TWENTY-FOURTH ANNUAL CONFERENCE
OF THE MULTINATIONAL FINANCE SOCIETY
(As of June 27, 2017)

June 25-28, 2017
Intercontinental Hotel Bucharest
Bulevardul Nikolae Balcescu 4
Bucharest, Romania

SESSION 1 Monday 8:45 - 10:15 a.m. Doina

ASSET PRICING I
Session Chair: Hans Byström - Lund University, Sweden

"Does Multiemployer Plan Membership Influence Stock Return Co-Movement?"
Barbara Chambers - Monash University, Australia

Discussant: Wah Yip Chu - BI Norwegian Business School, Norway

I investigate empirically whether the risk associated with MDBP membership is systematic and is priced. I propose that MDBP sharing companies share four common risks: MDBP liability spillover risks, MDBP unfunded liability risks, labor contract risks, and geographic area risks. To test for common effects on stock returns, I regress public MDBP firms' stock returns on known risk factors and extract the residuals and then regress the residuals against an equally weighted index of stock returns of companies with whom the firm shares MDBPs. I find that MDBP sharing companies' stock return display positive statistically significant excess co-movement. Using an equally weighted MDBP index, I find statistical evidence to suggest that MDBP sharing firm's co-movement changes after the public release of information about which firms share MDBPs.

"Value and Profitability Premium: From the Perspective of Duration"
Wah Yip Chu - BI Norwegian Business School, Norway

Discussant: Nader Virk - Plymouth Business School, UK

Traditional duration based model, though successfully explains the value premium, counterfactually predicts that profitable stocks, which have long duration, under-perform the unprofitable stocks. This is because the traditional model identifies the stocks' exposures to both cash flow and discount rate risks with only one measure - duration. In contrast, this article allows the duration to be orthogonal to the book-to-market (or profitability) ratios, so that we have two measures that truly span the two dimensional risk metric. I find that the value premium arises mainly from the difference, in terms of a compensation for cash flow risk, between long duration value and long duration growth stocks; while the profitability premium arises mainly from the difference, in terms of a compensation for discount rate risk, between short duration profitable and short duration unprofitable stocks. It is this additional degree of freedom that accommodates both the value and profitability premiums under the same risk-based framework.

"Time Variation in Liquidity, DMS and Asset Pricing Models"
Hilal Butt - Institute of Business Administration, Pakistan
Nader Virk - Plymouth Business School, UK

Discussant: Barbara Chambers - Monash University, Australia

We show that a number of asset pricing anomalies which are good hedges to systematic liquidity risk (bad timers) such as the momentum anomaly, have higher/lower returns in down market states (DMS) when market liquidity decreases/increases. Furthermore, returns on bad timer decline the most when both market liquidity and returns resurge in a bear market period. The diametrically opposite pattern is shown for the anomalies which are exposed to systematic liquidity risk (good timers). We further find that the bad timers pose a bigger challenge to the pricing ability of known asset pricing models, whereas these models have remarkable success in explaining average returns on so called good timers.

SESSION 2 Monday 8:45 - 10:15 a.m. Opereta

FIXED INCOME SECURITIES
Session Chair: Balasingham Balachandran - La Trobe University, Australia

"Liquidity Premium in Domestic Brazilian Government Bonds"
Gyorgy Varga - FCE Consulting, Brazil

Discussant: Marcos Gonzalez - Universidad de León, Spain

This article investigates the return differential between liquid and illiquid Brazilian Government bonds to find out if there is a liquidity premium among this asset like the evidence for the United States. The result does not show positive or negative significant premium.

"Population Aging, Maturity Structure and FDI Outflows"
Marcos Gonzalez - Universidad de León, Spain
María Del Carmen González-Velasco - Universidad de León, Spain

Discussant: Julio Sarmiento-Sabogal - Pontificia Universidad Javeriana, Colombia

The aim of this paper is to analyze the effects of population aging on the maturity structure of sovereign debt and FDI outflows. We analyze a group of highly developed European Union countries between 1990 and 2013. Specifically, we test the impact of the clientele effects and lifetime cycle hypothesis, which indicate that the age of individuals affects financial decisions. The results show that an increase in the median age as well as a higher level of income in the younger generation influences the maturity structure of sovereign debt. Regarding FDI outflows, we find evidence they increase with age.

"Positive Asymmetric Information in Volatile Environments: The Black Market Dollar and Sovereign Bond Yields in Venezuela"
Julio Sarmiento-Sabogal - Pontificia Universidad Javeriana, Colombia
Edgardo Cayon - CESA Business School, Colombia
Maria Antonieta Collazos-Ortiz - Pontificia Universidad Javeriana, Colombia
Juan Sebastian Sandoval-Hoyos - Pontificia Universidad Javeriana, Colombia

Discussant: Gyorgy Varga - FCE Consulting, Brazil

We test the informational efficiency of the yield of Venezuelan USD sovereign bonds to changes in the premium of the black market exchange rate (PBMER). We use a Non-Parametric Asymmetric Granger Causality test for testing our hypothesis. We find that the bond market with less or equal of 5 years of maturity seems to be efficient when good news are released in the PBMER. However, this market does not process quickly and unbiased bad news regarding PBMER, creating arbitrage opportunities. Capital controls that restrict free exchange rate mechanisms create arbitrage opportunities with negative news as opposed to positive news.

BANKING AND MORTGAGES
Session Chair: Dimitrios Ginoglou - University of Macedonia, Greece

"Social Capital and Bank Stability"
Robert Mathieu - Wilfrid Laurier University, Canada
Justin Jin - McMaster University, Canada
Kiridaran Kanagaretnam - York University, Canada
Gerald Lobo - University of Houston, USA

Discussant: Pornchai Chunhachinda - Thammasat University, Thailand

Using a sample of public and private banks, we study how social capital relates to bank stability. Social capital, which captures the level of cooperative norms in society, is likely to reduce opportunistic behavior (Jha and Chen 2015; Hasan et al. 2016) and, therefore, to act as an informal monitoring mechanism. Consistent with our expectations, we find that banks in high social capital regions experienced fewer failures and less financial trouble during the 2007–2010 financial crisis than banks in low social capital regions. In addition, we find that social capital is negatively associated with abnormal risk-taking and positively associated with accounting transparency and accounting conservatism in the pre-crisis period of 2000–2006, indicating that risk-taking, accounting transparency, and accounting conservatism are possible channels through which social capital affected bank stability during the crisis.

"Determinants of Bank Performance in Thailand: Foreign vs. Domestic Banks"
Sasin Kirakul - Bank of Thailand, Thailand
Pornchai Chunhachinda - Thammasat University, Thailand

Discussant: Nandkumar Nayar - Lehigh University, USA

The increasing role of foreign banks and their growing significance in Thailand's financial system is a trend that will likely continue going forward. The purpose of this study is to identify the determinants of performance of foreign banks in Thailand as compared to those of domestic counterparts, using bank-specific, macroeconomic, and multinational factors during the period of 2006-2014. The findings indicate statistically significant and negative impact of asset size and GDP growth, a positive effect of capital adequacy, and a mixed influence of liquidity risk on performance of domestic banks. For foreign banks, significant and positive determinants of bank performance are liquidity risk, cost-to-income ratio and capital adequacy ratio, whereas trade relationship between home country and Thailand is identified as a significant and negative determinant of foreign banks' profitability.

"Comparing the Profitability of the Conventional and Islamic Banks Across Four Asian Countries"
Ron Bird - University of Technology Sydney, Australia
Vijay Kumar - Waikato University, New Zealand
Krishna Reddy - Waikato University, New Zealand

Discussant: Robert Mathieu - Wilfrid Laurier University, Canada

The study investigates the effect of bank-specific, industry-specific and macroeconomic variables on the profitability of conventional and Islamic banks. Our sample comprises 1781 bank-year observations of 205 banks from four countries in the Asian region for the period 2004-2014. Our results suggest that credit quality, cost management and bank size are the keys factors that contribute positively to bank profitability in Asia. The banks with high non-performing loans and high cost-to-income ratio are more likely to be exposed to losses. The impacts of the bank-specific variables are stronger than are the industry-specific and macroeconomic variables. We find that Malaysian banks are the least profitable compared to the banks in Bangladesh, Indonesia and Pakistan. There is strong evidence to suggest that conventional banks are more profitable than Islamic banks with both their capital adequacy ratio and their size having a positive impact on conventional bank profits but not that of Islamic banks.

SESSION 4 **Monday 8:45 - 10:15 a.m.** **Opera**

CAPITAL STRUCTURE
Session Chair: Ajai Singh - University of Central Florida, USA

"Risk and Information Tranching, Security Governance, and Incentive Compatible Capital Structure Design"
Timothy Riddiough - University of Wisconsin, USA

Discussant: Ana Mol-Gómez-Vázquez - Universidad Politécnica de Cartagena, Spain

We show that selling senior securities at a premium to par can help manage anticipated conflicts between senior and subordinate bondholders. The theory generates a number of empirically testable implications, which we examine with Commercial Mortgage-Backed Securities data. First, we note that our model predicts the existence of both super senior and at-the-margin AAA-rated securities, which are observed in the data. The model further predicts that the junior securityholders control liquidation-reorganization decisions, since they have the information required to make efficient decisions conditional on borrower default. We also see senior securities priced at a premium to par, as predicted by the model. Premium-to-par pricing is found to be more common in stronger asset markets. Weaker asset markets do not require higher coupons, since liquidation is likely a poor alternative given current and expected market conditions. Finally, we show that more diversified asset pools and asset pools with more management intensive collateral require lower coupons, as predicted by the model.

"The Effect of the Banking System Structure on Borrower Discouragement: Empirical Evidence for SMEs from 25 European Countries"
Ana Mol-Gómez-Vázquez - Universidad Politécnica de Cartagena, Spain
Ginés Hernández-Cánovas - Universidad Politécnica de Cartagena, Spain
Johanna Koëter-Kant - Vrije Universiteit Amsterdam, Netherlands

Discussant: Xiaoquan Jiang - Florida International Univeristy, USA

Understanding the role of the banking sector structure in SME financing has become an urgent priority for European policymakers who are increasingly concerned about the sustainability of these firms. The consolidation of the banking sector through a wave of mergers and acquisitions as well as significant foreign bank entry could result in a less friendly banking framework which hampers SME access to finance. This paper contributes to shed additional light into this problem by analyzing the association between borrower discouragement and the structure of the banking system using a sample of SMEs from 25 European countries. We find that borrower discouragement decreases as the banking system becomes more concentrated and less competitive, but this effect seems to be limited to those countries with low levels of bank concentration and competition. Our results also show that borrower discouragement increases with foreign bank entry, but only for those firms operating in economies with a high share of foreign-owned banks. In addition, when taking the economic development of the country into account, it turns out that those SMEs operating in poor economies might end up being more discouraged and having more limited access to bank financing as a consequence of increased concentration and foreign entry in the banking market.

"Equity Issues and Market Timing"
Xiaoquan Jiang - Florida International Univeristy, USA
Bong Lee - Florida State University, USA

Discussant: Timothy Riddiough - University of Wisconsin, USA

We examine the dynamic relation between net equity issues and timing variables in backward-looking and forward-looking timing tests. Complementary to market valuation timing, and risk timing, we propose a risk-return timing hypothesis. Controlling for the feedback of future timing variables in backward-looking timing test, we find an evidence supporting mispricing based market timing hypothesis. Controlling for the feedback of past and current timing variables in forward-looking timing test, we find an evidence supporting information asymmetry based market timing hypothesis. Our evidence shows that in making equity issuing decisions, corporate managers seem to exploit past, current, and future firm information, and time risk and return in a systematic manner.

SESSION 5 **Monday 8:45 - 10:15 a.m.** **Bolero**

BEHAVIORAL I
Session Chair: Tai Ma - National Sun Yat Sen University, Taiwan

"Analyst Forecast Error and Investor Sentiment in Cross-Sectional Returns"
Oussama Baher - University of Sussex, UK
Sina Badreddine - Middlesex University, UK
Ephraim Clark - Middlesex University, UK

Discussant: Patrick Roger - University of Strasbourg, France

Forecasted earnings constitute an essential source of information to market participants in the process of stock valuation. Consequently, the observed financial analysts' optimism would be reflected in the investor sentiment. This paper examines the effect of the investor sentiment on cross-sectional stock returns by embedding the effect that financial analysts have on investor sentiment. Using all firms listed on LSE from 1992 until 2015, the results confirm previous studies that analysts are overall optimistic. We show that financial analysts' error is a major component of the investor sentiment. Higher than average forecasts lead to higher sentiment levels. Furthermore, we show that sentiment levels partially explain the value premium phenomenon. While stock returns are significantly positively affected by sentiment levels, growth stocks appear to be more sensitive to shifts in sentiment than value stocks.

"Investor Sentiment and Stock Return Predictability: The Power of Ignorance"
Catherine D'Hondt - Université catholique de Louvain, Belgium
Patrick Roger - University of Strasbourg, France

Discussant: Ali Polat - University of Leicester, UK

A number of papers show that investor sentiment measures based on the market activity of retail investors carry some predictive power of future market returns. In this paper, we use such a sentiment measure on two samples of approximately 25,000 individual investors, who differ by their appetite for information and professional recommendations. Our data cover 51 months from January 2008 to March 2012. We show that the sentiment of investors who neglect either free information or professional advice has more power in predicting future returns than the sentiment of investors who access to more information and recommendations. Our findings remain valid when controlling for investor characteristics like spoken language (French or Dutch), for investor portfolio value, and for investor self-reported financial literacy. Our results suggest that market sentiment essentially refers to the fast and automatic System-1 reasoning. When shared by many investors, sentiment can generate long-lived mispricing that is therefore difficult to arbitrage.

"Salience and Financial Fragility"
Ali Polat - University of Leicester, UK

Discussant: Oussama Baher - University of Sussex, UK

This paper aims to explain the financial crisis by addressing the question of why complex/innovative securities are overpriced ex-ante and how sold for fire-sales prices during the crisis. Focusing on the investor side we show that salience theory can explain the excess volatility of the asset prices and resulting fire-sales phenomenon. We classify the risk into two parts, idiosyncratic and systemic, and consider that investors over-weigh the risk that is salient. Either component of risk(systemic or idiosyncratic) is salient when it is more different relative to the expected average. Being agnostic on how investors form their prior, we show that a change in salience - from one component (idiosyncratic) to the other (systemic)- will generate excess volatility. The model shows that due to being non-salient, systemic assets were over-priced before the crisis. Under an extreme systemic shock, systemic risk becomes salient and investors dump the assets carrying higher systemic risk resulting with fire-sales, which generates excess volatility in prices. It is striking that, higher risk aversion for the investors increases the price volatility which has important consequences for policy making.

SESSION 6 **Monday 8:45 - 10:15 a.m.** **Menuet**

CORPORATE FINANCE I
Session Chair: OnKit Tam - RMIT University, Australia

"Do Merger Waves Cause Ripples in Vertically Related Industries?"
Mary Becker - John Carroll University, USA

Discussant: Bogdan Stacescu - BI Norwegian Business School, Norway

Using a sample of all industries experiencing merger activity between 1980 and 2008, I investigate the relation between customer and supplier horizontal merger waves. I find evidence that a merger wave in a customer (supplier) industry increases the likelihood of a subsequent merger wave in a related industry by 30% (28%), depending on the definition of merger wave used. Additional tests of the data show that industry merger waves are more likely to follow customer merger waves, but not necessarily supplier merger waves, when bargaining power motives are at work. I find that vertically related industry merger waves occur subsequent to supplier and customer industry merger waves, suggesting that merger waves move along the supply chain. Finally, I find that the association between related industry horizontal merger waves is strongest for non-consumer goods industries and industries with little product differentiation.

"Dividends and Taxes: The Moderating Role of Agency Conflicts"
Janis Berzins - BI Norwegian Business School, Norway
Øyvind Bøhren - BI Norwegian Business School, Norway
Bogdan Stacescu - BI Norwegian Business School, Norway

Discussant: Chrysanthi Balomenou - HOU, Greece

We show that the effect of taxes on dividends depends strongly on whether dividends are used to address agency conflicts. The average payout ratio after a large dividend tax increase falls by 30 percentage points when potential agency conflicts between majority and minority shareholders are low, but only by 18 percentage points when potential conflicts are high. High-conflict firms also more often become indirectly owned through tax-exempt holding companies. This evidence suggests shareholders trade off tax effects against agency effects. The moderating role of agency costs may explain why prior literature finds inconsistent results on whether taxes matter for dividends.

"Greek Crisis and Moral hazards' Creation on Entrepreneurship Financing Guarantees: An empirical Investigation on entrepreneurs of Regional Unity of Serres-Greece"
Chrysanthi Balomenou - HOU, Greece
Marianthi Maliari - Hellenic Open University, Greece
Simeon Semasis - HOU, Greece

Discussant: Mary Becker - John Carroll University, USA

At the onset of crisis, Greek Guarantee Fund for Small and Very Small Enterprises provided no interest or low interest loans to almost 60.000 Greek enterprises. This work focuses on a thorough investigation of the differentiated result concerning the repayment of the loans, which are guaranteed from statutory institutions, on behalf of the borrowers and the banks. Moral hazards have been created as entrepreneurs neglect to repay the stately guaranteed loans. Nobel Prize winners P. Krugman and J. Stinglitz refer to downturn in Europe and in Greece. Furthermore, Moral Hazards and the constructive ambiguity principle are commented by scientists as P. Krugman Wood Geoffrey, Campbell Andrew & Lastra Rosa, Roka & Gortsou, N. Konsola and Ch. Balomenou. This part ends with the presentation of data provided from Serres Chamber and Hellenic Statistical Authority. Our empirical research relies upon three formalized questionnaires and focuses on entrepreneurs of R. U. of Serres. Taking under consideration the fact that the lack of controls over the disbursements contributed to the increased of moral hazards, in order to reduce the possibility of a moral hazard revealing, we strongly believe that guarantee providing process should be accompanied by gradual disbursements with the adoption of a strict ex ante, ongoing and ex-post evaluation procedure. Finally, the results of the current research -to a large extent- are consistent to the relevant literature used.

Refreshments 10:15 - 10:30 a.m.

SESSION 7 Monday 10:30 - 12:00 p.m. Doina

ASSET PRICING II

Session Chair: David Stolin - University of Toulouse, France

"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: Yihui Lan - The University of Western Auatralia, Australia

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.

"Asset Pricing and Energy Consumption Risk"

Ashley Lim - The University of Western Australia, Australia
Robert Faff - University of Queensland, Australia
Yihui Lan - The University of Western Auatralia, Australia
Sirimon Treepongkaruna - The University of Western Australia, Australia

Discussant: Andreea Mitrache - Toulouse Business School, France

This paper proposes the growth rate of energy consumption as a new proxy for the consumption factor in testing the consumption-based capital asset pricing model (CCAPM). Based on a sample of the US data, we find the following empirical results. First, the energy consumption factor implies a reasonable value of 2 for the relative risk aversion. Second, energy consumption risk successfully explains the cross-sectional variation in excess stock returns. Third, energy consumption risk is priced in the Fama and French (1993) and Carhart (1997) models. We also find that energy consumption in the industrial and commercial sectors better capture time-series and cross-sectional return variation than aggregate total energy consumption.

"A Global Macroeconomic Risk Explanation for Momentum and Value"
Ilan Cooper - BI Norwegian Business School, Norway
Andreea Mitrache - Toulouse Business School, France
Richard Priestley - BI Norwegian Business School, Norway

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

Value and momentum returns and combinations of them are explained by their loadings on global macroeconomic risk factors across both countries and asset classes. These loadings describe why value and momentum have positive return premia and why they are negatively correlated. The global macroeconomic risk factor model also performs well in capturing the expected returns of various additional asset classes. The findings identify the source of the common variation in expected returns across asset classes and countries suggesting that markets are integrated.

SESSION 8 **Monday 10:30 - 12:00 p.m.** **Opereta**

BOARD OF DIRECTORS
Session Chair: Yin-Hua Yeh - National Chiao Tung University, Taiwan

"Internal Governance and Bank Performance Under the Capital Requirement Directive IV"
Kwabena Addo - Ca' Foscari University of Venice, Italy
Ugo Rigoni - Ca' Foscari University of Venice, Italy
Elisa Cavezzali - Ca' Foscari University of Venice, Italy
Gloria Gardenal - Ca'Foscari University of Venice, Italy

Discussant: Faten Slimane - Université Paris Est MArne La VAllée, France

This study examines the interactive impact of CG mechanisms and regulatory reforms on bank performance. The implementation of the consolidating internal governance (IG) guidelines of the Capital Requirement Directive IV presents an opportunity to assess this relation given the backdrop that studies in this direction are limited. This study tested four board structure-related hypotheses informed by the provisions of the new IG guidelines using data on 38 Domestic Systemically Important Banks (D-SIBs) within the European Economic Area from 2011 to 2015. We find that, although board size is negatively related to bank performance, setting board size in accordance to the complexity of the board activities positively impacts bank performance. The originality of this finding we contend resolves the mixed findings presented by earlier studies on the bank board size-performance relation. Also we finds that, the mutual complementation of efforts between board executive and independent directors accrues benefit to banks during the pre-implementation periods, which confirms the soundness of the novel directive in this direction. Finally, board diversity (female and foreign directorship), director's experience and the presence of basic board committees have not impacted performance as expected post-CRD IV implementation. Based on these, we recommend that stakeholder efforts should concentrate on moving the CG framework from being a box-ticking exercise to an effective working system.

"Successful Corporate Governance Restructuring to Adapt to New Market Conditions: The Case of the Stock Exchanges"
Laura Angulo - Loyola University Andalucía, Spain
Faten Slimane - Université Paris Est MArne La VAllée, France

Discussant: Samuel Szewczyk - Drexel University, USA

We conduct a field experiment using stock exchanges, many of which were forced to demutualize and convert to for-profit structures due to increased competition and technological advances, to study corporate governance restructuring measures to adapt to new market conditions. The financial performance of the stock exchanges we studied significantly improved after their conversion to for-profit organizations and provide an example of successful corporate governance restructuring. We find that the stock exchanges restructured board composition and refocused them to create better value. The exchanges also reorganized their management teams and increased their performance-related compensation. Results suggest that the conversion of a company to a for-profit structure brings efficiencies when accompanied by changes in the governing bodies and the incentive structures. We also find that converting to for-profit firms had a positive impact on the reputation of the exchanges. The positive impact was even greater when accompanied by changes in board composition. Our results are relevant not only to the financial industry but to firms in other sectors considering going public.

"Expertise on Boards and the Market for Directors with Acquisition Experience"
Seung Hee Choi - The College of New Jersey, USA
Tirimba Obonyo - Drexel University, USA
Samuel Szewczyk - Drexel University, USA
George Tsetsekos - Drexel University, USA

Discussant: Kwabena Addo - Ca' Foscari University of Venice, Italy

We investigate whether firms construct boards that are consistent with the firm's expertise needs. Using acquisitions as our setting and directors with acquisition experience, we document significant differences between the boards of acquiring firms and non-acquiring firms. Consistent with the findings of prior research that firms choose boards based on the firm's advisory and monitoring needs, we find that acquiring firms have more independent directors with acquisition experience. They also have directors who have been involved in larger deals. Frequent acquirers and firms engaging in large acquisitions have even deeper experience on their boards. However, we also find that experienced directors in acquiring firms tend to have been involved in significantly worse acquisitions compared to those in non-acquiring firms. In the recruitment of directors, we show that experienced directors tend to join large firms that already have an abundance of experience on the board. Firms where agency problems are most severe systematically recruit directors who have been involved in value-decreasing acquisitions and this result is largely driven by acquiring firms. Our findings offer an agency explanation for the absence of ex-post settling up in the director labor market for directors with acquisition experience that has been documented in prior literature.

SESSION 9 **Monday 10:30 - 12:00 p.m.** **Simfonia**

IPOS
Session Chair: Ron Bird - University of Technology Sydney, Australia

"A Different View on IPO Mispricing: Australian Evidence"
Hamza Ajmal - The University of Waikato, New Zealand
Ron Bird - The University of Waikato, New Zealand

Discussant: Nihat Aktas - WHU - Otto Beisheim School of Management, Germany

We identify that Australian IPOs issued between 1995 and 2013 were on average underpriced by 25.51%

which is in line with the findings of prior studies. However, the distributions of the first day returns are heavily skewed to the right with the median of the distribution being 10.0%. We maintain that one gets an inflated picture of the extent of underpricing of IPOs based on the mean of the distribution of first day returns. We use quantile regression (QR) when investigating the impact of a range of factors on the extent of IPO mispricing and find that the results differ from those obtained from the application of ordinary least squares (OLS) regressions that are often inappropriately used where the dependent variables is significantly non-normal. With the use of QRs, we are also able to demonstrate variations in the impact of a broad range of explanatory variables dependent on both the extent and direction of the mispricing's being evaluated. For example, we show that IPOs tend to be most underpriced where a fixed issue price is applied to an IPO made during periods of high markets returns whereas high over priced issues are most likely to be associated with fixed price issues by large issuers.

"The Financing Role of IPOs in Acquisitions: Market- Versus Bank-Based Economies"

Nihat Aktas - WHU - Otto Beisheim School of Management, Germany
Ettore Croci - Università Cattolica del Sacro Cuore, Italy
Ali Ozdakak - WHU - Otto Beisheim School of Management, Germany

Discussant: Natalia Matanova - Pennsylvania State University, USA

This paper examines the role of IPOs as a source of financing by comparing firms from bank- and market-driven economies. Focusing on acquisition investments, our results suggest that firms from market-driven countries benefit relatively more from the financing role of IPOs in comparison to firms from bank-driven countries. IPO firms from market-centered countries increase their acquisitiveness, and are more likely to pay for the acquisitions with stock. We also document a relatively stronger positive effect of IPOs on firm performance and growth for firms in market-driven countries. Our results indicate that the purpose of IPO financing varies with the financial system.

"Take a Chance? Implications of Auditor Going Concern Opinions for IPO Investors"

Natalia Matanova - Pennsylvania State University, USA
Tanja Steigner - Emporia State University, USA
James Qiancheng Zheng - Emporia State University, USA

Discussant: Hamza Ajmal - The University of Waikato, New Zealand

In a marked shift, it has recently become relatively common for ordinary IPOs to contain going concern (GC) opinions in their offering documents. We examine the implications of such opinions for IPO investors in a sample of ordinary IPOs from 2001-2013. We find no significant difference in underpricing for GC and non-GC IPOs, while VC-backed GC IPOs experience significantly less underpricing and second year GC IPOs are associated with significantly more underpricing. At the same time, GC opinions provide some evidence of inferior post-IPO stock market performance. A GC opinion is associated with mixed evidence of delisting due to poor performance, but GC IPOs show lower post-IPO operating performance. Overall, when issuing GC opinions on IPOs, auditors seem to be able to very meaningfully distinguish between those companies likely to survive and those that are not. Thus, the information is of significant value to IPO investors.

SESSION 10 **Monday 10:30 - 12:00 p.m.** **Opera**

VOLATILITY

Session Chair: Petko Kalev - La Trobe University, Australia

"Stock Return Expectations in the Credit Market"

Hans Byström - Lund University, Sweden

Discussant: Amine Ismail - Université Paris Diderot- Paris VII, France

In this paper we compute long-term stock return expectations (across the business cycle) for individual firms using information backed out from the credit derivatives market. Our methodology builds on previous theoretical results in the literature on stock return expectations and, empirically, we demonstrate a close relationship between credit-implied stock returnexpectations and future realized stock returns. We also find stock portfolios selected based on credit-implied stock return forecasts to beat equally- and value-weighted portfolios of the same stocks out-of-sample. Contrary to many other studies, our expectations/predictions are made at the individual stock level rather than at the portfolio level, and no parameter estimations using historical stock price- or credit spread observations are needed.

"Regime-Switching Stochastic Volatility Model: Estimation and Calibration to VIX Options"
Stéphane Goutte - University Paris Diderot, France
Amine Ismail - Université Paris Diderot- Paris VII, France
Huyên Pham - University Paris Diderot, France

Discussant: Yadong Li - University of Bath, UK

We develop and implement a method for maximum likelihood estimation of a regime-switching stochastic volatility model. Our model uses a continuous time stochastic process for the stock dynamics with the instantaneous variance driven by a Cox-Ingersoll-Ross (CIR) process and each parameter modulated by a hidden Markov chain. We propose an extension of the EM algorithm through the Baum-Welch implementation to estimate our model and filter the hidden state of the Markov chain while using the VIX index to invert the latent volatility state. Using Monte Carlo simulations, we test the convergence of our algorithm and compare it with an approximate likelihood procedure where the volatility state is replaced by the VIX index. We found that our method is more accurate than the approximate procedure. Then, we apply Fourier methods to derive a semi-analytical expression of S&P 500 and VIX option prices, which we calibrate to market data. We show that the model is sufficiently rich to encapsulate important features of the joint dynamics of the stock and the volatility and to consistently fit option market prices.

"The Risky Business of Measuring Risk: Volatility, Tail Risk, and Return Distributions"
Yadong Li - University of Bath, UK
Ania Zalewska - University of Bath, UK

Discussant: Hans Byström - Lund University, Sweden

The accuracy of estimates of Value-at-Risk (VaR) and Conditional Value-at-Risk (CVaR) hinge on whether the assumed distributional form of returns is correctly specified. Such a correct specification, however, is a major issue, as there is no consensus on what distributional form provides the best fit with the empirical data. Indeed, many researchers argue that the best fit is obtained when mixtures of distributions are used. In this research we study whether and how the distributional properties of stock market returns differ for bull and bear markets, and how these differences impact on the accuracy of the estimates of the tail-risk measures. We show that bull and bear markets have different distributional forms for developed and emerging stock exchanges. These differences have implications for the accuracy of the methods used to estimate VaR and CvaR.

QUANTITATIVE FINANCE
Session Chair: George Constantinides - University of Chicago, USA

"Comparative Statics and Portfolio Choices Under the Phantom Decision Model"
Hideki Iwaki - Kyoto Sangyo University, Japan
Yusuke Osaki - Osaka Sangyo University, Japan

Discussant: Adrian Cantemir Calin - Institute for Economic Forecasting, Romania

This paper defines and characterizes comparative notions of the phantom decision model introduced by Izhakian and Izhakian (2015). We first define “phantom aversion” and “more phantom averse” in a manner different from Izhakian and Izhakian (2015). Assuming the realization forms in decision makers’ utility functions, we characterize these terms from the shapes of the utility functions. We then consider a portfolio choice problem that consists of a safe asset and a phantom asset. We derive sufficient conditions under which a change in the degree of phantom uncertainty or the decision maker’s attitude monotonically decreases the amount of investment into the phantom asset. Some familiar concepts in expected utility theory are extended to the phantom decision model.

"Developing an Event Study Based on Higher-Order Moments to Capture the Impact of European Monetary Policy Decisions"
Lucian Liviu Albu - Institute for Economic Forecasting, Romania
Radu Lupu - Institute for Economic Forecasting, Romania
Adrian Cantemir Calin - Institute for Economic Forecasting, Romania

Discussant: Halil Kiymaz - Rollins College, USA

Asymmetries and large tails are two of the most famous features of the empirical distributions of stock market log-returns. Their implications for risk management and the study of direction of change generated a streamline of notorious academic contributions. Employing a GARCH-like specification, we develop models that govern the dynamics of skewness, co-skewness, kurtosis and co-kurtosis coefficients, for a wide range of European stock market returns. The calibration of these models provides a series of values for the dynamics of the conditional distributions of portfolios of stock market log-returns. We use a set of monetary policy related events to build an event study that characterizes the change in the conditional distribution of portfolios of returns in each country inside the Eurozone. Our results will reveal a wider characterization of the stock market reaction to such events.

"Performance Evaluation of SRI Funds"
Halil Kiymaz - Rollins College, USA

Discussant: Yusuke Osaki - Osaka Sangyo University, Japan

Socially responsible investing (SRI) continues to get the attention of both practitioners and academicians as the demands for these funds increased sharply during last decade. The purpose of this study is to provide additional evidence on performances of SRI in mutual funds. The empirical findings show that SRI funds underperform relative to their benchmark indices. This supports the view that investing in SRIs is a fantasy from investment perspective. Among the subgroups analyzed, only bond funds provide higher risk adjusted returns to investors compare to its benchmark. Finally, the fund performance is higher for funds with higher turnover ratio and managerial experience and lower for funds with higher expense ratio and net asset size. SRI investors may be sacrificing higher risk adjusted returns for the sake of investing in these funds.

ACCOUNTING ISSUES I
Session Chair: Kiridaran Kanagaretnam - York University, Canada

"Alternative SEC Filings and Investors' Perception of Abnormal Audit Fees"
Panagiotis Tahinakis - University of Macedonia, Greece
Dimitrios Kousenidis - Aristotle University of Thessaloniki, Greece
Michail Samarinas - University of Macedonia, Greece

Discussant: Athanasios Karampouzis - University of Macedonia, Greece

This paper seeks to examine the effect that abnormal audit fees have on the investing public, simultaneously identifying whether the source of disclosure has a differential impact on that. Based on a US sample for the period 2000-2015, a three step methodology is employed using a residual based model and event study methodology to capture abnormal audit fees and returns. The final estimation's findings suggest that abnormal audit fees present market reaction but the source of this disclosure can have a differential impact on this. These findings attempt to provide useful insights for auditors, accountants and regulators concerning the audit determinant of market reaction and the impact of the various financial disclosures.

"Discounted Free Cash Flows vs Price-To-Sales Multiple Valuation: A Case of Appraising Privately Held Hotels in Greece"
Athanasios Karampouzis - University of Macedonia, Greece
Dimitrios Ginoglou - University of Macedonia, Greece

Discussant: Andreas Andrikopoulos - University of the Aegean, Greece

The present paper is a primary attempt to present two different measures of value applied on privately held firms in Greece. At first the two methodologies (discounted free cash flows to equity and the price-to-sales multiple) are being explained. Afterwards, both of them are being applied on data of 1001 privately held hotels firms collected for each year (2012 up to 2014). Finally there is a discussion of the results. The analysis comes in descriptive statistics terms, as well as in using the Pearson statistic as a simple correlation indicator to enhance the discussion.

"Collaboration Networks in Accounting: The Case of Auditing Research"
Andreas Andrikopoulos - University of the Aegean, Greece
Michalis Bekiaris - University of the Aegean, Greece
Konstantinos Kostaris - Queen Mary University of London, UK

Discussant: Panagiotis Tahinakis - University of Macedonia, Greece

Auditing research is largely articulated in a collaborative manner. Auditing researchers form social networks of coauthorship; the shape and content of these networks determines the quality and quantity of published research. We explore the structure of intellectual collaboration in auditing research in the context of three social networks: the network of individual scholars, the network of affiliations and the network of countries. We employ social network analysis in order to map coauthorship patterns in six accounting and six auditing journals, from 1997 to 2014. We discover the most central nodes in the partnerships networks of authors, affiliations and countries. We find evidence that social networks in auditing research have small-world characteristics, with high clustering coefficients and small distances in the network's giant component.

LUNCHEON

12:00 - 1:30 p.m. **Corso Brasserie**

AGENCY THEORY
Session Chair: Hideki Iwaki - Kyoto Sangyo University, Japan

"On the Shareholders' Composition of the Company and the Governance Mechanisms of the Firm. Can this Contribute to the Firm Performance (Including the Capacity to Attract Capital and Bank Allowances)?"
Sarah Di Gloria - Ca Foscari Unversity, Italy
Guido Mantovani - Ca Foscari Unversity, Italy

Discussant: Hsiu-I Ting - National Taipei University of Technology, Taiwan

This paper investigates whether there is any relationship between ownership characteristics and the goodness of a firm's corporate governance, its capability to attract financial resources and its merit of credit. At the same time, the paper investigates whether capital structure decisions are influenced by corporate governance mechanisms. Ten different Developed Countries are considered. We found out that: i) despite some occasional similarities in terms of corporate governance and ownership characteristics among the ten countries included in our sample, still many differences exists; ii) at Country level of analysis, a correspondence is found between better characteristics of the corporate governance and a stronger corporate performance, increasing their capability of attracting financial resources, and improving their merit of credit; iii) nevertheless, at individual firm level, corporate governance and ownership characteristics do not have a significant impact of firms' performance and their merit of credit; iv) capital structure decisions are influenced by the presence of a manager in the ownership structure and board of directors size. This let us conclude that ownership characteristics influence corporate governance standing, but the latter is not strong enough to influence firms' performance and merit of credit.

"CEO Gender, Power, and Bank Performance: Evidence from Chinese Banks"
Hsiu-I Ting - National Taipei University of Technology, Taiwan
Vincent Yu - National Taiwan University of Science and Technology, Taiwan

Discussant: Bill Francis - Rensselaer Polytechnic Institute, USA

In a sample of Chinese banks, we find that female CEOs are not necessarily less powerful than male CEOs and that their performance is also just as good. As women reach the top, they hold higher ownership and greater prestige power than male CEOs. Female CEOs even outperform males when the banks are not state-owned enterprises or their largest owner is not the government. Female CEOs show their impact through their power: those with a higher compensation share or greater power are positively related to the banks' performance. Our results show that female CEOs who overcome gender barriers are less traditional and more self-directed than their peers.

"Do Creditor Control Rights Impact Corporate Tax Avoidance? Evidence from Debt Covenant Violations"
Bill Francis - Rensselaer Polytechnic Institute, USA
Yinje Shen - Rensselaer Polytechnic Institute, USA
Qiang Wu - Rensselaer Polytechnic Institute, USA

Discussant: Sarah Di Gloria - Ca Foscari Unversity, Italy

We examine the effect of bank interventions on corporate tax avoidance activities via the lens of debt covenant violations. Using three different identification strategies, we provide evidence that bank interventions have a negative effect on corporate tax avoidance activities. This effect is less pronounced for financially constrained firms or firms with higher shareholder power. Covenant violating firms compensate their reduced tax avoidance activities with reduction in other expenditures such as R&D expenditures, capital expenditures, and acquisitions. Evidence also suggests an increase in tax avoidance activities leads to a relatively less increase in firm value for firms that violate covenants compared to matched firms that do not violate covenants. Our paper contributes to the debate on whether creditors perceive tax avoidance to be beneficial or risk engendering and highlights the subtle differences between creditor governance and shareholder governance.

SESSION 14 **Monday 1:30 - 3:30 p.m.** **Opereta**

GOVERNANCE I
Session Chair: Catalina Hurwitz - University of the District of Columbia, USA

"Powerful CEOs and Stock Price Crash Risk"
Md. Al Mamun - La Trobe University, Australia
Balasingham Balachandran - La Trobe University, Australia
Huu Nhan Duong - Monash University, Australia

Discussant: Yin-Hua Yeh - National Chiao Tung University, Taiwan

We find that firms with powerful CEOs lead to stock price crash. The effects of real and accrual earnings management, and CEO pay dominance on crash risk are more pronounced for firms with powerful founder CEOs. The effects of tax avoidance, CFO option incentives and CEO overconfidence on crash are more pronounced for firms with powerful CEOs. The takeover index, mitigates stock price crash. This effect is more pronounced for firms with non-powerful CEOs. Product market competition does not attenuate the impact of CEO power on crash. Our findings provide new insights on the importance of CEO power in driving stock price crash risk.

"The Effects of Corporate Governance and Family Succession on Investment-Cash Flow Sensitivity"
Yin-Hua Yeh - National Chiao Tung University, Taiwan
Pei-Gi Shu - Graduate Institution of Business Administration, Fu Jen Catholic University, Taiwan
Ya-Chun Tang - Graduate Institution of Finance, National Chiao Tung University, Taiwan

Discussant: Sorin Rizeanu - University of Victoria, Canada

This study investigates the relationship between family firm succession and investment policy. If the successor is capable of improving corporate governance so as to alleviate the firm’s financial constraints, we would expect to find weaker investment-cash flow sensitivity post succession. Our empirical result from 250 family-firm successions in Taiwan from the years 1997-2012 supports this argument. The reduction in investment-cash flow sensitivity is mainly due to improvements in corporate governance, and the effect of succession in attenuating the investment-cash flow sensitivity is more pronounced for family succession than non-family succession and in particular for firms with specific types of specialized assets. Together the effects of having strong corporate governance as well as specialized assets illustrate how family firm management can be enhanced through succession.

"Corporate Social Responsibility and Competition"
Narjess Boubakri - University of Sharjah, United Arab Emirates
Sadok El Ghoul - University of Alberta, Canada
Omrane Guedhami - University of South Carolina, USA
Sorin Rizeanu - University of Victoria, Canada

Discussant: Balasingham Balachandran - La Trobe University, Australia

Going beyond the legal or regulatory requirement in order to be socially responsible is not without a cost – and firms’ commitment to CSR often departs from a profit maximization goal (e.g. Aupperle et al., 1985; Baron, 2006). The firm has to satisfy on one hand social responsibility pressures coming from

internal and external stakeholders, and on the other hand, equal if not greater opposing pressures for financial performance, imposed by the internal stakeholders' fiduciary duty to earn a maximum return on investment. We find that higher competition disturbs this precarious balance, as the commitment to social responsible causes is eroded with higher competition. Using a sample of publicly listed firms from 50 countries, we find that competition is negatively and significantly related with the firm's vow to corporate social responsibility.

SESSION 15 **Monday 1:30 - 3:30 p.m.** **Simfonia**

FINANCIAL DISTRESS
Session Chair: Brian Lucey - Trinity College Dublin, Ireland

"Bank Responses to Corporate Reorganizations Evidence from Brazil"
Mariana Oreng - São Paulo School of Business Administration - FGV, Brazil
Richard Saito - Sao Paulo School of Business Administration - FGV, Brazil

Discussant: Flavio Barboza - Federal University of Uberlandia, Brazil

The goal of this study is analyze how bank creditors vote on corporate reorganization filings. Brazil offers an excellent scenario for bankruptcy research: on the 10th anniversary of the Brazilian Bankruptcy Code, the number of reorganization filings skyrocketed, increasing by 55% in only one year. Our work is both theoretical and empirical; we suggest a cooperative game setting to explain creditor behavior, and we use pooled cross-sectional data from 125 reorganization filings in Brazil from2006 to 2016. We find evidence that the haircut proposed by the company is the main factor driving bank creditors' decisions, rather than firm size or age, as the traditional literature proposes. In accordance with our theoretical model, the proportion of senior debt is not relevant in explaining bank responses to reorganizations. By employing a unique dataset that was not previously available, we contribute to the bankruptcy literature by showing that the unified creditors'framework is far from universal: when there is a conflict between bank creditors, the approval rate for reorganization filings decreases sharply, which indicates that coordination failures indeed pose negotiation problems and often lead to liquidation. Due to legal and process similarities with countries such as the United States andCanada, the study also offers important insights for bankruptcy cases in general.

"New Metrics and Approaches in Bankruptcy Prediction"
Flavio Barboza - Federal University of Uberlandia, Brazil
Leonardo Basso - Mackenzie Presbyterian University, Brazil
Herbert Kimura - University of Brasília, Brazil

Discussant: Rosanne Vanpee - KU Leuven, Belgium

Credit risk models, particularly those that seek to understand what signals are given by companies on the verge of bankruptcy, are under constant discussion and continually updated. Statistical models, for example, Discriminant Analysis and Logistic Regression, are traditional and easy to understand. However, new non- statistical techniques have been recently tested in the financial context, such as the case of machine learning mechanisms. In this paper, we developed bankruptcy forecasting models for non-financial companies, using a data set that covers the period from 1980 to 2014. We examined static variables, growth variables and also growth variation variables in order to discriminate two groups: firms that did not go bankrupt and firms that went bankrupt within one (fiscal) year after analysis of their data. To study the discretionary capacity, we applied seven techniques, among statistics and machine learning. In view of the number of models evaluated, the analyses are rich and varied, highlighting the finding that traditional techniques with the appropriate variables are able to obtain performance better than machine-learning models, opening a debate with the current literature, which is has been stating just the opposite by highlighting the importance of computational techniques.

"Subjectivity in Sovereign Credit Ratings"

Lieven De Moor - Vrije Universiteit Brussel, Belgium
Prabesh Luitel - Vrije Universiteit Brussel, Belgium
Piet Sercu - KU Leuven, Belgium
Rosanne Vanpee - KU Leuven, Belgium

Discussant: Mariana Oreng - São Paulo School of Business Administration - FGV, Brazil

A sovereign credit rating is a function of hard and soft information that should reflect the creditworthiness and the probability of default of a country. We propose a sharper characterisation for the subjective component of a sovereign credit rating, and apply it under both traditional ordered logit panel models and machine learning techniques. The subjective component turns out to be large, especially for the low-rated countries, and negatively related to a country's lobbying power and its familiarity to the United States. Countries that are rated as investment grade tend to be positively influenced by the subjective component, and vice versa. Despite this, subjective judgment in credit ratings does have predictive value: the subjective component helps in identifying chancesof sovereign defaults both in the short and the mid-term. The impact of subjectivity in sovereign ratings on borrowing costs is very limited on average.

SESSION 16 Monday 1:30 - 3:30 p.m. Opera

RISK MANAGEMENT
Session Chair: Francisco López-Herrera - National Autonomus University of Mexico, Mexico

"Oil Prices and Volatility Forecasting in Tanker Freight Indices"

Costas Gavriilidis - University of Stirling, UK
Dimos Kambouroudis - University of Stirling, UK
Dimitris Tsouknidis - Cyprus University of Technology, Cyprus

Discussant: Jo Yu Wang - Feng Chia University, Taiwan

This paper employs a series of popular GARCH-type models in order to forecast volatility in the Clean Tanker Index and Dirty Tanker Index of the Baltic Exchange. Our findings suggest that CGARCH has more predictive power than the other models tested. However, when we control for the recent financial crisis, we find that APARCH and IGARCH models appear to be more predictive during the pre- and post-crisis period respectively. When we include oil as an exogenous variable, then EGARCH is the most desirable model during the whole sample period while APARCH and IGARCH models still appear to be more predictive in the pre-and post-crisis periods respectively. In general, we find inconclusive results on which of the GARCH-type models employed is the best in order to forecast tanker freight volatility, as both the long-memory and asymmetric effects are found to be important. Nevertheless, there is strong evidence that incorporating oil in the variance equation significantly improve forecasts, irrespective of the model used, and this effect is more pronounced during the post-crisis period.

"Identification of Tail Distribution and Value-at-Risk to Equity and Futures Index Returns"

Jo Yu Wang - Feng Chia University, Taiwan

Discussant: Hui Sono - James Madison University, USA

In this study, the characteristics of tail distribution of three major equity indices, as well as the corresponding index futures, have been discovered. In the empirical section, a method called L-moments is used to identify the tail distribution of extreme returns. It is evident that extreme returns follow different tail distributions. Generally, futures' tail distribution are quite different from their underlying indices. The extreme returns with high L-kurtosis follow generalized logistic distribution, the others may follow generalized extreme value distribution or generalized normal distribution.

"The Market Perception of Firm Risks During Cross-Listing Events"
Kathryn Schumann - James Madison University, USA
Elias Semaan - James Madison University, USA
Hui Sono - James Madison University, USA

Discussant: Masayasu Kanno - Nihon University, Japan

To date, we know very little about how market perceives risks for the firms listing in overseas market. Questions on whether risk perceptions change prior to cross-listing and how specifically the risk structure changes remain largely unexplored. Using a sample of 606 ADR firms, our analysis concludes that the home market perception of the risks around cross-listing is different depending on the level of ADR program chosen by the firm and the development level of the home market. Similar to prior research, we find that idiosyncratic variations relative to total variations tend to decrease after cross-listings; however, by examining risk variations prior to the listing date, we also find that this decrease is largely a reversal of increased relative idiosyncratic variations immediately before listing. Our findings suggest that the market typically perceives an increase in firm specific risks leading up to the cross-listing date, possibly due to rumors of cross-listing or disclosure of listing intentions by the firm. However, after the actual listing date these increased risk perceptions appear to subside back to either pre-listing levels or lower relative idiosyncratic risks in the long run, depending on ADR program level and market development.

"Network Structures and Credit Risk in the Cross-Shareholdings Among Listed Japanese Companies"
Masayasu Kanno - Nihon University, Japan

Discussant: Dimos Kambouroudis - University of Stirling, UK

This study assesses the network structures of cross-shareholdings among listed Japanese companies using a dataset of 2,936 companies for fiscal years 2008--2015. First, we analyze the network structure of cross-shareholdings in the Japanese stock market using centrality measures. Financial institutions and companies in the motor manufacturing industry are central in the network in terms of degree centrality. By contrast, companies in various industries play a central role in terms of betweenness centrality. In addition, the implementation of Japan's Corporate Governance Code (JCGC) had a limited effect in reducing cross-shareholdings. Second, the credit risk analysis investigates the effect of cross-shareholdings using a panel regression. The result shows that the increase in the share of foreign companies did not increase the counterparty credit risk in the network. JCGC implementation could potentially counteract the control of cross-shareholdings of companies in the same sector. In addition, if a direct centrality measure increases, the connections via cross-shareholding become denser and increase credit risk. By contrast, if an indirect centrality increases, the connections become sparser and decrease credit risk. The results could give senior managers an important warning in terms of credit risk management related to cross-shareholdings.

SESSION 17 Monday 1:30 - 3:30 p.m. Bolero

RISK MANAGEMENT AND HEDGING
Session Chair: Ania Zalewska - University of Bath, UK

"Simulation and Hedging Oil Price with Geometric Brownian Motion and Single-Step Price Model"
Chioma Nwafor - Glasgow Caledonian University, UK
Azeez Oyedele - University of the West of Scotland, UK

Discussant: Bernhard Kronfellner - Vienna University of Technology, Austria

This paper uses the Geometric Brownian Motion (GBM) to model the behaviour of crude oil price in a Monte Carlo simulation. The performance of the GBM method is compared with the naïve strategy using

different forecast evaluation techniques. The results from the forecasting accuracy statistics suggest that the GBM outperforms the naïve model and can act as a proxy for modeling movement of oil prices. We also test the empirical viability of using a call option contract to hedge oil price declines. The results from the simulations reveal that the single step model can be effective in hedging oil price volatility. The findings from this paper will be of particular interest to the government of Nigeria that views the price of oil as one of the key variables in the national budget.

"Default Risk Charge – The Main FRTB Challenge"

Andreas Bohn - The Boston Consulting Group Frankfurt, Germany
Bernhard Kronfellner - Vienna University of Technology, Austria
Michael Buser - The Boston Consulting Group Frankfurt, Germany
Stephan Suess - The Boston Consulting Group Munich, Germany

Discussant: Silvia Muzzioli - University of Modena and Reggio Emilia, Italy

In January 2016, the BCBS issued the final version of the revised minimum capital requirements for market risk, also known as the "Fundamental Review of the Trading Book (FRTB)". The new regulation comes with many changes, one of which is a dedicated default risk charge (DRC). This new capital charge replaces the Incremental Risk Charge (IRC) under Basel 2.5, and its calculation becomes mandatory for banks as of 2019, when the new BCBS capital requirements become effective. The biggest conceptual differences between DRC and IRC are that the former is designed to capture only default risk, whereas the latter also captured migration risk, and that equity positions are in the scope of the DRC, whereas they were out of the scope of the IRC. The new prescriptions in the internal model approach will evoke some methodological questions, implementation options, and regulatory uncertainty across the banking industry. While banks are preparing for this regulatory framework, we describe a potential model for the DRC in the internal model approach. We compare the results of our model with the standardized approach and derive suggestions for the methodological choices a bank faces. Our findings suggest that the question whether to use the standardized approach or the internal model approach strongly depends on the structure of the trading book portfolio. In some cases, the standardized approach is less capital-intensive than the internal model approach.

"The Risk Asymmetry Index"

Elyas Elyasiani - Temple University, USA
Luca Gambarelli - University of Modena and Reggio Emilia, Italy
Silvia Muzzioli - University of Modena and Reggio Emilia, Italy

Discussant: Chioma Nwafor - Glasgow Caledonian University, UK

The aim of this paper is to propose a simple and unique measure of risk, that subsumes the conflicting information in volatility and skewness indices and overcomes the limits of these indices in correctly measuring future fear or greed in the market. To this end, we exploit the concept of upside and downside corridor implied volatility, which accounts for the asymmetry in risk-neutral distribution, i.e. the fact that investors like positive spikes in returns, while they dislike negative ones. We combine upside and downside implied volatilities in a single asymmetry index called the risk-asymmetry index (RAX). The risk-asymmetry index (RAX) plays a crucial role in predicting future returns, since it subsumes all the information embedded in both the Italian skewness index ITSKEW and the Italian volatility index (ITVIX). The RAX index is the only index that is able to indicate (when reaching very high values) a clearly risky situation for the aggregate stock market, which is detected neither by the ITVIX index nor by the ITSKEW index.

ENERGY MARKETS & PRODUCTS
Session Chair: Yildiray Yildirim - Baruch College-CUNY, USA

"The Effects of Oil Price Shocks on U.S. Stock Order Flow Imbalances and Stock Returns"
Neophytos Lambertides - Cyprus University of Technology, Cyprus
Christos Savva - Cyprus University of Technology, Cyprus
Dimitris Tsouknidis - Cyprus University of Technology, Cyprus

Discussant: Mary Malliaris - Loyola University Chicago, USA

This paper investigates for the first time the effects of oil price shocks on stock order flow imbalances leading to changes in stock returns. Through the estimation of a structural VAR model, positive demand-related oil price shocks are able to explain almost 36% of the observed variation in the daily average stock order flow imbalances measured by the buy/sell trades ratio; which consequently lead to a negative rather than positive stock returns reaction. In contrast, oil supply shocks exhibit a negative and marginally significant effect on stock order flow imbalances. Our aggregate analysis suggests that positive shocks on stock order flow imbalances are negatively related to stock returns. These effects are stronger for oil-related sectors when compared with the rest of the equities sectors.

"The Impact of the Global Financial Crisis on the Oil Market: A Neural Network Approach"
Mary Malliaris - Loyola University Chicago, USA
Anastasios Malliaris - Loyola University Chicago, USA

Discussant: Ghulame Rubbaniy - Zayed University, United Arab Emirates

The global financial crisis of 2007-09 has caused major economic disturbances to the oil market. Numerous studies had clearly demonstrated that oil markets prior to the crisis were a significant driving force of the global economy influencing both the growth and inflation in the U.S. and other oil-importing countries. The crisis reversed the direction of causation from oil influencing the U.S. economy to the Global Financial Crisis influencing the oil market. This paper builds three neural networks using spot oil prices and data related to those prices. One network is built on data prior to the financial crisis of 2008, one during the crisis, and one after the crisis. These 3 regimes capture the relationships among the inputs that were most dominant during that period. We find that the shifts in impacts of the various inputs are great enough to support the hypothesis that the financial crisis generated important structural breaks that what prevailed prior to the crisis changed and what fits the data during the crisis does not carry over during the recovery period after the crisis.

"Oil Price Plunge: Are Conventional and Islamic Banks Equally Vulnerable?"
Ghulame Rubbaniy - Zayed University, United Arab Emirates
Osama El-Temtamy - University of New Brunswick, Canada
Walayet Khan - University of Evansville, USA

Discussant: Muhammad Surajo Sanusi - Birmingham City University, UK

In response to the recent debate on the potential vulnerability of the banking industry to oil price plunge, we investigate the effect of oil price plunge on credit and insolvency risks of the banking industry in the Gulf Cooperation Council (GCC) over a period from 2000 to 2014 with a particular focus on Islamic and conventional banks due to their different risk characteristics. Our findings show that falling oil prices significantly increase the credit risk for the overall banking industry in the GCC region and specifically for banks operating in Kuwait and UAE. However, the results become insignificant and remain invariable across different bank categories, (conventional, Islamic, and Islamic window only), even using different proxies. Our insolvency risk analysis does not provide any convincing evidence to support the hypothesis that oil price plunge increases the insolvency risk of the banking industry in the GCC region. Our findings based on recent time period offer some insights to the various stake holders in banking industry

as well as regulators in the gulf region in terms of credit risk vulnerability and absence of insolvency risk.

"Review of the sources of Black's Leverage Effects in the UK Oil and Gas Stocks"
Muhammad Surajo Sanusi - Birmingham City University, UK

Discussant: Dimitris Tsouknidis - Cyprus University of Technology, Cyprus

Black's leverage effect hypothesis postulates that a negative stock return innovation increases the financial leverage of a firm since the value of equity decreases at a given level of debt, which, in turn, creates a higher equity return volatility in the future. The paper is to review the authenticity of the Black's leverage effect hypothesis and the relationship between negative stock returns and the financial leverage of the UK oil and gas stocks from 2004 to 2015. For each stock, exponential generalised autoregressive conditional heteroscedasticity (EGARCH) model was estimated using Fama-French-Carhart 4-factor asset pricing model to extract the difference between the effects of negative and positive stock return innovations, regarded as leverage effect. The leverage effect parameter was further regressed on the financial leverage ratios of the book value of long-term debt to total assets, interest expenses to total assets and long-term debt to market value of equity to examine whether variation in the leverage parameter was as a result of variation in the firm's financial leverage. The findings of the study show that Fama-French-Carhart four risk factors of market, size effect, value and momentum were significant in the stock returns of most of the oil and gas companies. The mixed results in the significance level of the factors were attributed to the differences in individual firm characteristics. An evidence of leverage effect was also found in all the oil and gas stock returns but no evidence to suggest it was derived from the changes in the firms' financial leverage.

Refreshments 3:30 - 3:45 p.m.

SESSION 19 Monday 3:45 - 5:45 p.m. Doina

ASSET PRICING III
Session Chair: Hsiu-I Ting - National Taipei University of Technology, Taiwan

"The Dynamic Allocation of Funds in Diverse Financial Markets Using a State-dependent Strategy: Application to Developed and Emerging Equity Markets"
Roksana Hematizadeh - RMIT University, Australia

Discussant: Egon Kalotay - Macquarie University, Australia

This study implements a state-dependent strategy including both developed and emerging markets. We seek to highlight the diversification benefits that these markets are able to offer. First, we test the level of integration of emerging markets with the world markets. Second, informed by the integration analysis, we implement a dynamic asset allocation strategy; the efficiency of this strategy is validated by conducting an out-of-sample performance. We find that a number of emerging markets expose time-varying integration relative to the world markets and that market-timing potentially adds value to portfolio performance and provides diversification benefits. Hence, investors can optimize the return on their investment by diversifying their portfolio towards emerging markets. The empirical outcomes of this study have practical implication for risk assessment of portfolios and asset allocation decision across emerging markets.

"Time Varying Forecasts of Equity Market Returns"
Xinxin Shang - Macquarie University, Australia
Egon Kalotay - Macquarie University, Australia
Geoff Loudon - Macquarie University, Australia

Discussant: Jose Faias - Catolica Lisbon SBE, Portugal

We evaluate the predictability of aggregate equity returns by explicitly considering the time-variation of return generating process in a multi-regression modelling framework. For annual returns of the aggregate U.S. stock market, we demonstrate improved statistical as well as economic evidence of out-of-sample predictability over simple static predictive regression. Relative to using the historical mean, relying on Kelly and Pruitt (2013) cross-sectional book-to-market derived latent factor an investor using our dynamic model could have achieved an out-of-sample R squared of up to 17% comparing with 13% using a simple regression. We demonstrate that allowing the predicted returns to vary with the book-to-market ratio dispersion in our mixture modelling framework can significantly improve return predictability.

"Equity Premium Predictability from Cross-Sectorial Downturns"
Jose Faias - Catolica Lisbon SBE, Portugal
Juan Zambrano - ICMA - Reading University, UK

Discussant: Giorgia Simion - Ca' Foscari University of Venice, Italy

We develop a sectorial consumption asset-pricing model that endogenously incorporates shocks imperceptible at the aggregate level. This model illustrates that left tail dependence impacts the equity risk premium. We proxy left tail dependence by the average of pairwise left tail dependency among major sectors, and we demonstrate that it significantly predicts the equity risk premium in- and out-of-sample. Using this measure as a predictor in an asset allocation exercise yields a strategy with positive skewness and an out-of-sample Sharpe ratio of 0.56 from 1998 to 2013, which is at least twofold higher than that for all other univariate specifications.

"What Drives the Concentration of Households' Investments in Bank Bonds?"
Giorgia Simion - Ca' Foscari University of Venice, Italy

Discussant: Roksana Hematizadeh - RMIT University, Australia

Using unique panel data on Italian households, the article examines the drivers of bank bond concentration for retail investors when consulting with bank financial advisors. The regression analysis based on the Fractional Response Model (FRM) shows three main results. First, familiarity tends to substantially increase investors' portfolio exposure towards bank bonds. A similar effect, although to a lesser extent, is also observed for overconfidence. Second, investor attributes such as age, education and experience explain a small but significant variation in bank bond share. Third, weaker banks in terms of funding structure and profitability seem to exert substantial pressure on clients' bond allocation through bank advisors. Overall, the research contributes to the understanding of the reasons why households disproportionally concentrate investments in bank bonds, casting doubt on the effectiveness of current investor protection policies.

SESSION 20 Monday 3:45 - 5:45 p.m. Opereta

PORTFOLIO MANAGEMENT
Session Chair: Bill Francis - Rensselaer Polytechnic Institute, USA

"Dynamic Linkages Between Stock Market and Exchange Rate in MILA Countries: A Markov Regime Switching Approach"
Miriam Sosa - National Autonomus University of Mexico, Mexico
Edgar Ortiz - National Autonomus University of Mexico, Mexico
Alejandra Cabello - National Autonomus University of Mexico, Mexico

Discussant: Mui Kuen Yuen - Massey University, New Zealand

The aim of this paper aims is nalyzing the dynamic relationship between the stock market returns and exchange rates movements for the MILA markets (Colombia, Chile, México and Peru), over the period 01:2003 to 09:2016. Univariate (MS-AR) and multivariate (MS-VAR) regime-switching models approach are used. The univariate analysis contributes evidence of stock returns of the MILA countries evolve according to two different regimes: a low volatility regime and a high volatility regime. The Markov Switching VAR models indicates that stock markets have more influence on exchange rate.

"Capacity Constraints, Fund Flows and Hedge Fund Alpha: Emerging Market Evidence"

Jianguo Chen - Massey University, New Zealand
Martin Young - Massey University, New Zealand
Mui Kuen Yuen - Massey University, New Zealand

Discussant: Francisco López-Herrera - National Autonomus University of Mexico, Mexico

This paper investigates the alpha generating of the Asian hedge funds based on a recent sample compiled from the Eurekahedge, Lipper TASS and Morningstar database covering both the up and down markets and including the latest financial crisis. We find a positive average alpha in the cross-section for the majority of strategies and a positive and significant alpha for roughly half of all funds. Moreover, the alpha of three-quarter of the strategy indices is positive and significant in the time series. A comparison of the stepwise regression factor model and the widely used factor model proposed by Fung and Hsieh (2004) reveals that the estimated alpha is robust with respect to the choice of the factor model. In contrast to prior research we find little evidence of a decreasing hedge fund alpha over time except Dedicated Short Bias strategy. Moreover, we cannot confirm prior evidence pointing to capacity constraints widely documented by the Berk and Green (2004) model. We attribute this difference in finding to the lifecycle of the hedge fund industry in Asia, regulation differences and information asymmetry of investors.

"Economic Activity and Financial Variables in Mexico"

Francisco López-Herrera - National Autonomus University of Mexico, Mexico
Edgar Ortiz - National Autonomus University of Mexico, Mexico
Alejandra Cabello - National Autonomus University of Mexico, Mexico

Discussant: Radu Lupu - Bucharest University of Economic Studies, Romania

We analyze the relationship between the economic activity in Mexico and a set of relevant economic variables. The set includes the consumer price index, the peso-USD exchange rate, international reserves, the rate of short term Mexican T-bills, and the Mexican stock market index and its level of activity in that market as measured by the volume of operations on variable income assets . The Augmented Dickey Fuller test provides mixed inference about the stationarity of the series, so by means of the bounds testing procedure propounded by Pesaran, Shin and Smith (2001) test we obtain significant evidence of the existence of cointegration between the economic activity and the set of financial explanatory variables, excluding the volume of operations in the stock market and the exchange rate. As could be expected, the aftermaths of the subprime crisis had a negative significant effect on the level of activity of the Mexican economy.

"Volatility Prediction for Different Liquidity Regimes on Bucharest Stock Exchange"

Radu Lupu - Bucharest University of Economic Studies, Romania
Marius Acatrinei - Romanian Financial Supervisory Authority, Romania
Iulian Panait - Romanian Financial Supervisory Authority, Romania

Discussant: Miriam Sosa - National Autonomus University of Mexico, Mexico

Perceived as a metric for various stock market features by covering a wide spectrum of meanings that range from narrow straightforward definitions in the academic literature to less clear references in the colloquial language, the concept of liquidity influences the market dynamics in a sensible manner. The objectives of this paper are twofold: in the first step we build a composite liquidity indicator for the

Romanian capital market using PCA methodology, while in the second step we investigated its impact on the market volatility. Using a Markov-Switching approach we have extracted the high volatility regimes of market returns and composite liquidity indicator and tested for the early warning properties of the composite liquidity indicator. In most cases, the market illiquidity triggers the market high volatility regime. The results also show that when the financial market shows higher levels of liquidity, the performance of the volatility forecast is improved.

SESSION 21 **Monday 3:45 - 5:45 p.m.** **Simfonia**

MARKET MICROSTRUCTURE
Session Chair: Robert Mathieu - Wilfrid Laurier University, Canada

"Rational or Irrational? A Comprehensive Studies on Stock Market Crashes"
Tai Ma - National Sun Yat Sen University, Taiwan
Kuo Hsi Lee - National Sun Yat Sen University, Taiwan
Chien Huei Lai - National Sun Yat Sen University, Taiwan
Yang Shen Lee - National Sun Yat Sen University, Taiwan

Discussant: Sahn-Wook Huh - University SUNY, USA

This study attempts to illustrate the contributing factors for different patterns of crashes. In addition to the fundamental macro-economic factors, this paper argues that the existence of herding behavior as well as the level of investor attention are also important factors affecting the pattern of crash. By differentiating the rational component and irrational component of these behavioral factors, more insight can be drawn. Patterns of crashes are defined by three dimensions, the cumulative decline, the speed of decline, as well as the duration of the crash. Innovative measures are conducted on three sets of explanatory factors : macro-economic factors, market microstructure factors and behavioral factors. Results show that behavioral factors are the most influential factors explaining the magnitude as well as the duration of crash; while the speed of decline is mainly related to market microstructure factor. Our results show that investors' irrational behavior is more important than fundamentals in explaining or predicting market crashes.The contribution of this study are threefold: (1) Crashes in 40 markets are defined, measured and categorized into eight types of crash patterns, providing interesting statistics for international market crashes; (2) We differentiate between rational and irrational components of behavioral factors in explaining the causes of of market crashes, which are largely neglected in past studies; (3)Threshold of main factors are estimated.

"High-Frequency Measures of Informed Trading and Corporate Announcements"
Michael Brennan - UCLA, USA
Sahn-Wook Huh - University SUNY, USA
Avanidhar Subrahmanyam - UCLA, USA

Discussant: Petko Kalev - La Trobe University, Australia

We study informed trading around announcements of merger bids (M&AD) and quarterly earnings (EAD). Extending the EKOP (1996) approach, we compute the daily posterior probabilities of informed trading on good and bad news. We find evidence of informed trading before and after M&AD and EAD. A significant part of the merger bid premium is impounded in stock prices prior to the announcement by informed buying. Post-M&AD informed trading predicts subsequent stock returns and the probabilities that the bid will be withdrawn or met with a competing bid. Pre-EAD informed trading also attenuates the price response to the announcement, and post-EAD informed trading predicts subsequent stock returns.

"Algorithmic Trading in Rivals"
Huu Duong - Monash University, Australia
Petko Kalev - La Trobe University, Australia
Yang (Kevin) Sun - Securities and Futures Commission Hong Kong, Hong Kong

Discussant: Ion-Iulian Marinescu - Bucharest University of Economic Studies, Romania

We find that, around earnings announcements periods, algorithmic trader-initiated net order flows in non-announcing rival stocks have information content for announcing-firm returns. We also show that informed algorithmic trading is more prominent across stocks when announcing firms are larger than rivals and when rival firms are more liquid than announcers. Algorithmic order flows in rival firms become more informative during the announcement day, especially for announcements made during the day or when algorithmic traders demand liquidity from human traders. Overall, our findings highlight that algorithmic traders facilitate cross-stock information transmission by initiating information-based trades in the stocks of rival firms.

"Dichotomous Stock Market Reaction to Episodes of Rules and Discretion in the US Monetary Policy"
Ion-Iulian Marinescu - Bucharest University of Economic Studies, Romania
Radu Lupu - Bucharest University of Economic Studies, Romania
Alexandra Horobet - Bucharest University of Economic Studies, Romania

Discussant: Tai Ma - National Sun Yat Sen University, Taiwan

We investigate the microeconomic effects of the monetary policy conduct in the United States by observing the response of the domestic capital market with respect to unexpected changes in the Fed Funds rate target in discretionary as opposed to rules-based policy eras. These dichotomous situations are identified by means of a model with structural breaks applied on the deviations of the effective Fed Funds target rate changes from the Taylor (1993) rule implied rate change. Employing an event-study analysis, we investigate the response of the S&P500 index to unexpected Fed Funds rate changes, determined from comparison with the futures rates. We found strong evidence that the monetary policy based on rules spawns consistent rational stock market reactions, while a discretionary policy increases microeconomic uncertainty, providing further evidence with respect to the risk-taking monetary policy transmission channel and to the implications of forward rate guidance.

SESSION 22	**Monday 3:45 - 5:45 p.m.**	**Opera**

FUNDS I
Session Chair: Timothy Riddiough - University of Wisconsin, USA

"Style Drift and Fund Performance in China: Evidence from Stock-Level Analysis"
Angeline Chua - RMIT University, Australia
OnKit Tam - RMIT University, Australia
Monica Tan - RMIT University, Australia

Discussant: Nitin Deshmukh - Middlesex University Business School, UK

This study is the first to employ an in-depth stock-level analytical framework to examine the existence and effects of style drift in the fast growing but rarely researched fund industry in China. We develop an original Chinese fund classification system under a more stringent approach—grounded on stock-by-stock trading behaviour in fund managers—to detect the presence of style drift. Using our own Chinese fund style index based on 180,000 portfolio stock units, and a different style drift construct (vFSF) that produces 18,600 fund-year drift observations, we establish that fund managers, intentionally and motivated by maximisation of compensation, actively engage in style drift in Chinese open-end equity funds. We find strong evidence that suggests drift impose a significant combined cost of 6.85

percent per annum on fund investors' wealth which amounts to an average 57,772 million yuan in AUM. Drift managers are found to contribute to weaker investment judgement in stock selection (-2.67 percent) and market timing (-2.39 percent) relative to style-dedicated managers while substantially higher trading cost and brokerage & commission fees (1.79 percent) further erode fund returns. Our findings of the implications of this manipulative behaviour are consistent with Brown et al. (2012) predictions that style drift is a value destroying practice that hinders fund returns optimization. Our results are robust to different assessment periods, fund size, and style drift definition.

"Index Tracking with Utility Enhanced Weighting"

Ephraim Clark - Middlesex University Business School, UK
Nitin Deshmukh - Middlesex University Business School, UK
Celal Barkan Güran - Istanbul Technical University, Turkey
Konstantinos Kassimatis - Athens University of Economics and Business, Greece

Discussant: David Stolin - University of Toulouse, France

Passive index investing involves investing in a fund that replicates a market index. Enhanced indexation uses the returns of an index as a reference point and aims at outperforming this index. The intuition behind enhanced indexing is that market inefficiencies can be exploited to yield better returns. In this paper we propose a novel technique based on the concept of cumulative utility area ratios and the Analytic Hierarchy Process (AHP) to construct enhanced indices from the DJIA and S&P500. Four main conclusions are forthcoming. First, the technique, called the utility enhanced tracking technique (UETT), is computationally parsimonious and applicable for all return distributions. Second, if desired, cardinality constraints are simple and computationally parsimonious. Third, the technique requires only infrequent rebalancing, monthly at the most. Finally, the UETT portfolios generate consistently higher out-of-sample, after-cost returns for the fully enhanced portfolios as well as for the enhanced portfolios adjusted for cardinality constraints.

"The Diversification Factor in Mutual Fund Returns"

Bernd Hanke - Global Systematic Investors LLP, UK
Aneel Keswani - Cass Business School, UK
Garrett Quigley - Global Systematic Investors LLP, UK
David Stolin - University of Toulouse, France
Maxim Zagonov - University of Toulouse, France

Discussant: Mercedes Alda - University of Zaragoza, Spain

Active portfolios can be more concentrated or more diversified than the market portfolio. In the latter case, the result is likely to be a tilt toward equal weights, which would impact portfolio returns in a systematic manner. To capture this tilt, we construct a simple diversification factor as the difference between returns on equal weighted and value weighted portfolios for the relevant universe. Our diversification factor accounts for up to one-half of the otherwise unexplained variation in active mutual funds' returns. We therefore argue that the diversification factor should be used in performance evaluation of broad market equity portfolios.

"Pension Fund Liquidation: A Strategic Family Decision"

Mercedes Alda - University of Zaragoza, Spain

Discussant: Angeline Chua - RMIT University, Australia

We study the pension fund liquidation decision from a fund-family perspective. Specifically, whether fund families, as decision-making units, liquidate funds based on fund outcomes or as afamilystrategy.Analyzing Spanish equity pension funds, we find that fund liquidations arenot primarily motivated by fund returns,butare strategicdecisionsto form families with fewer and larger individual funds.Furthermore, pension fund participants prefer to invest in one family and re-allocate resources to

other funds in the same family before and after fund liquidations. Additionally, the managers of liquidated funds whodo not manage other family funds are not re-employedwithin that family. These dismissals are a result of the family restructuring process, rather than being due to the manager's performance.Finally, we find that, despite the industry asset concentration, competition is substantialbecausethe Spanish pension fund market is fragmented.

SESSION 23 **Monday 3:45 - 5:45 p.m.** **Bolero**

ACCOUNTING ISSUES II
Session Chair: Patrick Roger - University of Strasbourg, France

"Re-Examining Intra-Industry Information Transfers: Cross-Industry Abnormal Returns and Trading Volume Upon Earnings Announcements"
Jan Hanousek - CEERGE-EI, Czech Republic
Iuliia Brushko - CEERGE-EI, Czech Republic
Jiri Tresl - Central Michigan University, USA

Discussant: Kiridaran Kanagaretnam - York University, Canada

This paper investigates how trading activity responds to industry-related earnings announcements and whether this trading activity is informative. While previous research concentrates on the earnings surprise as the main information signal, we find that the abnormal trading volume of the subsequent announcers can explain the abnormal returns on the day of the first and subsequent own announcement and in the post announcement periods. We also show that trading activity upon the first announcement is not driven by the first announcer's earnings surprise, but rather by the history of the earnings surprises of both the first and subsequent announcers. Moreover, the first and subsequent announcers' earnings surprises history was found to have the predictive power of the subsequent announcer's own earnings surprise. We also provide some evidence that upon the first announcement the market tries to incorporate the subsequent announcer's earnings surprise predictability, but fails to do so fully.

"The Impact of Economic and Monetary Policy Uncertainties onBanks' Financial Reporting Quality"
Justin Jin - McMaster University, Canada
Kiridaran Kanagaretnam - York University, Canada
Yi Liu - McMaster University, Canada

Discussant: Lin Tan - California State Polytechnic University, USA

Using a sample of U.S. banks and economic and monetary policy uncertainty indices developed by Baker et al. (2015), we investigate whether economic and monetary policy uncertainties affect the quality of banks' financial reporting. When economic and monetary policies are relatively uncertain, it is easier for bank managers to distort financial information, as unpredictable policy changes make assessing the existence and impact of hidden "adverse news" more difficult for investors and creditors. Policy uncertainty also increases the fluctuation in banks' earnings and cash flows, providing additional incentives for bank managers to engage in earnings management. Our results show that uncertainty in economic and monetary policy is positively related to financial reporting distortion, proxied by the magnitude of discretionary loan loss provisions, the likelihood of just meeting or beating the prior year's earnings, and lower levels of accounting conservatism. We also find that the impact of policy uncertainty on financial reporting distortion is mitigated by audit engagement. Collectively, our results suggest that economic and monetary policy uncertainties lead to greater distortion of financial reporting, and that monitoring mechanisms such as auditing constrain such behaviors.

"Are Short Sales Informed Trading? Reexamination of Short Sales Before Earnings Announcements"
Jiandong Li - Central University of Finance and Economics, China
Lin Tan - California State Polytechnic University, USA

Discussant: Anestis Ladas - University of Macedonia, Greece

This paper investigates if the shorts sales before the earnings announcements are informed trading. Empirical results indicate pre-announcement abnormal shorts sales are not always associated with negative post-announcement returns, implying that short sales are non-informed trading, at least in the short term. The abnormal increasing short sales are also highly associated with increasing other selling activities, which implies short sellers don't have special private information. Previous view of short sales predicting negative returns is conditional on specific samples.

"Aggregate Accounting Profitability as an Explanatory Factor of Aggregate Stock Returns"
Dimitrios Kousenidis - Aristotle University of Thessaloniki, Greece
Anestis Ladas - University of Macedonia, Greece
Christos Negkakis - University of Macedonia, Greece

Discussant: Jiri Tresl - Central Michigan University, USA

A number of recent studies have revealed out the information content of aggregate earnings for a number of risk factors. An important aspect of these studies is that there is a strong relation between aggregate earnings and aggregate stock returns. However, this relation is the opposite of that predicted in the firm-level; while studies using firm level data show a positive relation between earnings and returns, studies using aggregate data show a negative relation between aggregate earnings and aggregate returns. In this study, we attempt to provide further evidence on the ability of aggregate earnings to act as an explanatory variable of aggregate stock returns. In this respect we particularly focus on the risk-related information impounded in aggregate accounting profitability and how this information affects aggregate stock returns.

SESSION 24 Monday 3:45 - 5:45 p.m. Menuet

INVESTMENT AND PORTFOLIO
Session Chair: Chrysanthi Balomenou - HOU, Greece

"Group and individual personal pension schemes: Who is fairest of them all?"
Ania Zalewska - University of Bath, UK

Discussant: Yildiray Yildirim - Baruch College-CUNY, USA

In a market with frictions, investors with different exit rights and financial understanding may receive more or less attractive investment opportunities because financial intermediaries may have different incentives to develop long-term relational contracts with them. We develop a simple theoretical model and show, using a sample of 14,429 individual personal pension (IPP) funds and 1,681 group personal pension (GPP) funds offered to UK investors over the 1986-2015, that pension providers provide less attractive investment opportunities to the atomless IPP investors than to the GPP investors protected by bargaining power of the management/companies where they are employed. We show that GPP funds outperform IPP funds, have tougher performance benchmarks, when there is a scope for it, and are better at tracking these benchmarks. These results have important implications for investors and policy makers.

"The Hybrid Nature of Real Estate Trusts"
Thomas Emmerling - M&T Bank, USA
Crocker H. Liu - Cornell University, USA

Yildiray Yildirim - Baruch College-CUNY, USA

Discussant: Ajai Singh - University of Central Florida, USA

When do real estate trusts exhibit superior performance, when they mimic the underlying real estate or when they behave like stock? We test whether real estate trusts outperform common stock only when it mimics underlying property fundamentals. We also explore what capital market conditions correspond to and/or contribute to when securitized real estate behaves more like underlying property fundamentals. To explore this issue, we examine the investment performance of real estate trusts over the Great Depression and also the Great Recession. A distinguishing feature of our study is that we are the first to analyze the investment performance of real estate trusts (RETs), the predecessor to modern day real estate investment trusts (REITs), which traded over the late 19th and early 20th century. We compare the behavior and performance of RETs to REITs in the process. We find evidence consistent with the notion that securitized real estate exhibits superior performance only when it mimics the direct real estate market. This performance is fueled in part by cheaper borrowing costs, greater availability of debt and equity financing, and loosening credit standards. With the advent of a crisis, securitized real estate exhibits a greater co-movement with common stock. When this occurs, real estate behaves in a similar fashion to common stock and any abnormal performance disappears. This corresponds to tighter lending conditions and higher borrowing costs.

"Information Content of Offer-Date Revelations: A Fresh Look at Seasoned Equity Offerings"
Ajai Singh - University of Central Florida, USA
Nandkumar Nayar - Lehigh University, USA

Discussant: Onur Enginar - Hacettepe University, Turkey

Besides the offer-price discount, investment bankers use revisions in the offer size from the amount filed originally to signal the issuer’s quality to their buy-side clients. Unlike the offer-price discount, the offer-size revision not only relates to the offer-date price reaction, it also predicts post-SEO performance. Specifically, Improved SEOs, whose offer size exceeds the amount registered originally, experience significantly positive returns during the registration period and on the offer date. Importantly, they do not underperform post-issuance. Their complement, Regular SEOs, exhibit significantly negative returns during the registration period, on the offer date, and underperform their benchmark following issuance.

"Performances of Emerging Stock Exchanges During the Fed Tapering Announcements"
Onur Enginar - Hacettepe University, Turkey
Mehmet Baha Karan - Hacettepe University, Turkey
Göknur Büyükkara - Hacettepe University, Turkey

Discussant: Ania Zalewska - University of Bath, UK

This paper investigates abnormal returns of nineteen emerging market equity portfolios during the FED tapering period. Event study methodology is used during the early FED announcements at 2013. The aim of the study is to evaluate the abnormal return performance of the emerging market stock exchanges. The effect of country specific macroeconomic indicators on the market reactions in different country groups distinguished with logistic regression. The results indicate that the fragile five economies, namely Turkey, South Africa, India, Indonesia and Brazil are differentiated from the other groups with the variable of current account.

KEYNOTE SPEECH AND RECEPTION

7:30 - 9:30 p.m. **National Bank of Romania**

Professor Steven Ongena
University of Zurich & Swiss Finance Institute, Switzerland

DOMESTIC POLICIES AND INTERNATIONAL SPILLOVERS THROUGH GLOBAL BANKS

In today's globally interconnected financial system, the effects of domestic policy actions reach far beyond national borders. Monetary policy, for example, can affect local and international financial markets in numerous ways: Via interest rates, asset prices, and the availability of credit. These monetary effects can then feed into the real side of the economy. Recent attention has turned to the impact of various domestic policies on the supply of credit to borrowers located abroad. The rise of global banks, i.e., banks which lend to borrowers cross-border or maintain foreign affiliates in many other countries, over the past two decades has added a sense of urgency to the study of many potential "global" bank lending channels.

SESSION 25 **Tuesday 8:45 - 10:15 a.m.** **Doina**

ASSET PRICING IV
Session Chair: Shuye Wang - Renmin University of China, China

"Common Risk Factors in Stock Returns in The MENA Region"
Rasha Abadi - University of Minho, Portugal
Florinda Silva - University of Minho, Portugal

Discussant: Soosung Hwang - Sungkyunkwan University, Korea, Republic of

The paper investigates some of the risk factors in 13 emerging markets in the MENA region. These factors are value, profitability, investment, momentum and illiquidity. Using data from January 2006 to December 2015, we find evidence for reverse size, value and illiquidity effects in the non-financial stocks returns in the MENA region. We construct portfolios sorted on size-book-to-market, size-investment, size-profitability, size-lagged momentum and size-illiquidity. To explain the constructed portfolios excess returns, we use the CAPM, the three-factor model, the four-factor-momentum model, the four-factor-illiquidity model, the five-factor model, the six-factor-momentum model, and the six-factor-illiquidity. Even all the models that we use are not perfectly able to capture the average excess return in our sample; the six-factor-illiquidity model performs better than the other competitive models. In this regard, our findings show that the reverse size, value and illiquidity factors are the most relevant in asset pricing models in the MENA region. Therefore, the investors will give higher price for the big stocks with higher liquidity and/ or less growth, and achieve higher expected excess return. These results contribute significantly to explain the puzzle that the equity excess return is too high. Exploring special market features, we can explain the insignificant effect of the investment, profitability and momentum.

"Overconfidence, Sentiment and Beta Herding"
Soosung Hwang - Sungkyunkwan University, Korea, Republic of
Mark Salmon - University of Cambridge, UK

Discussant: Anastasios Malliaris - Loyola University Chicago, USA

We investigate the effects of market-wide overconfidence and sentiment on asset returns using the concept of beta herding that measures the cross-sectional distortion in betas induced by investors who suppress their own beliefs concerning individual assets. Contrary to common belief, our empirical evidence indicates that crises appear to lead investors to seek out the fundamental risk-return relationship of individual assets rather than follow the market disregarding the risk-return relationship. The risk-adjusted return difference between high and low beta stocks is positive and significant when difference between betas increases, and thus beta matters conditionally on beta herding.

"Asset Price Bubbles: What Role for Macroprudential and Monetary Policies?"
Douglas Evanoff - The Federal Reserve Bank of Chicago, USA
Anastasios Malliaris - Loyola University Chicago, USA

Discussant: Rasha Abadi - University of Minho, Portugal

This paper surveys several representative asset price bubbles and discusses the conceptual challenges related with definitional and theoretical developments in the asset bubbles literature. Since the bursting of some asset bubbles often produces financial instability, we also carefully review issues related to such instabilities. This analysis of asset bubbles and financial instability leads to asking the fundamental question: what role should macroprudential and monetary policies play to moderate asset bubbles and financial instability.

SESSION 26 Tuesday 8:45 - 10:15 a.m. Opereta

MERGERS AND ACQUISITIONS
Session Chair: Young Kim - Northern Kentucky University, USA

"The Idiosyncratic Volatility Puzzle and Mergers and Acquisitions Activity"
Lorne Switzer - Concordia University, Canada
Nabil El Meslmani - Concordia University, Canada

Discussant: Uwe Walz - Goethe University of Frankfurt, Germany

This paper examines whether the puzzling negative relationship between idiosyncratic volatility and next month performance is affected by the intensity of merger and acquisition (M&A) activity in the market. Our results show that the idiosyncratic volatility puzzle is stronger in periods of high M&A activity than in periods of low M&A activity. Further analysis shows that the negative relationship between idiosyncratic volatility and next month performance is the strongest in the high M&A activity sub-period spanning from 1982-1989. In contrast, M&A activity does not explain the negative relationship between the common factor in idiosyncratic volatility (CIV) and next month performance. M&A activity can in part explain the idiosyncratic volatility puzzle, but it does not subsume the negative relationship between CIV exposure and firm returns.

"The Influence of Leveraged Buyouts on Target Firms' Competitors"
Marcel Grupp - Goethe University Frankfurt, Germany
Christian Rauch - Goethe University Frankfurt, Germany
Uwe Walz - Goethe University of Frankfurt, Germany

Discussant: Martin Bugeja - University of Technology Sydney, Australia

This paper analyzes the influence Leveraged Buyouts (LBOs) have on the operating performance of direct competitors of the LBO target companies. In order to do so we make use of a data set of LBOs in the U.S. in the period 1985-2009 to measure the LBO target companies' competitors' changes in revenues as a result of the LBO activity. Thereby, we focus on the details of the specific LBO restructuring activity, such as e.g. changes to the LBO target's leverage or corporate governance structure and investigate the effect of these activities on competitors. We find that although LBOs itself have a negative influence on competitors' sales growth, the various restructuring mechanisms employed in LBOs, such as changes to leverage or M&A deals, affect competing companies in quite different ways.

"The 'Dark Side' to Directorship's Importance: The Case of Target Firms During M&As."
Martin Bugeja - University of Technology Sydney, Australia
Christoper Day - University of Technology Sydney, Australia
Zoltan Matolcsy - University of Technology Sydney, Australia
Helen Spiropoulos - University of Technology Sydney, Australia

Discussant: Lorne Switzer - Concordia University, Canada

This study investigates the influence of the importance of the target firm directorship to target firm non-executive directors on a number of merger and acquisition outcomes. Using Australian data and a size based measure of directorship importance we find a positive association between takeover hostility and directorship importance after controlling for takeover premiums. We also find that directorship importance lead to lower premiums for target shareholders and lower takeover announcement abnormal returns. These results are consistent with target firm non-executive directors acting in their own self-interest in directorships which they consider more important to their reputation. Interestingly, compensation based measures of target firm directorship importance are not related to takeover outcomes.

SESSION 27 Tuesday 8:45 - 10:15 a.m. Simfonia

FUNDS II

Session Chair: Lawrence Kryzanowski - Concordia University, Canada

"Performance of Socially Responsible Investment (SRI) Funds Surrounding Crisis Periods: A Comparative Study of Australia and Canada"

Jethro Tay - Not known, Singapore
Daniel Chai - Monash University, Australia
Jayasinghe Wickramanayake - Monash University, Australia

Discussant: Christodoulos Louca - Cyprus University of Technology, Cyprus

This paper compares socially responsible investment (SRI) funds and conventional funds in Australia and Canada, with regards to their performance surrounding market crisis periods. This research also investigates the impact of screening intensity and type on SRI fund performance. Following the approach employed by Nofsinger and Varma (2014), this study uses multi-factor model alpha estimates during crisis and non-crisis periods. Using Australian and Canadian managed fund data from 1995 to 2015, this research examines 19 SRI funds and 463 conventional funds in Australia, and 45 SRI funds and 3090 conventional funds in Canada. Our results show that SRI funds underperform conventional funds during non-crisis periods, but observe no evidence of significant outperformance during crisis periods. Furthermore, we also find that screening intensity does not have a significant impact on SRI fund performance.

"IPO Allocations and New Mutual Funds"

Frankie Chau - Durham University, UK
Yi Gu - Durham University, UK
Christodoulos Louca - Cyprus University of Technology, Cyprus

Discussant: Chanaka Edirisinghe - Rensselaer Polytechnic Institute, USA

Using an event time approach, we find that mutual funds outperform during the 6-month period after inception. This result is not driven by incubation bias; rather new fund outperformance concentrates among funds with access to initial public offerings (IPOs), especially to more underpriced IPOs. Favoritism among fund families, partly explains access to IPOs. Finally, funds with access to IPOs that signal preferential access to future IPOs display greater investment flow, even after controlling for performance. Overall, the evidence suggests that fund families strategically exploit access to IPO allocations to open new mutual funds that demonstrate strong investment performance and attract greater investment flow.

"Smart Index Funds with State-Estimate Risk Optimization Under a Bayesian Framework"
Chanaka Edirisinghe - Rensselaer Polytechnic Institute, USA
Yonggan Zhao - Dalhousie University, Canada

Discussant: Jayasinghe Wickramanayake - Monash University, Australia

Smart indexing improves an investment fund's exposure to a broader group of asset categories to provide superior performance, rather than blindly-tracking a benchmark such as the S&P 500 index, which suffers from over-exposure in slower-growth large-cap equities. This paper presents a rigorous quantitative approach for market sector-based smart indexing under regime-switching uncertainty using macro-economic indicators. Sector exposures are adjusted based on a proposed state-estimate risk function that incorporates potential shifts in the economic state and the likelihood thereof to determine the fund's risk orientation optimally in tracking or not tracking the benchmark. The model consistently generates positive alpha relative to known risk factors in out-of-sample testing. While the regime-switching can earn upwards of 3% per year, the state-estimate risk function-based benchmark orientation results in gains over 8% annually. Several variants and sensitivity analysis are presented.

SESSION 28 Tuesday 8:45 - 10:15 a.m. Opera

MANAGERIAL INCENTIVES
Session Chair: Nihat Aktas - WHU - Otto Beisheim School of Management, Germany

"Managerial Entrenchment and Endogenous Balance Sheet Size"
Elisabeth Megally - University of Zurich, Switzerland

Discussant: Jorge Omar Razo de Anda - National Polytechnic Institute, Mexico

Ever since Jensen and Meckling (1976)'s seminal paper, economists have sought to study how the relationships between a firm's various stakeholders could impact the choice of capital structure. Shareholders and bondholders (acting as principals), and the manager (acting as the agent), have each very specific preferences in terms of payoffs and risk profile, making the delegation of the firm policy - notably in terms of financing and investment - a complex topic. A large part of the literature over the last decades has nevertheless focused on building the right contracts and compensation packages to align incentives and reduce principal-agent frictions. Contracts however cannot be complete. As a result, even if the manager is a shareholder himself, it is nearly impossible to induce him to behave as a pure shareholder who only follows the most value-enhancing policies. As Jensen and Meckling (1976) showed, "a firm's manager would choose a set of activities for the firm such that the total value of the firm is less than it would be if he were the sole owner". Indeed, the utility function of a manager does not only contain the pecuniary returns he extracts from his compensation package, but also the present and future non-pecuniary aspects of his role such as his status, the size of his company, his office space, the perquisites he enjoys, etc.

"Minsky's Financial Instability Hypothesis: A Turbulence Index for Mexico"
Jorge Omar Razo de Anda - National Polytechnic Institute, Mexico

Discussant: Qingjing Zhang - University of Southampton, UK

In spite of the advances of economic sciences, the 2008 crisis caused by the real-estate market in the United States has proven that theory does not suffice to completely understand what factors have given rise to this economic phenomenon and its dissemination mechanisms among world economies. The fact that the most sophisticated tools have failed to anticipate financial crises and even to explain what has caused them hampered the search for a solution to this situation. In 1964, however, a document written by Hyman Minsky was published describing what factors would determine the fall of the U.S. financial system 40 years earlier. As a result thereof, the term “financial instability”, as the cause of economic crisis, has reached greater relevance in the literature. From the above, there still are two questions to be answered: What factors cause financial instability? How and in what measure does this concept have any repercussions in the economic system? A number of investigations have contributed to understand the crisis-financial instability ratio. Such is the case of the work of Detzer, Fisher presenting the Debt Deflation theory and of Minsky's, among others. In fact, the common factor, independent from the kind of crisis, is financial instability. Its dynamics seems to create three-variable cycles according to Minsky: the price of assets in the security market and in the real-estate sector, the number of loans and investment and, finally, international reserves.

"Which Side Do Institutional Investors Take? Their Real Face in the Impact of CEO Risk Aversion on CSR"

Jing-Ming Kuo - University of Birmingham, UK
Qingjing Zhang - University of Southampton, UK
Zhuang Zhang - University of Southampton, UK

Discussant: Elisabeth Megally - University of Zurich, Switzerland

Motivated by the proposition that CEO inside debt holdings expose CEOs to similar default risk as experienced by outside creditors, this study investigates the impact of CEO risk aversion on corporate social responsibility (CSR) activities using firm observations in the US between 2006 and 2014. Our results show that risk-averse CEOs are likely to invest more in CSR activities, and higher firm idiosyncratic risk leads to more involvement in CSR activities. It is of interest to find that the influence of CEO risk aversion on CSR investment is weaker when the level of firm risk is higher. Furthermore, this paper presents a novel and comprehensive investigation regarding the role of institutional investors in CSR investment. Our empirical evidence suggests that institutional investors constrain risk-averse CEOs' investment in CSR activities while they are still willing to increase CSR investment for risk management purposes when firm risk is high. Our findings are robust to alternative measures and model specifications and have regulatory implications.

SESSION 29 Tuesday 8:45 - 10:15 a.m. Bolero

COMPENSATION
Session Chair: Malick Sy - RMIT University, Australia

"The Risk and Return Conundrum Explained: International Evidence"

Christos Savva - Cyprus University of Technology, Cyprus
Panayiotis Theodossiou - Cyprus University of Technology, Cyprus

Discussant: Agnieszka Pres-Perepeczo - The University of Szczecin, Poland

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.

"CEO Succession Puzzle on the Polish Capital Market"

Katarzyna Byrka-Kita - University of Szczecin, Poland
Mateusz Czerwinski - University of Szczecin, Poland
Agnieszka Pres-Perepeczo - The University of Szczecin, Poland
Tomasz Wisniewski - University of Szczecin, Poland

Discussant: Zhaoyang Gu - Chinese University of Hong Kong, Hong Kong

This article analyses factors, which decide about market reaction to succession events, and in particular it identifies relations between some features/characteristics of the successor and market valuation of companies quoted on the Warsaw Stock Exchange. The event study and multi regression models were applied. Statistically significant results of cumulative average returns are a proof of a negative market reaction to CEO appointment. The results of the regression analysis indicate that there is a statistically significant relation between the reaction prior to the event and the generation of successors born after 1971. A negative relation between cumulative abnormal returns and experience in CEO position was observed in a few day windows around the event. Furthermore, it was observed that general education is perceived by the shareholders to be worse than elite education. Likewise, an insider CEO is perceived to be worse than an outsider CEO.

"Debt-Equity Conflict, Accounting Conservatism, and Executive Compensation"
Zhaoyang Gu - Chinese University of Hong Kong, Hong Kong
Xiaoxia Peng - University of Utah, USA

Discussant: Edward Jones - Heriot-Watt University, UK

Debtholders and equityholders have different preferences for risks. We argue that executive compensation combined with accounting conservatism can mitigate the debt-equity conflict. For example, spending on research and development (R&D) would reduce firm's initial cash flow and increase firm risk that hurts debtholders. Conservative accounting would expense the R&D, resulting in lower accounting earnings initially, while the stock price would react positively when the R&D project has positive NPV. By tying executive compensation more to accounting earnings than to stock returns, managers would be "punished" for taking R&D due to lower compensation in the early years. Thus, they would be incentivized to stay away from R&D, to the benefit of debtholders. Empirically, we find evidence supporting the above argument. In particular, we find that the CEO pay sensitivity to accounting return on asset (ROA) increases with financial leverage, a proxy of the equity-debt conflict. Such higher sensitivity is primarily driven by the bonus portion of CEO compensation. In addition, the results are mainly found among firms with higher accounting conservatism and higher uncertainty in operation, consistent with notion that protection of debtholders is most needed when the uncertainty level is high and most effective when accounting is conservative. We conclude that putting more compensation weight on accounting performance is an effective way to protect the debtholders.

SESSION 30 **Tuesday 8:45 - 10:15 a.m.** **Menuet**

CORPORATE FINANCE II
Session Chair: Frank Skinner - Brunel University, UK

"A Simple Intuitive NPV-IRR Consistent Ranking"
Moshe Horin - Ono Academic College, Israel
Yoram Kroll - Ono Academic College (OAC), Israel

Discussant: Bernardo Bátiz Hurtado - Universidad Anahuac, Mexico

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.

"Determinants of the Dynamics of Demand for Debt Instruments in Mexico 2003-2016"
Bernardo Bátiz Hurtado - Universidad Anahuac, Mexico
Francisco López-Herrera - National Autonomus University of Mexico, Mexico
Jorge Omar Razo de Anda - National Polytechnic Institute, Mexico

Discussant: Walter Farkas - University of Zurich, Switzerland

The purpose of any company is that of getting the most benefits possible, which entails a long list of plans and activities enabling the attainment of said objective. One of these decisions implies obtaining funds aimed to maintain productive activities, which is known as financing. Resources may come from withholding profits, without ignoring though, that any kind of financing involves a cost with several effects on the market value of the organization. There currently are many outside funding avenues, among which is the debt market with a number of advantages over bank loans, such as tax deductibility and asset securitization among others. However, although the Mexican debt market has grown so much over the past years, where the issued debt value has reached over 8.5 billion pesos as of the month of April 2016, it is not known which factors have given rise to such expansion in detail. Therefore, there are many questions that are to be answered: What has caused this growth? Is this growth related in any way to other stock markets? How is this dynamics affecting domestic economy?

"Intrinsic Risk Measures"
Walter Farkas - University of Zurich, Switzerland
Alexander Smirnow - University of Zurich, Switzerland

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

Monetary risk measures are usually interpreted as the smallest amount of external capital that must be added to a financial position to make it acceptable. Wepropose a new concept: intrinsic risk measures and argue that this approach provides a direct path from unacceptable positions towards the acceptance set. Intrinsic riskmeasures use only internal resources and return the smallest percentage of the currently held financial position which has to be sold and reinvested into an eligible asset such that the resulting position becomes acceptable. While avoiding the problem of infinite values, intrinsic risk measures allow a free choice of the eligible asset and they preserve desired properties such as monotonicity and quasi-convexity. A dual representation on convex acceptance sets is derived and the link of intrinsic risk measures to their monetary counterparts on cones is detailed.

Refreshments 10:15 - 10:30 a.m.

SESSION 31 Tuesday 10:30 - 12:00 p.m. Doina

BEHAVIORAL II
Session Chair: Soosung Hwang - Sungkyunkwan University, Korea, Republic of

"Short Selling and Stock Price Crash Risk: Evidence from China"
Deshuai Hou - Renmin University of China, China
Qingbin Meng - Renmin University of China, China
Shuye Wang - Renmin University of China, China

Discussant: Chaiyuth Padungsaksawasdi - Thammasat University, Thailand

This paper examines the impact of short selling on stock price crash risk after the introduction of short selling and margin trading mechanism in China. Using a large sample of Chinese listed firms during 2010-2015, we find that firms with high short-selling ratios tend to have smaller crash risks. This result is robust to a series of sensitivity tests and is more prominent for firms with lower information transparency, for firms with weak internal and external monitoring, and for non-state owned enterprises. Moreover, we find that the negative relation between short selling and crash risk is asymmetric for up and down markets: short-selling significantly reduces future stock price crash risks for up markets but not for down markets. Our study suggests that short selling reduces stock price crash risk by improving information transparency and corporate governance, and promoting stock price discovery process.

"Investor Attention and Stock Market Activities: New Evidence from Panel Data"
Chaiyuth Padungsaksawasdi - Thammasat University, Thailand
Sirimon Treepongkaruna - University of Western Australia Business School, Australia
Robert Brooks - Monash University, Australia

Discussant: Jun Tu - Singapore Management University, Singapore

Using the panel VAR method, this paper documents relationships between investor attention and stock market activities; i.e. return, volatility, and trading volume. Our results show that there exists the attention-return, -volatility, and -abnormal trading volume relationships, respectively. However, the relationships are weaker for developing countries, and the investor-volume relationship shows the strongest statistically significant. Moreover, the effects of the investor attention between the developed and developing markets are significantly different. We postulate that the role of the investor attention is global, though it affects the market oddly.

"Purging Investor Sentiment Index from Too Much Fundamental Information"
Liya Chu - Singapore Management University, Singapore
Qianqian Du - Southwestern University of Finance and Economics, China
Jun Tu - Singapore Management University, Singapore

Discussant: Shuye Wang - Renmin University of China, China

There seems too much (more than 60%) fundamental related information in the Baker and Wurgler investor sentiment index (the BW index). Using a novel approach, we remove the fundamental related information in the BW index to obtain a purged sentiment (IS-P) index. The IS-P index outperforms the BW index in capturing the sentiment impact on cross-sectional stock returns and also beats various survey-based sentiment indices. Given that numerous studies are shadowed by the risk of producing misleading results by treating the potentially fundamental information dominated BW index as a behavioral variable, the IS-P index seems providing a safer choice for sentiment studies. In addition, although the recently posted new (five-indicator) BW index surprisingly drops the turnover indicator, the IS-P index still leaves the door open for the turnover indicator by only adjusting down its loading according to its weaker relation with the sentiment in recent years. Therefore, the IS-P index could be a better choice given that the turnover indicator not only has not yet become completely irrelevant to investor sentiment but also may even come back as a strong sentiment indicator in the future.

SESSION 32 Tuesday 10:30 - 12:00 p.m. Opereta

GOVERNANCE II
Session Chair: Anastasios Malliaris - Loyola University Chicago, USA

"How Do Co-Opted Directors Influence Corporate Risk-Taking?"
Pornsit Jiraporn - Pennsylvania State University Great Valley, USA
Young Kim - Northern Kentucky University, USA
Sang Mook Lee - Pennsylvania State University Great Valley, USA

Discussant: Lawrence Kryzanowski - Concordia University, Canada

Motivated by agency theory, we explore the effect of co-opted directors, i.e. directors appointed after the incumbent CEO assumes office, on corporate risk taking. Our results show that a higher proportion of co-opted directors on the board leads to significantly higher corporate risk-taking, as reflected by the substantially higher volatility in stock returns and a higher standard deviation of Tobin' q. The evidence is consistent with the notion that co-opted directors represent a weakened governance mechanism that allows managers to take more risk. Additional tests show that endogeneity is unlikely, including a fixed-effects analysis, an instrumental-variable analysis, propensity score matching, and an analysis where we exploit the Sarbanes-Oxley Act as an exogenous regulatory shock that raises board co-option. Crucially, our evidence shows that board co-option can explain the extent of corporate risk-taking much better than does board independence, which has been the dominant measure of board quality in the literature.

"Corporate Social Responsibility, Firm Undervaluation, Executive Compensation and Corporate Governance"
Lawrence Kryzanowski - Concordia University, Canada
Yulin Nie - Concordia University, Canada

Discussant: Simona Nistor Mutu - Babes-Bolyai University, Romania

We conduct a comprehensive examination of the dynamic relations among CSR composite rankings, firm undervaluation, executive compensation and corporate governance. Our firm undervaluation measure based on insider trading captures mispricing information not previously captured by commonly used measures in the literature. We use system-GMM and 3SLS for a system of four simultaneous equations to control for endogeneity and simultaneity. Our evidence indicates that firm undervaluation (inside debt) is positively (negatively) related to a firm's future CSR rankings. We find that the trading of managers reveals informed information about the "error-in-expectations" embedded in firm valuations.

"Corporate Governance and Efficiency in Banking: Evidence from Emerging Economies"
Alin Andries - Alexandru Ioan Cuza University of Iasi, Romania
Bogdan Capraru - Alexandru Ioan Cuza University of Iasi, Romania
Simona Nistor Mutu - Babes-Bolyai University, Romania

Discussant: Young Kim - Northern Kentucky University, USA

This paper investigates the impact of corporate governance on bank efficiency, across a sample of 139 commercial banks from 17 countries of Central and Eastern Europe during the period 2005-2012. The empirical findings indicate that implementing rigorous corporate governance structures is associated with higher costs for banks in emerging economies and a lower level of efficiency. But, during the crisis a tight governance mechanism significantly increases banks' cost and technical efficiencies. Also, tight risk management is associated with both higher cost and technical efficiency for more capitalized banks, while rigid supervisory boards are linked with higher technical efficiency for more capitalized banks.

SESSION 33 Tuesday 10:30 - 12:00 p.m. Simfonia

INTERMEDIARIES
Session Chair: Sanjay Sehgal - University of Delhi, India

"Systemic Risk and Foreign Currency Positions of Banks: Evidence from Emerging Europe"
Alin Marius Andries - Alexandru Ioan Cuza University, Romania
Simona Nistor - Babeş-Bolyai University of Cluj-Napoca, Romania

Discussant: Aurore Burietz - IÉSEG School of Management, France

This paper investigates the impact of foreign currency (FX) denominated assets and liabilities on systemic risk (SR) using a unique hand-collected dataset of bank-level FX positions for the period

2005-2012. The sample consists of 36 commercial banks from 10 countries of Central and Eastern Europe with large share of FX exposures in balance sheet. Overall, empirical findings indicate that systemic risk is dependent on the currency choice of banks' positions. FX assets denominated in EUR and USD reduce banks' contribution and exposure to SR, while FX assets and liabilities denominated in CHF enhance banks' systemic importance. Fortunately enough, the negative influence of CHF positions on banks' systemic importance might be reduced through internal and external governance channels: (i) prudent internal corporate governance mechanisms (like shareholder-friendly supervisory boards) significantly reduce the negative impact of CHF liabilities on systemic risk; (ii) a rigorous regulatory environment framework in banks' home countries (tight restrictions on banking activity) significantly reduce the negative impact of CHF assets on systemic risk.

"Home Sweet Home? Bank Lending and the Impact of the Global Financial Crisis"
Aurore Burietz - IÉSEG School of Management, France
Loredana Ureche-Rangau - CRIISEA, University of Picardie Jules Verne, France

Discussant: Elisabeta Pana - Central Connecticut State University, USA

The objective of this paper is to study how credit supply and its determinants changed after the collapse of Lehman Brothers. To do so, we manually built an original database of syndicated loans gathering data at the loan level on each bank-firm relationship as well as financial information on the lender and the borrower. The analysis is focused on banks located in four European countries – France, Germany, Italy and Spain – and jointly estimates the spread and amount of each loan. Our conclusions highlight interesting aspects of bank lending behavior in terms of geographical and sectoral orientation of loans. First, the sectoral bias (better terms for companies in industries that banks are used to lending to) observed for all the banks in our sample before the crisis completely disappears after 2008. Second, French banks are characterized by flight-to-home (better terms for domestic companies), while Spanish banks increase borrowing cost for their domestic companies, especially during the sovereign debt crisis. Finally, banks with strong balance sheets are better able to sustain credit supply during the subprime crisis, thus supporting the implementation of banking regulations such as Basel III.

"Earnings Management within Bank Holding Companies"
Tarun Mukherjee - University of New Orleans, USA
Elisabeta Pana - Central Connecticut State University, USA

Discussant: Alin Marius Andries - Alexandru Ioan Cuza University, Romania

In this paper, we investigate the role played by the organizational structure of bank holding companies in the earnings management of bank subsidiaries. Our results suggest that bank holding companies manage their subsidiaries to optimize the reporting outcome at the consolidated level. We find that parent characteristics explain the earnings management of subsidiaries over and above the characteristics of subsidiaries. We also find that the public status of bank holding companies and the distance between subsidiaries and headquarters explain the proclivity of bank subsidiaries to engage in earnings management. Our results yield important insights on the drivers of earnings management within the bank holding company, and highlight the need for their integration in regulatory design.

SESSION 34 Tuesday 10:30 - 12:00 p.m. Opera

CDS
Session Chair: William Megginson - University of Oklahoma, USA

"Does Financial Innovation Affect Technological Innovation? Evidence from Credit Default Swaps Trading"
Xin Chang - University of Cambridge, UK
Yangyang Chen - Hong Kong Polytechnic University, Hong Kong

Sarah Wang - University of Warwick, UK
Kuo Zhang - Xiamen University, China
Wenrui Zhang - Chinese University of Hong Kong, Hong Kong

Discussant: Burkhard Raunig - Oesterreichische Nationalbank, Austria

We document that credit default swaps (CDS) trading on a firm's debt positively influences its technological innovation output measured using patents and patent citations. The positive effect is more pronounced for firms relying more on debt financing, being more subject to continuous monitoring by lenders, or using more short-term debt prior to CDS introduction. Moreover, after CDS trade initiation, firms pursue more risky and original innovations, and generate patents having higher economic values. Further analysis suggests that CDS improve borrowing firms' innovation output via enhancing lenders' risk tolerance and borrowers' risk taking in the innovation process, rather than through increasing R&D investment. Taken together, our findings reveal the real effects of financial innovation (i.e., CDS) on companies' investment and technological progress.

"Economic Policy Uncertainty and the Volatility of Sovereign CDS Spreads"
Burkhard Raunig - Oesterreichische Nationalbank, Austria

Discussant: Zaghum Umar - Lahore University of Management Sciences, Pakistan

The volatility of sovereign CDS spreads reflects the degree of uncertainty about the solvency of a country. This study, covering Germany, France, Italy, Spain, Great Britain, the USA, Canada, and Japan empirically investigates whether economic policy uncertainty helps to explain CDS volatility? It turns out that there is a positive link between economic policy uncertainty and CDS volatility. This link is particularly strong for Italy and Spain - two countries that were at the center of the European debt crisis. Moreover, US policy uncertainty affects the CDS volatility of almost all other considered countries.

"Industrial and Precious Metals Futures as a Hedge for U.S. Metals & Mining Industry's Credit Risk"
Zaghum Umar - Lahore University of Management Sciences, Pakistan
Syed Shahzad - COMSATS Institute of Information Technology, Pakistan

Discussant: Xin Chang - University of Cambridge, UK

This study examines the conditional correlation and the resulting optimal hedge ratios between the credit Default Swap (CDS) spreads of the U.S. metal and mining industries, and the prices of copper, platinum, silver and gold over the daily period from December 14, 2007 to September 30, 2015. It compares volatility and conditional correlation of the CDSs and the metal prices by employing the DCC, ADCC and GO-GARCH models. It utilizes rolling window estimation techniques and constructs the one-step-ahead out-of-sample forecasts for the dynamic conditional correlations and thereafter the optimal hedge ratios. In general, our results show that copper provides the best possible hedge for dealing with the U.S. metals and mining industries' credit risks. Our results are robust under alternate model specifications, choice of model refits and distributional assumptions.

SESSION 35 Tuesday 10:30 - 12:00 p.m. Bolero

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

"Downside Beta and Equity Returns Around The World"
Yigit Atilgan - Sabanci University, Turkey
Turan G. Bali - Georgetown University, USA
K. Ozgur Demirtas - Sabanci University, Turkey

Doruk Gunaydin - Sabanci University, Turkey

Discussant: Anthony Yanxiang Gu - State University of New York, USA

We investigate the relation between downside beta and stock returns in a global context using more than 170 million daily return observations. Contrary to the findings in the U.S. equity market, we show that downside beta does not explain the cross-sectional differences in future and contemporaneous returns in an international setting. The results are robust to using different methods to estimate downside beta, omitting the U.S. stocks from the global sample, utilizing alternative global pricing factors, and replicating the analysis for various country groupings. Thus, we overturn the heavily cited finding on the relation between downside beta and equity returns.

"Strong March Phenomenon and Weak January Effect in the U.S. Bond Market"
Anthony Yanxiang Gu - State University of New York, USA

Discussant: Raluca Stan - West Virginia University, USA

March is the worst month for the U.S. bond market as mean March return is the lowest among the twelve months' and the month of March has the lowest frequency of positive returns from 1987 through 2015. March returns are significantly negatively related to returns of all the other eleven months, to 10-year Treasury bond yield, and to March returns of the U.S. equity market, it is significantly positively related to return of the year of the U.S. bond market. Meanwhile, the January effect is not statistically significant compared to all the other eleven months' mean returns.

"The Stock Market Reaction to Earnings Announcements in the Presence of High Ambiguity"
Ann Marie Hibbert - West Virginia University, USA
Raluca Stan - West Virginia University, USA

Discussant: Yigit Atilgan - Sabanci University, Turkey

This paper investigates whether there are idiosyncratic factors that mitigate the stock market reaction to unfavorable corporate news in the presence of high ambiguity. Previous research shows that the stock market responds asymmetrically to earnings news in the presence of high ambiguity because investors follow a conservative approach and choose the worst-case scenario. In contrast, when ambiguity is low, bad and good earnings news are weighted similarly. We posit and test whether certain types of stocks provide a natural hedge during periods of high ambiguity. We focus on four characteristics of stocks that provide signals of future expected cash flows, and may thereby help to resolve uncertainty, i.e. the dividend policy, the capital structure, the market-to-book ratio and the size of the firm.

SESSION 36 Tuesday 10:30 - 12:00 p.m. Menuet

FIRM VALUATION
Session Chair: Zhaoyang Gu - Chinese University of Hong Kong, Hong Kong

"Value Creation Measures: An Industry-Based Study"
John Hall - University of Pretoria, South Africa

Discussant: Frank Skinner - Brunel University, UK

The study aimed to identify the shareholder value creation measure best suited to express shareholder value creation for a particular industry. The analysis was performed on 192 companies listed on the Johannesburg Stock Exchange, classified into nine different samples or industries. Five shareholder value creation measures were examined, namely market value added, a market adjusted stock return, the market to book ratio, Tobin's Q ratio, and the return on capital employed divided by the cost of equity.An analysis of the nine categories of firms led to the identification of different measures that are suited to express value creation. Stock returns did not provide an appropriate value measure. Instead, depending on the specific industry, Tobin's Q ratio, market value added, and the market-to-book ratio should be used to measure and express value creation. For management, the value drivers identified for each industry present a clear indication of industry-specific variables upon which they can focus in operating activities to most efficiently increase shareholder value.Unlike previous studies that use only one or two different shareholder value creation measures as dependent variables, this study uses five different value creation measures. Another contribution of this study is the compilation of a unique set of value drivers that explain shareholder value creation separately for each of the nine different categories of firms.

"Determinants of Capital Gains Overhang"
Mohamed Shaker - Cairo University, Egypt
Frank Skinner - Brunel University, UK
Qiwei Chen - Brunel Iniversity, UK

Discussant: Dmytro Osiichuk - Kozminski University, Poland

The disposition effect is the propensity of investors to realize gains too early while they are loath to realize losses. Capital gains overhang is a measure of unrealized capital gains and losses that is associated with the disposition effect and the trading activities of behaviorally biased investors. We discover that value irrelevant firm characteristics can play a role in explaining variations in the capital gains overhang that is consistent with the activities of behaviorally biased and disposition investors. Specifically, we find that capital gains overhang is increasing in firm attributes that attract behaviorally biased investors, namely earnings per share, leverage, growth and size. Capital gains overhang is also decreasing in market liquidity, possibly because liquidity allows behaviorally biased investors to excessively trade shares and beta and corporate liquidity, likely because when high risk and inefficient firms experience losses, disposition investors experience capital losses they are reluctant to realize.

"Tender Bids Evaluation in the Context of Value-Based Management"
Pawel Mielcarz - Kozminski University, Poland
Dmytro Osiichuk - Kozminski University, Poland
Ryszard Owczarkowski - -, Poland

Discussant: John Hall - University of Pretoria, South Africa

The paper aims at presenting a coherent algorithm allowing to evaluate tender bids in accordance with the principles of value-based management. The evaluation of tender results in many cases lacks rigorous methodology and often involves an inherent element of subjectivity. The mathematical models, used to assign weighs to the bid evaluation criteria, may not accurately reflect the outcomes of the valuation prepared as part of the capital budgeting process, which as a consequence, may impair the credibility and objectivity of the company's procurement policy. The problem is further complicated by the difficulties related to operationalization of the qualitative evaluation criteria. The paper elaborates on the idea that tender bids should be evaluated based on a unique objective function, i.e., the company value. The algorithm presented in the paper supplemented with an elaborated numerical example, gives a step-by-step guidance in the process of the tender results evaluation and presentation, thereby, allowing to minimize possible errors and biases. The model may be of considerable interest to the practicing financial managers, as it accords perfectly with the process and concepts of value-based management, and assures the transparency of the tender procedures.

LUNCHEON

12:00 - 1:30 p.m. **Corso Brasserie**

PORTFOLIO MANAGEMENT II

Session Chair: Chanaka Edirisinghe - Rensselaer Polytechnic Institute, USA

"Black-Litterman Asset Allocation with a General Returns Distribution"

Andrzej Palczewski - University of Warsaw, Poland
Jan Palczewski - University of Leeds, UK

Discussant: Wolfgang Bessler - Justus-Liebig University Giessen, Germany

"The Black-Litterman methodology of portfolio optimization, developed at the turn of the 1990s, combines statistical information on asset returns with investor's views within the Marko-witz mean-variance framework. The main assumption underlying the Black-Litterman model is that asset returns and investor's views are multivariate normally distributed. However, the empirical research demonstrates that the distribution of asset returns has fat tails and is asymmetric, which contradicts normality. Moreover, recent advances in risk measurement advocate replacing the variance by risk measures that take account of tail behavior of the portfolio return distribution. This paper extends Black-Litterman theory into general continuous distributions with the risk measured by deviation conditional Value-at-Risk. Using ideas from the Black-Litterman methodology, we design analytical and numerical methods (with variance reduction techniques) for the inverse portfolio optimization that extracts in a stable way statistical information from historical data. We introduce a quantitative model for stating investor's views and blending them consistently with the market information via Bayes formula. The theory is complemented with the design of efficient numerical methods. We conclude with a number of practical examples that demonstrate significant impact of the choice of distributions on optimal portfolio weights to the extent that the classical Black-Litterman procedure cannot be viewed as an adequate approximation.
"

"Optimal Asset Allocation Strategies for International Equity Portfolios: A Comparison of Country versus Sector Optimization"

Wolfgang Bessler - Justus-Liebig University Giessen, Germany
Georgi Taushanov - University of Giessen, Germany
Dominik Wolff - Deka Investment GmbH, Germany

Discussant: Mehmet Karan - Hacettepe University, Turkey

Although most academic studies conclude that mutual funds cannot outperform a passive investment strategy in the long run, there is some recent empirical evidence that a persistent outperformance can be achieved in an out-of-sample framework when using more sophisticated optimization technique. These empirical findings are for equity-bond-commodity-portfolios, international equity-bond portfolios and US-industry portfolios. The latter can even be further improved when return predictions are included. Given these empirical findings, we analyze in this study whether an industry-based or a country-based optimization model performs best. We employ a variety of optimization- and weighting-techniques to compare the country- and the sector-based allocation strategies. These include naive ‘equally weighted’ (1/N) portfolio, the two risk-based asset allocation rules ‘risk-parity’ (RP) and minimum-variance (MinVar) as well as three portfolio optimization approaches mean-variance (MV), Bayes-Stein (BS) and the Black-Litterman (BL) model. We also include simple return prediction models. To determine whether one approach is persistently superior to the other approach, we analyze time varying effects based on the state of the economy, i.e. expansionary or recessionary periods. Moreover, we investigate investment style or investor clientele effects, the full period and different sub-periods, equity-only and equity-bond portfolios as well as aggressive and conservative investments styles.

"Momentum or Market? Determinants of Large Price Changes in Stock Prices During Pre- and Post-Crisis Periods"
Yilmaz Yildiz - Hacettepe University, Turkey
Mehmet Karan - Hacettepe University, Turkey

Discussant: Christian Bucio - Universidad Autónoma del Estado de México, Mexico

The main aim of this study is to investigate the effect of momentum and market on large price changes in stocks listed on Borsa Istanbul by controlling for the price-to-book ratio, liquidity and firm size. Moreover, we also provide evidence on the effects of covariates on different macroeconomic environments, specifically on the pre- and post-crisis periods. Our findings suggest that, momentum has a significant and expected effect of large price changes during both pre-and post-crisis periods. However, market provide significance only on the estimation of large price declines in the pre-crisis period and of large price increases in the post-crisis period. Additional findings suggest that liquidity and price to book ratio have positive, firm size has a negative impact on large price changes regardless of the direction of the change and macroeconomic environment.

"The CAPM is Alive: Dynamics of the CAPM in the Mexican Stock Market and Sectoral Invertible Indexes"
Christian Bucio - Universidad Autónoma del Estado de México, Mexico
David Martínez - National Autonomus University of Mexico, Mexico
Edgar Ortiz - National Autonomus University of Mexico, Mexico

Discussant: Andrzej Palczewski - University of Warsaw, Poland

In the financial economics literature, the Capital Asset Pricing Model (CAPM) numerous studies have both criticized and validated its viability. Its simplicity, its assumptions, as well as its positive and linear relationship between the price of assets with respect to market risk, has generated debate and criticism since its publication in the 1960s, to the day from today. For this reason, the present work analyzes the behavior of the betas of the CAPM model of the sectoral indexes invertibles of the Mexican stock market, incorporating a dynamic component, to identify when the validity of the CAPM model is fulfilled. This methodology estimates the beta parameter, through the implementation of mobile data windows of 52 weeks, analyzing the patterns of sectoral indices invertible over time. Statistical-econometric tests are performed using the yields of the invertible sector indices of the Mexican Stock Exchange, these being the assets to be examined; And the performance of the IPC price and price index, which serves as the stock market in Mexico. The analysis period includes weekly data series from November 2009 to September 2016, with seven years of analysis. The empirical evidence confirms the constant changes in betas behavior of the invertible indices during the analysis period.

SESSION 38 **Tuesday 1:30 - 3:30 p.m.** **Opereta**

GOVERNANCE III
Session Chair: Gabrielle Wanzenried - Lucerne University of Applied Sciences and Arts, Switzerland

"The Corporate Governance – Performance Puzzle: New Insights"
Ariadna Dumitrescu - ESADE Business School, Spain
Mohammed Zakriya - ESADE Business School, Spain

Discussant: Myriam García-Olalla - Universidad de Cantabria, Spain

This paper provides newer insights on governance – performance relationship using recent data (2007 to 2015) on anti-takeover provisions' incidence in the sample firms. Looking beyond the equally weighted methodology employed in related literature for constructing G-Index, E-Index, and Gov-Score, we present an alternate unequally weighted "new Governance (nG) Index" as governance proxy. We show that our proposed nG-Index traces governance – performance relationship more persistently than the

equal-weighted measure. Firms with better governance structures are found to show higher firm values and superior operating performances in our sample period. Our analysis further reveals that a zero-investment hedge going long on poor governance stock portfolio and shorting the good governance one would have generated an abnormal return of over 1.33% per month or about 16% per year. This hedge is completely opposite to the long good governance - short poor governance strategy suggested in prior literature. We posit that such hedge reversal is an indication that, in recent years, investors seek compensation for high riskiness associated with poorly governed firms.

"Corporate Governance Attributes and Listed SMEs Capital Structure: Evidence from Different Economics Environments"

Anahi Briozzo - Universidad Nacional del Sur, Argentina
Clara Cardone Riportella - Universidad Pablo de Olavide, Spain
Myriam García-Olalla - Universidad de Cantabria, Spain

Discussant: Yi Liu - University of North Texas, USA

This paper investigates empirically the effects of the application of Corporate Governance rules in the capital structure of listed SMES in two countries belonging to different economic environments. We compare Argentinean and Spanish capital structure of listed SMEs in alternative capital investment markets for the years from 2012 to 2015 and for year 2014, taking into account the following SMEs corporate governance attributes: ownership concentration, CEO duality, main shareholder is a corporation, gender diversity in the board, and services received by one of the international audit BIG N firms. Among the main results, we find that in Argentina, the participation in business groups has a negative effect on the short-term liabilities to total liabilities ratio. The participation of women as member of the board is positive related to the short-term ratio and those firms who are audited by and a BIG N audit firm have higher short-term ratio. Regarding control variables, sales have a negative impact on the short-term debt ratio, while number of employees has a positive effect. In Spain, participation of women as member of the board and a BIG N auditor has a negative effect on the short-term liabilities to total liabilities ratios, while the participation of corporation in ownership has a positive relation with the short-tem ratio. Size measured as employees has a positive effect.

"Is 100 Percent Debt Optimal? A Study of Aggressive Capital Structure and Myth of Negative Book Equity Firms"

Haowen Luo - Indiana University-Purdue University Fort Wayne, USA
Yi Liu - University of North Texas, USA
Niranjan Tripathy - University of North Texas, USA

Discussant: Ariadna Dumitrescu - ESADE Business School, Spain

This paper studies the puzzling negative book equity phenomenon among U.S. public firms. Using a two-way sorting method, we find that a great proportion of negative book equity firms are financially and operationally healthy. Our evidence suggests that managers of these firms are actively increasing their leverage and choose to be negative book equity firms. In addition, these firms are substantially undervalued by their book value as stated on the balance sheet, and the value of intangible assets, especially those off-balance sheet intangible assets, is positively related to the probability of becoming healthy negative book equity firms. To investigate if the aggressive capital structure adopted by these firms is optimal, we performed several tests to analyze how these firms differ from other firms in terms of operating performance, corporate governance and firm value. We find that compared to firms from same industry and with similar size, managers of healthy negative book equity firms invest more heavily in their own firms, and these firms have better corporate governance and are associated with better operating performance and higher value.

CORPORATE FINANCE III
Session Chair: Aydin Ozkan - University of Bradford, UK

"Are Banks Special? Evidence from Bank Activism"
Keke Song - University of Melbourne, Australia
Jun Wang - University of Western Ontario, Canada

Discussant: Catalina Hurwitz - University of the District of Columbia, USA

This study investigates the impact of bank activism on wealth of creditors of target firms. In contrast to negative bond reactions toward hedge fund activism documented in prior literature, we find bank activism is associated with significantly positive short-run abnormal bond returns. Additionally the average bond return in the bank activism sample is significantly higher than that of the non-bank activism sample. The difference between the two groups is larger when the target firm's credit quality is poor. Interestingly, the stock market reacts relatively less favorably to bank activism in comparison with non-bank activism. We also find that bank activists are more likely to target larger financial firms with higher leverage and lower credit quality, and that bank activism is followed by greater reduction (more negative change) in leverage and stronger improvement in credit quality and operating performance. These findings suggest that protecting bondholders' benefit could be an essential element of bank shareholder activists' objectives.

"Determinants of Globalization"
Catalina Hurwitz - University of the District of Columbia, USA

Discussant: Scott Brown - University of Puerto Rico, USA

When in a firm's life would it fit for it to become involved in global strategies? What are the important influences on the decisions of young and mature firms to go international? We answer these questions by examining the determinants that affect the choices of born-globals (BGs) and born-again globals (BaGs) to expand worldwide. Our study is based on preexistent theories of diversification, and we place specific emphasis on the conceivable role of peer influence and the motivation or desire for growth. We further study the entrenchment, the idiosyncratic risk, and the innovation caliber hypothesis. Our results document that innovation efficiency strongly enhances BG's propensity to global diversify. On the other hand, peer pressure, CEO ownership and idiosyncratic risk level significantly influence BGs not to globalize. In contrast, BaGs are positively influenced by their industry peers, showing how competition works in the financial markets for youthful versus mature companies.

"Do Younger Executives Value Financial Flexibility?"
Scott Brown - University of Puerto Rico, USA
Eric Powers - University of South Carolina, USA
Gadiel Ramirez - University of Puerto Rico, USA

Discussant: Anwar Boumosleh - Lebanese American University, Lebanon

Do make-whole call provisions help executives clear financing restriction on the proportion of capital structure corresponding to debt? We test the hypothesis that firms managed by younger executives more frequently issue bonds with make-whole call provisions as proxy for desire for financial flexibility.

"What Do They Leave Behind: Effect of Management Turnover on the Firm"
Anwar Boumosleh - Lebanese American University, Lebanon

Discussant: Jun Wang - University of Western Ontario, Canada

We examine the relation between turnover in the top management team (TMT) following CEO turnover and firm operating performance. We find that firm performance deteriorates with the voluntary exit of the top management team members after CEO turnover and improves when top management are forced out. We first identify the managers that leave voluntarily and those that are forced out by relating exiting management to the CEO characteristics that reflect his power. We find that the probability of forced TMT turnover increases when the successor CEO is granted privileges of power and decreases with the executive's power in the firm. However, the probability of voluntary turnover increases with the executive's power and decreases with CEO power. Our results are obtained with consideration of a mean reverting effect and industry adjusted operating returns. Our most likely interpretation of our findings is that the negative effect on performance after executive resignations is the result of the tournament for the CEO position among the top management members where there would be one winner and the losing executives leave the firm with their valuable firm specific knowledge.

SESSION 40 **Tuesday 1:30 - 3:30 p.m.** **Opera**

RISK MANAGEMENT
Session Chair: David Michayluk - University of Technology Sydney, Australia

"The Effect of Hedging on Implied Cost of Equity: Evidence from the UK Firms"
Hany Ahmed - University of Hull, UK
Yilmaz Guney - University of Hull, UK

Discussant: William Megginson - University of Oklahoma, USA

This study investigates the relation between corporate hedging decisions and a firm's implied cost of equity capital. We hypothesise that more hedging reduces stock return volatility. Corporate hedging also creates economic benefits in the interaction term with increasing asymmetric information, which results in a lower cost of equity. Our results show a significantly negative association between corporate hedging relating to foreign currency, interest rate and commodity price risk, and a firm's cost of equity capital implied in stock prices. We control for potential endogeneity problems by using instrumental variables and treatment effects techniques. Further, results from a propensity score matched sample analysis provide strong evidence that derivative users have a lower cost of equity capital than nonusers.

"Hedging Gone Wild: Was Delta Air Lines' Purchase of Trainer Refinery a Sound Risk Management Strategy?"
Abdullah Almansur - King Fahd University of Petroleum and Minerals, Saudi Arabia
William Megginson - University of Oklahoma, USA
Leonid Pugachev - University of Oklahoma, USA

Discussant: Salma Mefteh-Wali - ESSCA shool of Management, France

In April 2012, Delta Air Lines (Delta) announced it would purchase the mothballed Trainer oil refinery to hedge fuel price risk. Analysts and academics emphatically derided the move, stressing that Delta's management was ill-equipped to oversee large scale refining operations. However, we show that debt- and equity-holders responded significantly positively to the acquisition announcement, and confirm that Trainer subsequently reduced Delta's equity exposure to fuel price shocks. The refinery's operations also reduced Delta's bond and loan spreads over time. We conclude that this unique experiment in vertical integration and commodity price hedging proved successful for the airline.

"Is foreign-currency denominated debt performance enhancing ? Evidence from French non-financial firms"

Salma Mefteh-Wali - ESSCA shool of Management, France
Marie-Josephe Rigobert - EDC Business School, France

Discussant: Brian Lucey - Trinity College Dublin, Ireland

We investigate the impact of foreign currency debt on firm performance for a sample of non-financial French firms studied over the period 2002 to 2012. As foreign currency debt is both a financing and hedging instrument against foreign exchange risk, we mobilize optimal hedging theory and capital structure theory. When we study the impact on firm value, our main results show that before and after the financial crisis of 2008, foreign debt had the same behavior as domestic debt. We find that during the crisis period, foreign debt positively affects firm value. Investors perceive foreign debt as a natural hedging instrument that is likely to reduce the costs of underinvestment, alleviate cash flow volatility, limit the costs of financial distress, and generate tax shield benefits. In addition, our results show that foreign leverage negatively affects the firm performance proxied by ROA and ROE, during and after the financial crisis. However, this impact is positive on the pre-crisis period.

"Commodity Exposure, Financial and Operational Hedging of US Oil and Gas Companies"

Elaine Laing - Trinity Business School, Ireland
Brian Lucey - Trinity College Dublin, Ireland
Tobias Luetkemeyer - Trinity Business School, Ireland

Discussant: Yilmaz Guney - University of Hull, UK

We examine the extent of operational and financial hedging in US oil and gas companies. Using a combination of hand collected and publicly available data we first calculate financial and commodity exposure. We find significant exposure to underlying commodity movements. We find no evidence that operational hedging, defined here as multinationality, is effective, rather that financial hedging is significant and impactful.

SESSION 41 Tuesday 1:30 - 3:30 p.m. Bolero

DERIVATIVES

Session Chair: Mary Malliaris - Loyola University Chicago, USA

"Explanatory and Predictive Powers of Option Implied Risk Neutral Density Evidence from FX Options"

Ren-Raw Chen - Gabelli School of Business, Fordham University, USA
Jeffrey Huang - KGI Bank, Taiwan
Yeh Shih-Kuo - National Chung Hsing University, Taiwan

Discussant: Brian Healy - UCD Michael Smurfit Graduate Business School, Ireland

In this paper, we study information contents of the risk neutral densities (RND) implied by option prices. Using weekly options data of multiple currencies (Euro, JPY, ZAR, and RMB) during the period from January 4, 2006 till July 27, 2016 (total of 552 weeks), we have the following innovative findings: (1) RND moments contain more information than implied volatility, (2) the third moment of the RND has substantially high correlation with FX swap curves; (3) the moments of the RNDs are much more sensitive to catastrophic events than the implied volatility; and (4) the third and fourth moments have higher predictive powers for exchange rate movement than the implied volatility does.

"Are Cross-Sectional Differences in Abnormal Ex-Dividend Returns Priced by the Options Markets?"

Brian Healy - UCD Michael Smurfit Graduate Business School, Ireland
Conall O Sullivan - UCD Michael Smurfit Graduate Business School, Ireland

Discussant: Malick Sy - RMIT University, Australia

The difference between option implied dividends and actual dividends on the cum date contain significant information on the cross-sectional variation in the underlying stock's ex-dividend abnormal unhedged and hedged returns. We find using portfolio sorts and regression tests that low (high) values of implied dividend relative to actual dividend are more (less) likely to experience high (low) abnormal unhedged and hedged returns over the ex-day. Furthermore the representative options trader has higher quality information on ex-day abnormal returns for stocks with lower idiosyncratic risk and stocks with higher liquidity consistent with the dividend clientele theory. These findings suggest that options traders are aware of cross-sectional differences in ex-day abnormal returns and provides further evidence of informed trading in options markets prior to atypical trading environments in the stock market.

"A Non-Parametric Estimation for Implied Volatility"

Farzad Fard - RMIT University, Australia
Armin Pourkhanali - RMIT University, Australia
Malick Sy - RMIT University, Australia

Discussant: Sunil Poshakwale - Cranfield University, UK

We provide a non-parametric method for stochastic volatility modelling. Our method allows the implied volatility to be governed by a general Levy-driven Ornstein–Uhlenbeck process, the density function of which is hidden to market participants. Using discrete-time observation we estimate the density function of the stochastic volatility process via developing a cumulant M-estimator for the Levy measure. In contrast to other non-parametric estimators (such as kernel estimators), our estimator is guaranteed to be of the correct type. We implement this method with the aid of a support-reduction algorithm, which is an efficient iterative unconstrained optimisation method. For the empirical analysis, we use discretely observed data from two implied volatility indices, VIX and VDAX. We also present an out-of-sample test to compare the performance of our method with other parametric models.

"Introduction of Lower Tick Sizes and Futures Pricing Efficiency: Evidence from the Emerging Malaysian Market"

Sunil Poshakwale - Cranfield University, UK
Jude Taunson - University of Malaysia Sabah, Malaysia
Anandadeep Mandal - University of Derby, UK

Discussant: Yeh Shih-Kuo - National Chung Hsing University, Taiwan

The paper investigates the impact on the pricing efficiency of FBM-FKLI index futures following the reduction in the tick sizes for the stocks listed in the Bursa Malaysia. Following the introduction of lower tick sizes, we find a significant increase in unexpected trading volume which represents trades that help in reducing inter-market price discrepancies. We also find that the speed of mean reversion of the futures' mispricing increases after lowering of tick sizes. Overall, our results show that the tick size reduction in the emerging Malaysian market has improved the market liquidity and the effectiveness of the FBM-FKLI index futures as a price discovery and a price-setting mechanism.

ACCOUNTING ISSUES III
Session Chair: Anthony Yanxiang Gu - State University of New York, USA

"Range Has It: Decoding the Information Content of Forecast Ranges"
Michael Tang - New York University, USA
Li Zhang - Rutgers Business School, USA

Discussant: Maria Dimitriou - University of Macedonia, Greece

Given that most management forecasts in recent years are issued in range form and that most firms are followed by multiple analysts issuing dispersed forecasts, the information content conveyed by two ranges has received limited attention. This paper seeks to partially uncover such information by investigating an unexamined dimension unique to range forecasts—overlap between management forecast ranges and the ranges formed by individual analyst forecasts, which occurs in nearly 84% of range forecasts. Controlling for the width of management forecasts and analyst forecast dispersion, we find that compared with overlapping management forecasts, non-overlapping forecasts have greater impact on stock market reactions to per unit forecast news. Consistent with the signaling story, the non-overlapping forecasts have higher relative forecast accuracy over analyst consensus forecasts. Moreover, individual analysts whose prior forecasts are outside of management forecast ranges respond more strongly to non-overlapping forecasts than to overlapping forecasts, and this difference is significant only when the individual forecasts are above the upper bound of management forecast ranges. These out-of-range individual analysts are also more likely to herd and experience lower improvement in forecast accuracy following overlapping management range forecasts.

"Example of Analysts' Valuation Process: Information Context, Research Findings and Future Priorities"
Maria Dimitriou - University of Macedonia, Greece

Discussant: Simeon Ketterer - University of Bamberg, Germany

As the new economy's focus is on finance, information, and people, the relevant sector with equity valuation, most closely associated with valuation process gains of interest in today's information society and globalization with its own distinctive characteristics. Issues concerning the information content of analyst's research to determine the intrinsic value of the firm's stock is crucial since the biggest part of this process remains hidden or literally the "black box". This example further studies the valuation process from the sell-side analyst approach, presenting an investment research report beyond valuation models motivated by: 1) some gaps in literature/ research, 2) the growing trend of worldwide university competitions between teams of students organized by CFA society and Ben Graham Centre and 3) my previous real-life learning experience writing investment research report by competing at CFA Research Challenge representing University of Macedonia. This paper, which has an indirect relationship with relevant work for doctorate thesis, identifies research of distinguished quality and usefulness in the valuation process area, highlighting pedagogical implications of the study with business link by almost entirely using excel, on important issues concerning the information content since the crisis of mid-2007 and to extract clear conclusions.

"Implied Cost of Capital and Realized Returns: The Importance of Cash Flow News"
Simeon Ketterer - University of Bamberg, Germany
Ioannis Tsalavoutas - University of Glasgow, UK
Brigitte Eierle - University of Bamberg, Germany

Discussant: Li Zhang - Rutgers Business School, USA

Implied cost of capital (ICC) estimates are widely used as a proxy for the expected return. Nevertheless, there have been claims that ICC estimates are biased and thus unreliable proxies for the expected return.

In particular, based on Vuolteenaho (2002) return decomposition Easton et al. (2005) show empirically that none of the existing ICC models are significantly positively associated with realized returns. Subsequent studies by Botosan et al. (2011) and Easton et al. (2016) discuss the potential problems arising from the empirical measure of the return news within this decomposition. We expand this strand of the accounting literature by focusing on the cash flow news. In particular, first, we show analytically that cash flows are inconsistently defined throughout the individual components of the return decomposition. Second, we developing consistently defined (ICC) model specific cash flow news and we are able to show empirically that ICC estimates are significantly positively related to realized returns. Thus, we contribute to prior research by providing evidence that ICC estimates are a reliable proxy for the expected return. In subsequent analyses, we also contribute to literature suggesting that ICC estimates adjusted for analysts' optimism are superior in their relation with realized returns. Our analyses illustrate that these insights are due to the link between the cash flow news proxy and the methodology these studies apply to correct for analysts' optimsm.

Refreshments 3:30 - 3:45 p.m.

SESSION 43 Tuesday 3:45 - 5:45 p.m. Doina

ASSET PRICING V

Session Chair: Andrzej Palczewski - University of Warsaw, Poland

"Expected Stock Returns"

Ana González-Urteaga - Universidad Pública de Navarra, Spain
Belén Nieto - Universidad de Alicante, Spain
Gonzalo Rubio - Universidad CEU Cardenal Herrera, Spain

Discussant: Nizar Atrissi - Universite Saint-Joseph, Lebanon

Contrary to the standard practice of using past average realized returns when testing asset pricing models, this paper analyzes the factor structure and the cross-sectional variability of expected returns. We show that the first two principal components explain 99.6% of the variability of (lower bound) expected returns. Quality, funding illiquidity, the default premium and the market-wide variance risk premium explain most of the time-varying behavior of the first principal component. The cross-sectional fit of several asset pricing models using expected returns is consistently better than the one with average realized returns. The most successful model is a multi-factor model with the market, and the four aggregate factors that explain the first principal component. The cross-sectional Rsquares proposed by Kan, Robotti, and Shanken (2013) for the principal component and the multifactor models are 52% and 84%, respectively. Both measures of fit are (asymptotically) different from zero.

"Determinants of Impact Investing of Family Offices"

Nizar Atrissi - Universite Saint-Joseph, Lebanon
Rayane Accaoui - Universite Saint-Joseph, Lebanon

Discussant: Stella Spilioti - Athens University of Economics and Business, Greece

Impact investing consists of a strategic orientation and a series of practices that an investor decides to adopt in order to achieve its mission efficiently. The purpose of this study is to understand the Investing for Impact especially by Family Offices. Using a unique and new database, our results firstly indicate that "social needs of countries" is a determinant of impact investment; according to these needs impact investors choose their investment theme. Then they show that there is an economic factor, such as the household saving rate of the country of origin, which affects negatively the impact investment. When the interest rate in the country of origin is high, conservative investors (family offices) prefer to save their funds instead of taking the risk by investing for impact. There are also some financial determinants such as Beta, Financial instruments used and return on investment, that affect positively the impact investment. These results are far from negligible given the importance of each factor in the decision

making process of family offices and their economic performance.

"Investor Sentiment and Share Prices"

Yiannis Karavias - University of Birmingham, UK
Stella Spilioti - Athens University of Economics and Business, Greece
Elias Tzavalis - Athens University of Economics and Business, Greece

Discussant: Tugba Dayioglu - Nisantasi University, Turkey

We investigate the effects of investor sentiment on share price deviations from their fundamental values. To calculate the intrinsic values of shares, we rely on the residual income valuation model which facilitates calculation of shares prices over a finite horizon based on analyst earnings forecasts and book values. We employ a panel data threshold model to formally test the cross-section and generic effects of investor sentiment on share prices based on a set of data from the UK economy, over period 1987-2012. These predictions are conditional on different investor sentiment regimes (high or low), which are identified by the data through our model. The paper provides a number of interesting results, which are in favor of the sentiment hypothesis. It shows that share price corrections occurring over long-term horizons are associated with periods of excess optimism, where bubbles burst occur. On the other hand, positive effects of investor sentiment on share prices tend to build up during periods of low investor sentiment.

"Forecasting Systematic Risk: Evidence from an Emerging Stock Market"

Ercan Balaban - University of Aberdeen, UK
Semiha Cokdogan - SMMM, Turkey
Tugba Dayioglu - Nisantasi University, Turkey
Yonca Ozener - University of Aberdeen, UK

Discussant: Belén Nieto - Universidad de Alicante, Spain

This is a pioneering attempt to evaluate the out-of-sample performance of competing models for forecasting systematic risk in a European emerging stock market, namely, the Istanbul Stock Exchange (ISE). The systematic risk is approximated by beta coefficient derived from the single-index model. The random walk model, the historical mean model, the constant and the rolling Blume methods and the Vasicek method are employed as alternative forecasting methodologies. The out of sample forecast performance of these five models is tested for daily betas for 120 companies over a 250-day estimation window. The performance of competing models is then evaluated by employing both symmetric and asymmetric error statistics, and forecast efficiency tests. The empirical results favour the historical mean model most of the time. We discuss the implications of our forecasting results for portfolio management and risk management.

SESSION 44 Tuesday 3:45 - 5:45 p.m. Opereta

FINANCIAL CRISIS

Session Chair: Wolfgang Bessler - Justus-Liebig University Giessen, Germany

"Comparison of Adjustment Speeds in Target R&D and Capital Investment: What Did the Financial Crisis of 2007 Change?"

Beata Coldbeck - University of Bradford, UK
Aydin Ozkan - University of Bradford, UK

Discussant: Olga Kandinskaia - CIIM, Cyprus

This paper investigates the dynamics of R&D and capital investment using a sample of 1,571 US firms during the period 2002-2015. A partial adjustment approach is adopted with a specific focus on the impact of the financial crisis on target adjustment speed. Evidence suggests that firms have a target in both types of investment and adjust to targets relatively fast, possibly due to significant off-target costs. Importantly, firms adjust to capital investment target faster than R&D. Also, firms reduce the adjustment speed in capital investment significantly during the crisis and revert back to normal levels during the post-crisis. In contrast, the R&D adjustment becomes insignificant during the crisis and only a slower adjustment speed can be attained in the aftermath of the crisis. The changes in the adjustment speeds can be explained by several firm-specific characteristics, most importantly the ability of firms to raise external finance and their cash balances.

"Wait or Act Fast? Best Strategy to Recover an Investment"

Olga Kandinskaia - CIIM, Cyprus

Discussant: Denisa Banulescu-Radu - University of Orléans, France

This paper presents a short decision case intended for the use in the classroom and for the publication in a peer-reviewed case research academic journal. It contains the case and the teaching note. A couple from Cyprus, Andreas and Elena Ioannou, had to make a decision regarding some of their investments. In 2009-2010, they invested in the capital securities of Laiki Bank, the second largest bank in Cyprus. They had been tempted by high return paid perpetually since the capital securities had no maturity date. They perceived those bank securities as safe investments. Yet, on May 22, 2012, the couple was shocked to receive the tender offer from Laiki Bank for the voluntary exchange of their capital securities into either Bank's shares or a new type of capital securities. As it turned out, Laiki Bank was in serious financial trouble and needed to reduce its debt load and raise new capital urgently. Should the couple accept the tender offer? If yes, should they choose shares or the new type of capital securities? What should be next: keep the securities or sell them immediately? With no background in finance, Andreas and Elena felt confused by these unexpected choices. They were worried how they could recover their investment in this situation. Should they wait or should they act fast?

"Backtesting Marginal Expected Shortfall and Related Systemic Risk Measures"

Denisa Banulescu-Radu - University of Orléans, France
Christophe Hurin - University of Orléans, France
Jeremy Leymarie - University of Orléans, France
Oliver Scaillet - Université de Genève, Switzerland

Discussant: Anca Paraschiv - Bucharest Academy of Economic Studies, Romania

This paper proposes two backtesting tests to assess the validity of the systemic risk measure forecasts. This new tool meets the need of financial regulators of evaluating the quality of systemic risk measures generally used to identify the financial institutions contributing the most to the total risk of the financial system (SIFIs). The tests are based on the concept of cumulative violations and it is built up in analogy with the recent backtesting procedure proposed for ES (Expected Shortfall). First, we introduce two backtests that apply for the case of the MES (Marginal Expected Shortfall) forecasts. The backtesting methodology is then generalized to MES-based systemic risk measures (SES, SRISK) and to the CoVaR. Second, we study the asymptotic properties of the tests in presence of estimation risk and we investigate their finite sample performances via Monte Carlo simulations. Finally, we use our backtests to asses the validity of the MES, SRISK and CoVaR forecasts on a panel of EU financial institutions.

"Exposures of the European Interconnected Financial System"

Anca Paraschiv - Bucharest Academy of Economic Studies, Romania
Alexandra Horobet - Bucharest Academy of Economic Studies, Romania

Discussant: Aydin Ozkan - University of Bradford, UK

Since the advent of the Great Recession with its subsequent events, including the contagion arising from the collapse of several banks, criticisms were levelled at the existing European financial services regulatory regime. Therefore, the regulatory and supervisory framework in Europe has been subject to ongoing changes towards ensuring a sustainable European financial system. The harmonization of financial supervision and regulation at European level plays a key role in ensuring the stability of the financial sectors and in setting the basis for recovery and growth in the European countries. The recent global financial and economic crisis, together with the European sovereign debt crisis, reinforced the necessity for harmonization of financial supervision and regulations for cross-sectors and cross-border surveillance in Europe and for a more comprehensive analysis of the connectedness between the financial systems across European Union Member States. The main objectives of this paper are threefold: (i) to assess risks stemming from the lending activities (credit risks); (ii) to sketch in a network framework the countries' vulnerabilities and cross-border exposures; and (iii) to shed light on further potential financial stability risks. We make use of network techniques to spot financial vulnerabilities and potential for spillovers at an early stageOur results are relevant for policy makers to help establish harmonized financial supervision and financial stability in Europe.

SESSION 45 **Tuesday 3:45 - 5:45 p.m.** **Simfonia**

BANKS

Session Chair: Mehmet Karan - Hacettepe University, Turkey

"Do Profitable Banks Really Make Positive Contribution to the Economy?"

Vijay Kumar - University of Waikato, New Zealand
Ron Bird - University of Technology Sydney, Australia
Krishina Reddy - Waikato University, New Zealand

Discussant: Gabrielle Wanzenried - Lucerne University of Applied Sciences and Arts, Switzerland

This study investigates the relationship between profitability of the banks and economic growth in ten countries across the Asia-Pacific region over the period from 2004 to 2014. Our findings suggest that profitable banking sector is a pre-requisite for economic growth in Asia-Pacific region. We found a strong evidence to suggest that there is a positive and statistically significant relationship between profitability of banks and GDP growth in period (t-1) and GDP growth in period (t). However, our findings show that the bank size has a negative impact on GDP growth. We also found that that economic growth was hampered during global financial crisis and economic growth in large emerging markets is much faster than in small emerging economies and developed/semi-developed economies.

"Risks, Returns, and the Supply and Demand of Bank Deposits"

Gabrielle Wanzenried - Lucerne University of Applied Sciences and Arts, Switzerland
James A. Wilcox - University of California Berkeley, USA

Discussant: Ragnar Juelsrud - BI Norwegian Business School, Norway

Questions remain about the importance of various risks on banks' deposit volumes and deposit interest rates. Unsettled issues include how much risks inside, or even outside, banks have been reflected in deposit rates and flows. Our empirical procedures allowed bank deposit rates and flows to be determined simultaneously and for some predetermined factors to affect both demands and supplies for deposits. To separately estimate deposit demands and supplies over 1998-2010, along with several indicators of bank and broader conditions and risks, we used bank-level deposit rates and flows. We found that banks' demands for deposits were reliably downward-sloping and that they faced equally reliable upward-sloping deposit supplies. We also detected strong inflows of deposits to banks in response to greater external risks. The slopes and risk sensitivities of depositors implied that deposit rates would rise if external risks abated or internal risks rose. Our results contribute some explanation for two ongoing puzzles. By showing banks' demand responses, they demonstrate that greater risks to bank deposits should not be expected to raise deposit rates by as much. They also show how sluggish adjustments of deposit rates helps explain the tendency for tighter monetary policies to boost bank lending. To uncover similarities and differences, we also estimated deposit demands and supplies across bank sizes, across financial conditions, and across types of bank deposits.

"The Consequences of Increasing Risk-Based Capital Requirements for Banks: Evidence from a 2013 Policy Reform in Norway"
Ella Wold - Brown University, USA
Ragnar Juelsrud - BI Norwegian Business School, Norway

Discussant: Matthieu Picault - IESEG - School of Management, France

In this paper we investigate how banks respond to increases in risk-weighted capital requirements. We use cross-sectional variation in capital ratio changes induced by a policy-reform to isolate the causal effects of capital requirements. We find that banks increased their capital ratios by raising equity and reducing average risk-weights. We do not find strong support for detrimental effects on credit growth on average, but find that the credit supply to firms are reduced. We find, however, that banks that are more likely to be capital constrained reduced their overall credit growth. We also find that relatively profitable banks are less likely to shift their composition of credit.

"The Bank Lending Channel from the European Syndicated Loan Market Perspective"
Aurore Burietz - IESEG - School of Management, France
Matthieu Picault - IESEG - School of Management, France

Discussant: Vijay Kumar - University of Waikato, New Zealand

In 2008, the syndicated loan market is deeply impacted by the collapse of Lehman Brothers and the ensuing financial crisis. With a sample of 15 European banking groups, we investigate the efficiency of the bank lending channel, i.e. whether and how the monetary policy of the ECB mitigates the disruption in syndicated bank lending from 2004 to 2014. We show that nonstandard measures of the ECB accommodating monetary policy contribute to alleviate credit institutions' funding constraints supporting bank lending activities in the syndicated loan market. We highlight that banks with a higher level of customer deposits and a lower level of short-term borrowings provide loans with larger amounts. However monetary policy measures leading to an increase of the size of the ECB balance sheet appear to be less effective for smaller banks.

SESSION 46 Tuesday 3:45 - 5:45 p.m. Opera

EMERGING MARKETS
Session Chair: Lorne Switzer - Concordia University, Canada

"Comparative Analysis of Korean Equity and Debt Markets with U.S. Capital Markets"
Heung-Joo Cha - Univeristy of Redlands, USA

Discussant: Marco Barassi - University of Birmingham, UK

This paper studies the long-run comovement of Korean and U.S. stock and bond markets using two different cointegration tests. We use both the Engle-Granger cointegration test and the Canonical Cointegration Regression (CCR) method to test the long-run comovement of asset returns. The Engle-Granger cointegration tests indicate that there is little evidence on cointegration between the bond and stock markets of the two countries, which is consistent with the results found in the previous studies. Using the CCR method, however, we find more favorable evidence of comovement between the asset market returns. Tests with monthly data show some evidence of cointegration between the asset return series, while with quarterly data we find that most of the time series of asset returns are cointegrated. Our empirical study presents indirect evidence of the effects of cross investments leading to more integration of asset markets.

"Granger Causality, Volatility Spillovers and Contagion Between Emerging European and Mature Stock Markets."
Marco Barassi - University of Birmingham, UK

Discussant: Basel Awartani - Plymouth Business School, Plymouth University, UK

This paper investigates the linkages in first and second moments between Mature Stock Markets and East-European Emerging Markets by means of both VAR-GARCH(1,1) and Dynamic Conditional Correlations with t-student distributed errors (GARCH t-DCC) for the period going from 2001 and the end of 2016. We report the occurrence of volatility transmission from mature to emerging market and in some cases bi-directional causality both in first and second moments. Furthermore, we investigate whether the increase in the correlations between Emerging Markets and the US during three periods of financial turmoil (the 2007 sub-prime crisis, the 2008 financial crisis and the 2011 sovereign debt crisis) is due to increasing interdependence or to episodes of financial contagion, finding substantial evidence that contagion occurred especially during the financial crisis and in some cases the sovereign debt crisis.

"Correlation and Volatility Spillovers Between the Prices of Gold, Oil and Equities in the Gulf Cooperation Council Countries"
Aktham Maghyereh - UAE University, United Arab Emirates
Basel Awartani - Plymouth Business School, Plymouth University, UK
Panagiotis Tziogkidis - Plymouth Business School, Plymouth University, UK

Discussant: Terrence Hallahan - Victoria University, Australia

In this paper we estimate a multivariate GARCH model to investigate returns and volatility spillovers between gold, oil and equities in the Gulf Cooperation Council Countries. The model indicates significant transmissions from oil to equities, but insignificant transmissions from gold. The model's conditional variance and covariance are used to compute dynamic hedge ratios and optimal weights to inform on the usefulness of oil and gold in hedging and diversifying equity portfolios. We find that the hedging ratios are tiny and thus, both gold and oil are not suitable to hedge equities. However, we also find that oil and gold are good diversifiers with gold playing a more prominent role than gold. Its weight in the optimal equity portfolio is 40% on average compared to 20% for oil. These empirical findings highlight the importance of oil and gold in diversifying equity portfolios in the Gulf Cooperation Council countries.

"The Performance of a Neurally Enhanced Fundamental Trading System: Evidence from the Bursa Malaysia"
Safwan Nor - Victoria University, Australia
Guneratne Wickremasinghe - Victoria University, Australia
Terrence Hallahan - Victoria University, Australia

Discussant: Heung-Joo Cha - Univeristy of Redlands, USA

We investigate the trading performance of a neurally enhanced fundamental trading system that incorporates dynamic position sizing (anti-Martingale) and risk management (stop loss) strategies on the Malaysian stock market. We compare the trading performance of the trading system against those of the buy-and-hold strategy and several market and investable indices on the basis of their out-of-sample analysis, and in the presence of realistic constraints, such as budget, short selling restriction, round lot and trading cost. Using multiple trading metrics, such as the Modigliani risk-adjusted return, Sharpe and Sortino ratios, maximum drawdown and profit factor, we report that the fundamental trading system emerges as the most superior strategy. The results appear to contest the risk-based explanation of higher return associated with the fundamental strategy and suggest that semi-strong market efficiency does not apply to the Bursa Malaysia.

EVENT STUDIES
Session Chair: Uwe Walz - Goethe University of Frankfurt, Germany

"Earnings Informativeness in Common Law African Countries"
Edward Jones - Heriot-Watt University, UK
Anthony Kyiu - Heriot-Watt University, UK
Hao Li - Heriot-Watt University, UK

Discussant: Philip Gharghori - Monash University, Australia

The efficiency of stock markets and the information content of earnings are of particular interest in developing and emerging markets. Financial development follows from accurate market valuations of companies in liquid markets. Investors will be willing to invest in such markets if companies are accurately valued in the market and new information is quickly impounded into stock prices. This paper investigates the informativeness of earnings using a sample of common law (market-based) African countries and how informativeness is affected my earnings characteristics. We find that earnings informativeness differs by country. Whilst abnormal returns are more significant in the pre-event window for Nigeria, they are more significant in around the event date and in the post event window for Kenya and South Africa respectively. We also find that the size of earnings and changes in earnings from positive to negative are the key drivers of reactions in Kenya. Size of earnings and changes in earnings relative to the previous year are the main characteristics that drive market reactions to earnings in Nigeria whiles changes in earnings from Negative to Positive drive market reactions in South Africa. Overall, the evidence presented here suggests information efficiency of African stock markets is weak but not entirely absent.

"Return Drift Following Stock Split Announcements"
Philip Gharghori - Monash University, Australia
Annette Nguyen - Deakin University, Australia

Discussant: Vlad Marincas - Osnabrueck University, Germany

The aim of this study is to examine why underreaction following stock split announcements persists over the long-term. To do so, we analyze 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.

"Systemic Effects of Bank Equity Issues: Competition, Stabilization and Contagion"
Valeriya Dinger - University of Osnabrueck, Germany
Vlad Marincas - Osnabrueck University, Germany
Francesco Vallascas - University of Leeds, UK

Discussant: Antonio Diaz - Universidad de Castilla-La Mancha, Spain

We evaluate the abnormal returns of issuing and non-issuing banks around the announcement of Seasoned Equity Offerings (SEOs) and explore how the market reaction is influenced by aggregate systemic conditions and by the systemic risk contribution and exposure of banks. While we find evidence of negative abnormal returns for issuers, non-issuing banks benefit from positive abnormal returns around the SEO announcement. We show that these positive returns are not entirely explained by the competition

channel, which has been well documented for non-financial firms. In contrast, we demonstrate that they also depend on a so far undocumented system-stabilizing channel. Furthermore, under certain circumstances, the system-stabilizing channel contributes to mitigating the negative reaction to SEO announcements for the issuing banks.

"Liquidity and the Size of Trades Around Credit Event News"
Pilar Abad - University Rey Juan Carlos of Madrid, Spain
Antonio Diaz - Universidad de Castilla-La Mancha, Spain
Ana Escribano - University of Castilla-La Mancha, Spain
M.Dolores Robles - University Complutense of Madrid, Spain

Discussant: Anthony Kyiu - Heriot-Watt University, UK

This paper investigates the impact of credit rating downgrades on the liquidity and trading behavior of both segments of trading, the institutional- and the retail-sized ones, in the U.S. corporate bond market. Using the TRACE dataset, we analyze the information content of these events and potential information asymmetries, distinguishing between trades' size. We propose two additional hypotheses: the capital requirements and the risk tolerance limits hypotheses that may force some institutional and retail bondholders to sell after certain downgrades. Our results show trading anticipation before downgrades that is consistent with the existence of both types of investors, informed and uninformed. We also observe fire sales and price concessions depending on rating-specific regulatory constraints and capital requirements, and on breaches in risk tolerance limits.

SESSION 48 Tuesday 3:45 - 5:45 p.m. Menuet

SPILLOVERS
Session Chair: Martin Bugeja - University of Technology Sydney, Australia

"Examining Dynamic Currency Linkages Amongst South Asian Economies: An Empirical Study"
Sanjay Sehgal - University of Delhi, India
Piyush Pandey - University of Delhi, India
Florent Diesting - Groupe ESC Pau, France

Discussant: Marinela Adriana Finta - Singapore Management University, Singapore

In this paper, we examine the currency market linkages of South Asian member countries using daily data from 6 January 2004 to 31st March 2016. Time invariant and varying Copula GARCH models show that South Asian countries, except for India and Nepal/ Bhutan, have low levels of currency market linkages which can be ascribed to poor levels of intra-regional trade intensity and portfolio flows. We reconfirm the copula results through Diebold and Yilmaz methodology and document that currency market connectedness is very limited in the South Asian region. The trends of the fundamental determinants of currency co-movements for the South Asian member countries were compared with its neighbouring regional economic bloc in Asia which has a much longer history and a wider membership base i.e ASEAN+6. From a comparative analysis, it was found that South Asian member states have to work on their governance parameters, improve on their trade linkages and trade tariffs and work towards greater degree of capital account convertibility with adequate safeguards to achieve higher levels of currency market linkages. The study has important implications for international investors, policymakers and academia.

"Time-Varying Contemporaneous Spillovers During the EuropeanDebt Crisis"
Marinela Adriana Finta - Singapore Management University, Singapore
Bart Frijns - AUT, New Zealand
Alireza Rad - AUT, New Zealand

Discussant: David Michayluk - University of Technology Sydney, Australia

This paper considers contemporaneous spillover effects between Germany and four peripheral European countries that were most affected by the European Debt Crisis, and provides evidence of bi-directional spillovers among these equity markets. We document that there is asymmetry and time-variation in contemporaneous spillovers. Particularly, contemporaneous return spillovers from Germany to the peripheral equity markets is higher than the other way around. We show that European Debt Crisis led to a decreasein the contemporaneous spillover effects.

"Volatility Spillover Effects in Asian Securitized Real Estate Markets"
Guojie Ma - University of Technology Sydney, Australia
David Michayluk - University of Technology Sydney, Australia

Discussant: Noureddine Benlagha - Qatar University, Qatar

This paper examines the extent of how globalization and regional integration have led to real estate market interdependence with a sample of ten Asian securitized real estate markets. We quantify the magnitude and time-varying nature of global and regional volatility spillovers from the U.S. and Asian securitized real estate markets to local markets, respectively. The effect of the recent Global Financial Crisis (GFC) on volatility transmission is considered. Asian real estate markets are more sensitive to regional shocks than the global shocks from the U.S. even though both types of shocks are relevant in Asia. A significant increase in the U.S. volatility spillover effects during the GFC period can be found for most of Asian markets. Further, developed Asian real estate markets, which are found to be more regionally integrated than globally, are more susceptible to foreign information than emerging markets. Finally, the time invariant volatility spillover intensities can be partly attributed to monetary policies and the recent crisis.

"Volatility Dependence and Contagion Between Islamic and Conventional Banks in GCC Countries"
Noureddine Benlagha - Qatar University, Qatar
Slim Mseddi - Al Imam Mohammad Ibn Saud Islamic University, Saudi Arabia

Discussant: Piyush Pandey - University of Delhi, India

Recent global financial crisis have seriously affected the conventional banking system in the whole of the world, and has induced a series of failure of many banks and led to an increased interest in the Islamic banking system. In financial markets, Islamic banks showed, on average, better resilience during the global financial crisis than conventional banks. But, Islamic banks faced large losses compared to conventional peers when the crisis hit the real economy. The resilience of banks to crisis may be reflected by the behavior of stock bank returns during (short run) and after the crisis (long run). In this particular context, we focus on dependence and spillover effects between Islamic and conventional stock banks returns in GCC countries. We use daily return data for Islamic and conventional banks for the Gulf Cooperation Council (GCC) countries for the period covering 2005 and 2014 to analyze the behavior of volatility through time. We are particularly interested in understanding whether periods of high volatility are correlated across banks. The analysis uses univariate and multivariate GARCH volatility models, especially Dynamic Conditional Correlation (DCC), which is compared to the new approach proposed by Diebold and Yilmaz (2009, 2011).

KEYNOTE SPEECH

7:30 - 8:30 p.m. **Ronda Ballroom**

Professor Jeffrey Lawrence Callen
University of Toronto, Canada

GROWTH OPPORTUNITIES, LEVERAGE AND COVENANTS: EVIDENCE FROM EXOGENOUS SHOCKS TO PUBLIC SPENDING

We examine how exogenous negative shocks to firms' growth opportunities influence debt structure and financial contracting policies. We exploit staggered macroeconomic shocks to firm-level growth opportunities that arise out of exogenous increases in state-level government spending caused by the ascension of state politicians to the chairmanship or to the ranking minority leadership of powerful Senate/House committees. In contrast to prior studies, we fail to find a statistically significant relation between growth opportunities and firm leverage. We also do not find support for the conjecture that bondholder-shareholder conflicts are mitigated by shorter-term debt, convertible debt or public debt covenants. Instead, we find that negative shocks to growth opportunities lead to a predictable time-dependent reduction in debt covenants and debt covenant restrictiveness for private debt. The evidence is consistent with the notion that bondholder-shareholder conflicts are managed through financial contracting policies.

GALA DINNER

8:30 - 11:00 p.m. **Ronda Ballroom**