have higher (lower) leverage, speed of adjustment, and profitability. Dealing with nongovernment major customers has a negative effect on investment policy with more evident effects on R&D. The difference in the effect of customer types may be attributed to the differences in risk associated with each type. The financial conditions of firms with major customers can offer some explanation: the results are stronger in financially constrained firms. Our results show that government (nongovernment) customers can offer supplier firms more flexibility (pressure) that reduces (increases) the idiosyncratic risks associated with these firms. Collectively, the findings of this study support the view that dealing with governments as major customers can reduce risk and provide other benefits.

Fixed Asset Revaluation and External Financing during the Financial Crisis: Evidence from Korea

Hyungjin Cho, Universidad Carlos III de Madrid
Ju Ryum Chung, Yonsei University
Young Jun Kim, Hankuk University of Foreign Studies

ABSTRACT
During the 2008–2010 global financial crisis, the Korean government allowed firms to revalue their fixed assets to strengthen their balance sheets, helping distressed firms to obtain external financing. Using firm listed on the Korea Exchange from 2008 to 2010, this study finds that subsequent to fixed asset revaluation, firms in need of financing use long-term debt financing more than short-term debt and equity financing. The increased long-term debt financing is in the form of private debt rather than public debt. Increase in private long-term debt financing is also more pronounced in financially constrained firms than in financially healthy firms. Our findings imply that fixed asset revaluation is an effective policy tool in Korea for helping firms obtain long-term debt financing, and the benefits are greatly pronounced in firms with financial constraints.

Does a CEO's Hedging Ability Affect the Firm's Capital Structure?

Lee M. Dunham, Creighton University

ABSTRACT
I examine whether a CEO's composition of firm stockholdings between restricted and unrestricted shares impacts the amount of leverage carried by the firm. I document a negative and statistically significant relationship between leverage and the proportion of CEO total shareholdings that are unrestricted and this negative relationship holds for alternative measures of leverage. This result supports the notion that the composition of a CEO's portfolio of firm stock between restricted and unrestricted shares is a significant determinant of leverage ratios.

STREAM I, SESSION 3

Smart Beta, Smart Money

Qinhua Chen, Shanghai Jiaotong University
Yeguang Chi, Shanghai Jiaotong University

ABSTRACT
Factor-timing strategies in the U.S. produce weak returns and are strongly correlated to the basic factor-holding strategies. We present contrasting evidence from China, where mutual funds successfully time the size factor despite a negative unconditional loading. Funds with bigger return gaps exhibit more size-factor-timing skill and outperform. Additionally, size-factor timing serves as an important channel of performance persistence, especially among high-alpha funds. Finally, we estimate fund position in different size portfolios and show that they significantly forecast size-factor returns.

House of Funds

Nataliya Gerasimova, University of Lausanne

ABSTRACT
I document that political connections are an important driver of investment strategies of U.S. mutual funds. I collect data on mutual fund holdings of U.S. Congress members and equity holdings of mutual funds from 2004 to 2013. I show that funds which have politicians among investors place larger bets and trade more actively in stocks of politically sensitive firms, and in stocks of firms that operate in industries under the scope of politicians' congressional committees. In addition, a portfolio long in politically sensitive stocks and short in all remaining stocks earns abnormal return of over 75 basis points per quarter.

Chasing Ghosts: What Determines Flows into Funds Without Performance Histories?

Thomas Ruf, University of New South Wales

ABSTRACT
Newly initiated mutual funds have short or non-existent performance histories. We find that in the absence of realized returns – the strongest predictor of flows into mature funds – flows are driven by the hypothetical fund return inferred from the portfolio's backfilled holdings. Consistent with fund managers responding to window-dressing incentives, this hypothetical return is excessively high for young funds but decreases as the fund matures. Funds with high hypothetical pre-initiation return have high turnover shortly after the initiation, indicating active rebalancing away from a window-dressed portfolio. Such funds have lower long-term risk-adjusted performance, highlighting the irrational nature of using backfilled returns as a signal in capital allocation.

STREAM I, SESSION 4

Customer Capital, Talents and Stock Returns

Winston Wei Dou, University of Pennsylvania
Yan Ji, Hong Kong University of Science and Technology
David Reibstein, University of Pennsylvania
Wei Wu, Texas A&M University

ABSTRACT
Customer capital, as a form of crucial intangible assets, is embodied in customers' brand loyalty to the firm. Part of customer capital depends on key talents' specialized contribution, while the rest is retained only by customers' pure brand loyalty unrelated to key talents. The latter (pure-brand-based) component is immune to the firm's liquidity risk, whereas the former (talent-based) component is fragile to liquidity risk, as key talents tend to leave the firm, damaging talent-based customer capital when the firm is financially constrained. This process is often referred to as escaping from a sinking ship or jumping to a safer boat. The incentive of leaving the firm is mitigated by strong customer capital as the associated high brand recognition provides key talents with non-pecuniary private benefits. Using granular proprietary consumer survey data, we decompose the firm-level customer capital into the two components and construct the brand-talent ratio (BTR) to capture their relative contributions. We document new joint cross-sectional patterns: the firms with lower BTRs have higher (risk-adjusted) average returns, higher talent turnover rates, and more precautionary financial policies. To explain these findings, we develop an equilibrium asset pricing model featuring product market search frictions and endogenous liquidity risk caused by inalienable talent-based customer capital. The firms with lower BTRs are riskier since they are more likely to lose talent-based customer capital and bear higher operating leverage. Additional empirical tests support the theoretical mechanism.

Business Cycles and the Cross-Section of Currency Returns

Steven Riddiough, University of Melbourne
Lucio Sarno, Cass Business School and CEPR

ABSTRACT
We show that business cycles are a key driver of currency excess returns: strong economies offer high returns while weak economies offer low or negative returns, which holds both in- and out-of-sample. Surprisingly, the returns stem primarily from spot exchange rate predictability and are uncorrelated with common currency strategies. Moreover, a business cycle factor that captures the spread in economic conditions across countries is priced in cross-sections of currency excess returns arising from carry, momentum and value strategies. We discuss the implications of these results for international macro-finance theory and for global investors seeking novel sources of currency portfolio diversification.

Trading Restrictions and Supply Effects

Ajai Singh, University of Central Florida

ABSTRACT
Japanese markets include stocks with and without trading constraints, providing a natural setting to investigate Greenwood's (2009) proposition that demand curves steepen in the presence of trading restrictions; and that easing of the restrictions evokes a negative price reaction. We record a supply effect on the Issue Day for Japanese seasoned equity offerings, where there is an infusion of additional shares but no new information is released. Consistent with Greenwood (2009), the price reaction is significantly negative only for stocks facing trading restrictions. We also find that short-sales constrained stocks are more likely to market-time their equity issuance.

STREAM J, SESSION 1

Indirect benefits of Financial Globalization: Evidence from Small Firms' Growth Opportunities

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

ABSTRACT
Using data for 53,365 firms from 40 countries over the period of 1991-2012, we find that corporations' country-specific growth opportunities (CSGOs) decrease with financial openness, especially for small firms. On the other hand, the industry-specific growth opportunities (ISGOs) increase with financial openness, again mostly for small firms. With the progress of financial globalization, small firms invest more in line with the ISGOs and less with the CSGOs. While small-size companies are typically denied direct access to foreign capital, our results suggest that small firms benefit from financial globalization by having their growth options and investments better aligned with economic fundamentals.

Economic Policy Uncertainty and Firm Tax Avoidance

Huu Nhan Duong, Monash University
Ferdinand Gul, Deakin University
Justin Hung Nguyen, Victoria University of Wellington
My Nguyen, RMIT University

ABSTRACT

We investigate whether and how economic policy uncertainty is related to firm tax avoidance. We predict that an increase in policy uncertainty results in greater financial constraints, which in turn, lead firms to increase tax avoidance activities. We find a strong positive association between economic policy uncertainty and firm tax avoidance. This relation is robust to alternative measures of tax avoidance and several tests to address endogeneity concerns. Firms use several strategies to avoid tax including tax deferrals and shelters. Further analysis shows that the effect of policy uncertainty on tax avoidance is less pronounced for firms with higher level of cash holdings. Overall, our findings highlight the importance of uncertainty around government policy in determining firm tax avoidance activities.

Advisors Lending to the Advised Acquirer as a Last Resort

Chong Chen, City University of Hong Kong
Xueping Wu, City University of Hong Kong

ABSTRACT

It has become pronounced in recent decades that acquirers' financial advisors also participate in financing the M&A they advise. We find these advisor-led syndicated loans have unusually high spreads. The advisor's dual role (advisory and financing) seems to reduce the acquirer's M&A announcement effect. All of this may reflect a conflict of interest, undermining the information production and certification roles of banks in loan financing. However, our evidence shows that post-M&A underperformance is absent for these acquirers, and their need for external finance justifies the relatively expensive advisor lending. The investment banks act as last-resort lenders in these M&A deals.

STREAM J, SESSION 2

Waiting for Certainty: The Effect of the Economic Policy Uncertainty on Corporate Social Responsibility

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

ABSTRACT

This study examines how economic policy uncertainty affects a firm's investment in corporate social responsibility (CSR). Using a Chinese sample, we find a significant and negative relationship between economic policy uncertainty and a firm's CSR investment. Results show that a firm tends to delay its investments to avoid the opportunity costs associated with an irreversible investment in the face of uncertainty, thus supporting the "option to wait" in real options theory. The negative association is more significant for SOEs and mandatory CSR reporting firms but less significant for firms located in high marketization regions. Results are robust to a variety of model specifications and endogeneity problems.

The Impact of Corporate Social Responsibility on Shareholder's Wealth: Evidence from Mergers

Yang Zhang, University of Technology Sydney
Marco Navone, University of Technology Sydney
Dave Michayluk, University of Technology Sydney
Eliza Wu, University of Sydney

ABSTRACT

This study contributes to the ongoing debate about the effects of corporate social responsibility on shareholders' wealth from a new perspective. Using a large sample of U.S. mergers and alternative CSR measures, our study empirically examines and extends the stakeholder value maximization theory. We find that market reacts to firm's responsible and irresponsible CSR activities differently. There is no evidence that the stock market rewards socially-responsible acquirers in the short-term. However, we do find strong evidences that the market judges investments by socially irresponsible firms more negatively. Our findings are more pronounced on community, employment relations, environment and human rights CSR dimensions. These results suggest that while firms cannot create shareholder value by simply investing in more socially responsible activities, they can achieve this result by minimizing socially irresponsible behaviors.

Political Favouritism and Investment Efficiency

Yunsen Chen, Central University of Finance and Economics
Chenyu Cui, Tsinghua University
Ting Yang, Auckland University of Technology
Xin Zhang, Fudan University

ABSTRACT
We examine the impact of political regional favouritism in China on the investment efficiency of firms located in the favoured cities. We find that such favouritism is associated with significantly less efficient corporate investment, and the deviation from the optimal investment mainly stems from severe overinvestment. We explore how the impact of regional favouritism on corporate investment efficiency varies with the region's progress in marketization, and find that a higher degree of marketization reduces the strength of the relation between political favouritism and investment efficiency. We further identify a possible channel through which favouritism leads to overinvestment.

STREAM J, SESSION 3

December Doldrums, Investor Distraction, and Stock Market Reaction to Unscheduled News Events

Sudheer Chava, Georgia Institute of Technology
Nikhil Paradkar, Georgia Institute of Technology

ABSTRACT
We document that the stock market's reaction to unscheduled firm-specific news such as credit rating downgrades and 8-K filings is significantly weaker during December as compared to other months. In contrast, the market's reaction to scheduled earnings announcements is not significantly different in December. We find a similar pattern for trading volume. However, this December distraction does not affect firms with greater visibility, such as larger firms, firms with higher analyst following, or higher institutional ownership. Our results highlight how investor dis-traction during the December holiday season can lead to a muted market reaction to unscheduled, but salient, firm-specific news.

Political Speeches and Stock Market Outcomes

Anastasios Maligkris, University of Miami

ABSTRACT
Using data on political speeches, I demonstrate that U.S. presidential candidates influence stock market outcomes. Political speeches that contain economic information increase aggregate market returns and trading volume but decrease market volatility. Speeches with a net negative linguistic tone have the opposite effect. The magnitude of the effect becomes stronger during the first months of campaigns and varies based on the prevailing market conditions. In the cross-section of stock returns, I show that industries with high government exposure are more sensitive to government-spending information and that politically sensitive industries do not react more strongly to candidate speeches. Overall, my findings suggest that political speeches affect investor expectations and, in turn, stock market outcomes.

Asset Market Responses to Conventional and Unconventional Monetary Policy Shocks in the United States

Edda Claus, Wilfrid Laurier University
Iris Claus, International Monetary Fund and Waikato University
Leo Krippner, Reserve Bank of New Zealand and Waikato University

ABSTRACT
We quantify the responses of United States asset markets to domestic monetary policy shocks over conventional and unconventional monetary policy environments, and also gauge the potential usefulness of shadow short rates as a metric across those periods. Our results show that asset market responses to policy shocks have been larger since short-maturity nominal interest rates reached the zero lower bound. While short-maturity interest rates no longer provide a useful metric in that environment, appropriately robust shadow short rates are useful over both environments. The increased responses of asset markets in the unconventional period seem due to larger policy shocks rather than a change to their transmission.

Bond Covenants and Bankruptcy: The Good, the Bad, and the Irrelevant

Sattar Mansi, Virgina Tech
Yaxuan Qi, City University of Hong Kong
John K. Wald, University of Texas at San Antonio

ABSTRACT

Examining the most frequently used bond covenants, we document that seven out of 24 restrictions are associated with higher bankruptcy risk. The use of these covenants can be explained by faulty contract design, greater recovery in bankruptcy, manager-shareholder agency risk, or within-creditor conflicts. Bad covenants are also associated with a higher cost of debt. The results support the notion that certain covenants are placed in debt contracts to entrench managers, or to give power to particular parties in agency conflicts among debtholders. They also help reconcile the mixed evidence on the relation between covenant use and the cost of debt.

Incentive Fees: Do they bond underwriters and IPO issuers?

Abdulkadir Mohamed, Cranfield University
Brahim Saadouni, University of Manchester

This paper examines the impact of incentive fees in mitigating conflicts of interest between the IPO firms and their underwriters. Consistent with cost minimisation hypothesis, our results show that granting incentive fees to underwriters results in lower listing costs and high IPO proceeds. We find IPOs that are large, not cash constrained at the time listing and those underwritten by reputable underwriters are more likely to offer incentive fees. Further tests reveal that incentive fees are granted when the market is volatile, but the average listing costs as a proportion of gross proceeds is 9.328% compared to 12.293% for IPOs that do not provide incentives to their underwriters. The listing costs decrease by 6.724% specifically for IPOs that offer incentive fees. Overall, the evidence shows that large Hong Kong IPOs can minimise their listing costs and maximise their proceeds by offering incentive fees to their underwriters as part of their compensation package.

The Impact of Government Guarantees on Banks’ Wholesale Funding Costs and Risk-taking: Evidence from a Natural Experiment

Thi Mai Luong, University of Technology Sydney
Russell Pieters, University of Technology Sydney
Harald Scheule, University of Technology Sydney
Eliza Wu, University of Sydney

ABSTRACT

This study compares the effects of the introduction and subsequent removal of a unique government Wholesale Funding Guarantee Scheme (WGS) in Australia on the funding costs and loan growth of authorised deposit-taking institutions (ADIs). Our identification strategy exploits the voluntary adoption of the WGS by ADIs using a difference-in-differences estimation approach. We find strong causal evidence to indicate that the government guarantee helped large ADIs to reduce their funding costs relatively more than for the smaller ones. Furthermore, large ADIs continued to benefit from the WGS beyond the official removal of the government guarantee due to market perceptions of continued implicit government support for the too-big-to-fail banks. We also find that the guarantee increased leverage in large banks and supported the growth of housing loans in their loan portfolios. Further tests using guaranteed and non-guaranteed bonds issued by ADIs show that the largest banks experienced a net reduction of 17.8 bps from adopting the government guarantee.

MEETING PARTICIPANTS

Name and Affiliation	Presentation Session
Abraham Agyemang, Massey University	A.3
Saud Althaqeb, Kuwait University	I.2
Angelo Aspiris, University of Sydney	B.2
Necmi Avkiran, University of Queensland	C.3
Wolfgang Bessler, University of Giessen	D.1 and Doctoral Symposium
Borhan Bhuiyan, Massey University	G.3
Stefan Bogner, WU Wien	Attending Only
Lasse Bork, Aalborg University	A.2
Sudheer Chava, Georgia Institute of Technology	J.3
Chen Chen, Monash University	F.3
Chong Chen, University of Hong Kong	Doctoral Symposium
Jun Chen, Auckland University of Technology	G.4
Tao Chen, Nanyang Technological University	C.2
Si Cheng, Chinese University of Hong Kong	F.1
Yeguang Chi, Shanghai Jiaotong University	I.3
DuckKi Cho, University of Sydney	E.2
Lyungmae Choi, University of Hong Kong	E.2
Jose Da Fonseca, Auckland University of Technology	B.1
Prachi Deuskar, Indian School of Business	H.4
Ruchith Dissanayake, Queensland University of Technology	F.2
Minh Viet Do, Monash University	B.3
Olga Dodd, Auckland University of Technology	E.4
Mark Doolan, Queensland University of Technology	I.1
Brett Doran, Griffith University	Doctoral Symposium
Philip Drummond, Australian National University	A.2
Darrel Duffie, Stanford University	Keynote Speaker
Lee Dunham, Creighton University	I.2
Robert Durand, Curtin University	A.2
Robert Faff, University of Queensland	D.4 and Doctoral Symposium
Bart Frijns, Auckland University of Technology	D.4
Prasanna Gai, University of Auckland	E.4
Yang Gao, University of Sydney	H.4
Alex Garel, Auckland University of Technology	Doctoral Symposium, E.1 and I.4
Li Ge, Monash University	H.1
Heng (Griffin) Geng, Victoria University of Wellington	H.3
Nataliya Gerasimova, Norwegian School of Economics	I.3
Philip Gharghori, Monash University	B.3
Aurobindo Ghosh, Singapore Management University	C.2
Aaron Gilbert, Auckland University of Technology	D.3
Paskalis Glabadanidis, University of Adelaide	D.1
Xiaoxiao He, Southwestern University of Finance & Economics	G.3
Xue-zhong (Tony) He, University of Technology Sydney	D.4 and E.3
Jianfeng Hu, Singapore Management University	D.3
Garland Huang, University of New South Wales	G.3
Peng (Peter) Huang, University of Waikato	E.2
Zsuzsa Huszar, National University of Singapore	G.4
Katja Ignatieva, University of New South Wales	C.4
Ivan Indriawan, Auckland University of Technology	B.2
Dulani Jayasuriya, University of Auckland	Attending Only
Yan Ji, Hong Kong University of Science and Technology	I.4
Varun Jindal, Indian Institute of Management Calcutta	D.2
Chanik Jo, University of Toronto	I.1

Name and Affiliation	Presentation Session
Stafford Johnson, Xavier University	C.1
M. Humayun Kabir, Massey University	C.1
Ivalina Kalcheva, University of California - Riverside	A.3
Michael Keefe, Victoria University of Wellington	F.4
Amir Khalilzadeh, University of Lausanne	C.3
Marta Khomyn, University of Technology Sydney	C.4
Baeho Kim, Korea University Business School	G.1
Dongcheol Kim, Korea University Business School	B.3
Jeong-Bon Kim, City University of Hong Kong	D.3
Jeong-Hoon Kim, Yonsei University	Attending Only
Young Jun Kim, Hankuk University of Foreign Studies	I.2
Leo Krippner, Reserve Bank of New Zealand	J.3
Amy Kwan, University of Sydney	Attending Only
Dong Wook Lee, Korea University Business School	J.1
Doowon Lee, University of Newcastle	A.1
Andrew Lepone, Macquarie University	B.2
Jiacui Li, Stanford University	F.3
Lingwei Li, Australian National University	D.2
Tao Li, City University of Hong Kong	E.3
Xiping Li, Massey University	Doctoral Symposium
Bryan Lim, University of Melbourne	A.2
Qing Liu, Boston University	Doctoral Symposium
Shuang Liu, University of Sydney	Doctoral Symposium
Xin Liu, Australian National Unversity	C.3
Susanna Lu, University of Waikato	C.2
Yiqing Lu, New York University Shanghai	H.2
Rui Ma, Massey University	Doctoral Symposium
Anastasios Maligkris, University of Miami	J.3
Robert Manolache, University of Melbourne	F.4
Samarpan Nawn, IIM Calcutta	C.4
Suman Neupane, Griffith University	G.2
Ha Nguyen, University of Auckland	H.2
Justin Hung Nguyen, Victoria University of Wellington	J.1
Thi Mai Lan Nguyen, University of Adelaide	A.1
Zheyao Pan, University of Otago	C.1
Roberto Pascual, University of the Balearic Islands	C.4
Pratish Patel, California State University at San Luis Obispo	F.1
Richard Philip, University of Sydney	E.3
Igor Pozdeev, University of St. Gallen	A.3
Marcel Prokopczuk, Leibniz University Hannover	F.2
Yaxuan Qi, City University of Hong Kong	J.4
Lubna Rahman, University of New South Wales	Doctoral Symposium
Jurij-Andrei Reichenecker, University of Liechtenstein	D.1
Jinjuan Ren, University of Macau	G.4
Steven Riddiough, University of Melbourne	I.4
Timothy Riddiough, University of Wisconsin	G.1
Tai-Yong Roh, Auckland University of Technology	B.3
Xinfeng Ruan, University of Otago	F.2
Thomas Ruf, University of New South Wales	I.3
Brahim Saadouni, University of Manchester	J.4
Md Safiullah, Unversitty of Newcastle	C.3
Erik Schlogl, University of Technology Sydney	B.1
Ayesha Scott, Auckland University of Technology	E.1

Name and Affiliation	Presentation Session
Jianfu Shen, Hang Seng Management College	A.3
Charles Shi, National University of Singapore F.3,	F.3
Yanlin Shi, Macquarie University B.2,	B.2
Thomas Shohfi, Rensselaer Polytechnic Institute A.2,	A.2
Ajai Singh, University of Central Florida	I.4
Georgios Skoulakis, University of British Columbia	I.1
Jared Stanfield, University of New South Wales	H.2
Jiri Svec, University of Sydney	G.1
Mihir Tirodkar, University of Auckland	Doctoral Symposium
Thomas To, University of Sydney	E.1
Alireza Tourani-Rad, Auckland University of Technology	E.2
Sebastian Trabert, University of Goettingen	G.2
Yasutomo Tsukioka, Kwansei Gakuin University	G.2
Alexander Vadilyev, Australian National University	F.4
Anand Vijh, University of Iowa	E.2
Tram Vu, Monash University	E.4
Kathy Walsh, University of Technology, Sydney	Attending Only
Xiaoli Wan, University of Auckland	Doctoral Symposium
Peiming Wang, Auckland University of Technology	H.4
Robert Webb, University of Virginia	D.4 and Keynote Speaker
Danika Wright, University of Sydney	D.2
Eliza Wu, University of Sydney	J.4
Ji (George) Wu, Massey University	J.2
Po-Lin (Bolin) Wu, Thammasat University	B.2
Xueping Wu, City University of Hong Kong	J.1
Zheng (Vycke) Wu, University of Sydney	H.3
Ying Xia, Monash University	E.1
Ting Yang, Auckland University of Technology	J.2
Yinghui Yu, Singapore University of Social Sciences	G.4
Mui Kuen Yuen, Massey University	Doctoral Symposium
Fan (John) Zhang, Auckland University of Technology	Doctoral Symposium
Jin Zhang, University of Otago	C.1
Wenjun Zhang, Auckland University of Technology	B.1
Xiaotian (Tina) Zhang, Saint Mary's College of California	H.3
Yang Zhang, University of Technology Sydney	J.2

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Travel safely

Season's Greetings