

SPRING 2017 CONFERENCE OF THE MULTINATIONAL FINANCE SOCIETY
(As of February 24, 2017)

April 7-9, 2017

Cyprus University of Technology
Tassos Papadopoulos Building
Themidos and Ifigenias Corner
Lemesos
Cyprus

SESSION 1

Friday 4:00 - 6:00 p.m.

Room 1

BEHAVIORAL ISSUES

Session Chair: Dirk Schiereck - Technische Universitaet Darmstadt, Germany

"Household Wealth and Portfolio Choice when Tail Events are Salient"

Murray Carlson - University of British Columbia, Canada

Ali Lazrak - University of British Columbia, Canada

Discussant: Paola Soccorso - CONSOB, Italy

Robust experimental evidence of expected utility violations establishes that individuals overweight utility from low probability gains and losses. These findings motivated development of rank dependent utility (RDU). We characterize optimal RDU portfolios for investors facing dynamic, binomial returns. Our calibration shows optimal terminal wealth has significant downside protection, upside exposure, and a lottery component. Optimal dynamic trades require higher risky share after good returns and, possibly, nonparticipation when returns are poor. RDU portfolios counterfactually exhibit excessive elasticity of risky share to wealth and momentum rebalancing. Our results suggest a puzzling inconsistency between behavior inside and outside the laboratory.

"Financial Advice Seeking, Financial Knowledge and Overconfidence. Evidence from the Italian Market"

Monica Gentile - CONSOB, Italy

Nadia Linciano - CONSOB, Italy

Paola Soccorso - CONSOB, Italy

Discussant: Filia Kaourma - University of Cyprus, Cyprus

This paper investigates the relationship between the propensity to seek for professional advice, financial knowledge and overconfidence, as well as the determinants of financial knowledge and overconfidence for a representative sample of Italian financial decision makers. The demand for financial advice is found to be positively related to financial knowledge and negatively related to overconfidence. These findings show that financial advice acts as a complement rather than as a substitute of financial capability, thus confirming the concerns about regulation of financial advice being not enough to protect less sophisticated investors needing it most. Moreover, behavioural traits such as self-confidence do play a role in financial choices and are related with the level of financial literacy. Therefore investor education programmes may be beneficial not only directly, i.e. by raising financial competence, but also indirectly, i.e. by enhancing people awareness in their financial capability and by hindering overconfident behaviours and behavioural biases. The paper contributes to the regulatory debate on the development of financial advice as a tool of investor protection. It also delivers relevant policy insights for the Italian context, where the vast majority of individuals exhibit both a low degree of literacy and a high propensity towards informal rather than professional advice.

"The Effects of Public Information and Sentiment on the Behaviour of Uninformed Investors in Foreign Exchange Markets"

Filia Kaourma - University of Cyprus, Cyprus

Discussant: Ali Lazrak - University of British Columbia, Canada

In this research project we use a proprietary dataset from European regulated financial services firm, that provides online trading services to retail investors, to investigate the effect of public news and sentiment on the trading behaviour of uninformed retail investors. The dataset contains retail customer minute by minute buy and sell open interest from July 2014 to May 2016, for one of the major currency pairs, the EUR/USD. Our news measures include the traditional scheduled and unscheduled macro news announcements as well as a new intraday measures provided by Thomson Reuters Marketpsych Indices, TRMI, which include emotional indicators such as gloom, fear and joy as well as buzz metrics, which is a measure of news reports' frequency in the news and social media.

SESSION 2

Friday 4:00 - 6:00 p.m.

Room 2

CORPORATE GOVERNANCE

Session Chair: Kyriaki Kosmidou - Aristotle University of Thessaloniki, Greece

"The Effect of Director Limited Liability Provisions on Firm Value"

Iness Aguir - American University of Sharjah, United Arab Emirates

Discussant: Sonia Falconieri - Cass Business School, UK

This study examines the relation between director liability and firm value. I focus on three related questions: (1) Is director liability protection associated with firm value? (2) What firm characteristics impact the relationship between director liability protection and firm value? (3) What firm characteristics explain the firm decision whether to add or remove protection provisions? I find that firms with greater director liability protection have significantly lower firm value as measured by Tobin's Q. This is consistent with the notion that protected directors are less incentivized to perform their duties of care and loyalty. Moreover, the relation between director liability and firm value varies with different firm characteristics. Specifically, the negative effect of director liability protection on firm value is greater if the firm has low leverage or undertakes more acquisitions. Further, I find that firms with better governance are more likely to remove director liability protection, which is consistent with the first hypothesis. This study extends the existing literature on corporate performance and firm governance with insights gained from directors and officers' liability protection. It predicts that greater directors' liability exposure is associated with better firm performance. This is the first paper that introduces a comprehensive version of firm protection index that accounts for both the firm and the state level protection provisions.

"Are Female Executives More Informative? An Analysis of Tone and Market Reaction"

Chiara De Amicis - Cass Business School, UK

Sonia Falconieri - Cass Business School, UK

Riccardo Palumbo - Universita' Di Pescara, Italy

Mesut Tastan - London School of Economics, UK

Discussant: Asif Huq - Dalarna University, Sweden

In this study we analyse the language employed by managers during earnings conference calls from a gender perspective and we measure the market reaction to female versus male held conference calls. We find strong evidences of the fact that the tone of female CEOs and CFOs conveys reliable information regarding future firm profitability and that female executives are less likely than male managers to manage their tone to mislead investors. However, our results show that the market's reaction to earnings conference calls is significantly more silent when the manager holding the call is a woman, suggesting

that investors' perceptions are considerably biased by gender stereotypes.

"Does voluntary audit increase small firm growth? Evidence from a natural experiment"

Asif Huq - Dalarna University, Sweden

Sven-Olov Daunfeldt - Dalarna University, Sweden

Fredrik Hartwig - Dalarna University, Sweden

Niklas Rudholm - Dalarna University, Sweden

Discussant: Ted Azarmi - Heilbronn University, Germany

Many European countries have abolished mandatory audits for small firms, but we still lack knowledge on whether this affects small firm growth. A Swedish reform in 2010 made audits voluntary for small firms fulfilling certain requirements, while firms that did not meet these requirements still had mandatory audits. We argue that this regulatory change created an almost perfect natural experiment, which can be exploited to evaluate the effects of the reform on employment growth using a difference-in-difference estimator. Our results show that firms who fulfil the requirements for voluntary auditing, as compared to a control group of firms that does not, increased their employment growth rates by on average 35%, corresponding to 1 276 jobs being created in the three years following the reform. The positive treatment effect is found for firms affected by the reform in all Swedish counties and in all types of industries. It thus seems that voluntary audits are reducing the regulatory burden for small firms, making resources available that can be used to increase the number of employees. The current threshold levels for mandatory audits are still significantly lower in Sweden than in most other European countries, which implies that the policymakers in Sweden could create more jobs in small and medium-sized firms if they increased the size threshold levels for mandatory audits.

"Does Gender Diversity Create Value? The Effect of Gender Diversity in the Boardroom on Shareholder Value"

Ted Azarmi - Heilbronn University, Germany

Ines Biehlman - Innsbruck University School of Management, Austria

Discussant: Iness Aguir - American University of Sharjah, United Arab Emirates

We show that there is no significant link between gender diversity and firm performance as measured by book value or ROE (return on equity) and market value of return to shareholders. However, a sector by sector analysis shows that gender diversity has a significant positive effect on shareholder value in the consumer services, financials, consumer goods, technology and telecommunications. In addition, gender diversity adversely affects ROE of these firms.

SESSION 3

Friday 4:00 - 6:00 p.m.

Room 3

CORPORATE FINANCE I

Session Chair: Panayiotis Andreou - Cyprus University of Technology, Cyprus

"A Simple Intuitive NPV-IRR Consistent Ranking"

Moshe Ben- Horin - Ono Academic College (OAC), Israel

Yoram Kroll - Ono Academic College (OAC), Israel

Discussant: Milena Petrova - Syracuse University, USA

Numerous recent studies have revisited the issue of the potential conflicting NPV-IRR ranking of competing investment projects. Most have suggested procedures that resolve the conflict after performing an iso-NPV modification of at least one of the cash flows. However, none has provided a general sufficient condition that guarantees the absence of NPV-IRR ranking conflict. We define dominance between cash flow streams and show that if the streams are conventional, dominance of one stream over

another ascertains no NPV-IRR ranking conflict. While dominance among original cash flows may be relatively rare, iso NPV cross-risk adjustment and iso-NPV modification of one cash flow stream may easily reveal such dominance even if the original projects are subject to different risks. The resulting implication is a practical, simple and economically intuitive procedure that guarantees consistent NPV-IRR ranking, while minimizing the implicit or explicit distortions of the original competing cash flow streams and their IRRs.

"Corporate Board Gender Diversity and Stock Returns"

Chinmoy Ghosh - University of Connecticut, USA

Milena Petrova - Syracuse University, USA

Le Sun - State Street Global Advisors, USA

Yihong Xiao - University of Connecticut, USA

Discussant: Olga Kandinskaia - CIIM, Cyprus

Corporate gender diversity has become a popular investment strategy, and we explore if such a strategy can earn higher average returns than the market. By forming an annually rebalanced portfolio of firms with female directors on corporate boards, we find the board gender diversity strategy generates higher returns and risk-return rewards. The portfolio underperforms the market during good times, but its outperformance during bad times overcomes the strategy's weaker up-market participation. In order to understand the source of board gender diversity return, we analyze the characteristics of firms with women on board. Our results show that these firms share some of the characteristics related to common pricing factors, especially the investment and quality factors. These two factors explain the majority of board gender diversity return.

"Recticel's Capital Increase: Implementation, Timing, Valuation, and Dividends Dilemma"

Nancy Huyghebaert - Katholieke Universiteit Leuven, Belgium

Olga Kandinskaia - CIIM, Cyprus

Discussant: Jun (Tony) Ruan - Xiamen University, China

This paper presents a decision case intended for the use in the classroom and for the publication in a peer-reviewed case research academic journal. In early 2015, Recticel, the leading European manufacturer of polyurethane products, was in need of new capital to reduce its debt ratio and to continue its successful growth strategy. By the end of 2014, Recticel's net debt had exceeded 194.5 million euro and its gearing ratio had risen to 101%. The Board of Directors gave authorization to the CFO, Jean-Pierre Mellen, to increase the company's share capital via a 75 million euro preferential rights issue. Mr. Mellen had to prepare the detailed implementation plan for this Seasoned Equity Offering (SEO), which promised to be the largest capital increase in Belgium in 2015. "What story shall we offer to the shareholders to convince them to participate in the capital increase? Is it the right timing for an SEO? If we offer the preferential rights issue at a price of, say, 3.20 euro, how will our investors and the stock market in general respond to the discount compared to our current stock price of 4.25 euro? Shall we pay dividends in the year of the capital increase and, if so, when and to which shareholders? Will we have enough financial resources, including the SEO proceeds, to finance all operations and investments in the coming two years? Which investment banks shall we choose?"

"The Competitive Effects of Rivals' Earnings News on IPOs"

Jun (Tony) Ruan - Xiamen University, China

Hong Qian - Oakland University, USA

Discussant: Yoram Kroll - Ono Academic College (OAC), Israel

We examine the effects of rivals' earnings news during the going public process on IPO pricing and completion decisions and investigate the implication of these effects for the quality of completed IPOs. We find that a signal-to-noise ratio measure of rivals' earnings news has a significantly negative effect

not only on both price revision and initial return for completed offerings but also on completion probability for all filed offerings. We further show that this signal-to-noise ratio measure positively predicts industry-adjusted post-IPO operating performance of completed offerings. These results suggest that rivals' earnings news has a competitive effect on filed offerings in that a shift in rivals' competitive position is related to the costs of going public and thus the average quality of successful offerings.

SESSION 4

Friday 4:00 - 6:00 p.m.

Room 4

ACCOUNTING ISSUES I

Session Chair: Neophytos Lambertides - Cyprus University of Technology, Cyprus

"Analysing the Relationship Between Implied Cost of Capital Metrics and Realised Stock Returns"

Colin Clubb - King's College London, UK

Michalis Makrominas - Frederick University, Cyprus

Discussant: Maria Dimitriou - University of Macedonia, Greece

We extend the analytical framework linking realised stock returns and ICC estimates used in Easton and Monahan (2005) and Mohanram and Gode (2013) by incorporating insights from prior studies by Pettengill, Sundaram, and Mathur (1995) and Hughes, Liu, and Liu (2009). We use the theoretical work of Hughes et al (2009) to structure our analysis of the relationship between realised returns and the ICC in order to: (i) take account of the impact of 'market news' on the association between the ICC and realised stock returns; (ii) provide an alternative measure of 'discount rate news'; and (iii) take account of the expected theoretical difference between the implied cost of capital and the expected rate of return. Our empirical results, which also employ an adjustment for analyst earnings forecast error, are generally consistent with the implications of our analytical framework. Specifically, our regression results (a) provide robust support for a coefficient close to one for most ICC estimates after taking account of market news, (b) provide cash flow news and discount rate news coefficient estimates close to one, and (c) provide evidence for the role of a growth/leverage based variable as a control for the expected difference between the ICC and expected stock returns. Overall, our paper provides further support for the relevance of realised returns as a benchmark for establishing the usefulness of ICC measures, consistent with theoretical expectations.

"A Review and Synthesis of Research on Analysts' Valuation Process Beyond Approaches and Models"

Maria Dimitriou - University of Macedonia, Greece

Discussant: Anna Merika - Deree College, Greece

During the past few decades, accounting and finance researchers, both academic and investment industry researchers, have been interested in analysts' valuation approaches and models determining the intrinsic value of an ownership stake, analysts' target price, earnings forecasts, valuation errors and stock recommendation. This survey examines publicly available articles based on an accepted valuation theory that explore this issue to determine researchers' methods of studying of this process. This survey found that few researchers study analysts' valuation process from the sell-side analyst approach. Instead, many use the approach of empirical studies (based on elements of analyst reports and interviews). This research suggests the need to approach the valuation process from the sell-side analyst approach, for example, by investment research report as it shares several information that better serves society and economies to grow.

"Aspects of Competitiveness and Taxation Policy: The Case of Hellenic Shipping"

Anna Merika - Deree College, Greece

Anna Triantafyllou - Deree College, Greece

George Zombanakis - Deree College, Greece

Discussant: Charoulla Charalambous - University of Cyprus, Cyprus

Shipping and related activities account for over 7% of Greek GDP, rendering proceeds from shipping sector activities indispensable for the Greek economy, especially at a time of ongoing crisis. The contribution of this study centers round measurement of the mitigating consequences of wage regulations and an uncertain taxation environment upon net receipts from shipping. Using data for 2002-2015 and employing the General Method of Moments, we find a substantial reduction in net receipts from shipping as a result of waning wage competitiveness, deteriorating further when the tonnage tax rate is increased. Our results point to two major policy conclusions. First, excessive wage increases over and above those provided for in international agreements erode the competitiveness of Greek shippers. Second, the pioneering tonnage-based taxation framework of Greece, which has been in place for more than half-a-century and has contributed to securing Hellenic Shipping a 50% market share in the EU and 16.1% in the world, should be left intact and even be used as a model to help boost the competitiveness of the entire EU fleet.

"The Effect of Golden Parachutes on Information Asymmetry"

Charoulla Charalambous - University of Cyprus, Cyprus

Andreas Charitou - University of Cyprus, Cyprus

Irene Karamanou - University of Cyprus, Cyprus

Discussant: Michalis Makrominas - Frederick University, Cyprus

This study has aim to investigate information asymmetry of companies that give or not golden parachute to the Chief Executive Officer (CEO) the year that hire him. Information asymmetry is approached by stock liquidity, which is measured with bid-ask spread, trading volume and share return volatility. More specifically, using a sample of 256 hirings of CEOs between 2000-2013, it is examined how the fact the CEO has or not golden parachute at his hire year, influences information asymmetry. Since corporate governance is used as a mechanism in order to minimize information asymmetry, this study takes into account the effect of corporate governance on stock liquidity. The empirical results showed that golden parachute decreases information asymmetry. Controlling for corporate governance, CEO age, annual compensation, firm size and growth opportunities we conclude that a golden parachute encourage the CEO to disclose information more easily.

Refreshments **6:00 - 6:15 p.m.** Tassos Papadopoulos Building

KEYNOTE SPEECH

6:15 - 7:00 p.m. **Tassos Papadopoulos Building - Amphitheatre 1**

Professor Gikas Hardouvelis

University of Piraeus, Greece and former Minister of Finance of the Hellenic Republic, Greece

EUROPEAN UNION FINANCIAL CRISIS

ROUNDTABLE DISCUSSION

7:00 - 8:30 p.m. **Tassos Papadopoulos Building - Amphitheatre 1**

Gikas Hardouvelis

University of Piraeus, Greece and former Minister of Finance of the Hellenic Republic, Greece

Makis Keravnos

Ex- Minister of Labour & Social Insurance, Ex- Minister of Finance, CEO Hellenic Bank, Cyprus

Nicholas Hadjiyiannis

CEO - Cooperative Central Bank, Cyprus

BANKING CRISIS IN EUROZONE AND GENERALLY IN GREECE AND CYPRUS

RECEPTION / DINNER

8:30 - 10:00 p.m.

Tassos Papadopoulos Building

SESSION 5

Saturday 10:00 a.m. - 12:00 p.m.

Room 1

FINANCIAL ECONOMETRICS I

Session Chair: Itzhak Venezia - Tel Aviv Yaffo Academic College, Israel

"Financial Stress Relationships Among Euro Area Countries: An R-vine Copula Approach"

Andreas Tsopanakis - University of Salford, UK

Meilan Yan - University of Hull, UK

Dalu Zhang - University of Salford, UK

Discussant: Didier Maillard - CNAM, France

Since the European sovereign debt crisis, one of the biggest challenge of keeping Euro area financial stable is the negative co-movement between the vulnerability of public finance, the financial sector, security markets stresses and economic growth, especially in peripheral economies. Understanding the inter relationship between countries financial stress will help to identify a more efficient route towards recovery. This paper utilises a ARMA-GARCH based R-vine copula method to explore the relationship between the Financial Stress Indexs of eleven euro area countries with an aim of understanding how financial stress are interact with each other, especially in extreme events. A simplified inter-connection relationship of all 11 countries will be estimated in order to give implications to policy practice. In this research, we find Larger economies in the Euro area tend to have closer upper tail dependence, while smaller economies tend to have closer lower tail dependence. Finland is generally tail independent with other countries in terms financial stress in extreme situation. R-vine copula outperforms C-vine and D-vine. The estimated R-vine shows Spain, Italy, France and Belgium are the most inter-connected nodes which underlying they might be more efficient target to treat in order to achieve a quicker booming.

"Modelling Tail Risk in a Continuous Space"

Didier Maillard - CNAM, France

Discussant: Christos Savva - Cyprus University of Technology, Cyprus

Non normal distributions are a fact of life. In the financial world, many distributions display tail risk, i.e. (negative) skewness and excess kurtosis. Being able to model such risk is useful in various and important fields: risk measurement, fund management performance evaluation, asset pricing... One way to model tail risk is to introduce discontinuities, such as jumps, to describe the distribution of values or returns. It is however possible, and often convenient, to model tail risk in a continuous space. Both Cornish-Fisher and Gramm-Charlier expansions (which is the simple form of a family of Edgeworth expansions) are means to transforming a Gaussian distribution into a non-Gaussian distribution, the skewness and the kurtosis of which can be controlled if the transformations are properly implemented. This may be useful for modelling distributions for a wide range of issues, especially in risk assessment and asset pricing. The expansions differ in their nature: Cornish-Fisher is a transformation of a random variable, or of quantiles, meanwhile Gramm-Charlier is a transformation of a probability density. Both transformations must be implemented with care, as their domain of validity does not cover the whole range of possible skewnesses and kurtosis. It appears that the domain of validity of Cornish-Fisher is much wider than the domain of validity of Gramm-Charlier. This, and the easy provision of the distribution quantiles, puts Cornish-Fisher above Gramm-Charlier.

"Neglecting Structural Breaks when Estimating and Valuing Dynamic Correlations for Asset Allocation"

Andreea G. Halunga - University of Bath, UK

Christos Savva - Cyprus University of Technology, Cyprus

Discussant: Dirk Schiereck - Technische Universitaet Darmstadt, Germany

This paper assesses the econometric and economic value consequences of neglecting structural breaks in dynamic correlation models and in the context of asset allocation framework. It is shown that changes in the parameters of the conditional correlation process can lead to biased estimates of persistence. Monte Carlo simulations reveal that short-run persistence is downward biased while long-run persistence is severely upward biased, leading to spurious high persistence of shocks to conditional correlation. An application to stock returns supports these results and concludes that neglecting such structural shifts could lead to misleading decisions on portfolio diversification, hedging and risk management.

"The Risk and Return Conundrum Explained: International Evidence"

Christos Savva - Cyprus University of Technology, Cyprus

Panayiotis Theodossiou - Cyprus University of Technology, Cyprus

Discussant: Andreas Tsopanakis - University of Salford, UK

The relationship between risk and expected returns has been investigated extensively in the financial economics literature. Theoretical models predict a positive relation between the two. Nevertheless, the empirical findings so far have been inconclusive. Using a generalization of the analytical framework developed by Theodossiou and Savva (2016), the risk-return puzzle is investigated across international stock markets. The investigation reveals that the contradictory findings are the result of ignoring the impact of skewness on the total price of risk. That is, in the absence of skewness the relationship between risk and return is positive as depicted by finance theory. However, negative skewness results in lowering the total price of risk and in some cases reverting its sign from positive to negative.

SESSION 6

Saturday 10:00 a.m. - 12:00 p.m.

Room 2

INTEREST RATES

Session Chair: Yoram Kroll - Ono Academic College (OAC), Israel

"Interest Rate Risk of Life Insurers - Evidence from Accounting Data"

Axel Moehlmann - Deutsche Bundesbank, Germany

Discussant: Paul Whelan - Copenhagen Business School, Denmark

Life insurers are exposed to interest rate risk with typically a higher sensitivity to interest rate changes on the liability side than on the asset side. This paper develops an accounting-based measure of interest rate sensitivity. My approach is backward-looking using the coexistence of historical cost and fair value accounting which allows the observation of valuations for different discount rates. Using insurer-level data, I estimate the magnitude and distribution of interest rate risk for German life insurers. I find that in the past German life insurers carried a high degree of risk, albeit a wide dispersion. This result has important implications for understanding the macroprudential risks of the sector. In cross-sectional regressions I find that size, growth and solvency are negatively correlated to interest rate risk. The heterogeneity suggests that insurers behave differently during times of stress, which has important implications for understanding the macroprudential risks of the sector.

"Expected Term Structures"

Andrea Buraschi - Imperial College London, UK

Ilaria Piatti - Saïd Business School, UK

Paul Whelan - Copenhagen Business School, Denmark

Discussant: Luis Vicente - Universidad de Zaragoza, Spain

This paper studies the properties of bond risk premia in the cross-section of subjective expectations. We exploit an extensive dataset of yield curve forecasts from financial institutions and document a number of novel findings. First, contrary to evidence presented for stock markets but consistent with rational expectations, the relation between subjective expectations and future realizations is positive, and this result holds for the entire cross-section of beliefs. Second, when predicting short term interest rates, primary dealers display superior forecasting ability when compared to non-primary dealers. Third, we reject the null hypothesis that subjective expected bond returns are constant. When predicting long term rates, however, primary dealers have no information advantage. This suggests that a key source of variation in long-term bonds are risk premia and not short-term rate variation. Fourth, we show that consensus beliefs are not a sufficient statistics to describe the cross-section of beliefs. Moreover, the beliefs of the most accurate agents are those most spanned by a contemporaneous cross-section of bond prices. This supports equilibrium models and Friedman's market selection hypothesis. Finally, we use ex-ante spanned subjective beliefs to evaluate several reduced-form structural models. We find support for heterogeneous beliefs models and also uncover a number of statistically significant relationships in favour of alternative rational expectations models once the effect of heterogeneous beliefs is taken into account.

"Euro Government Bond Funds Before and After the Euro Debt Crisis: Evidence from Security-Level Holdings"

Cristina Ortiz - Universidad de Zaragoza, Spain

Gloria Ramírez - Universidad de Antioquia, Colombia

Luis Vicente - Universidad de Zaragoza, Spain

Discussant: Gyuri Venter - Copenhagen Business School, Denmark

This study is the first to evaluate the performance of Euro government bond mutual funds with characteristic-based benchmarks. This analysis is based on the security-level holdings of one of the most afflicted countries in the Euro sovereign debt crisis, Spain. The combined contribution of bond selection and timing casts doubt on the value of active management relative to its costs. The results show an increase in the strong home bias detected in the years preceding the crisis. Finally, transaction costs, hidden trading and investor externalities have a more negative effect on performance after the most critical years of the crisis.

"Central Bank Communication and the Yield Curve"

Metteo Leombroni - Stanford University,

Andrea Vedolin - London School of Economics, UK

Gyuri Venter - Copenhagen Business School, Denmark

Paul Whelan - Copenhagen Business School, Denmark

Discussant: Axel Moehlmann - Deutsche Bundesbank, Germany

We extract novel measures of ECB target rate announcement and communications shocks using high frequency data on money market rates and study their impact on yields of Eurozone countries. We document the following results: First, we find little significant effect for shocks during the target rate decision window, but both economically and statistically highly significant effects during the communication window; hence, forward guidance matters. Second, monetary policy shocks during the communication window mainly affect yields at intermediate maturities. Third, we observe large cross-sectional differences across countries, with yields in peripheral countries being less affected than in core countries. Finally, monetary policy shocks significantly reduce the yield spread between

peripheral and core countries especially during the most recent debt crisis. We rationalize these findings in a parsimonious international term structure model where interest rates are determined by the interaction between risk-averse arbitrageurs and reaching-for-yield investors.

SESSION 7

Saturday 10:00 a.m. - 12:00 p.m.

Room 3

FINANCIAL CRISIS

Session Chair: Kenneth Högholm - HANKEN School of Economics, Finland

"Nonprofit Organizations and the Global Financial Crisis: An Empirical Analysis of a Trade Credit Redistribution Effect"

Machteld Van Den Bogaerd - KU Leuven, Belgium

Discussant: Ishmael Tingbani - Bournemouth University, UK

This paper examines the determinants of trade credit in a nonprofit setting and incorporates the effect of the latest financial crisis on the supply and use of trade credit by examining the credit channel theory and its redistribution effect. A mixed effects panel data analysis on a sample of 1 315 Belgian nonprofit organizations (NPOs) using archival data from 2006 until 2014 was conducted. Results indicate that during and after the financial crisis, NPOs use less trade credit from their suppliers and at the same time extend less trade credit to their customers. These results seem partially in contradiction with the redistribution effect. However, taking into account the size and the financial vulnerability of the NPOs the results indicate that larger NPOs with high pre-crisis short-term borrowings extend more trade credit to their customers after the crisis and decrease their use of trade credit from suppliers during and after the crisis. Smaller NPOs with high pre-crisis short-term borrowings are possibly more credit constrained than their larger counterparts and as a result, extend less trade credit during the crisis period to their customers. Taking into account the cash position of NPOs, results indicate that smaller NPOs with high pre-crisis operational cash flows extend less credit to their customers during and after the crisis period. However, they tend to decrease their use of trade credit from their suppliers after the financial crisis.

"Working Capital Management, Cash Flow and SMEs' Performance"

Ishmael Tingbani - Bournemouth University, UK

Godfred Afrifa - The Business School, Canterbury Christ Church University, UK

Discussant: Xing Wang - Durham University, UK

The paper presents comprehensive evidence on the relationship between Working Capital Management (WCM) and SMEs' performance by taking into consideration the plausible effect of cash flow. The paper adopts a panel data regression analysis on a sample of 802 British quoted small and medium enterprises listed on the Alternative Investment Market for the period from 2004 to 2013. Findings – The results of the study demonstrate the importance of cash flow on SMEs' WCM and performance. According to our findings, WCM has a significantly negative impact on SME performance. However, with available cash flow, we find a significantly positive relationship. Additionally, our evidence reveals that cash flow constrained (non-constrained) SMEs are able to enhance their performance through decreased (increased) investment in WCM. Overall, the results demonstrate the importance of cash flow availability on SMEs' working capital needs. Our findings suggest that in an event of cash flow unavailability (availability) managers should strive to reduce (increase) the investment in working capital in order to improve performance. This current study incorporates the relevance of cash flow in assessing the association between WCM and firm performance.

"Sovereign Credit Default Swap Premiums' Reaction to Macroeconomic Announcements: An Event Study"

Xing Wang - Durham University, UK

Michele Passariello - Durham University, UK

Discussant: Youngna Choi - Montclair State University, USA

This study assesses the effect of news pertaining macroeconomic fundamentals on sovereign credit default swap (CDS) prices within different time intervals. The impact is estimated upon 18 countries which represent three macro areas: the EMEA region, the American continent and Asia Pacific. News announcements refer to better and worse than expected release/forecast differentials concerning 4 indicators: gross domestic product, consumer price index, unemployment rate and consumer sentiment. Whilst the vast majority of the literature agrees to consider that there is a negative correlation between the sign of the release and the post announcement drift direction, in this study, the main findings report that, in the period between 2009 and 2016, both better and worse than expected news lower CDS prices within 3-day and 41-day windows. In addition, whereas consumer price index and consumer sentiment publicising results influent in the determination of abnormal spread changes, this is not the case for gross domestic product and unemployment rate announcements. Furthermore, the responsiveness of the EMEA region is evidenced to be affected by the European sovereign debt crisis. American and Asian countries react moderately and mainly in long time intervals.

"Financial Instability Contagion: Modeling and Data Calibration"

Youngna Choi - Montclair State University, USA

Discussant: Machteld Van Den Bogaerd - KU Leuven, Belgium

This is a continuation of our ongoing research on financial market instability and systemic risk. Previously we used a multi-agent model and theories of dynamical systems to establish an early warning system, the market instability indicator, and the elasticity coefficient that measures the sensitivity of an agent's outgoing cash flow to the change of its wealth. We use the macroeconomic data of the United States and selected Eurozone countries to test the validity and applicability of the market instability indicator and the elasticity coefficient in real life, and suggest different ways of estimating them. Furthermore we use them to search empirical evidence of financial instability contagion and track the path of bubbles formation and risk transmission in two recent financial crises, the U.S. subprime crisis and the Eurozone sovereign credit crisis. We also provide quantitative reasoning about the limitations of available macroeconomic data in monitoring the level of financial instability, and make suggestions for improving data collection practices.

SESSION 8

Saturday 10:00 a.m. - 12:00 p.m.

Room 4

ACCOUNTING ISSUES II

Session Chair: Andreas Charitou - University of Cyprus, Cyprus

"Assessing Investors' Earnings Expectations: The Contextual Usefulness of Composite Forecasts"

Pieter Elgers - University of Massachusetts-Amherst, USA

May Lo - Western New England University, USA

Wenjuan Xie - University of New Hampshire, USA

Le Xu - University of New Hampshire, USA

Discussant: Andreas Tsalas - University of Tripolis, Greece

This study adopts a complementarity framework in constructing composite forecasts and evaluates the usefulness of composite forecasts as a proxy for investors' earnings expectations. Our empirical tests utilize composites of financial analysts', time-series and security-price based forecasts, and strongly support the incremental usefulness of the composite forecasts, over and above that of any of the three

forecast sources. Moreover, we show that the usefulness of composite forecasts is contextual. Composite forecasts better represent investors' earnings expectations for smaller firms, for firms with relatively light financial analysts' following, and for firms with weaker prior-year performance, measured as either abnormal returns or earnings changes.

"The Accrual Anomaly in the Greek Stock Market: It is a Case of Accounting Distortions or Growth?"

Georgios Papanastasopoulos - University of Piraeus, Greece

Dimitrios Thomakos - University of Peloponnese, Greece

Andreas Tsalas - University of Tripolis, Greece

Discussant: Nikolaos Floropoulos - University of Cyprus, Cyprus

In this paper we investigate the effects of accounting accruals on future profitability using a decomposition of accruals in two components, growth defined as growth rate in sales and accounting distortions namely accounting related factors. We form our reasoning on total accrual measure, which takes into account long-term accruals that appear to be a factor in the accrual literature. Total accruals are negatively related to future profitability and stock returns, and the earnings and stock price performance provide a meaningful economic summary of this relationship. We also show that growth is responsible for lower earnings persistence, while accounting distortions are not. Both factors contribute to the accrual effect on stock returns. Our results suggest that, both growth and accounting distortions do not behave neither as substitutes nor as complements in motivating the accrual effect on future stock returns in the Greek capital market. Our results are consistent with a rational explanation on the q theory of investment and we cannot probably formulate a mispricing hypothesis for the side of accruals attributable to growth.

"The Effect of Institutional Ownership on Analyst Stock Recommendations: An Empirical Investigation"

Andreas Charitou - University of Cyprus, Cyprus

Nikolaos Floropoulos - University of Cyprus, Cyprus

Irene Karamanou - University of Cyprus, Cyprus

Discussant: George Loizides - University of Cyprus, Cyprus

We provide evidence that analysts manipulate the recommendations of affiliated stocks at the end of the calendar quarter. While affiliated stocks are more likely to receive an upgrade throughout the year the difference in the probability of an upgrade between affiliated and non-affiliated firms widens during that period. Findings show that the market discounts the affiliation effect instantly in the general case, but fails to do so for the last week of quarter announcements. Market returns of affiliated upgrades that took place during that period are partly reverted during the first month after the announcement, creating a large difference with the abnormal returns of the non-affiliated firms. A portion of that reversion is caused by overreaction and the difference between affiliated and non-affiliated stocks' returns diminishes in the long term.

"Non-GAAP Earnings Disclosures on the Face of the Income Statement: An Empirical Investigation for the UK"

Andreas Charitou - University of Cyprus, Cyprus

Nikolaos Floropoulos - University of Cyprus,

Irene Karamanou - University of Cyprus, Cyprus

George Loizides - University of Cyprus, Cyprus

Discussant: Wenjuan Xie - University of New Hampshire, USA

This study exploits the unique feature of the UK information environment allowing UK firms to disclose non-GAAP earnings on the face of the income statement by examining two interrelated questions. First,

we search for the determinants of the decision to disclose non-GAAP earnings on the income statement and second, we investigate its effects on market liquidity. Using a dataset of 1,586 hand-collected firm-year observations during the period 2006-2013, we show that better governed firms and firms with inferior performance are more likely to disclose non-GAAP earnings. Our evidence also suggests that the disclosure of pro-forma earnings on the face of the income statement increases market liquidity. Together these results suggest that firms disclose non-GAAP earnings as a means of decreasing information asymmetry, resulting in turn to increased liquidity.

LUNCHEON

12:00 - 1:30 p.m. **Tassos Papadopoulos Building - Amphitheatre 2**

KEYNOTE SPEECH

1:30 - 2:15 p.m. **Tassos Papadopoulos Building - Amphitheatre 1**

Professor Shyam Sunder
Yale School of Management, USA

SESSION 9 **Saturday 2:15 - 4:15 p.m.** **Room 1**

CORPORATE FINANCE II

Session Chair: Ted Azarmi - Heilbronn University, Germany

"Do Acquirer Boards Influence M&A Value Creation? Evidence from European Takeovers"

Corneel Defrancq - KU Leuven, Belgium
Nancy Huyghebaert - KU Leuven, Belgium
Mathieu Luypaert - Vlerick Business School, Belgium

Discussant: Mark Mietzner - Zeppelin Universität, Germany

We examine how the size and composition of acquirer boards relate to shareholder announcement returns for a sample of 3,289 M&As initiated by European listed firms. We find that board size has an U-shaped relation with M&A announcement returns in Continental Europe. Also, acquirer shareholders in Continental Europe realize significantly larger abnormal returns if boards have a larger fraction of independent and busy directors. Next, our findings question the recent call for more diversity in board composition by the public and by regulation-shaping bodies, at least in the context of M&As. While gender and age diversity prove irrelevant, we show that the proportion of foreign directors is significantly negatively associated with value creation in domestic takeovers. In the case of cross-border M&As, we find no positive effect either. Finally, and contrary to expectations, we detect a significant negative impact of director expertise in the target industry on acquirer shareholder value in industry-diversifying takeovers outside Continental Europe.

"Family Business Acquirers as the New Private Equity Investors in Continental Europe"

Philipp Schüler - Brunswick Group GmbH, Germany
Mark Mietzner - Zeppelin Universität, Germany
Dirk Schiereck - Technische Universität Darmstadt, Germany

Discussant: Kenneth Högholm - HANKEN School of Economics, Finland

This study tests whether family business investors and private equity investors in Continental Europe significantly differ from their investment approach and strategy. Therefore, we analyze 126 acquisitions of listed Continental European firms by family business investors and private equity firms from the years

2002 to 2012. As most of the differences between both investor groups are not statistically significant, the results fit with the existing evidence on shareholder activism of institutional investors like private equity funds and corporate raiders. Consequently, we argue for the increased consideration of family business investors into the research on shareholder activism in Continental Europe.

"Open Market Repurchase Programs - Evidence from Finland"

Kenneth Högholm - HANKEN School of Economics, Finland

Victor Högholm - HANKEN School of Economics, Finland

Discussant: Seniha Besim - Eastern Mediterranean University, Cyprus

Share repurchase programs have during the past few decades become an important way of distributing cash to shareholders since they are viewed by managers as more flexible than dividends. Open market repurchase authorizations effectively also give managers an option to repurchase shares when they view their stock as undervalued. This study exploits a data set of open market repurchases programs initiated by Finnish stock market listed companies. Finland is unique with regard to the disclosure requirements of open market repurchase programs, which enables an examination of the information content in both the initiation announcement as well as in the announcement of actual repurchases. The study covers all 293 share repurchase programs initiated between 1998 and 2013. The results show a significant positive announcement effect of about 2 percent on the initiation day. The CAAR over a five day event window is also about 1.5 percent (statistically significant). Furthermore, an additional statistically positive effect of 1.5 percent is found on the first repurchase day (about 1.1 percent over a five day event window). The positive announcement effect is larger for announcements regarding initiations of the first or the second repurchase program for a company.

"Dividend Policy in Family Controlled Companies: The Effects of Pyramids and Dual Share Control Enhancement Mechanisms"

Seniha Besim - Eastern Mediterranean University, Cyprus

Cahit Adaoglu - Eastern Mediterranean University, Cyprus

Discussant: Nancy Huyghebaert - KU Leuven, Belgium

In this paper, we examine the control-enhancing mechanisms used by family controlled companies traded in Borsa Istanbul (BIST), a Eurasian emerging market with low investor protection. Family control is found to be significantly important as around 80% of publicly traded non-financial firms are ultimately controlled by families in BIST. By precisely quantifying the most widely used control enhancing mechanisms (CEMs); pyramid (control rights divided by voting rights) and dual-class shares (voting rights divided by cash flow rights), we measure their individual effects on dividend policy. We use the divergence between control and cash flow rights (C/O) to measure the possibility of rent extraction by the controlling family. The wedge between control and cashflow rights is the result of pyramid structures and dual class shares. By quantitatively decomposing the C/O ratio into its components of pyramid (C/V) and dual share mechanisms (V/O), we further measure the relative effects of these CEMs on dividend policy. We use a panel dataset of family controlled companies for a period of six years, 2009 – 2014. We find that as the divergence between control and ownership right increases, dividend payments decrease. Analyses of CEMs show that as the number of firms in the pyramid structure increase, the negative effect on dividends becomes greater. In addition, we find that dual- class shares have no effect on dividends.

SESSION 10

Saturday 2:15 - 4:15 p.m.

Room 2

FUNDS I

Session Chair: Luis Vicente - Universidad de Zaragoza, Spain

"Risk-Shifting Behaviour of U.S. Socially Responsible Fund Managers"

John Vaz - Monash University, Australia

Discussant: Juha Joenväärä - University of Oulu, Finland

Many studies analyse the performance of Socially Responsible Investments (SRIs) compared to conventional funds. However, none have analysed and contrasted the relative risk-shifting behaviour by SRI fund managers. This study makes a major attempt to fill this gap by investigating whether fund managers of US equity SRI funds exhibit differential risk shifting behaviour. Strong evidence is found to support the existence of risk-shifting behaviour by conventional fund managers. Specifically, we find that interim period managers who are mid-period winners are more likely to take on more risk subsequent to the mid-period than losers. We find little evidence of risk shifting by SRI fund managers general however, in bear markets or when they are in turmoil. The implication of the finding is that when the market is in a downturn or in turmoil, fund managers take on more risk in attempts to achieve improved returns and to compete for future capital inflows, regardless of whether they are classified as motivated by SRI or non SRI objectives.

"Name Gravitas and Hedge Fund Flows"

Juha Joenväärä - University of Oulu, Finland

Cristian Tiu - University of Buffalo, USA

Discussant: Ekaterina Goryagina - UCD Smurfit School of Business, Ireland

We document excess flows to gravitas, a hedge fund's name semantic characteristic defined as a blend of words related to economics, geopolitics and descriptive of power. Every year, having one more word of gravitas in the name of the average hedge fund attracts \$100,000 more in annual flows. We further find that name gravitas is unrelated to performance, is positively related to more risk taking by the hedge fund manager and it predicts higher failure rates. Consistent with the idea that investors eventually learn the hedge fund's true investment abilities, flows to gravitas are lower for older funds, in bear markets and also they decline in the latter half of our sample. Name gravitas is negatively related to the number of databases the hedge fund reports to, suggesting naming a fund with gravitas is an alternative to marketing the fund through traditional channels. Our results are robust to a series of alternative stories and pass a variety of treatments for endogeneity.

"Regret Insurance: A Canonical Approach to Pension Fund Management?"

David Edelman - University College Dublin, Ireland

Ekaterina Goryagina - UCD Smurfit School of Business, Ireland

Discussant: Panayiotis Papakyriakou - University of Southampton, UK

A method of portfolio selection with minimax Regret with respect to the best hindsight constant-mix portfolio is presented. This is achieved via the introduction of a derivative contract for the Hindsight Growth Optimal Portfolio, where both theoretical and numerical approaches for pricing that derivative are exhibited. In order to validate and demonstrate the approach, an empirical study is carried out based on the S&P500 Total Return index and a Bond Index using data over 27 years, resulting in strong evidence of Stochastic Dominance of the Derivative position for sufficiently long time windows over any 'Buy and Hold' position of the constituent assets (most notably the S&P500 Index). The clear importance of the results to the pension industry is noted and discussed.

"Do Changes in Corporate Pensions' Financial Strength Affect the Underlying Actuarial Valuation Assumptions?"

Panayiotis Papakyriakou - University of Southampton, UK

Discussant: John Vaz - Monash University, Australia

In this paper I employ a new measure for actuarial estimation errors in pension funding assumptions. The Actuarial Estimation Error, developed in Papakyriakou (2016), is defined as the difference between the current and the previous period's pension asset expected returns. Using data spanning 2000 – 2011 and the 2008 global financial crisis as an exogenous shock that moves pension funds across different categories of financial strength I find that when the funding level of DB pension plans falls significantly,

enough for the plan to drop to a lower funding category, then Actuarial Estimation Errors of the following year become significantly bigger, an obligation reducing assumption. Findings only hold for the later years of the sample, i.e. after 2006 when Pension Protection Act was voted into law and after 2008 when the global financial crisis arrived. Results are robust to actuarial compensation incentives and the overall financial strength level of pension plans.

SESSION 11

Saturday 2:15 - 4:15 p.m.

Room 3

BANKING AND MORTGAGES

Session Chair: Christos Savva - Cyprus University of Technology, Cyprus

"The Wealth Effect of Yield Curve Changes on the Banking Firm"

Elyas Elyasiani - Temple University, USA

Iftekhhar Hasan - Fordham University, USA

Elena Kalotychou - University of London, UK

Panos Pouliasis - University of London, UK

Sotiris Staikouras - University of London, UK

Discussant: Itzhak Venezia - Tel Aviv Yaffo Academic College, Israel

This paper investigates the return generating process of the banking firm, over the last twenty years, across four major financial markets namely the US, UK, Japan and Europe. Decomposing the yield curve to its three constituents i.e. level, slope and curvature factors, the study evaluates the time-varying sensitivity of the bank's equity to these three factors by using a DCC-MGARCH framework. The overarching findings suggest that the empirical proxies for level, slope and curvature are statistically able to explain the variation in equity prices above and beyond the wide market effect. Shocks to the slope (level) factor have a significant negative (positive) impact on the equity returns of the banking portfolio. Size plays an important role regarding the magnitude of all systematic risk factors, while banks tend to have higher sensitivities during the crisis and post-crisis period. The yield curve exposure of the banking firm does not seem to discriminate between market-oriented versus bank-oriented financial systems.

"Implied Maturity Mismatches and Investor Disagreement"

Mark Iarovyi - Bocconi University, Italy

Sasson Bar-Yosef - The Hebrew University of Jerusalem, Israel

Itzhak Venezia - Tel Aviv Yaffo Academic College, Israel

Discussant: Alexis Antoniadis - Georgetown University, Qatar

Maturity mismatches (MMs) expose banks to interest rate risk and thus add to the uncertainty and ambiguity of the bank's performance. Given the significance of interest rate risk for banking operations, we study the relationship between MMs and investor disagreement, as proxied by trading volume in the banks' equity. We overcome infrequency and opacity of accounting disclosures, which interfere with direct measurements of MMs, by resorting to implied MMs, computed as stock return sensitivity to interest rate changes. We find that implied MMs are positively associated with trading volume, and that the role of returns in this relationship is minimal or null.

"Mortgage Market Credit Conditions and U.S. Presidential Elections"

Alexis Antoniadis - Georgetown University, Qatar

Charles W. Calomiris - Columbia Business School, USA

Discussant: Vasileios Giannopoulos - University of Patras, Greece

Voters punish incumbent Presidential candidates for contractions in the local (county-level) supply of mortgage credit during market-wide contractions of credit, but they do not reward them for expansions

in mortgage credit supply in boom times. Our primary focus is the Presidential election of 2008, which followed an unprecedented swing from very generous mortgage underwriting standards to a severe contraction of mortgage credit. Voters responded to the credit crunch by shifting their support away from the Republican Presidential candidate in 2008. That shift was particularly pronounced in states that typically vote Republican, and in swing states. The magnitude of the effect is large. If the supply of mortgage credit had not contracted from 2004 to 2008, McCain would have received half the votes needed in nine crucial swing states to reverse the outcome of the election. The effect on voting in these swing states from local contractions in mortgage credit supply was five times as important as the increase in the unemployment rate; if unemployment had not increased from 2004 to 2008, that improvement in local labor markets would only have given McCain only 9% of the votes needed to win the nine crucial swing states. We extend our analysis to the Presidential elections from 1996 to 2012 and find that voters' reactions are similar for Democratic and Republican incumbent parties, but different during booms and busts of mortgage credit.

"Characteristics of Non-Performing Small Business Loans and Comparative Analysis of Credit Scoring Models: Evidence from the Crisis Greek Economy"

Vasileios Giannopoulos - University of Patras, Greece

Eleftherios Aggelopoulos - University of Patras, Greece

Antonios Georgopoulos - University of Patras, Greece

Discussant: Sotiris Staikouras - University of London, UK

This paper examines the determinants of a non-performing small business loans portfolio during a turbulent period and conducts a comparative analysis of the literature identified credit scoring models. The study is motivated by the bad management and bad luck hypothesis (Berger and DeYoung, 1997) that link poor skills in lending activities and external shocks respectively, to increases in NPL's. We use a unique data of 3.294 small business loans granted on 2005 (expansion period) by one of the four systemic bank operating in the Greek oligopolistic financial system. According to our applied novel methodology, firstly a binomial logit model is utilized in order to detect determinants of bad-performing loans during the early recession period (August 2010 - July 2012) and afterwards when recession deepens, a multinomial logit is applied to test further the impact of these drivers on creation of non-performing loans. The results show that the examined variables maintain their impact on the creation of additional non-performing loans through the deep recession period but with a reduced intensity. We also find that the best prediction ability presents the neural network multilayer perceptron, then follow the decision trees methodology and the binomial logistic regression respectively and finally the neural network radial basis function. Finally, the bank's credit scoring model reveals the relatively worst prediction performance.

SESSION 12

Saturday 2:15 - 4:15 p.m.

Room 4

DERIVATIVES

Session Chair: Roar Adland - Norwegian School of Economics (NHH), Norway

"The Smart Vega Factor-Based Investing: Disentangling Risk Premia from Implied Volatility Smirk"

Anmar Al Wakil - University Paris-Dauphine, PSL Research University / Natixis AM, France

Discussant: Somayyeh Lotfi - University of Cyprus, Cyprus

This paper paves the way for option-based volatility strategies genuinely built on factor-based investing. Since market option prices reflect uncertainty, we exploit the discrepancy between the physical and the risk-neutral distributions, i.e. the fair price of moments. From an economic perspective, the level, slope, and convexity associated to the implied volatility smirk quantify the departure of the returns probability distribution from the lognormal distribution. Subsequently, our so-called "Smart Vega investing" proposes option-based replication strategies mimicking the volatility, skewness, and kurtosis risk premia

in the form of divergence swap contracts, tradeable at moderate transaction costs in incomplete option markets. Extending the Zhang-Xiang (2008) quadratic approximation, we derive an explicit representation of the implied volatility smirk function, conveniently expressed as a combination of tradeable time-varying risk premia that reward for bearing higher-order risks. Furthermore, we empirically test these theoretical underpinnings on the SPX and the VIX options, under strongly skewed leptokurtic distributions.

"Portfolio Diversification in the Sovereign Credit Swap Markets"

Andrea Consiglio - University of Palermo, Italy

Somayyeh Lotfi - University of Cyprus, Cyprus

Stavros Zenios - University of Cyprus, Cyprus

Discussant: Elena Kalotychou - University of London, UK

We develop models for portfolio diversification in the sovereign credit default swaps (CDS) markets and show that, despite literature findings that sovereign CDS spreads are affected by global factors, there is sufficient idiosyncratic risk to be diversified away. However, we identify regime switching in the times series of CDS spreads, and the optimal diversified strategies can be regime dependent. The developed models trade off the CVaR risk measure against expected return, consistently with the statistical properties of spreads. We consider three investment strategies addressing the needs of different CDS market participants: for investors with long positions, speculators that hold uncovered long and short positions, and hedgers with covered long and short exposures. We use the models to illustrate that diversification pays in the CDS market. The models are also tested for active portfolio management in Eurozone core and periphery, and Central, Eastern and South-Eastern Europe (CESEE) countries. Results compare favorably with the broad S&P/ISDA Eurozone Developed Nation Sovereign CDS index. The paper concludes by identifying open questions in developing integrated risk management models for CDS portfolios.

"The Anatomy of Sovereign Risk Contagion"

Elena Kalotychou - University of London, UK

Eliza Wu - University of Sydney, Australia

Magdalena Erdem - Bank for International Settlements, Switzerland

Eli Remolona - Bank for International Settlements, Hong Kong

Discussant: Anmar Al Wakil - University Paris-Dauphine, PSL Research University / Natixis AM, France

We analyze the channels for the cross-border propagation of sovereign risk in the international sovereign debt market. Identifying sovereign credit events as extraordinary jumps in CDS spreads, we distinguish between the immediate effects of such events and their longer term spillover effects. To analyze “fast and furious” contagion, we use daily CDS data to conduct event studies around a total of 89 identified credit events in a global country sample. To analyze “slow-burn” spillover effects, we apply a multifactor risk model, distinguishing between global and regional risk factors. We find that “fast and furious” contagion has been primarily a regional phenomenon, while “slow-burn” spillover effects can often be global in scope, especially the effects of the recent European debt crisis. The global risk factors are driven by investor risk appetites and debt levels, while the regional factors depend on economic fundamentals of countries within a region.

Refreshments

4:15 - 4:30 p.m.

Tassos Papadopoulos Building

BANKING ISSUES

Session Chair: Didier Maillard - CNAM, France

"Determinants of Bank Dividend Smoothness for US and European Banks"

Nicos Koussis - Frederick University, Cyprus

Michalis Makrominas - Frederick University Cyprus, Cyprus

Discussant: Kyriaki Kosmidou - Aristotle University of Thessaloniki, Greece

Using a partial adjustment model of bank dividend policy we analyze the determinants of dividend smoothing for European and US banks before and after the crisis of 2007. We show that dividend smoothing is more prevalent for smaller banks and banks that rely more on new equity issuance, in line with asymmetric information theory, and for banks that initially have larger dividends and smaller ownership concentration, in line with agency cost theory. Compared to their US counterparts, European banks have larger dividend smoothing explained by stronger association of dividend smoothing with proxies of asymmetric information and agency problems. During the years following the economic crisis dividend smoothing remains despite some decreases in both continents.

"Banking Insolvency Risk and Revenue Diversification: Evidence from Europe"

Konstantinos Moutsianas - Aristotle University of Thessaloniki, Greece

Kyriaki Kosmidou - Aristotle University of Thessaloniki, Greece

Dimitrios Kousenidis - Aristotle University of Thessaloniki, Greece

Discussant: Sana Mohsni - Carleton University, Canada

The banking insolvency risk of European banking systems has increased significantly during the European sovereign debt crisis. Banking literature provides two opposing arguments regarding the relationship between the revenue diversification and banking insolvency risk. On the one hand, there are arguments which support that the alteration of traditional banks' business models to business mix with focus on revenue diversification constitutes a significant cause for the banking distress. On the other hand, the revenue diversification seems to lead to increase of the banking income and the strengthening of banking stability. The purpose of this paper is to investigate the relationship of banking insolvency risk and revenue diversification of the European banking institutions during the pre-crisis and the post-crisis period. Our research attempts to identify whether revenue diversification leads to banking insolvency risk or contributes to banking stability. In order to examine the aforementioned relationship, we employ GMM panel data methods and we, also, control for: bank size, profitability, market structure and macroeconomic indicators. The policy implications of the results associated with the current debate on the separation of commercial and investment banking in Europe as well as provide financial information to the management of the banking institutions.

"Does Regulatory Regime Matter for Bank Risk Taking? A Comparative Analysis of US and Canada."

Sana Mohsni - Carleton University, Canada

Isaac Otchere - Carleton University, Canada

Discussant: Nicos Koussis - Frederick University, Cyprus

The banking structure in the US is less concentrated, more competitive and less restrictive, whereas that of Canada is more concentrated, less competitive, and more restrictive. In the wake of the worst financial crisis in 2008, most US banks were bailed out while Canadian banks sailed through the crisis relatively unscathed. We examine the risk taking behavior of banks in the US and Canada prior to the recent financial crisis and find that Canadian banks had lower risk than their US counterparts over the study period. Further analysis shows that entry restrictions, which create concentrated banking structure, restrictions relating to capital, liquidity and activities, and strong supervisory power and discipline

positively related to the z-score, suggesting that these factors constrain excessive risk taking by Canadian banks. We also decompose the z-score into its components and re-estimate our baseline regression with the view to identifying the source of the risk. We find that entry restrictions (and higher concentration) generate higher profits and lower variability of asset returns for Canadian banks while restrictions on activities reduce profitability and increase variability in asset return; however, the former seems to overwhelm the effect of asset restriction, given the lower risk that we observe for the Canadian banks. The less concentrated but competitive banking structure in the US is associated with higher bank risk taking.

SESSION 14**Saturday 4:30 - 6:00 p.m.****Room 2****FUNDS II***Session Chair:* Nancy Huyghebaert - KU Leuven, Belgium**"Institutional Investors' ETF Usage and Stock Selection Ability"**

Juha Joenväärä - University of Oulu, Finland

Hamed Salehi - University of Oulu, Finland

Discussant: Jose Sarto - University of Zaragoza, Spain

We investigate the information content of institutional investors' use of exchange-traded funds vis-à-vis stock selection ability. On average, we find that ETF users---as compared with non-users---have lower managerial activeness measures of their equity holdings, invest in larger stocks with broader analyst coverage, hold more diversified portfolios, and have less direct equity investment. When adjusted for common sources of risk, the stock portfolio of non-users outperforms that of ETF users; the performance difference is greater among smaller and more active institutions. Stock selection ability explains performance differences and is manifested by the variation among institutional investors' holdings.

"How Active is your Fund Manager in Reality? Comparison of the Level of Activeness in Publicly vs Non-Publicly Reported Holdings"

Laura Andreu - University of Zaragoza, Spain

Carlos Forner - University of Alicante, Spain

Jose Sarto - University of Zaragoza, Spain

Discussant: Theodosios Kallenos - University of Cyprus, Cyprus

We examine the level of activeness of domestic equity mutual funds in the Spanish mutual fund industry through the Tracking Error and Active Share metrics. We find that both metrics are complementary when predicting future fund performance. Specifically, mutual funds with a high value of Active Share and Tracking Error obtain better results although they are unable to significantly beat the benchmark. Additionally, our unique database of monthly portfolio holdings allows us to investigate whether the level of activeness of mutual funds measured through the Active Share metric is the same regardless of the calendar month or otherwise it differs depending on whether the portfolio holdings are publicly reported. Our main finding is that mutual funds characterized by a high value of Active Share and a low value of Tracking Error experience a statistically significant increase in the level of the Active Share in those months in which portfolio holdings are publicly reported by management companies. This finding evidences a certain manipulation or incentive of fund managers to exhibit an image of artificial activity.

"Strategic Delay in Closed-End Fund Portfolio Holdings Disclosure"

Theodosios Kallenos - University of Cyprus, Cyprus

Discussant: Hamed Salehi - University of Oulu, Finland

We use a sample of Closed End Funds (CEFs) to examine whether fund managers' timing decision to disclose their portfolio holdings filings depends on certain strategies that aim to protect the fund or the fund manager's position. We also examine whether holdings disclosure affects closed end fund prices and go one step further to check whether the effects are more pronounced when disclosure is timely. In our last analysis we examine how the content of holdings filings affects the CEF prices.

SESSION 15

Saturday 4:30 - 6:00 p.m.

Room 3

TRADING

Session Chair: Christodoulos Louca - Cyprus University of Technology, Cyprus

"Closing the Gap of Analysts' Informativeness: An Empirical Analysis of Short-Run Stock Tips"

Andreas Charitou - University of Cyprus, Cyprus

Irene Karamanou - University of Cyprus, Cyprus

Anastasia Kopita - University of Essex, UK

Discussant: Zacharias Petrou - University of Cyprus, Cyprus

Recent regulatory changes resulted in a widespread transition to coarser recommendation grids potentially entailing lower informativeness of stock recommendations. At the same time anecdotal evidence suggests that capital market participants' demand on short-run information has significantly increased. Using the unique hand collected sample of 1509 short-run trading ideas, we examine the information content of short-term trading tips and their potential use as a valuable input in the longer-term research output. We document that analysts prefer to provide short-run trading tips for firms with greater performance and potential of revenue generation. Trading tips are informative and incrementally informative, conditional on concurrent stock recommendations. We also find that the predictive power of the short-run news over the long run research horizon is stronger when the direction of the short-run trading tip and the previous recommendation coincide rather than when they differ. We also show that the market reaction to upcoming recommendation changes is greater for firms with short-run trading tips. Our findings provide evidence that an upcoming recommendation upgrade that is accompanied by a short-term rise estimate elicits up to +2.8% higher abnormal returns. Results are consistent with short-run price estimates increasing the overall informativeness of upcoming recommendations' changes.

"Target Prices and Recommendations Bias"

Andreas Charitou - University of Cyprus, Cyprus

Irene Karamanou - University of Cyprus, Cyprus

Zacharias Petrou - University of Cyprus, Cyprus

Discussant: Dimitris Tsouknidis - Cyprus University of Technology, Cyprus

We propose a novel measure to ex ante classify analyst stock recommendations as optimistically biased. Our premise is that, when target prices are closer to current prices but the recommendation is optimistic, the analyst is more likely to provide a biased recommendation. Using a dataset of 71,066 optimistic recommendations; 41,657 "Buy" recommendations; 29,409 "Strong Buy" recommendations, over the period 2003 to 2015, preliminary results show that when the difference between target prices and recommendations is small but the analysts' recommendation is optimistic, it is an indication of potential biased recommendation. In addition, when the difference between analysts' target prices and the actual prices increases the cumulative abnormal returns increase as well.

"Dynamic Spillover Effects Across Petroleum Spot and Futures Volatilities, Trading Volume and Open Interest"

George Magkonis - University of Bradford, UK

Dimitris Tsouknidis - Cyprus University of Technology, Cyprus

Discussant: Anastasia Kopita - University of Essex, UK

This paper examines the existence of dynamic (time-varying) spillover effects across petroleum based commodities and among spot-futures volatilities, trading volume and open interest. In order to investigate dynamic spillovers and distinguish them between total and net, realized volatilities of spot-futures markets are used as inputs to estimate a VAR model following Diebold and Yilmaz (2009, 2012, 2014, 2015). Results reveal the existence of large and time-varying spillovers among the spot-futures volatilities of petroleum-based commodities when examined individually and pairwise. Furthermore, speculative pressures as reflected by futures trading volume and hedging pressures as reflected by open interest are shown to transmit large and persistent spillovers to the spot-futures volatilities of crude oil commodity and heating oil/gasoline commodities, respectively.

SESSION 16

Saturday 4:30 - 6:00 p.m.

Room 4

FINANCIAL ECONOMETRICS II

Session Chair: Mark Mietzner - Zeppelin Universität, Germany

"A Two-Regime Mean Reverting Jump Diffusion Model for the Offshore Supply Market"

Roar Adland - Norwegian School of Economics (NHH), Norway

Magnus Bjørkelund - Norwegian School of Economics, Norway

Discussant: Maximilian Adelman - University of Zurich, Switzerland

Classical maritime economic theory suggests that spot freight rates are set in an equilibrium framework characterized by a high-volatility regime when the fleet is fully utilized and a low-volatility regime in the presence of oversupply. We derive a new and comprehensive stochastic spot freight rate model that incorporates two-regime mean reversion, stochastic jumps and a deterministic seasonal function. Parameters are estimated based on the historical spot rates for Anchor Handling Tug Supply and Platform Support Vessels in the North Sea spot market for offshore vessels. We show that the observed volatility clustering is mainly a result of the level effect in the conditional variance with respect to the spot freight rate, negating the need for more complex stochastic volatility models proposed in the recent literature. Similarly, our two-regime jump diffusion model can capture the extreme volatility induced by short-duration rate spikes without resorting to non-Gaussian increments in the diffusion model.

"Percentile Forecasting and Trading Strategies"

Maximilian Adelman - University of Zurich, Switzerland

Cyril Bachelard - OLZ & Partners, Switzerland

Discussant: Panayiotis Andreou - Cyprus University of Technology, Cyprus

Recent publications have shown that the sign of returns can---in contrast to the mean of returns---be forecasted. This paper presents a binary logit sign prediction approach. As a novelty in the literature we extend this approach to forecast also the probabilities for returns larger than several percentiles. Our binary logit percentile approach includes four different models that differ in explanatory variables. All four models comprise the conditional volatility as explanatory variable. The second model adds the unconditional skewness, the third one adds the turbulence contribution based on the Mahalanobis distance, and the fourth one adds both the unconditional skewness and the turbulence contribution as explanatory variables. We present several common tests to assess the predictive power of our models and also develop a new test to visualize the results. A numerical application of our binary logit approach to empirical data sets demonstrate a superior forecasting performance of model 3 and model 4 and percentiles smaller than zero. We also develop a trading strategy based on our percentile forecasts that provides superior Sharpe ratios than the respective benchmark strategies.

"Firms' Market Culture: The Role of Institutional Ownership, Earnings Management and Crash Risk"

Panayiotis Andreou - Cyprus University of Technology, Cyprus

Franco Fiordelisi - University of Rome III, Italy

Terry Harris - Durham University Business School, UK

Dennis Philip - Durham University Business School, UK

Discussant: Roar Adland - Norwegian School of Economics (NHH), Norway

Firms' market culture is shaped from its attributes that focus on achieving rapid and short-term value creation. Using textual analysis for a large sample of US publicly-listed firms, this study investigates whether the composition of the institutional investor base impacts a firm's orientation towards the market culture. The findings show that transient institutional ownership propels a firm's orientation towards the market culture, while dedicated institutional ownership pulls it away. Further, firms with stronger market culture orientation have a heightened propensity to engage in earnings management practices and are more prone to stock price crashes. This is indicative of the fact that firms with a greater market culture orientation face higher incentives to meet predetermined objectives and expectations by masking poor performance through managerial bad news hoarding. Our results have policy implications, since they support the notion that transient institutional investors pressurize management to shift a firm's orientation more towards the market culture so as to maximize short-run profits, albeit at the expense of long-run value.

KEYNOTE SPEECH

7:45 - 8:30 p.m.

Tassos Papadopoulos Building - Amphitheatre 1

Professor George Constantinides

University of Chicago, USA

GALA DINNER

9:00 - 11:00 p.m.

Place (TBA)