SEVENTEENTH ANNUAL CONFERENCE MULTINATIONAL FINANCE SOCIETY

http://mfs.rutgers.edu

Organized by

Faculty of Management and Economics
Cyprus University of Technology, Cyprus

School of Business
Loyola University of Chicago, USA

Department of Economics and Business
Universitat Pompeu Fabra, Spain

June 27 - June 30, 2010
Meliã Barcelona Hotel
Barcelona, Spain

SEVENTEENTH ANNUAL CONFERENCE OF THE MULTINATIONAL FINANCE SOCIETY
June 27 - June 30, 2010, Barcelona, Spain

Keynote Speakers

Ed Kane - Boston College, USA
Tassos Malliaris - Loyola University of Chicago, USA

Conference Objective

The objective of the conference is to bring together academic researchers, educators and practitioners from various international institutions to focus on timely financial issues and research findings pertaining to industrialized and developing countries.

Multinational Finance Society

The Multinational Finance Society is a non-profit organization established on June 15, 1995 for the advancement and dissemination of financial knowledge, philosophies, techniques and research findings pertaining to industrialized and developing countries among members of the academic and business communities. Membership in the Society is open to all faculty members of higher learning institutions interested in multinational finance and the objectives of the Society.

Program Chairs

Xavier Freixas - Universitat Pompeu Fabra, Spain
Tassos Malliaris - Loyola University of Chicago, USA
Panayiotis Theodossiou - Cyprus University of Technology, Cyprus

Program Committee

Panayiotis Andreou - Cyprus University of Technology, Cyprus
Manuel J. Rocha Armada - University of Minho, Portugal
George Athanassakos - University of Western Ontario, Canada
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Johan Knif - HANKEN, Finland
Lawrence Kryzanowski - Concordia University, Canada
Christodoulos Luca - Cyprus University of Technology, Cyprus
Andreas Merikas - University of Piraeus, Greece
Christos Negakis - University of Makedonia, Greece
Edgar Ortiz - UNAM, Mexico
Wendy Rotenberg - University of Toronto, Canada
Christodoulos Louca - Cyprus University of Technology, Cyprus
Frank Skinner - University of Surrey, UK
Samuel H. Szewczyk - Drexel University, USA
Andre Thibeault - Vlerick Leuven Gent School of Management, Belgium
Lenos Trigeorgis - University of Cyprus, Cyprus
Uzi Yaari - Rutgers University, USA

LETTER FROM THE PROGRAM CHAIRS

Dear Colleagues:

Welcome to the Seventeenth Annual Conference of the Multinational Finance Society (MFS). This year as never before the Conference provides a venue for discussing the significant changes that have occurred since our last meeting and how this informs both our research and understanding of finance. At this critical time in the global financial system we have a unique opportunity to discuss with old and new colleagues alike how the crisis has affected financial markets and professional practices in different countries around the world. Never has the value of objective considered judgement that we bring to the table been more highly valued and hopefully the conference can enhance our own human capital.

The Society's mission, as well as our program is multinational in scope and designed around the key functional areas of finance. We are lucky this year in having a broad program covering papers in corporate finance, investments, financial institutions and markets, derivative securities and risk management, as well as the linkages across markets that have been so evident over the last year.

This year, we are also especially lucky to have two distinguished speakers in, Ed Kane and Tassos Malliaris: no research conference would be complete without a sprinkling of papers by these two!

We have a fabulous location and superb speakers but none of this would matter without the significant hard work and support behind the scenes. We have had generous support from the Faculty of Management and Economics at the Cyprus University of Technology, the School of Business at Loyola University of Chicago, USA and the Department of Economics and Business at the Universitat Pompeu Fabra, Spain.

On behalf of everyone involved we would like to thank these institutions, the program committee and our colleagues Panayiotis Andreou and Christodoulos Louca for all their hard work. It has been a tough year with so many travel budgets being cut and attendance uncertain right to the end, so if your discussant is still at home, chill out and join your colleagues by the pool to discuss more weighty issues. We always tell our students that there is as much value to be discussing issues outside the classroom as in, so let's listen to ourselves.

We hope everything works out well and you have a stimulating conference.

The Program Chairs

Xavier Freixas - Universitat Pompeu Fabra, Spain
Tassos Malliaris - Loyola University of Chicago, USA
Panayiotis Theodossiou - Cyprus University of Technology, Cyprus

GENERAL INFORMATION

CONFERENCE REGISTRATION

Saturday, June 26	5:30 p.m. - 8:30 p.m.
Sunday, June 27	1:30 p.m. - 3:30 p.m. & 8:30 p.m. -10 p.m.
Monday, June 28	8:15 a.m. - 4:45 p.m.
Tuesday, June 29	8:15 a.m. - 4:00 p.m.

SPONSORING INSTITUTIONS

Faculty of Management and Economics
Cyprus University of Technology, Cyprus

School of Business
Loyola University of Chicago, USA

Department of Economics and Business
Universitat Pompeu Fabra, Spain

CONFERENCE INQUIRIES

Global Business Publications
9 Vassili Michaelides
Globalserve Business Centre
3026, Limassol-Cyprus

Email: mfs@camden.rutgers.edu

REFRESHMENTS AND LUNCHEONS

Sunday, June 27

Tour of the City (Complementary, Reservation Required)	3:15 p.m. - 8:15 p.m.
Meeting of the Board of Directors and Trustees (TBA)	8:30 p.m. -9:30 p.m.

Monday, June 28

Luncheon and Keynote Speech (Diamante)	12:15-2:15 p.m.
Refreshments	4:00-4:15 p.m.

Tuesday, June 29

Luncheon and Keynote Speech (Diamante)	12:15-2:15 p.m.
Refreshments	4:00-4:15 p.m.

LIST OF SESSIONS

Monday 8:30-10:15

Session 1	Asset Pricing	Ciutadella A
Session 2	Financial Econometrics	Ciutadella B
Session 3	Credit Markets	Ciutadella C
Session 4	Topics in Derivative Markets I	Gracia A
Session 5	Takeovers I	Gracia B
Session 6	International Financial Markets	Putxet

Monday 10:30-12:15

Session 7	Mutual Funds	Ciutadella A
Session 8	Interest & Exchange Risk	Ciutadella B
Session 9	Bonds	Ciutadella C
Session 10	Topics in Derivative Markets II	Gracia A
Session 11	Corporate Governance I	Gracia B
Session 12	Financial Markets	Putxet

Monday 2:15-4:00

Session 13	Portfolio & Investments	Ciutadella A
Session 14	Financial Crisis	Ciutadella B
Session 15	Financial Institutions	Ciutadella C
Session 16	Information Efficiency	Gracia A
Session 17	Capital Structure	Gracia B
Session 18	Accounting Issues I	Putxet

Monday 4:15-6:15

Session 19	Behavioral Finance	Ciutadella A
Session 20	Capital Markets	Ciutadella B
Session 21	Market Anomalies	Ciutadella C
Session 22	FX Markets & Hedging	Gracia A
Session 23	Dividends	Gracia B
Session 24	Portfolio Management	Putxet

LIST OF SESSIONS

Tuesday 8:30-10:15

Session 25	Regulation	Ciutadella A
Session 26	Price Discovery	Ciutadella B
Session 27	Agency Issues	Ciutadella C
Session 28	Accounting Issues II	Gracia A
Session 29	Executive Compensation	Gracia B
Session 30	IPO Markets	Putxet

Tuesday 10:30-12:15

Session 31	Option Pricing	Ciutadella A
Session 32	Volatility	Ciutadella B
Session 33	Finance Institutions	Ciutadella C
Session 34	Microstructure I	Gracia A
Session 35	Corporate Governance II	Gracia B
Session 36	Accounting Issues III	Putxet

Tuesday 2:15-4:00

Session 37	Monetary & Political Economy	Ciutadella A
Session 38	Volatility	Ciutadella B
Session 39	Microstructure II	Ciutadella C
Session 40	Banking Issues I	Gracia A
Session 41	Mergers	Gracia B
Session 42	Bankruptcy	Putxet

Tuesday 4:15-6:00

Session 43	Funds & Diversification	Ciutadella A
Session 44	Corporate Finance	Ciutadella B
Session 45	Hedge & Mutual Funds	Ciutadella C
Session 46	Banking Issues II	Gracia A
Session 47	Bonds & Stocks	Gracia B
Session 48	Takeovers II	Putxet

Monday 8:30-10:15

SESSION 1 **Ciutadella A**

ASSET PRICING
Session Chair: Jonathan A. Batten - Hong Kong University of Science & Technology, Hong Kong

"Do Changes in Aggregate Volatility Risk Trigger a Variation in Beta?"
Yakup Eser Arisoy - IESEG School of Management, France
Aslihan Salih - Bilkent University, Turkey
Levent Akdeniz - Bilkent University, Turkey

Discussant: Dirk G. Baur - University of Technology Sydney, Australia

"The Risk of Beta – Investor Learning and Prospect Theory"
Dirk G. Baur - University of Technology Sydney, Australia
Niels Schulze - Deutsche Bundesbank, Germany

Discussant: Christian Bucio - Universidad Nacional Autonoma de Mexico, Mexico

"Emerging Capital Markets and Multi-Moment Capital Asset Pricing Modeling Evidence from the Mexican Stock Exchange"
Christian Bucio - Universidad Nacional Autonoma de Mexico, Mexico
Alejandra Cabello - Universidad Nacional Autonoma de Mexico, Mexico

Discussant: Diderik Lund - University of Oslo, Norway

"Marginal Versus Average Beta of Equity, and the Risk of Depreciation Tax Shields"
Diderik Lund - University of Oslo, Norway

Discussant: Aslihan Salih - Bilkent University, Turkey

SESSION 2 **Ciutadella B**

FINANCIAL ECONOMETRICS
Session Chair: Sasson Bar-Yosef - Bocconi University, Italy

"Do Trading Volumes Explain the Persistence of GARCH Effects?"
Rachael Carroll - Trinity College, Ireland
Colm Kearney - Trinity College, Ireland

Discussant: Wang Yun-Jen - National Chiao Tung University, Taiwan

"A Value at Risk Analysis of Carry Trade using Skew-GARCH Models"
Huimin Chung - National Chiao Tung University, Taiwan
Wang Yun-Jen - National Chiao Tung University, Taiwan

Discussant: Christos Floros - University of Portsmouth, UK

"Forecasting Value-at-Risk (VaR) using Fractionally Integrated Models of Conditional Volatility"
Stavros Degiannakis - University of Portsmouth, UK
Christos Floros - University of Portsmouth, UK
Pamela Dent - University of Portsmouth, UK

Discussant: Johan Knif - Hanken School of Economics, Finland

"Time-Varying Conditional Correlation: International Equity Market Evidence"
Johan Knif - Hanken School of Economics, Finland
James Kolari - Texas A&M University, USA
Seppo Pynnonen - University of Vaasa, Finland

Discussant: Rachael Carroll - Trinity College, Ireland

SESSION 3 **Ciutadella C**

CREDIT MARKETS
Session Chair: David P. Simon - Bentley University, USA

"The Timeliness of CDS Spread Changes in Predicting Corporate Default, 2004-2008"
Katrin Gottschalk - Auckland University of Technology, New Zealand
Paddy Walker - PricewaterhouseCoopers, New Zealand

Discussant: Koresh Galil - Ben-Gurion University, Israel

"Good News, Bad News and Rating Announcements: An Empirical Investigation"
Koresh Galil - Ben-Gurion University, Israel
Gil Soffer -

Discussant: Bogdan Stacescu - Norwegian School of Management, Norway

"Information Sharing and Information Acquisition in Credit Markets"
Artashes Karapetyan - University of Zurich, Switzerland
Bogdan Stacescu - Norwegian School of Management, Norway

Discussant: Enrique Batiz-Zuk - University of Manchester, UK

"Estimating Credit Contagion under Non-Normality"
Enrique Batiz-Zuk - University of Manchester, UK
George Christodoulakis - University of Manchester, UK
Ser-Huang Poon - University of Manchester, UK

Discussant: Katrin Gottschalk - Auckland University of Technology, New Zealand

SESSION 4 **Gracia A**

TOPICS IN DERIVATIVE MARKETS I
Session Chair: Shmuel Hauser - ONO Academic College, Israel

"Profiting from Black Swan Trades: Evidence from S&P 500 Puts"
Michael J. Naylor - Massey University, New Zealand
Udomsak Wongchoti - Massey University, New Zealand
Jianguo Chen - Massey University, New Zealand

Discussant: Leonidas S. Rompolis - University of Cyprus, Cyprus

"Explaining the Formation of the Risk-Neutral Density using an Adaptive Expectations Model"
George Chalamandaris - Athens University of Economics and Business, Greece
Leonidas S. Rompolis - University of Cyprus, Cyprus

Discussant: Panayiotis C. Andreou - Cyprus University of Technology, Cyprus

"A Volatility Smirk that Defaults: The Case of the S&P 500 Index Options"
Panayiotis C. Andreou - Cyprus University of Technology, Cyprus

Discussant: Sol Kim - Hankuk University of Foreign Studies, Korea

"Empirical Comparison of Alternative Option Pricing Models: Evidence from Intraday Data"
Sol Kim - Hankuk University of Foreign Studies, Korea

Discussant: Michael J. Naylor - Massey University, New Zealand

SESSION 5 — Gracia B

TAKEOVERS I
Session Chair: Edward Nelling - Drexel University, USA

"The Determinants of the Payment Method Choice in Cross Border Acquisitions: The US Case (1990-2008)"
Alain Chevalier - ESCP-Europe, France
Etienne Redor - Audencia Nantes, France

Discussant: Julinda Nuri - University of Surrey, UK

"The Mystery of the Market for Corporate Control: Takeover Likelihood of Underperforming Firms"
Julinda Nuri - University of Surrey, UK
Stefan Luthringshauser - Capmark Asset Management GmbH, Germany

Discussant: Lien Duong - Curtin University of Technology, Australia

"Consequences of Riding Takeover Waves: Australian Evidence"
Lien Duong - Curtin University of Technology, Australia
H.Y Izan - The University of Western Australia, Australia

Discussant: Loic Belze - E.M. LYON, France

"Preventive Anti-Takeover Defenses: Evidence from the French Market for Corporate Control"
Loic Belze - E.M. LYON, France

Discussant: Alain Chevalier - ESCP-Europe, France

SESSION 6 — Putxet

INTERNATIONAL FINANCIAL MARKETS
Session Chair: Antonio Diaz - Universidad de Castilla - La Mancha, Spain

"The EMU Integration Structure and the Spillover Dynamics Towards the IAS Harmonization"
G.A. Karathanassis - Athens University of Economics and Business, Greece
V.I. Sogiakas - Athens University of Economics and Business, Greece
Stella Spilioti - Athens University of Economics and Business, Greece

Discussant: Kashif Saleem - Lappeenranta Univeristy of Technology, Finland

Monday 8:30-10:15

"Volatility Spillovers from the US Subprime Crisis to Bric Countries"
Jussi Nikkinen - University of Vaasa, Finland
Kashif Saleem - Lappeenranta Univeristy of Technology, Finland
Minna Martikainen - Lappeenranta Univeristy of Technology, Finland

Discussant: Sazali Abidin - University of Waikato, New Zealand

"Cointegration between Stock Prices and Exchange Rates in Australasian Countries"
Sazali Abidin - University of Waikato, New Zealand
Chase Walters - University of Waikato, New Zealand
Kwan-Lyn Lim - University of Waikato, New Zealand

Discussant: Piyadasa Edirisuriya - Monash University, Australia

"Financial Market Integration and Co-movements among the Growth Rates: Evidence from South Asian Countries"
Piyadasa Edirisuriya - Monash University, Australia

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

Monday 10:30-12:15

SESSION 7 — Ciutadella A

MUTUAL FUNDS
Session Chair: Diderik Lund - University of Oslo, Norway

"Performance of U.S. Equity and Bond Mutual Funds Using the Stochastic Discount Factor Approach"
Ines Gargouri - Concordia University, Canada
Lawrence Kryzanowski - Concordia University, Canada

Discussant: Andrew Mason - University of Surrey, UK

"The Efficiency of Performance-Based-Fee Funds"
Ana C. Diaz-Mendoza - Universidad del Pais Vasco, Spain
German Lopez-Espinosa - Universidad de Navarra, Spain
Miguel A. Martinez-Sedano - Universidad del Pais Vasco, Spain

Discussant: Maria Ceu Cortez - University of Minho, Portugal

"Investing in Mutual Funds: Does it Pay to be a Sinner or a Saint?"
Nelson Areal - University of Minho, Portugal
Maria Ceu Cortez - University of Minho, Portugal
Florinda Silva - University of Minho, Portugal

Discussant: Ana C. Diaz-Mendoza - Universidad del Pais Vasco, Spain

"Combined Returns Based and Characteristics Based Style Analysis: Greater Than the Sum of the Parts?"
Andrew Mason - University of Surrey, UK

Discussant: Ines Gargouri - Concordia University, Canada

SESSION 8 — Ciutadella B

INTEREST & EXCHANGE RISK
Session Chair: Johan Knif - Hanken School of Economics, Finland

"Time Series Behavior of the Real Interest Rates in Transition Economies"
Pelin Oge Guney - Hacettepe University, Turkey
Mubariz Hasanov - Hacettepe University, Turkey
Erdinc Telatar - Hacettepe University, Turkey

Discussant: William D. Bryant - Macquarie University, Australia

"Interest Linkages between the US, UK and German Interest Rates: Should the UK join the European Monetary Union?"
William D. Bryant - Macquarie University, Australia
Roselyne Joyeux - Macquarie University, Australia

Discussant: Jonathan A. Batten - Hong Kong University of Science & Technology, Hong Kong

"Covered Interest Parity in the Yen Forward Market: New Insights from Threshold Non-Linear Dynamics"
Jonathan A. Batten - Hong Kong University of Science & Technology, Hong Kong
Wai-Sum Chan - Chinese University of Hong Kong, Hong Kong
Hon-Lun Chung - Hong Kong Polytechnic University, Hong Kong
Peter G. Szilagyi - University of Cambridge, UK

Discussant: Mazila Md-Yusuf - Universiti Teknologi MARA, Malaysia

"Relationship of Equity Market and Exchange Rate Volatility in Malaysia"
Mazila Md-Yusuf - Universiti Teknologi MARA, Malaysia

Discussant: Pelin Oge Guney - Hacettepe University, Turkey

SESSION 9 — Ciutadella C

BONDS
Session Chair: Alain Chevalier - ESCP-Europe, France

"Evidence and Implications of the Predictability of High Yield Bond Returns"
David P. Simon - Bentley University, USA

Discussant: Francisco Jareno - Universidad de Castilla - La Mancha, Spain

"Yield Curve and Volatility for the US Treasury Market"
Antonio Diaz - Universidad de Castilla - La Mancha, Spain
Francisco Jareno - Universidad de Castilla - La Mancha, Spain
Eliseo Navarro - Universidad de Castilla - La Mancha, Spain

Discussant: Zvika Afik - Ben-Gurion University, Israel

"Expected Bond Returns: A Markov Model and Market Data"
Zvika Afik - Ben-Gurion University, Israel
Simon Benninga - Ben-Gurion University, Israel

Discussant: Terry Hallahan - RMIT University, Australia

"Corporate Bond Rating Changes and Their Impact on Stock Prices: A Comparison Study of Return Generating Models"
Hasniza Mohd Taib - RMIT University, Australia
Amalia Di Iorio - RMIT University, Australia
Terry Hallahan - RMIT University, Australia
Emawtee Bissoondoyal-Bheenick - Monash University, Australia

Discussant: David P. Simon - Bentley University, USA

SESSION 10 — Gracia A

TOPICS IN DERIVATIVE MARKETS II
Session Chair: Wendy Rotenberg - University of Toronto, Canada

"The Comovement of Option Listed Stocks"
Sam Agyei-Ampomah - University of Surrey, UK
Khelifa Mazouz - Bradford University School of Management, UK

Discussant: Charles Corrado - Deakin University, Australia

"Options Trading Volume and Stock Price Response to Earnings Announcements"
Cameron Truong - Monash University, Australia
Charles Corrado - Deakin University, Australia

Discussant: Jason Wei - University of Toronto, Canada

"Option Trading: Information or Differences of Opinion?"
Siu Kai Choy - University of Toronto, Canada
Jason Wei - University of Toronto, Canada

Discussant: Asli Ascioglu - Bryant University, USA

"The Impact of Option Listing on the Trading Activity of Turkcell's American Depository Receipt (ADR)"
Asli Ascioglu - Bryant University, USA
Murat Aydogdu - Rhode Island College, USA
Lynn Phillips Kugele - The University of Mississippi, USA

Discussant: Sam Agyei-Ampomah - University of Surrey, UK

SESSION 11 — Gracia B

CORPORATE GOVERNANCE I
Session Chair: Giovanna Zanotti - University of Bergamo, Italy

"Ownership and Ownership Concentration: Which is Important in Determining the Performance of China's Listed Firms?"
Shiguang Ma - University of Wollongong, Australia
Tony Naughton - RMIT University, Australia
Gary Tian - University of Wollongong, Australia

Discussant: Minhee Kim - Korea Advanced Institute of Science and Technology, South Korea

"Does Corporate Governance Prevent Information Asymmetry? Evidence from Insincere Announcements of Korean Listed Firms"
Sangwon Lee - Korea Advanced Institute of Science and Technology, South Korea
Seung Hun Han - Korea Advanced Institute of Science and Technology, South Korea
Minhee Kim - Korea Advanced Institute of Science and Technology, South Korea

Discussant: Larry Li - RMIT University, Australia

"A New Wave of Financial Reform in China: The Comprehensive Floatation of Non-Tradable Shares"
Larry Li - RMIT University, Australia
Tony Naughton - RMIT University, Australia
Xiangkang Yin - La Trobe University, Australia

Discussant: Rani Hoitash - Bentley University, USA

"Chief Financial Officers on Their Company's Board of Directors: An Examination of Financial Reporting Quality, Company Performance and Entrenchment"
Jean C. Bedard - Bentley University, USA
Rani Hoitash - Bentley University, USA
Udi Hoitash - Northeastern University, USA

Discussant: Tony Naughton - RMIT University, Australia

Monday 10:30-12:15

SESSION 12 **Putxet**

FINANCIAL MARKETS

Session Chair: Luis Ferruz Agudo - University of Zaragoza, Spain

"Time to Wait - Time to Invest: The Case of Trade Order Executions by Specialists on the NYSE"
Sasson Bar-Yosef - Bocconi University, Italy
Annalisa Prencipe - Bocconi University, Italy

Discussant: Barry O'Grady - Curtin University of Technology, Australia

"Renewable Energy & Risk Modeling in an Australian Market Context"
Barry O'Grady - Curtin University of Technology, Australia
Darren O'Connell - Curtin University of Technology, Australia

Discussant: Ian A. Cooper - London Business School, UK

"Optimal Passive Currency Holdings: Equilibrium Currency Hedging"
Ian A. Cooper - London Business School, UK

Discussant: Shmuel Hauser - ONO Academic College, Israel

"Financial Markets and Terrorism: Two Sides of the Barricade Perspective"
Rafi Eldor - Interdisciplinary Center, Israel
Shmuel Hauser - ONO Academic College, Israel
Yoram Kroll - ONO Academic College, Israel
Sharbel Shoukair - ONO Academic College, Israel

Discussant: Sasson Bar-Yosef - Bocconi University, Italy

LUNCHEON AND KEYNOTE SPEECH

12:15-2:15 p.m. Diamante

Professor Tassos Malliaris

School of Business, Loyola University of Chicago, USA

THE FINANCIAL CRISIS OF 2007-09: WHAT THEORIES EXPLAIN IT AND WHAT POLICIES ARE APPROPRIATE?

SESSION 13 — Ciutadella A

PORTFOLIO & INVESTMENTS
Session Chair: George Athanassakos - The University of Western Ontario, Canada

"Testing for Preference Orderings Efficiency"
Sergio Ortobelli - University of Bergamo, Italy
Nikolas Topaloglou - Athens University of Economics and Business, Greece

Discussant: Luis Ferruz Agudo - University of Zaragoza, Spain

"Stock-Picking and Style Timing Abilities: A Comparative Analysis between Conventional and SR Mutual Funds in the USA"
Luis Ferruz Agudo - University of Zaragoza, Spain
Fernando Munoz - University of Zaragoza, Spain
Ruth Vicente - University of Zaragoza, Spain

Discussant: Simone Dieckmann - University of Osnabruck, Germany

"Crisis and Risk Dependencies"
Peter Grundke - University of Osnabruck, Germany
Simone Dieckmann - University of Osnabruck, Germany

Discussant: Edward Nelling - Drexel University, USA

"Effective Delays in Portfolio Disclosures"
Maneesh Chhabria - Drexel University, USA
Seung Hee Choi - The College of New Jersey, USA
Edward Nelling - Drexel University, USA

Discussant: Nikolas Topaloglou - Athens University of Economics and Business, Greece

SESSION 14 — Ciutadella B

FINANCIAL CRISIS
Session Chair: Ian A. Cooper - London Business School, UK

"The Financial Crises Magnitude. An Approach Based on the Earthquake Richter Scale"
Bogdan-Cristian Negrea - Bucharest Academy of Economic Studies, Romania

Discussant: Eleftherios Aggelopoulos - Technological Institute of Patras, Greece

"The Impact of the Financial Crisis on the Efficiency of Retail Banks"
Eleftherios Aggelopoulos - Technological Institute of Patras, Greece
Antonios Georgopoulos - University of Patras, Greece
Costas Siriopoulos - University of Patras, Greece

Discussant: Robert Inklaar - University of Groningen, The Netherlands

"The Severity of Financial Crises and Tolerance for Uncertainty"
Robert Inklaar - University of Groningen, The Netherlands
Jing Yang - University of Oxford, UK

Discussant: Sofiane Aboura - University of Paris-Dauphine, France

"Disentangling Crashes from Tail Events"
Sofiane Aboura - University of Paris-Dauphine, France

Discussant: Bogdan-Cristian Negrea - Bucharest Academy of Economic Studies, Romania

SESSION 15 Ciutadella C

FINANCIAL INSTITUTIONS
Session Chair: Haim Shalit - Ben Gurion University, Israel

"Optimal Management of Mean-Reverting Losses"
Gerhard Hambusch - University of Technology Sydney, Australia
David Finnoff - University of Wyoming, USA
Sherrill Shaffer - University of Wyoming, USA

Discussant: Daniel Roesch - Leibniz University of Hannover, Germany

"Rating Performance and Agency Incentives of Structured Finance Transactions"
Daniel Roesch - Leibniz University of Hannover, Germany
Harald Scheule - University of Melbourne, Australia

Discussant: Manuel Lingo - Oesterreichische Nationalbank, Austria

"Adverse Borrower Selection in the Context of Rating Errors"
Manuel Lingo - Oesterreichische Nationalbank, Austria
Gerhard Winkler - WU-Wien, Austria

Discussant: Elisabeta Pana - Illinois Wesleyan University, USA

"Credit Unions as Liquidity Creators"
Tarun Mukherjee - University of New Orleans, USA
Elisabeta Pana - Illinois Wesleyan University, USA

Discussant: Gerhard Hambusch - University of Technology Sydney, Australia

SESSION 16 Gracia A

INFORMATION EFFICIENCY
Session Chair: Ephraim Clark - Middlesex University, UK

"Are Faithful Investors Rewarded by the Market Place? Evidence from Australian Shariah-compliant Equities"
Mehdi Sadeghi - Macquarie University, Australia

Discussant: Hakan Aygoren - Pamukkale University, Turkey

"Impact of Firm Attributes on the Efficiency of Brokerage Houses in Turkey (2005-2008)"
Hakan Aygoren - Pamukkale University, Turkey
M. Ensar Yesilyurt - Pamukkale University, Turkey

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

"Dynamic Relationship Between Stock Prices and Unit Trust Flows in the U.K. Market"
Heung-Joo Cha - University of Redlands, USA

Discussant: Dimitris Magaritis - Auckland University of Technology, New Zealand

"Asymmetric Information and Price Competition in Small Business Lending"
Ming-Hua Liu - University of Macau, China
Dimitris Magaritis - Auckland University of Technology, New Zealand
Alireza Tourani-Rad - Auckland University of Technology, New Zealand

Discussant: Mehdi Sadeghi - Macquarie University, Australia

SESSION 17 — Gracia B

CAPITAL STRUCTURE
Session Chair: Darren Henry - La Trobe University, Australia

"External Finance, Capital Structure and the Euro Introduction"
Karin Joeveer - Queen's University Belfast, UK

Discussant: Raul Susmel - University of Houston, USA

"Testing the Trade-off Theory of Capital Structure: A Kalman Filter Approach"
Raul Susmel - University of Houston, USA
Tian Zhao - Invesco Aim Capital Management LLC, USA

Discussant: Andreas Andrikopoulos - University of the Aegean, Greece

"The Capital Structure Choice and the Consumption Tax"
Andreas Andrikopoulos - University of the Aegean, Greece

Discussant: Karin Joeveer - Queen's University Belfast, UK

SESSION 18 — Putxet

ACCOUNTING ISSUES I
Session Chair: Emilios C. Galariotis - Audencia Nantes School of Management, France

"Sources of Variation in Firm Profitability: Evidence from Listed Manufacturing Firms"
Awan Hayat - Bahauddin Zakariya University, Pakistan
M. Azeem Qureshi - Oslo University College, Norway
Ishaq Bhatti - Latrobe University, Australia
Muhammad Yousaf - Bahauddin Zakariya University, Pakistan

Discussant: Dennis Olson - American University of Sharjah, UAE

"Loan Loss Accounting Practices in the MENA Region: A Simultaneous Equations Approach"
Dennis Olson - American University of Sharjah, UAE
Taisier A. Zoubi - American University of Sharjah, UAE

Discussant: Yew Kee Ho - National University of Singapore, Singapore

Monday 2:15-4:00

"Analysts' Recommendations: Benchmarking, Timeliness and Coverage"
Rob Brown - University of Melbourne, Australia
Howard W.H. Chan - University of Melbourne, Australia
Yew Kee Ho - National University of Singapore, Singapore
Grace Weiying Yan - National University of Singapore, Singapore

Discussant: Ugo Rigoni - University of Venice, Italy

"Properties of Equity Analysts Reports and Market Reaction"
Elisa Cavezzali - University of Venice, Italy
Ugo Rigoni - University of Venice, Italy

Discussant: Ishaq Bhatti - Latrobe University, Australia

Refreshments 4:00-4:15 p.m.

Monday 4:15-6:15

SESSION 19 — Ciutadella A

BEHAVIORAL FINANCE
Session Chair: Laurence Booth - University of Toronto, Canada

"Individual Investors' Behavior: Are Small Investors Different?"
Enrico Maria Cervellati - University of Bologna, Italy
Pino Fattori - Banca di Credito Cooperativo di Gatteo, Italy
Pierpaolo Pattitoni - University of Bologna, Italy

Discussant: Jose Luis Sarto - University of Zaragoza, Spain

"Herding Behavior in Strategic Style Allocations: Empirical Evidence on UK Pension Plan Managers"
Laura Andreu - University of Zaragoza, Spain
Cristina Ortiz - University of Zaragoza, Spain
Jose Luis Sarto - University of Zaragoza, Spain

Discussant: Giovanna Zanotti - University of Bergamo, Italy

"On the Role of Behavioral Finance in the Pricing of Financial Derivatives: The Case of the S&P 500 Options"
Barbara Alemanni - University of Genova, Italy
Alonso Pena - SDA Bocconi, Italy
Giovanna Zanotti - University of Bergamo, Italy

Discussant: Wendy Rotenberg - University of Toronto, Canada

"Hedging Strategies of Non-Financial Firms under Different Economic Conditions: Evidence from Canada"
Wendy Rotenberg - University of Toronto, Canada

Discussant: Enrico Maria Cervellati - University of Bologna, Italy

"Intra-National Cultural Influences on Household Financial Decision-Making: An Exploratory Study of the Netherlands"
Michael Dowling - Lancashire Business School, UK

Discussant: Ephraim Clark - Middlesex University, UK

SESSION 20 — Ciutadella B

CAPITAL MARKETS
Session Chair: Daniel Roesch - Leibniz University of Hannover, Germany

"The Role of Default Risk and Growth Options in Explaining the Market Value of Equity"
Andreas Charitou - University of Cyprus, Cyprus
Neophytos Lambertides - Aston University, UK
Lenos Trigeorgis - University of Cyprus, Cyprus

Discussant: George Athanassakos - The University of Western Ontario, Canada

"Seasonality in Value vs. Growth Stock Returns and the Value Premium"
George Athanassakos - The University of Western Ontario, Canada

Discussant: John B. McDermott - Fairfield University, USA

"US Small Cap Indexes: Risk and Reconstitution"
Asli Ascioglu - Bryant University, USA
John B. McDermott - Fairfield University, USA

Discussant: Ernest N. Biktimirov - Brock University, Canada

"Market Reactions to Changes in the FTSE SmallCap Index"
Ernest N. Biktimirov - Brock University, Canada
Boya Li - Brock University, Canada

Discussant: Tajana Barbic - Institute of Economics Zagreb, Croatia

"Relationship Between Macroeconomic Fundamentals and Stock Market Indices in Selected CEE Countries"
Tajana Barbic - Institute of Economics Zagreb, Croatia
Iva Condic-Jurkic - Institute of Economics Zagreb, Croatia

Discussant: Neophytos Lambertides - Aston University, UK

SESSION 21 — Ciutadella C

MARKET ANOMALIES
Session Chair: Asli Ascioglu - Bryant University, USA

"The Efficiency of the Buy-Write Strategy: Evidence from Australia"
Tafadzwa Mugwagwa - RMIT University, Australia
Vikash Ramiah - RMIT University, Australia
Tony Naughton - RMIT University, Australia

Discussant: Thomas Dimpfl - University of Erfurt, Germany

"Stock Return Autocorrelations Revisited: A Quantile Regression Approach"
Dirk G. Baur - University of Technology Sydney, Australia
Thomas Dimpfl - University of Erfurt, Germany
Robert C. Jung - Universitat Erfurt, Germany

Discussant: Emilios C. Galariotis - Audencia Nantes School of Management, France

"What Should Investors Know about the Stability of Momentum Investing and its Riskiness? The Case of the Australian Security Exchange."
Emilios C. Galariotis - Audencia Nantes School of Management, France

Discussant: Mei Qiu - Massey University, New Zealand

"Opinion Divergence, Short Sales and Overnight Return Premiums on Stock Markets Around the World"
Mei Qiu - Massey University, New Zealand
Tao Cai - Massey University, New Zealand

Discussant: Houda Ben Mhenni Haj Youssef - IHEC Carthage, TIME University, France
"Are Diversified Firms Mispriced on the Stock Market?"
Houda Ben Mhenni Haj Youssef - IHEC Carthage, TIME University, France
Lassad El Moubarki - Olfa Benouda Sioud -

Discussant: Vikash Ramiah - RMIT University, Australia

Monday 4:15-6:15

SESSION 22 — Gracia A

FX MARKETS & HEDGING
Session Chair: Dimitris Magaritis - Auckland University of Technology, New Zealand

"Real Exchange Rate Behavior Under Peg: Evidence from the Chinese RMB and Malaysian MYR"
E Yongjian - Bank of Communications, China
Anthony Yanxiang Gu - State University of New York, USA
Chau-Chen Yang - National Taiwan University, China

Discussant: Yacine Belghitar - Middlesex University, UK

"Asymmetric Foreign Currency Risk Premiums and the Effect of Derivatives Use on Corporate Returns"
Yacine Belghitar - Middlesex University, UK
Ephraim Clark - Middlesex University, UK
Salma Mefteh - ESSCA Business School, France

Discussant: Abimbola Adedeji - University of Birmingham, UK

"Further Examination of the Relationship Between Currency Risk Hedging and Firm Value on the London Stock Exchange"
Abimbola Adedeji - University of Birmingham, UK
XingYan Wu - Oracle Research and Development Centre, China

Discussant: Pedro Gurrola - Regent's College, UK

"Inverse Maturity Effects in Short-Term Interest Rate Futures Markets"
Pedro Gurrola - Regent's College, UK
Renata Herrerias - Instituto Tecnologico Autonomo de Mexico, Mexico

Discussant: Isabel Figuerola-Ferretti - Universidad Carlos III de Madrid, Spain

"On the Long Run Relationship and Price Discovery Between VIX and European Credit Risk"
Isabel Figuerola-Ferretti - Universidad Carlos III de Madrid, Spain
Ioannis Paraskevopoulos - Quantitative Development, Spain

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

SESSION 23 — Gracia B

DIVIDENDS
Session Chair: Raul Susmel - University of Houston, USA

"Ownership Structure and Tax-Friendly Dividends"
Darren Henry - La Trobe University, Australia

Discussant: Laurence Booth - University of Toronto, Canada

"Market Power and Dividend Policy: a Risk-Based Perspective"
Laurence Booth - University of Toronto, Canada
Jun Zhou - University of Toronto, Canada

Discussant: Laurie Prather - Bond University, Australia

"Re-Examining the Dividend Drop Ratios with Dividend Capture Trading"
Vyas Balasubramaniam - University of New South Wales, Australia
William Bertin - Bond University, Australia
Thomas Henker - University of New South Wales, Australia
Laurie Prather - Bond University, Australia

Discussant: Yi Liu - University of North Texas, USA

"The Information Content of Dividend Changes: Shareholders' Wealth, Revision of Earnings' Forecasts and Reason Cited for Dividend Change"
Yi Liu - University of North Texas, USA
Samuel H. Szewczyk - Drexel University, USA
Zaher Zantout - American University of Sharjah, UAE

Discussant: Darren Henry - La Trobe University, Australia

SESSION 24 — Putxet

PORTFOLIO MANAGEMENT

Session Chair: Hakan Aygoren - Pamukkale University, Turkey

"Portfolio Choice Implications of Parameter and Model Uncertainty in Factor Models"
Deniz Kebabci - San Francisco State University, USA

Discussant: Haim Shalit - Ben Gurion University, Israel

"International Equity Flows: Diversification Does Matter"
Ephraim Clark - Middlesex University, UK
Konstantinos Kassimatis - Athens University of Economics and Business, Greece

Discussant: Deniz Kebabci - San Francisco State University, USA

"Firm's Visibility and Firm's Opacity: A New Evidence of How the Local Home Bias is Really a Bias"
Giulia Baschieri - Cass Business School, UK
Andrea Carosi - University of Bologna, Italy
Stefano Mengoli - University of Bologna, Italy

Discussant: Konstantinos Kassimatis - Athens University of Economics and Business, Greece

"Portfolio Risk Management with the Lorenz Curve"
Haim Shalit - Ben Gurion University, Israel

Discussant: Andrea Carosi - University of Bologna, Italy

Tuesday 8:30-10:15

SESSION 25 — Ciutadella A

REGULATION
Session Chair: Van Son Lai - Laval University, Canada

"The Dynamics of EMU Stock Market Cycles Before and After the Euro"
Jose G. Dias - Lisbon University Institute, Portugal
Sofia B. Ramos - Lisbon University Institute, Portugal

Discussant: Anna Zalewska - University of Bath, UK

"Using Stock Market Evidence to Inform the Definition of Relevant Product Markets in Competition Law"
Paul A. Grout - University of Bristol, UK
Frank Windmeijer - University of Bristol, UK
Anna Zalewska - University of Bath, UK

Discussant: Elias Semaan - James Madison University, USA

"Deregulation and Risk"
Elias Semaan - James Madison University, USA
Pamela Drake - James Madison University, USA

Discussant: Alexandre M. Baptista - The George Washington University, USA

"Bank Regulation, Risk Management, and Financial Stability"
Gordon J. Alexander - MIT, USA
Alexandre M. Baptista - The George Washington University, USA
Shu Yan - University of South Carolina, USA

Discussant: Jose G. Dias - Lisbon University Institute, Portugal

SESSION 26 — Ciutadella B

PRICE DISCOVERY
Session Chair: Stylianos Perrakis - Concordia University, Canada

"Intraday Price Discovery Following Stale News"
Ariel Markelevich - Suffolk University, USA
Howard Nemiroff - Carleton University, Canada
Ryan Riordan - Karlsruhe Institute of Technology, Germany

Discussant: Massimo Scotti - University of Technology Sydney, Australia

"Dynamic Setting of Distribution Fees in the US Mutual Fund Industry"
Lorenzo Casavecchia - University of Technology Sydney, Australia
Massimo Scotti - University of Technology Sydney, Australia

Discussant: Jos van Bommel - Universidad CEU, Spain

"Measuring Price Discovery: The Variance Ratio, the R2, and the Weighted Price Contribution"
Jos van Bommel - Universidad CEU, Spain

Discussant: Hatem Ben-Ameur - HEC Montreal, Canada

"Pricing the CBOT T-Bonds Futures"
Ramzi Ben-Abdallah - University of Quebec, Canada
Hatem Ben-Ameur - HEC Montreal, Canada
Michele Breton - HEC Montreal, Canada

Discussant: Howard Nemiroff - Carleton University, Canada

SESSION 27 — Ciutadella C

AGENCY ISSUES
Session Chair: Shahid S. Hamid - Florida International University, USA

"Corporate Philanthropy, Agency Problems, and Shareholder Wealth"
Eliezer Fich - Drexel University, USA
Diego Garcia - University of North Carolina, USA
Timothy Robinson - University of North Carolina, USA
Adam Yore - Northern Illinois University, USA

Discussant: Jayasinghe Wickramanayake - Monash University, Australia

"Exit Market Liquidity and Venture Capitalists' Investment Behavior in Australia, Canada and the United Kingdom"
Tabita Bertsch - Monash University, Australia
Shrimal Perera - Monash University, Australia
Jayasinghe Wickramanayake - Monash University, Australia

Discussant: Anand Venkateswaran - Northeastern University, USA

"To Specialize or Diversify Coverage? Determinants and Effects of Variation Within International Analyst Research Portfolios"
Omesh Kini - Georgia State University, USA
Michael Rebello - University of Texas at Dallas, USA
Anand Venkateswaran - Northeastern University, USA

Discussant: Usha R. Mittoo - University of Manitoba, Canada

"The Geography of European Convertible Bonds: Why Firms Issue Convertibles?"
Franck Bancel - ESCP-EAP, France
Usha R. Mittoo - University of Manitoba, Canada
Zhou Zhang - University of Regina, Canada

Discussant: Eliezer Fich - Drexel University, USA

SESSION 28 — Gracia A

ACCOUNTING ISSUES II
Session Chair: Jeffrey L. Callen - University of Toronto, Canada

"Analyst Forecast Dispersion, R&D and Stock Returns: Evidence from the UK"
Seraina C. Anagnostopoulou - Athens University of Economics and Business, Greece

Discussant: Christos I. Negakis - University of Macedonia, Greece

"The Effects of the IFRS on the Earnings Attributes"
Dimitrios V. Kousenidis - Aristotle University of Thessaloniki, Greece
Anestis Ladas - University of Macedonia, Greece
Christos I. Negakis - University of Macedonia, Greece

Discussant: Ilanit Gavious - Ben-Gurion University, Israel

"The Complementary Relationship between Financial and Non-Financial Information in the Biotechnology Industry and the Degree of Investor Sophistication"
Jeffrey L. Callen - University of Toronto, Canada
Ilanit Gavious - Ben-Gurion University, Israel
Dan Segal - University of Toronto, Canada

Discussant: Terry Walter - University of Technology Sydney, Australia

"Errors in Estimating Unexpected Accruals in the Presence of Large Changes in Net External Financing"
Yaowen Shan - University of Technology Sydney, Australia
Stephen Taylor - University of Technology Sydney, Australia
Terry Walter - University of Technology Sydney, Australia

Discussant: Seraina C. Anagnostopoulou - Athens University of Economics and Business, Greece

SESSION 29 — Gracia B

EXECUTIVE COMPENSATION
Session Chair: Nikolaos T. Milonas - University of Athens, Greece

"CFO Compensation"
Otgontsetseg Erhemjamts - Bentley University, USA
Atul Gupta - Bentley University, USA
Bayar Tumennasan - Bentley University, USA

Discussant: Bruce A. Rosser - University of Adelaide, Australia

"Executive Bonuses"
Jean M. Canil - University of Adelaide, Australia
Bruce A. Rosser - University of Adelaide, Australia

Discussant: Lale Guler - City University of New York, USA

"CEO Compensation and Acquisition Performance: Evidence from Goodwill Impairment Losses"
Masako Darrough - Baruch College, USA
Lale Guler - City University of New York, USA

Discussant: Samuel H. Szewczyk - Drexel University, USA

"Corporate Governance Dynamics in Strategic Decisions: Evidence from Major Acquisitions and Large Loss Acquisitions"
Suenghee Choi - The College of New Jersey, USA
Samuel H. Szewczyk - Drexel University, USA

Discussant: Otgontsetseg Erhemjamts - Bentley University, USA

Tuesday 10:30-12:15

SESSION 30 **Putxet**

IPO MARKETS
Session Chair: Piet Sercu - Catholic University of Leuven, Belgium

"The Role of Investor Sentiment in the IPO Aftermarket"
Sanjiv Jaggia - Cal Poly State University, USA
Satish Thosar - University of Redlands, USA

Discussant: Olfa Hamza - UQAM, Canada

"Does Venture Capitalists Reputation Improve the Survival Profiles of IPO Firms?"
Olfa Hamza - UQAM, Canada
Maher Kooli - UQAM, Canada

Discussant: Andre Dorsman - Vrije University Amsterdam, The Netherlands

"Insights in the Performance of Dutch IPOs"
Andre Dorsman - Vrije University Amsterdam, The Netherlands
Dimitrios Gounopoulos - University of Surrey, United Kingdom
Duco Wildeboer - Euronext Stock Exchange, The Netherlands

Discussant: Christodoulos Louca - Cyprus University of Technology

"Can Managerial Overconfidence Explain the Diversification Discount?"
Panayiotis C. Andreou - Cyprus University of Technology, Cyprus
Christodoulos Louca - Cyprus University of Technology, Cyprus

Discussant: Satish Thosar - University of Redlands, USA

SESSION 31 **Ciutadella A**

OPTION PRICING
Session Chair: Terry Walter - University of Technology Sydney, Australia

"Geometric Average Options Pricing Under Stochastic Volatility"
Nabil Tahani - York University, Canada

Discussant: Stylianos Perrakis - Concordia University, Canada

"Jump-Diffusion Option Valuation Without a Representative Investor: a Stochastic Dominance Approach"
Ioan Mihai Oancea - National Bank of Canada, Canada
Stylianos Perrakis - Concordia University, Canada

Discussant: Konstantinos Konstantaras - University of Patras, Greece

"An Option Valuation Approach to Gauge Trading Halt Economic Drivers and Impact on Listed Firms"
Konstantinos Konstantaras - University of Patras, Greece
Costas Siriopoulos - University of Patras, Greece

Discussant: Mehmet Baha Karan - Hacettepe University, Turkey

"Price Efficiency in Option Markets: An Empirical Study on Izmir Derivatives Exchange"
Ceren Bektas - Hacettepe University, Turkey
Mehmet Baha Karan - Hacettepe University, Turkey
Ozgur Arslan - Hacettepe University, Turkey

Discussant: Nabil Tahani - York University, Canada

SESSION 32 **Ciutadella B**

VOLATILITY
Session Chair: Eliezer Fich - Drexel University, USA

"Do Volatility and Margin Requirements Measure Up? Further Evidence from Canadian Equity Market."
Mohamed Ayadi - Brock University, Canada
Skander Lazrak - Brock University, Canada
Kwan Yiu Lee - Brock University, Canada

Discussant: Ihsan Ullah Badshah - Hanken School of Economics, Finland

"Quantile Regression Analysis of Asymmetric Return-Volatility Relation"
Ihsan Ullah Badshah - Hanken School of Economics, Finland

Discussant: Sheraz Ahmed - Lappeenranta University of Technology, Finland

"Interdependence or Political Risk? A Case of South Asian Equity Markets"
Sheraz Ahmed - Lappeenranta University of Technology, Finland
Syed Mujahid Hussain - Hanken School of Economics, Finland

Discussant: Goknur Umutlu - Hacettepe University, Turkey

"Market Coupling of Electricity Markets"
Andre Dorsman - Vrije University Amsterdam, The Netherlands
Mehmet Baha Karan - Hacettepe University, Turkey
Erdinc Telatar - Hacettepe University, Turkey
Goknur Umutlu - Hacettepe University, Turkey

Discussant: Skander Lazrak - Brock University, Canada

SESSION 33 — Ciutadella C

FINANCE INSTITUTIONS
Session Chair: Olfa Hamza - UQAM, Canada

"Estimating the Intertemporal Substitution Elasticity"
Fang Liu - Catholic University of Leuven, Belgium
Piet Sercu - Catholic University of Leuven, Belgium

Discussant: Claudia Champagne - University of Sherbrooke, Canada

"Information Asymmetry in Syndicated Loans: The Cost of the Distribution Method"
Claudia Champagne - University of Sherbrooke, Canada

Discussant: Van Son Lai - Laval University, Canada

"An Analysis of Government Loan Guarantees and Direct Investment through Public-Private Partnerships"
Van Son Lai - Laval University, Canada
Issouf Soumare - Laval University, Canada

Discussant: Mona Soufian - Liverpool Hope University Business School, UK

"What Drives the Premium Labor Model, Beta Instability Risk or Human Capital? Premium Model Outperforms Premium Labor model in UK"
Mona Soufian - Liverpool Hope University Business School, UK
Stuart Horsburgh - Manchester Metropolitan University Business School, UK

Discussant: Piet Sercu - Catholic University of Leuven, Belgium

SESSION 34 — Gracia A

MICROSTRUCTURE I
Session Chair: Usha R. Mittoo - University of Manitoba, Canada

"The Relative Contribution of Ask and Bid Quotes to Price Discovery"
Roberto Pascual - Universitat de les Illes Balears, Spain
Bartolome Pascual-Fuster - Universitat de les Illes Balears, Spain

Discussant: Shahid S. Hamid - Florida International University, USA

"Effect on Option Trading Volume When Equity Short Sale Restrictions are Imposed or Removed"
Gizelle Fernandez - Florida International University, USA
Shahid S. Hamid - Florida International University, USA

Discussant: Francisco J. Callado Munoz - Girona University, Spain

"Intraday Liquidity in Gross Payment Systems"
Francisco J. Callado Munoz - Girona University, Spain
Natalia Utrero Gonzalez - Universitat de Girona, Spain

Discussant: Yan M. Alperovych - University of Liege, Belgium

"VC-Backed Firm Efficiency and Public Investor: Belgian Evidence"
Yan M. Alperovych - University of Liege, Belgium
Georges Hubner - University of Liege, Belgium
Fabrice Lobet - University of Brussels, Belgium

Discussant: Bartolome Pascual-Fuster - Universitat de les Illes Balears, Spain

SESSION 35 — Gracia B

CORPORATE GOVERNANCE II
Session Chair: Anna Zalewska - University of Bath, UK

"The Impact of Board Diversity on Boards' Monitoring Intensity and Firm Performance: Evidence from the Istanbul Stock Exchange"
Melsa Ararat - Sabanci University, Turkey
Mine Aksu - Sabanci University, Turkey
Ayse Tansel Cetin - Gebze Institute of Technology, Turkey

Discussant: Benjamin Maury - Hanken School of Economics, Finland

"External Shareholders: Incentives and Returns"
Anders Ekholm - Hanken School of Economics, Finland
Benjamin Maury - Hanken School of Economics, Finland

Discussant: Cristina Martinez-Sola - University of Jaen, Spain

"Corporate Cash Holdings and Firm Value"
Cristina Martinez-Sola - University of Jaen, Spain
Pedro J. Garcia-Teruel - University of Murcia, Spain
Pedro Martinez-Solano - University of Murcia, Spain

Discussant: Nikolaos T. Milonas - University of Athens, Greece

"The Voting Rights at Voting"
Theoharry E. Grammatikos - University of Luxembourg, Luxembourg
Nikolaos T. Milonas - University of Athens, Greece
Nickolaos G. Travlos - ALBA, Greece

Discussant: Mine Aksu - Sabanci University, Turkey

SESSION 36 — Putxet

ACCOUNTING ISSUES III
Session Chair: Andre Dorsman - Vrije University Amsterdam, The Netherlands

"Voluntary Financial Disclosure and the Setting of a Communication Policy: Empirical Test on SBF French Firms Using a Publication Score"
Hubert de La Bruslerie - University Paris Dauphine, France
Heger Gabteni - University Paris-Sorbonne, France

Discussant: Jeffrey L. Callen - University of Toronto, Canada

Tuesday 10:30-12:15

"Accounting Quality, Stock Price Delay and Future Stock Returns"
Jeffrey L. Callen - University of Toronto, Canada
Mozaffar Khan - Massachusetts Institute of Technology, USA
Hai Lu - University of Toronto, Canada

Discussant: Philip Gharghori - Monash University, Australia

"Difference of Opinion and the Cross-Section of Equity Returns: Australian Evidence"
Philip Gharghori - Monash University, Australia
Quin See - Monash University, Australia
Madhu Veeraraghavan - Monash University, Australia

Discussant: Nikolas Hourvouliades - American College of Thessaloniki, Greece

"The Q-Betas of a Stock"
Vassilis Polimenis - Aristotle University, Greece
Nikolas Hourvouliades - American College of Thessaloniki, Greece

Discussant: Hubert de La Bruslerie - University Paris Dauphine, France

LUNCHEON AND KEYNOTE SPEECH

12:15-2:15 p.m. Diamante

Professor Ed Kane

Boston College, USA

Tuesday 2:15-4:00

SESSION 37 **Ciutadella A**

MONETARY & POLITICAL ECONOMY

Session Chair: Frank S. Skinner - University of Surrey, UK

"Estimating Monetary Policy Preferences of the ECB"
Philip Arestis - University of Cambridge, UK
Michael Karoglou - Newcastle University, UK
Kostas Mouratidis - University of Sheffield, UK

Discussant: Francesca Carrieri - McGill University, Canada

"Do Implicit Barriers Matter for Globalization?"
Francesca Carrieri - McGill University, Canada
Ines Chaieb - University of Amsterdam, The Netherlands
Vihang Errunza - McGill University, Canada

Discussant: John Simpson - Curtin University, Australia

"A Market Based Composite Political Risk Indicator for the International Banking Industry"
John Simpson - Curtin University, Australia

Discussant: Janne Aijo - University of Vaasa, Finland

"Monetary Policy Decisions and Stock Market Uncertainty"
Sami Vahamaa - University of Vaasa, Finland
Janne Aijo - University of Vaasa, Finland

Discussant: Kostas Mouratidis - University of Sheffield, UK

SESSION 38 **Ciutadella B**

VOLATILITY

Session Chair: Ydriss Ziane - Sorbonne Graduate Business School, France

"Arch Family Models and VaR Estimation"
Francisco Lopez Herrera - Universidad Nacional Autonoma de Mexico, Mexico
Edgar Ortiz - Universidad Nacional Autonoma de Mexico, Mexico
Raul de Jesus - Universidad Nacional Autonoma de Mexico, Mexico

Discussant: Sirimon Treepongkaruna - Monash University, Australia

"Realizing the Volatility Impacts of Sovereign Credit Ratings on Equity and Currency Markets During Financial Crises"
Sirimon Treepongkaruna - Monash University, Australia
Eliza Wu - Australian School of Business, Australia

Discussant: Meher Manzur - Curtin University of Technology, Australia

"Options Pricing and Realized Volatility: The Missing Link?"
Meher Manzur - Curtin University of Technology, Australia
Ariful Hoque - University of Southern Queensland, Australia
Geoffrey Poitras - Simon Fraser University, Canada

Discussant: Iuliana Ismailescu - Pace University, USA

"Contagion and its Sources: Evidence from Emerging Debt Markets"
Iuliana Ismailescu - Pace University, USA

Discussant: Edgar Ortiz - Universidad Nacional Autonoma de Mexico, Mexico

SESSION 39 — Ciutadella C

MICROSTRUCTURE II
Session Chair: Bjorn Eraker - Wisconsin School of Business, USA

"Day End Returns on the Istanbul Stock Exchange"
Ali C. Akyol - University of Melbourne, Australia
David Michayluk - University of Technology Sydney, Australia

Discussant: Victor Fang - Monash University, Australia

"Idiosyncratic Risk and Australian Corporate Bond Returns"
Victor Fang - Monash University, Australia
Chi-Hsiou Hung - Durham University, UK
Chien-Ting Lin - University of Adelaide, Australia

Discussant: Matthew Clifton - University of Technology Sydney, Australia

"The Impact of Short Selling Restrictions and Extreme Uncertainty on Liquidity and Order Flow: Evidence from the London Stock Exchange"
Matthew Clifton - University of Technology Sydney, Australia
David Michayluk - University of Technology Sydney, Australia

Discussant: Elvis Jarnecic - University of Sydney, Australia

"An Empirical Analysis of High Frequency Trading on the London Stock Exchange"
Mark Snape - University of Sydney, Australia
Elvis Jarnecic - University of Sydney, Australia

Discussant: David Michayluk - University of Technology Sydney, Australia

SESSION 40 — Gracia A

BANKING ISSUES I
Session Chair: Hans Bystrom - Lund University, Sweden

"The African Credit Trap"
Svetlana Andrianova - University of Leicester, U.K.
Badi H. Baltagi - Syracuse University, U.S.
Panicos Demetriades - University of Leicester, UK
David Fielding - University of Otago, New Zealand

Discussant: Lammertjan Dam - University of Groningen, The Netherlands

"Moral Hazard Implications of Bank Bail-Outs"
Lammertjan Dam - University of Groningen, The Netherlands
Michael Koetter - University of Groningen, The Netherlands

Discussant: Kyriaki Kosmidou - Aristotle University, Greece

"Evaluating the Performance of the European Banking System"
Kyriaki Kosmidou - Aristotle University, Greece
Konstantinos Perperidis - Aristotle University, Greece

Discussant: Najah Attig - Saint Mary's University, Canada

"Does Trading in Derivatives Affect Bank Risk? The Canadian Evidence"
Najah Attig - Saint Mary's University, Canada
Jie Dai - Saint Mary's University, Canada

Discussant: Panicos Demetriades - University of Leicester, UK

SESSION 41 — Gracia B

MERGERS
Session Chair: Ghulam Sorwar - Nottingham University, UK

"Impact of Foreign Bank Acquisitions on Access to Financial Services: Evidence from Turkey"
A. Yasemin Yalta - Hacettepe University, Turkey
A. Talha Yalta - TOBB University of Economics and Technology, Turkey

Discussant: Jo Danbolt - University of Glasgow, UK

"Cross-Border Versus Domestic Acquisitions and the Impact on Shareholder Wealth"
Jo Danbolt - University of Glasgow, UK
Gillian Maciver - University of Glasgow, UK

Discussant: Isabel Feito-Ruiz - University of Oviedo, Spain

"Cash vs. Stocks for M&A Payments: Determinants and Shareholder Valuation"
Isabel Feito-Ruiz - University of Oviedo, Spain
Susana Menendez-Requejo - University of Oviedo, Spain

Discussant: Leonidas Barbopoulos - University of St Andrews, Scotland

"Mitigating Risks in Mergers and Acquisitions of Financial Institutions"
Panagiotis Alexakis - University of Athens, Greece
Leonidas Barbopoulos - University of St Andrews, Scotland

Discussant: A. Talha Yalta - TOBB University of Economics and Technology, Turkey

SESSION 42 — Putxet

BANKRUPTCY
Session Chair: Youngsoo Kim - University of Regina, Canada

"Default Prediction of Small and Medium sized Enterprises with Industry Effects"
Frieda Rikkers - Tilburg University, The Netherlands
Andre E. Thibeault - Vlerick Leuven Gent Management School, Belgium

Discussant: Sean Cleary - Queen’s University, Canada

Tuesday 2:15-4:00

"Bankruptcy Prediction for U.S. Banks"
Sean Cleary - Queen's University, Canada
Gregory Hebb - Dalhousie School University, Canada

Discussant: Regis Blazy - Strasbourg University, France

"Can Bankruptcy Codes Create Value? Evidence from Creditors' Recoveries in France, Germany, and the UK"
Regis Blazy - Strasbourg University, France
Joel Petey - Strasbourg University, France
Laurent Weill - Strasbourg University, France

Discussant: Aydin Ulucan - Hacettepe University, Turkey

"A Multiple Criteria Sorting Methodology with Uncertain Data and an Application to Country Risk Evaluation"
Aydin Ulucan - Hacettepe University, Turkey
Volkan Haskilic - Hacettepe University, Turkey

Discussant: Andre E. Thibeault - Vlerick Leuven Gent Management School, Belgium

Refreshments 4:00-4:15 p.m.

Tuesday 4:15-6:00

SESSION 43 **Ciutadella A**

FUNDS & DIVERSIFICATION
Session Chair: Jo Danbolt - University of Glasgow, UK

"Design Considerations for Retirement Savings and Retirement Income Products in the Post-Crisis Era"
Lakshman A. Alles - Curtin University of Technology, Australia

Discussant: Stefan Frey - University of Tubingen, Germany

"The Influence of Buy-side Analysts on Mutual Fund Trading"
Stefan Frey - University of Tubingen, Germany
Patrick Herbst - Goethe University Frankfurt, Germany

Discussant: Maria Teresa Medeiros Garcia - ISEG, Portugal

"Private Pensions and Individual Responsibility"
Maria Teresa Medeiros Garcia - ISEG, Portugal

Discussant: Anna A. Merika - Deree College, Greece

"House Price Co-Movement and Real Estate Diversification in Europe"
Anna A. Merika - Deree College, Greece
Anna Triantafyllou - Deree College, Greece
Andreas Merikas - University of Piraeus, Greece

Discussant: Lakshman A. Alles - Curtin University of Technology, Australia

SESSION 44 **Ciutadella B**

CORPORATE FINANCE
Session Chair: Sean Cleary - Queen's University, Canada

"Governance Quality and Information Alignment"
Ahmed Elbadry - University of Cairo, Egypt
Dimitrios Gounopoulos - University of Surrey, United Kingdom
Frank S. Skinner - University of Surrey, UK

Discussant: Petko S. Kalev - University of South Australia, Australia

"Investors Protection and Market Liquidity in the Hong Kong Stock Exchange"
Xiaofeng Shi - Monash University, Australia
Michael Dempsey - Monash University, Australia
Huu Nhan Duong - Deakin University, Australia
Petko S. Kalev - University of South Australia, Australia

Discussant: Basil Al-Najjar - Middlesex University, UK

"Corporate Governance Monitoring and Dividend Policy"
Basil Al-Najjar - Middlesex University, UK
Yacine Belghitar - Middlesex University, UK

Discussant: Stuart Archbold - Kingston University, UK

"Capital Structure Decisions and Decision Making: Survey Evidence from the UK and Greece"
Stuart Archbold - Kingston University, UK
Ioannis Lazaridis - University of Macedonia, Greece

Discussant: Frank S. Skinner - University of Surrey, UK

SESSION 45 **Ciutadella C**

HEDGE & MUTUAL FUNDS
Session Chair: Vihang Errunza - McGill University, Canada

"Competition and Fees in the Mutual Fund Industry: Evidence from a Multimarket Setting"
Christo A. Pirinsky - George Washington University, USA
Qinghai Wang - Georgia Institute of Technology, USA

Discussant: Hans Bystrom - Lund University, Sweden

"An Index to Evaluate Fund- and Fund Manager Performance"
Hans Bystrom - Lund University, Sweden

Discussant: Dennice Allen - RMIT University, Australia

"A Fund Manager's Dilemma: Integrating Environment, Social and Governance (ESG) Principles Throughout the Process of Managing Investment Portfolios"
Dennice Allen - RMIT University, Australia

Discussant: Mahmod Qadan - Haifa University, Israel

"The Limit-Hit Frequency in Futures Contracts"
Tamir Levy - Netanya Academic College, Israel
Mahmod Qadan - Haifa University, Israel
Joseph Yagil - Haifa University, Israel

Discussant: Christo A. Pirinsky - George Washington University, USA

SESSION 46 **Gracia A**

BANKING ISSUES II
Session Chair: Regis Blazy - Strasbourg University, France

"Better Borrowers, Fewer Banks?"
Christophe J. Godlewski - University of Strasbourg, France
Frederic Lobez - University of Lille, France
Jean-Christophe Statnik - University of Lille, France
Ydriss Ziane - Sorbonne Graduate Business School, France

Discussant: Ka Kei Chan - Cass Business School, UK

"A Theoretical Model on Balance Sheet Securitization"
Ka Kei Chan - Cass Business School, UK
Alistair Milne - Cass Business School, UK

Discussant: Ilkay Sendeniz-Yuncu - IESEG School of Management, France

"Which Firms Engage Small, Foreign, or State Banks? And Who Goes Islamic? Evidence from Turkey"
Steven Ongena - Tilburg University, The Netherlands
Ilkay Sendeniz-Yuncu - IESEG School of Management, France

Discussant: Denis Davydov - University of Vaasa, Finland

"Does the Choice Between Public and Bank Debt Affect Firm Performance? Russian Evidence"
Denis Davydov - University of Vaasa, Finland
Sami Vahamaa - University of Vaasa, Finland
Jussi Nikkinen - University of Vaasa, Finland

Discussant: Ydriss Ziane - Sorbonne Graduate Business School, France

SESSION 47 **Gracia B**

BONDS & STOCKS
Session Chair: Andre E. Thibeault - Vlerick Leuven Gent Management School, Belgium

"Correlations Between Stock Returns and Bond Returns: Income and Substitution Effects"
Gwangheon Hong - Sogang University, Korea
Youngsoo Kim - University of Regina, Canada
Bong-Soo Lee - Florida State University, USA

Discussant: Cristina Ortiz - University of Zaragoza, Spain

"The Role of Individual and Institutional Investors in Spanish Stock Returns"
Cristina Ortiz - University of Zaragoza, Spain
Gloria Ramirez -
Luis Vicente - University of Zaragoza, Spain

Discussant: Bjorn Eraker - Wisconsin School of Business, USA

"Over the Counter Stock Markets"
Bjorn Eraker - Wisconsin School of Business, USA
Mark Ready - Wisconsin School of Business, USA

Discussant: Feifei Li - Research Affiliates, LLC, USA

"Valuation-Indifferent Weighting for Bonds"
Robert D. Arnott - Research Affiliates, LLC, USA
Jason C. Hsu - Research Affiliates, LLC, USA
Feifei Li - Research Affiliates, LLC, USA
Shane D. Shepherd - Research Affiliates, LLC, USA

Discussant: Youngsoo Kim - University of Regina, Canada

Tuesday 4:15-6:00

SESSION 48 **Putxet**

TAKEOVERS II
Session Chair: Mehmet Baha Karan - Hacettepe University, Turkey

"What Determines Takeover Premia? An Empirical Analysis"
Karen Simonyan - Suffolk University, USA

Discussant: Amalia Di Iorio - RMIT University, Australia

"The Role of R&D in Cross-Border Mergers & Acquisitions"
Amalia Di Iorio - RMIT University, Australia
Michael Graham - RMIT University, Australia
Terrence Hallahan - RMIT University, Australia
Richard Heaney - RMIT University, Australia

Discussant: Ghulam Sorwar - Nottingham University, UK

"Determinants of Takeover Premium in Share-exchange Takeover Offers: An Exchange Option Pricing Approach: U.S. Experience"
Sudi Sudarsanam - Cranfield School of Management, UK
Ghulam Sorwar - Nottingham University, UK

Discussant: Karen Simonyan - Suffolk University, USA

Conference Participants

MULTINATIONAL FINANCE JOURNAL

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ASSET PRICING

Session Chair: Jonathan A. Batten - Hong Kong University of Science & Technology, Hong Kong

"Do Changes in Aggregate Volatility Risk Trigger a Variation in Beta?"

Yakup Eser Arisoy - IESEG School of Management, France
Aslihan Salih - Bilkent University, Turkey
Levent Akdeniz - Bilkent University, Turkey

Discussant: Dirk G. Baur - University of Technology Sydney, Australia

We propose an asset pricing model where an asset's beta changes discretely with respect to levels of aggregate volatility. Using returns on at-the-money straddles written on the S&P 500 index as a proxy for changes in aggregate volatility, we find that be

"The Risk of Beta – Investor Learning and Prospect Theory"

Dirk G. Baur - University of Technology Sydney, Australia
Niels Schulze - Deutsche Bundesbank, Germany

Discussant: Christian Bucio - Universidad Nacional Autonoma de Mexico, Mexico

Investors show different behavior in falling markets and in rising markets. This paper demonstrates that the beta of individual stocks varies across the entire return distribution and that the variation depends on the frequency of the returns. While there is a symmetric u-shape increase for extreme daily and weekly returns, there is an asymmetric effect with an increased beta for extreme negative returns for monthly data. We use all constituents of the EUROSTOXX600 index over the period of 1979 until 2009 and employ a quantile regression model to estimate the impact of the market on its constituents for different firm-specific return regimes. The regime-dependent role of systematic risks on individual stocks is explained with investor learning for daily and weekly data and prospect theory for monthly data. The results demonstrate that the risk of a stock can be underestimated or overestimated significantly if the analysis is confined to conditional means and the existence of regimes is ignored.

"Emerging Capital Markets and Multi-Moment Capital Asset Pricing Modeling Evidence from the Mexican Stock Exchange"

Christian Bucio - Universidad Nacional Autonoma de Mexico, Mexico
Alejandra Cabello - Universidad Nacional Autonoma de Mexico, Mexico

Discussant: Diderik Lund - University of Oslo, Norway

Traditionally, asset pricing models in finance have explained the trade-off between risk and returns stressing mean-variance analysis and/or a quadratic utility function. The risk premium is therefore derived form the second moment of a random variable and investors are not concerned with higher moments than the variance. Indeed, the Sharpe-Lintner-Mossin capital asset pricing model CAPM restricts the risk-return trade-off to a simple mean-variance relationship. However, a quadratic utility function assumes normality and increased risk aversion, but a more reasonable assumption suggests that risk aversion decreases as wealth increases. Furthermore, the empirical evidence shows that the normality assumption does not hold for most financial return series. Thus, risk premiums must be associated with higher distribution moments; indeed they might be key determinants for asset pricing and investment decisions. A growing literature has presented evidence that supports higher-moment CAPM. However, research on this area is limited for the case of emerging capital markets even though the volatility and return series from these markets have been identified as time dependent, returns are typically non-normal and are often non-symmetrical, and are characterized by fat tails, and their behavior is usually non-linear. Under these circumstances, systematic risk due to the variance and covariance's between the market and a the assets contained in a portfolio cannot be the only risk facing financial assets from emerging markets. This paper extends the Capítal Asset Pricing Model by identifying the importance of higher moments into the asset pricing process. It examines the role of co-skewness and co-kurtusis in pricing assets at the Mexican Stock Exchange. Skewness and kurtosis are jointly analyzed with the skewness and kurtosis of the Mexican market index. Thus, in addition to the beta systematic risk, this work aims at

determining the presence of systematic skewness and systematic kurtosis and if they are priced in asset prices. If systematic co-skewness is present, investors will prefer an asset with positive co-skewness; in relation to the presence of extreme fluctuations investors need to know the likehood that extreme values take place jointly in a given asset and the market, which is measured by the co-kurtosis. In this paper, risk factors are allowed to change over time in the autoregressive process. Results from the unconditional non-linear generalization of the standard model reveals that in the higher moment CAPM model investors are rewarded both for co-skeweness risk and co-kurtosis risk, but systematic co-skewness is apparently more significant, Finally, the empirical usefulness of conditional higher moments is explaining the cross-section of asset return is also investigated. The empirical evidence indicates that the conditional co-skenewness is an important determinant of asset pricing, and the asset pricing relationship varies over time. The conditional co-variance and the conditional co-kurtosis also help to explain the asset pricing relationship. Test carried out in this paper includes daily index returns, 40 daily share prices, and daily Mexican Treasury Bills for the period 2006 to 2009. The period and the number of shares were determined after carefully examining market trade since year 2000. Due to the lack of daily trade many listed companies were taken out of the initial corporate sample. At any rate, the sample covers over 75 percent of market capitalization at the Mexican Stock Exchange.

"Marginal Versus Average Beta of Equity, and the Risk of Depreciation Tax Shields"
Diderik Lund - University of Oslo, Norway

Discussant: Aslihan Salih - Bilkent University, Turkey

Even for fully equity-financed firms there can be substantial effects of taxation on after-tax costs of capital when there are depreciation deductions. Among the few studies of these effects, even fewer identify all effects correctly. Some claim to characterize the cost of capital, but fail to identify the marginal investment. When this is taxed together with inframarginal, marginal beta differs from average. This study shows the relation between the two and derives a correctly tax-adjusted weighted average cost of capital. To find asset betas, observed equity betas should not only be unlevered, but also "unaveraged" and "untaxed."

SESSION 2 Monday 8:30- 10:15 Ciutadella B

FINANCIAL ECONOMETRICS
Session Chair: Sasson Bar-Yosef - Bocconi University, Italy

"Do Trading Volumes Explain the Persistence of GARCH Effects?"
Rachael Carroll - Trinity College, Ireland
Colm Kearney - Trinity College, Ireland

Discussant: Wang Yun-Jen - National Chiao Tung University, Taiwan

We examine the role of trading volumes in GARCH-based tests of the mixture of distributions hypothesis (MDH) on firm-level data for the 20 largest S&P 500 stocks. In doing so we provide a set of increasingly generalized nested models within which to examine the role of trading volumes, beginning with the AR1-GARCH(1,1) model with no trading volumes, progressing to the univariate AR1-GARCH(1,1)-X, the AR1-GARCH(1,1)-M and the AR1-GARCH(1,1)-M-X models, and culminating with the constant correlation bivariate AR(1)-GARCH(1,1)-M-X model. Amongst our main finding are that trading volumes are robustly significant and positively signed in the volatility of returns equations for most firms, acting to reduce persistence and to eliminate the need for GARCH terms. As we progress from the AR1-GARCH(1,1) to the AR1-GARCH(1,1)-X, AR1-GARCH(1,1)-M-X and the bivariate AR(1)-GARCH(1,1)-M-X models, the persistence parameters decline from an average of 0.988 to 0.331, 0.213 and 0.314 respectively. Our results are very robust and consistent with the MDH in most cases, but not all due most likely to idiosyncratic risk differences among firms.

"A Value at Risk Analysis of Carry Trade using Skew-GARCH Models"
Huimin Chung - National Chiao Tung University, Taiwan
Wang Yun-Jen - National Chiao Tung University, Taiwan

Discussant: Christos Floros - University of Portsmouth, UK

This paper considers the Value at Risk (VaR) analysis of a very popular strategy in the currency markets, carry trade, which buys a long position in high interest rate currencies funded by selling in low interest rate currencies. We propose the two GARCH models with skew normal and skew t innovations and link them to the VaR of the return in carry trades. The stress testing results show that the skew normal density is relatively suitable for the measurement of VaR of carry trade returns such as taking a long position in Australia Dollar funded by selling Japanese Yen.

"Forecasting Value-at-Risk (VaR) using Fractionally Integrated Models of Conditional Volatility"
Stavros Degiannakis - University of Portsmouth, UK
Christos Floros - University of Portsmouth, UK
Pamela Dent - University of Portsmouth, UK

Discussant: Johan Knif - Hanken School of Economics, Finland

Most studies focus on modeling VaR only for the one-step-ahead conditional variance. We present findings of a study which compares the performance of long memory FIGARCH models with that of short memory GARCH specifications in the forecasting of daily and multi-period Value-at-Risk (VaR) across 21 stock indices. The research addresses the question of whether or not accounting for volatility persistence in the model specification improves the accuracy of the VaR forecasts produced, particularly for longer time horizons. Accounting for fractional integration in the long memory model does not appear to improve the accuracy of the 1-day VaR forecasts over those produced by the short memory GARCH model. Furthermore, the results suggest that the GARCH specification outperforms the FIGARCH specification for forecasting 10-day VaR.

"Time-Varying Conditional Correlation: International Equity Market Evidence"
Johan Knif - Hanken School of Economics, Finland
James Kolari - Texas A&M University, USA
Seppo Pynnonen - University of Vaasa, Finland

Discussant: Rachael Carroll - Trinity College, Ireland

This paper uses daily returns to investigate the dependency of time varying conditional cross correlation on prevailing market conditions. The main focus of the paper is to investigate the issue whether return cross-correlations are dependent on the market volatiliness [e.g., Ramchand and Susmel (1998)] or the prevailing market trends [e.g. Longin and Solnik (2001)]. This paper shows that modeling of conditional bivariate correlation can be reduced to a problem of modeling univariate GARCH-process. The advantage of this approach is that allows utilization of existing GARCH software to estimate the dynamics of correlation between two markets. Empirical investigation of the incremental effect of volatilities and market downturns on correlation have been reported for a number of stock markets in North America, Asia, and Europe. Our results reveal that time-varying correlations between stock markets are largely unpredictable and are at best dependent on world market volatilities, and very little if not at all of its own history. Also weaker evidence is found that correlations are driven by market downturns.

SESSION 3 Monday 8:30- 10:15 Ciutadella C

CREDIT MARKETS

Session Chair: David P. Simon - Bentley University, USA

"The Timeliness of CDS Spread Changes in Predicting Corporate Default, 2004-2008"
Katrin Gottschalk - Auckland University of Technology, New Zealand
Paddy Walker - PricewaterhouseCoopers, New Zealand

Discussant: Koresh Galil - Ben-Gurion University, Israel

A Credit Default Swap (CDS) is a derivative that prices insurance against the default of its underlying bond. This paper tests the ability that CDS spreads have to predict default by addressing the question: how long before default does a significant change in the CDS spread occur? The sample analyzed consists of 39 default events by Moody's rated corporate issuers from 2004 to 2008. Included in the sample are some of the systemic financial institutions of the 2008 credit crisis such as Lehman Brothers, GMAC, and Washington Mutual. The results are significant; CDS spreads are found to be powerful instruments for default prediction. Matching firm-adjusted CDS spreads in this sample increase substantially between 22 and 25 days prior to default, and these findings are robust to CDS index-adjustments. The magnitude and significance of the results are much larger for financial firms, most likely because of their increased exposure to default through leverage. Changes in spreads prior to default are also more significant during the credit crisis than in earlier periods.

"Good News, Bad News and Rating Announcements: An Empirical Investigation"
Koresh Galil - Ben-Gurion University, Israel
Gil Soffer -

Discussant: Bogdan Stacescu - Norwegian School of Management, Norway

In this paper we employ a new approach for testing the information contribution of rating announcements. This is the first study to test and prove the response of the CDS market to rating actions after controlling for the presence of concurrent public and private information. We show that since clustering rating announcements characterizes economically significant developments, the common practice of using "uncontaminated" samples underestimates market response. As in previous studies, we find that the market response to bad news is stronger than to good news. Nevertheless, bad news and negative rating announcements tend to cluster. Therefore, the residual contribution of negative rating announcements is small and in some cases insignificant. Positive rating announcements are less frequent and less clustered, though their residual contribution is still significant.

"Information Sharing and Information Acquisition in Credit Markets"
Artashes Karapetyan - University of Zurich, Switzerland
Bogdan Stacescu - Norwegian School of Management, Norway

Discussant: Enrique Batiz-Zuk - University of Manchester, UK

Since information asymmetries have been identified as an important source of bank profits, it may seem that the establishment of information sharing (e.g., introducing credit bureaus or public registers) will lead to lower investment in acquiring information. However, banks base their decisions on both hard and soft information, and it is only the former type of data that can be communicated credibly. We show that when hard information is shared, banks will invest more in soft information. These will produce more accurate lending decisions, provide higher welfare, lead to an increased focus on relationship banking and favor informationally opaque borrowers. We test our theory using a large sample of firm-level data from 24 countries.

"Estimating Credit Contagion under Non-Normality"
Enrique Batiz-Zuk - University of Manchester, UK
George Christodoulakis - University of Manchester, UK
Ser-Huang Poon - University of Manchester, UK

Discussant: Katrin Gottschalk - Auckland University of Technology, New Zealand

We generalize existing structural credit risk models that take account of contagion across economic sectors to capture the impact of skewness and excess kurtosis in the asset return process on the shape of the credit loss distribution. We use Skew Normal and Skew Student's t densities to develop a Maximum Likelihood estimator of the credit loss density for individual default rates based on proprietary data of the Mexican Central Bank for six firm sectors. We show that out of the six analyzed sectors there is a significant contagion effect in 'Commerce', 'Services' and 'Transport'. Moreover, we show that the nongaussian modelling of the common factor provides a better characterization than its Gaussian counterpart for the 'Services' sector. This result has a significant impact on the shape and the corresponding VaR levels of the 'Services' credit loss distribution. In this context, traditional Basel II and Vendor based credit risk models are inadequate as these do not consider the individual or the joint impact of contagion and non-gaussianity.

TOPICS IN DERIVATIVE MARKETS I

Session Chair: Shmuel Hauser - ONO Academic College, Israel

"Profiting from Black Swan Trades: Evidence from S&P 500 Puts"

Michael J. Naylor - Massey University, New Zealand
Udomsak Wongchoti - Massey University, New Zealand
Jianguo Chen - Massey University, New Zealand

Discussant: Leonidas S. Rompolis - University of Cyprus, Cyprus

The seemingly increase in large security market swings due to unexpected extreme (Black Swan) events and the associated increase in volatility raises the question as to whether or not profit can be made from exploiting these tendencies. A common swan trading hypothesis is that abnormal profits can be made by continually buying far-out-of the money puts in the expectation a periodic crisis will more than cover any short-term losses. This paper examines the profitability of this hypothesis using puts on the S&P 500 index over the 18 year period 1990-2008. While the Swan hypothesis has been extensively covered by the financial press, and Swan hedge funds established, this paper is the first academic test of the Swan trading hypothesis. We also examine what the characteristics of extreme events, in terms of frequency and size, have to be to make Swan strategies profitable. The paper also provides evidence as to whether or not far out-of-the-money puts are correctly priced, the volatility-smile puzzle, by indirectly examining whether market traders do incorporate market extremes into prices.

"Explaining the Formation of the Risk-Neutral Density using an Adaptive Expectations Model"

George Chalamandaris - Athens University of Economics and Business, Greece
Leonidas S. Rompolis - University of Cyprus, Cyprus

Discussant: Panayiotis C. Andreou - Cyprus University of Technology, Cyprus

In this article we provide a theoretical framework that aims to explain the formation of the risk-neutral density using the realized returns from the spot market. Our study is conducted at the level of cumulants which provide a complete description of a probability density function and can be considered as largely non-parametric with a minimal set of assumptions for the stochastic process that drives asset returns. The empirical results, based on the S&P 500 index, demonstrate that there is strong link between the spot and the options market. We postulate a learning mechanism, based in the Adaptive Expectations hypotheses, that accounts for the incorporation of the information from the spot market into the prices of option contracts. We demonstrate the statistical significance of this model in the context of four competitive models both in their in-sample fitting and in their out-of-sample forecasting performance. We assess its economic significance through an option price forecasting exercise.

"A Volatility Smirk that Defaults: The Case of the S&P 500 Index Options"

Panayiotis C. Andreou - Cyprus University of Technology, Cyprus

Discussant: Sol Kim - Hankuk University of Foreign Studies, Korea

Modern financial engineering has dedicated significant effort in developing sophisticated option pricing models to replicate the implied volatility smirk anomaly. Nonetheless, there is limited empirical evidence to examine the causes of this anomaly implied by market options data. The primary purpose of this study is to investigate the time-series economic determinants that affect the shape of the S&P 500 index Implied Volatility Function (IVF). The analysis is carried out on a daily basis and covers the period from January 1998 to December 2007. One of the most important contributions of this study is to investigate how the market default risk affects the shape of the risk-neutral density function implied by the S&P 500 index options. In order to create the proxy for the market default risk, I compute the daily probability-to-default measure for all individual, non-financial, firms included in the S&P 500 index. The daily probability-to-default is calculated with the Merton distance-to-default measure, which is based on Merton's (1974) option pricing model. Part of my analysis includes discussions of the different versions of the default risk that I compute and compare with some key results reported in Bharath and Shumway (2008). My analysis shows that the market default risk has a dual role to play, since it can potentially

capture both, the market leverage effect, as well as, the market's perceptions about the future growth/state of the economy. As such, market default risk has been found to affect the shape of the S&P 500 index IVF in numerous ways. The results suggest that, besides options pricing models that admit stochastic volatility and random jumps, it is also worthwhile to exploit models that take into account market leverage such as the ones of Geske (1979) and Toft and Prucyk (1997). More importantly, in a regression analysis where I disentangle the role of market leverage by separating it from the asset return, I show that the contemporaneous index return is still important in explaining the shape of the S&P 500 index IVF. The results of this study illuminate a set of economic determinants that are found to affect the risk-neutral density function of the index. These factors are related to characteristics of the underlying asset and micro-structure variables character zing the option market itself. Financial engineers can exploit the role and importance of these factors in the future, in order to improve the forecasting accuracy, as well as, the hedging and risk management performance of option pricing models.

"Empirical Comparison of Alternative Option Pricing Models: Evidence from Intraday Data"
Sol Kim - Hankuk University of Foreign Studies, Korea

Discussant: Michael J. Naylor - Massey University, New Zealand

We examine the pricing performance of the alternative option pricing models using intraday data of KOSPI 200 index options. For the comparison, we consider Black and Scholes (1973) model, simple traders' rule which is called ad hoc Black-Scholes model, the stochastic volatility model and the stochastic volatility with jumps model. Contrary to the results of Jackwerth and Rubinstein (2001), Li and Pearson (2007), and Kim (2009), it is found that the most complicated model, that is, the stochastic volatility with jumps model, shows the best performance followed by the stochastic volatility model for pricing KOSPI 200 index options. As a result, when we consider intraday data, the complicated models show better performance than simple traders' rule or the Black and Scholes (1973) model.

SESSION 5 — Monday 8:30- 10:15 — Gracia B

TAKEOVERS I
Session Chair: Edward Nelling - Drexel University, USA

"The Determinants of the Payment Method Choice in Cross Border Acquisitions: The US Case"
Alain Chevalier - ESCP-Europe, France
Etienne Redor - Audencia Nantes, France

Discussant: Julinda Nuri - University of Surrey, UK

"The Mystery of the Market for Corporate Control: Takeover of Underperforming Firms"
Julinda Nuri - University of Surrey, UK
Stefan Luthringshauser - Capmark Asset Management GmbH, Germany

Discussant: Lien Duong - Curtin University of Technology, Australia

This study examined the relationship between underperformance and takeover likelihood using stock-market and accounting-based financial measurements from companies in the UK, US and Canada over a period of 17 years (1988 - 2004), applying hierarchical binary logistic regression analysis. Despite the general wisdom in the financial literature that the external markets for corporate control are said to work actively as a disciplinary device through takeovers in Anglo-Saxon economies, our study could not confirm these outcomes statistically. This research detected no significant association between takeover likelihood and firm performance, implying that the disciplinary effect of takeovers is statistically nonexistent.

"Consequences of Riding Takeover Waves: Australian Evidence"
Lien Duong - Curtin University of Technology, Australia
H.Y Izan - The University of Western Australia, Australia

Discussant: Loic Belze - E.M. LYON, France

This paper explores economic implications for target and bidder firm shareholders by investigating takeover bid premiums and long-term abnormal returns separately between wave and non-wave periods. Findings reveal that target shareholders earn abnormally positive returns in takeover bids and bid premiums are slightly lower in the wave periods. Analysis of the returns to bidding firm shareholders suggests that the lower premiums earned by target shareholders in the wave periods may simply reflect lower total economic gains, at the margin, to takeovers made in the wave periods. It is found that bidding firms earn normal post-takeover returns (relative to a portfolio of firms matched in size and survival) if their bids are made in the non-wave periods. However, bidders who announce their takeover bids during the wave periods exhibit significant under-performance. For mergers that took place within waves, there is no difference in bid premiums nor is there a difference in the long-run returns of bidders involved in the first half and second half of the waves. We find that none of prominent theories of merger waves (managerial, misvaluation and neoclassical) can fully account for the Australian takeover waves and their effects. Instead, our results suggest that a combination of these theories may provide better explanation.

"Preventive Anti-Takeover Defenses: Evidence from the French Market for Corporate Control"
Loic Belze - E.M. LYON, France

Discussant: Alain Chevalier - ESCP-Europe, France

Considering the French market for corporate control specificities, this paper examines the existence of preventive anti-takeover defenses and their efficiency in France during the 1989-1998 period. Based on a sample of 162 firms, results show that preventive defenses linked to the board and ownership structure have the most deterrent effect on ex ante takeover likelihood. Moreover only those based on voting rights may help the manager to protect her human capital ex post. In both cases, we observe a positive influence of performance variable suggesting that the French market for corporate control is mostly driven by a rent-seeking behavior of managers.

SESSION 6 Monday 8:30- 10:15 Putxet

INTERNATIONAL FINANCIAL MARKETS

Session Chair: Antonio Diaz - Universidad de Castilla - La Mancha, Spain

"The EMU Integration Structure and the Spillover Dynamics Towards the IAS Harmonization"
G.A. Karathanassis - Athens University of Economics and Business, Greece
V.I. Sogiakas - Athens University of Economics and Business, Greece
Stella Spilioti - Athens University of Economics and Business, Greece

Discussant: Kashif Saleem - Lappeenranta Univeristy of Technology, Finland

This paper investigates the relationship between the European Monetary Union (EMU) financial markets either in the long or in the short run term, with respect to the harmonization procedure of the International Accounting Standards (IAS). According to many analysts, the IAS could possible contribute to the transparency of the transmitted information, the direct accessibility to the fundamentals of listed firms and the uniform manipulation of accounting data not only within exchanges but also between them. Based on the above, it is expected that the financial markets should react to the IAS harmonization with tighter relationships either in the expectations of their long run structure or in the transmission of new information which is expressed by the second moment dynamics. This paper examines empirically the IAS harmonization procedure in the EMU area and its impact on the relationship of the financial markets involved. By application of regime shift methodologies, the empirical findings of the paper offer evidence consistent with the hypothesis that the IAS harmonization process contributed to the informational efficiency and the transparency of long and short run expectations into financial markets, with higher degrees of interdependencies.

"Volatility Spillovers from the US Subprime Crisis to Bric Countries"
Jussi Nikkinen - University of Vaasa, Finland
Kashif Saleem - Lappeenranta Univeristy of Technology, Finland
Minna Martikainen - Lappeenranta Univeristy of Technology, Finland

Discussant: Sazali Abidin - University of Waikato, New Zealand

Although, there is an apparent consensus about the contagion effects of the current US subprime crisis. However, the transmission and repercussions of US subprime crisis, as well as the nature of the transformation suffered by different economic sectors between the US and other markets are such empirical questions that have not been dealt with comprehensively. In this paper, by utilizing the multivariate GARCH analysis of Engle and Kroner (1995) for which a BEKK representation is adopted, we examine the transmission of the US subprime crisis across BRIC financial markets. Moreover, to identify the extent of contagion, we also inspect the diffusion of US subprime crisis to BRIC equity market's financial and industrial sectors. We found interesting evidence of both return and volatility spillovers from US market to all the BRIC markets during the crisis period – evidence f contagion. Moreover, we found no support for the decoupling view while investigating the fastest growing emerging markets, the BRIC countries.

"Cointegration between Stock Prices and Exchange Rates in Australasian Countries"
Sazali Abidin - University of Waikato, New Zealand
Chase Walters - University of Waikato, New Zealand
Kwan-Lyn Lim - University of Waikato, New Zealand

Discussant: Piyadasa Edirisuriya - Monash University, Australia

There is considerable interest surrounding the relationship between stock markets and exchange rates due to the potential predicatory power for policy makers and investors. From a sample of seven Australasian countries, we find that there is no evidence of a long run cointegration between stock markets and exchange rates. This result interfaces with some of Bahmani-Oskooee and Sohrabian's (1992) and Nieh and Lee's (2001) findings, but contrasts to previous literature which suggests that there should be some cointegration relationship between the two markets (Lin, 2000). Although Japan showed some evidence of cointegration, Ramasay and Yeung (2005) suggest that such anomalies could merely be the product of the time period chosen, providing resolve to our conclusion that there is no long run significant relationship between stock markets and exchange rates.

"Financial Market Integration and Co-movements among the Growth Rates: Evidence from South Asian Countries"
Piyadasa Edirisuriya - Monash University, Australia

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

Since the 1980s, South Asian countries have been implementing financial market deregulation policies continuously. Although the process of deregulations has been slow, many countries in the region are heading toward a more integrated market despite current global turmoil. Financial market integration in South Asia could have synchronized economic activities of the countries in the region due to the impact of consolidation. This suggests that when the region's economies grow/contract, all countries could follow the same path or co-movement of growth rates is possible. When economic growth rates are similar for a region, it may be easier to formulate economic policies to achieve a common goal. As the political leadership of South Asia has agreed to work towards forming an economic block similar to that of the European Union and ASIAN, examining co-movement of growth rates could shed more lights on the issue of the success of market integration in the region. The objective of this study is to study market integration by analyzing financial markets, trade and economic growth data to spot whether there is any co-movement of growth rates among South Asian countries due to financial market deregulation policies implemented so far. Findings show mix results.

SESSION 7 **Monday 10:30 - 12:15** **Ciutadella A**

MUTUAL FUNDS
Session Chair: Diderik Lund - University of Oslo, Norway

"Performance of U.S. Equity and Bond Mutual Funds Using the Stochastic Discount Factor Approach"

Ines Gargouri - Concordia University, Canada
Lawrence Kryzanowski - Concordia University, Canada

Discussant: Andrew Mason - University of Surrey, UK

This paper assesses the performance of U.S. equity and bond funds over 45 years using the stochastic discount factor (SDF) approach. We test the applicability of nine candidate models for describing the pricing kernels, and use these pricing kernels to test whether fund managers can earn abnormal risk-adjusted returns for their unit holders. The smallest pricing errors are obtained using the CAPM-based (Momentum) model for equity (bond) funds under the unconditional setting. The Momentum model yields the smallest pricing errors for both fund types under the conditional setting and is the appropriate pricing kernel specification for equity funds based on the Hansen-Jagannathan boundary test. The percentage of abnormal average alpha is very low overall and is the highest using the CAPM-based pricing kernel.

"The Efficiency of Performance-Based-Fee Funds"
Ana C. Diaz-Mendoza - Universidad del Pais Vasco, Spain
German Lopez-Espinosa - Universidad de Navarra, Spain
Miguel A. Martinez-Sedano - Universidad del Pais Vasco, Spain

Discussant: Maria Ceu Cortez - University of Minho, Portugal

This paper analyses the performance-expenses relationship in mutual funds which charge management fees total or partially on returns (mixed funds) and in those which charge management fees totally on assets (asset funds). We apply our study to a sample of Spanish mutual funds, from 1999 to 2009. In particular, we find that mixed funds perform significantly better than the rest of risky funds considered. Moreover, we have found a strong positive performance-expenses relationship for mixed funds and negative for asset funds. Thus, asset funds which incur in relatively high expenses perform relatively bad and mixed funds relatively good, once the effect of volatility, age and size is considered. This result seems to point to a more efficiency of mixed funds, according to the Grossman and Stiglitz's efficiency criterion.

"Investing in Mutual Funds: Does it Pay to be a Sinner or a Saint?"
Nelson Areal - University of Minho, Portugal
Maria Ceu Cortez - University of Minho, Portugal
Florinda Silva - University of Minho, Portugal

Discussant: Ana C. Diaz-Mendoza - Universidad del Pais Vasco, Spain

This paper investigates the performance of socially responsible funds that employ different types of screens and criteria for selecting stocks. The sample includes US funds that invest according to religious criteria (MRI funds), social criteria (SRI funds) and 'irresponsible' criteria. The performance of these funds is evaluated over bull and bear markets through an innovative approach that defines different states of the market endogenously. The results based on the Markov-switching conditional CAPM produce distinct estimates of performance over bull and bear markets. The 'irresponsible' fund outperforms the market and portfolios of responsible funds (both MRI and SRI) in bull markets, but underperforms in bear markets. Furthermore, the risk of the 'irresponsible' fund is higher in bull markets and lower in down markets, while SRI funds do not seem to adjust fund betas according to market conditions. The fact that SRI funds, though not pursuing timing strategies, still yield higher performance in bear markets is consistent with the argument that stocks of socially responsible companies provide better investments during periods of crisis. Moreover, the Markov-switching conditional CAPM approach overcomes most of the econometric problems inherent to the standard performance evaluation methodologies, therefore allowing our results to be interpreted with a higher degree of reliability.

"Combined Returns Based and Characteristics Based Style Analysis: Greater Than the Sum of the Parts?"
Andrew Mason - University of Surrey, UK

Discussant: Ines Gargouri - Concordia University, Canada

In this paper we present a new model for the classification of U.S. Equity Mutual funds and illustrate how this combined BFI-CBS methodology improves on the out of sample forecasting properties of either a Characteristics Based or Returns based investment style analysis model on their own. Our new model classifies styles in line with principles of market segmentation and then further refines the classification of investment styles based on the characteristics of stocks held in the portfolios of a large sample of U.S. Mutual funds. This method meets the essential criteria that classification within an investment style should be homogenous and classification between styles is heterogeneous. As well as illustrating that the style groups formed explained a significant proportion of the cross section of fund returns out of sample we also provide qualitative analysis of style groups S&P500 sector weightings which confirm our style designations.

SESSION 8 Monday 10:30 - 12:15 Ciutadella B

INTEREST & EXCHANGE RISK

Session Chair: Johan Knif - Hanken School of Economics, Finland

"Time Series Behavior of the Real Interest Rates in Transition Economies"

Pelin Oge Guney - Hacettepe University, Turkey
Mubariz Hasanov - Hacettepe University, Turkey
Erdinc Telatar - Hacettepe University, Turkey

Discussant: William D. Bryant - Macquarie University, Australia

The stationarity of ex post and ex ante real interest rates is examined for 21 transition economies. Owing to transaction costs and other frictions, it is quite plausible that we deal with potential non-linearities in the real interest rate. Therefore we examine stationarity of real interest rate allowing for non-linearties and asymmetric adjustment with smooth structural change in the data generating process. Our finding suggests that taking account of non-linearities in the data generating process results in rejection of the unit root null hypothesis for some countries which seem to non-stationary according to conventional unit root tests. Also, our findings point to the importance of allowing for both structural breaks and asymmetric adjustment in real interest rate series of transition countries.

"Interest Linkages between the US, UK and German Interest Rates: Should the UK join the European Monetary Union?"

William D. Bryant - Macquarie University, Australia
Roselyne Joyeux - Macquarie University, Australia

Discussant: Jonathan A. Batten - Hong Kong University of Science & Technology, Hong Kong

In light of continuing mixed results in the literature, this paper re-examines the German Dominance Hypothesis (GDH) and considers whether the UK should join the Euro zone . For this purpose short term interest rates relationships between the UK, Germany, the Euro zone and the USA for the period January 1982 to June 2007 are studied. The policy implication of a loss of monetary autonomy for the UK in favor of Germany or the European Central Bank (ECB) would give support to the UK joining the EMU as an economic response. From the early 1980's the Bundesbank's responsibility was to use money growth targets to keep the average inflation rate down in the long run. This long run objective suggests that an appropriate methodology for testing the GDH is to test whether the German stochastic trend is a driving stochastic trend. In other words we determine whether a permanent shock to the German interest rate has a permanent effect on the UK interest rate. To this end the structural shocks in a VECM are identified by imposing long-run restrictions of the type developed in King, Plosser, Stock & Watson (1991). We apply the same techniques to testing whether the UK has suffered a loss of monetary autonomy in favor of the ECB.

"Covered Interest Parity in the Yen Forward Market: New Insights from Threshold Non-Linear Dynamics"

Jonathan A. Batten - Hong Kong University of Science & Technology, Hong Kong

Wai-Sum Chan - Chinese University of Hong Kong, Hong Kong
Hon-Lun Chung - Hong Kong Polytechnic University, Hong Kong
Peter G. Szilagyi - University of Cambridge, UK

Discussant: Mazila Md-Yusuf - Universiti Teknologi MARA, Malaysia

We examine the dynamics of the Covered Interest Parity (CIP) relationship between the market quoted and implied forward price using Bivariate Threshold AutoRegressive (BTAR) modeling for different maturities in the Japanese-US dollar forward market. This approach estimates a "switch" variable, which is easily expressed in exchange rate basis points that moves from negative to positive depending on the direction of the CIP arbitrage. The results confirm the presence of a time-varying transaction band around the parity price that varies with the maturity of the forward contract and tends to be one way favoring those with the ability to borrow US dollars. However, the potential economic profit associated with exploiting the reverse arbitrage that favors those with the ability to borrow yen, appears to be effected by volatility in the underlying CIP relation.

"Relationship of Equity Market and Exchange Rate Volatility in Malaysia"
Mazila Md-Yusuf - Universiti Teknologi MARA, Malaysia

Discussant: Pelin Oge Guney - Hacettepe University, Turkey

The primary objective of this paper is to determine the relationship and causality effect between the stock market and the foreign exchange volatility in Malaysia during several periods before and after the 1997 Asian financial crisis. The interactions were determined using a bivariate as well as a multivariate framework of cointegration and Granger causality effect test. The study focused on the overall and sectoral performance of the Malaysian stock market with Malaysian ringgit exchange rate volatility. The results showed that there is a negative long-run relationship between stock market and exchange rate volatility. Examining the Granger causality effect, the findings found bi-directional Granger causality effects between stock market and exchange rate volatility in an overall analysis of the Malaysian market, for both bivariate and multivariate approaches. In the sectoral market analysis, the results showed bidirectional Granger causality effect between stock prices and exchange rate volatility in all except in Finance and Properties for bivariate framework and in Finance for multivariate estimation.

SESSION 9 Monday 10:30 - 12:15 Ciutadella C

BONDS

Session Chair: Alain Chevalier - ESCP-Europe, France

"Evidence and Implications of the Predictability of High Yield Bond Returns"
David P. Simon - Bentley University, USA

Discussant: Francisco Jareno - Universidad de Castilla - La Mancha, Spain

This study demonstrates that roughly one quarter to one third of the monthly returns of the Merrill Lynch High Yield Bond Indexes from September 1988 through June 2009 can be explained by predetermined variables. The study also shows that out of sample forecasts of Sharpe ratios from GARCH models are able to predict favorable and unfavorable times to invest in high yield bonds and would have allowed investors to avoid most of the months in which high yield bonds suffered substantial losses. These out of sample results are robust when applied to Vanguard and Fidelity high yield bond mutual funds. Overall, the results support the case for allocating funds to high yield bonds only when favorable risk-return tradeoffs are forecast, particularly in light of the modest risk adjusted high yield bond returns from passive strategies over the sample period and the recent introduction of high yield bond exchange traded funds, which has substantially reduced transactions costs.

"Yield Curve and Volatility for the US Treasury Market"
Antonio Diaz - Universidad de Castilla - La Mancha, Spain
Francisco Jareno - Universidad de Castilla - La Mancha, Spain
Eliseo Navarro - Universidad de Castilla - La Mancha, Spain

Discussant: Zvika Afik - Ben-Gurion University, Israel

In this paper, we proceed to estimate term structure of interest rate volatilities using a large transaction data set of U.S. Treasury securities provided by GovPX. We find that these estimates depend significantly on the model used to estimate the zero coupon yield curve structure (Nelson and Siegel, Svensson or Vasicek and Fong) and the assumption about the heteroskedasticity structure of errors (OLS or GLS weighted by duration). We conclude in our empirical analysis that there are significant differences between these volatilities for all maturities, mainly in the short term, but also in the long term.

"Expected Bond Returns: A Markov Model and Market Data"
Zvika Afik - Ben-Gurion University, Israel
Simon Benninga - Ben-Gurion University, Israel

Discussant: Terry Hallahan - RMIT University, Australia

We propose, analyze, and implement a model for the estimation of expected bond returns (EBR) based on a discrete time Markov process of rating transition. We use corporate bond transaction data from the United States and a rating agency transition matrix to extract the term structure of EBR. We propose a modified breakdown of the risky bond yield to its components; show that EBR includes a certainty equivalence premium which is related to the CAPM. To facilitate the analysis we present a simplified model of EBR and analyze it. We describe some early results of the properties of this EBR model and outline our plans to explore its applicability in research and practice for bond yield related topics such as credit risk, liquidity premium, and implied recovery rates.

"Corporate Bond Rating Changes and Their Impact on Stock Prices: A Comparison Study of Return Generating Models"
Hasniza Mohd Taib - RMIT University, Australia
Amalia Di Iorio - RMIT University, Australia
Terry Hallahan - RMIT University, Australia
Emawtee Bissoondoyal-Bheenick - Monash University, Australia

Discussant: David P. Simon - Bentley University, USA

This paper examines the stock market impact of announcements of corporate bond rating revisions for companies in the United Kingdom from January 1997 to December 2006 and compares alternative techniques for estimating abnormal returns. We employ four return generating models- the conventional market model, and three models augmented to allow for asymmetry in returns and downside risk - the quadratic market model, downside market model and higher order downside market model The market reaction to a rating change for different bond grades is also investigated. We find evidence of an announcement effect for bond downgrades, but not upgrades. Despite differences in approach, all four generating models produce generally similar results when used in the event studies.

SESSION 10 — Monday 10:30 - 12:15 — Gracia A

TOPICS IN DERIVATIVE MARKETS II
Session Chair: Wendy Rotenberg - University of Toronto, Canada

"The Comovement of Option Listed Stocks"
Sam Agyei-Ampomah - University of Surrey, UK
Khelifa Mazouz - Bradford University School of Management, UK

Discussant: Charles Corrado - Deakin University, Australia

This study examines the potential return comovement around the listing and delisting of stock option contracts. Since the option listing decision is based on public information, such as firm size and its popularity among investors, option listing (or delisting) does not convey any news on the firm's fundamentals. Thus, the events of option listing or delisting offer a relatively clean test of friction-based theory. We show that newly option listed stocks experience an increase in comovement with the index of option listed stocks and a decrease in comovement with the index of the remaining stocks. Similarly, stocks that undergo option delisting exhibit a decrease in comovement with option listed stocks and an increase in comovement with the rest of the stocks. We verify the validity of our findings in several ways. The matched sample analysis suggests that our results are not driven by factors other than option listing. We also use a calendar time approach to account for the potential effect cross-sectional dependences in our sample. Overall, our evidence is consistent with the predictions of the category and habitat views of the friction-based theory.

"Options Trading Volume and Stock Price Response to Earnings Announcements"

Cameron Truong - Monash University, Australia
Charles Corrado - Deakin University, Australia

Discussant: Jason Wei - University of Toronto, Canada

We examine the effect of options trading volume on the stock price response to earnings announcements over the period 1996–2007. Contrary to prior studies, we find no significant difference in the immediate stock price response to earnings information announcements between firms with listed options and firms without listed options. However, within the sample of firms with listed options, we find that higher options trading volume reduces the immediate stock price response to earnings announcements. This is consistent with evidence that the stock prices of high options trading volume firms have anticipated and pre-empted some earnings information in the pre-announcement period. We also find that abnormal options trading volume around earnings announcements hastens the stock price adjustment to earnings news. We present evidence that post-earnings announcement drift is lower for stocks of firms with high abnormal options trading volume around earnings announcements.

"Option Trading: Information or Differences of Opinion?"

Siu Kai Choy - University of Toronto, Canada
Jason Wei - University of Toronto, Canada

Discussant: Asli Ascioglu - Bryant University, USA

This paper investigates the motive of option trading. We show that option trading is mostly driven by differences of opinion. Our findings are different from the current literature that attempts to attribute option trading to information asymmetry. We present three specific findings. First, cross-section and time-series regressions reveal that option trading is significantly explained by differences of opinion. While informed trading is present in stocks, it is not detected in options. Second, option trading around earnings announcements is speculative in nature and mostly dominated by small, retail investors. Third, around earnings announcements, the preannouncement abnormal turnovers of options seem to predict the post-announcement abnormal returns. However, once we control for the pre-announcement returns, the predictability completely disappears.

"The Impact of Option Listing on the Trading Activity of Turkcell's American Depository Receipt (ADR)"

Asli Ascioglu - Bryant University, USA
Murat Aydogdu - Rhode Island College, USA
Lynn Phillips Kugele - The University of Mississippi, USA

Discussant: Sam Agyei-Ampomah - University of Surrey, UK

Turkcell lletisim Hizmetleri A.S., (Turkcell from here forward) is a mobile telecommunications company established in 1994 and based in Turkey. Turkcell became a publicly traded company on July 11, 2000 by listing its common stock on the Istanbul Stock Exchange (Istanbul Menkul Kiymetler Borsasi, or IMKB) under the ticker symbol TKCELL. Turkcell simultaneously listed on the New York Stock Exchange as an ADR (NYSE, ticker symbol: TKC), becoming the first Turkish company traded on the NYSE. The existence of Turkcell ADRs and options on the ADR provides an opportunity to analyze the impact of the introduction of TKC options. We investigate the effect on the market microstructure aspects of the NYSE-traded ADR by studying changes in three fundamental market liquidity variables before and after TKC's option listing. We find that both daily relative quoted spreads and daily effective spreads decrease after the option introduction. Additionally, we show that the number of trades increases statistically significantly, while the volatility, the trade size and the trading volume show no statistically significant change. We conclude that the introduction of options on TKC has a positive impact on the trading of TKC, Turkcell's ADR, reducing trading costs and risk while increasing liquidity.

SESSION 11 Monday 10:30 - 12:15 Gracia B

CORPORATE GOVERNANCE I

Session Chair: Giovanna Zanotti - University of Bergamo, Italy

"Ownership and Ownership Concentration: Which is Important in Determining the Performance of China's Listed Firms?"

Shiguang Ma - University of Wollongong, Australia
Tony Naughton - RMIT University, Australia
Gary Tian - University of Wollongong, Australia

Discussant: Minhee Kim - Korea Advanced Institute of Science and Technology, South Korea

This paper investigates the impact of ownership and ownership concentration on the performance of China's listed firms. By recognizing the differences between ownership and ownership concentration, and between total ownership concentration and tradable ownership concentration, we find that ownership concentration is more powerful than any category of ownership in determining firm performance and that it has approximately positive linear relations with firm value. The tradable ownership concentration has a more significant and positive influence on firm performance than total ownership concentration. The highest level of firm performance is approached when a firm is characterized with both total ownership concentration and tradable ownership concentration. Thus, we conclude that it is a rule that ownership concentration enhances firm performance regardless of who the concentrated owners are.

"Does Corporate Governance Prevent Information Asymmetry? Evidence from Insincere Announcements of Korean Listed Firms"

Sangwon Lee - Korea Advanced Institute of Science and Technology, South Korea
Seung Hun Han - Korea Advanced Institute of Science and Technology, South Korea
Minhee Kim - Korea Advanced Institute of Science and Technology, South Korea

Discussant: Larry Li - RMIT University, Australia

Announcement is one of the most popular ways of a firm interacting with its investors. Insincerity of such announcement could cause the information asymmetry problem, which gives advantage for the management with delayed or inaccurate announcement. By testing firms that Korea Exchange claims for insincere announcement, we find that insincerity of the firm's announcement is negatively valued by the investors, possibly due to their unfavorable aspects to the information asymmetry. Also, our evidence suggests that firms with stronger corporate governance device experience less stock price decrease from the insincerity claim. This suggests that corporate governance reduces possible problems from information asymmetry, which eventually contributes to mitigate the agency problem caused by investor's lack of information.

"A New Wave of Financial Reform in China: The Comprehensive Floatation of Non-Tradable Shares"

Larry Li - RMIT University, Australia
Tony Naughton - RMIT University, Australia
Xiangkang Yin - La Trobe University, Australia

Discussant: Rani Hoitash - Bentley University, USA

On 29 April 2005, the Chinese authorities announced a major financial reform - the gradual floatation of non-tradable shares of all listed companies. Existing tradable A shareholders were to receive compensation packages comprising shares, warrants and cash. As a pilot project the government initially targeted 46 firms and in October 2005 announced a rapid program of reform for all remaining firms. In

this paper we study the impact of ownership structure reform on the firms listed on Shanghai stock exchange. We find that the market had a positive reaction during the reform period, implying that investors welcomed the government decision for it is align with the international practice, and implying corporate governance quality of Chinese public firms will be lifted as a result. Second, the return of the compensation plan is significantly associated with firms' historical performance, systematic risk and industry. On the other hand, change in ownership does not have significant impact on market performance of reformed firms. The subsequent performance of reformed firms is related to historical performance, size and capital structure.

"Chief Financial Officers on Their Company's Board of Directors: An Examination of Financial Reporting Quality, Company Performance and Entrenchment"

Jean C. Bedard - Bentley University, USA
Rani Hoitash - Bentley University, USA
Udi Hoitash - Northeastern University, USA

Discussant: Tony Naughton - RMIT University, Australia

This paper contributes to the literature on corporate governance by investigating Chief Financial Officers (CFOs) serving on their own company's board of directors. Controlling for possible endogeneity in the CFO board appointment, we find that companies whose CFO has a seat on the board have better financial reporting as measured by internal control effectiveness and higher accruals quality, implying that CFOs in those firms perform their role better than other CFOs. We also find improved operating performance of companies whose CFO serves on the board. These results are more consistent with theories underscoring the potential for greater communication between executives and the board that is enabled by a board seat, rather than the more common agency perspective. In contrast to results for CFO board membership, we find that companies with a relatively high proportion overall of executives on the board perform less well than others, implying that the specialized knowledge that CFOs bring to board discussions is important in improving performance. We also find CFOs with a seat on their own board are more highly compensated and are less likely to be terminated. Supplemental analysis shows that our findings are not simply due to greater expertise of CFOs who obtain board appointments.

SESSION 12 Monday 10:30 - 12:15 Putxet

FINANCIAL MARKETS

Session Chair: Luis Ferruz Agudo - University of Zaragoza, Spain

"Time to Wait - Time to Invest: The Case of Trade Order Executions by Specialists on the NYSE"

Sasson Bar-Yosef - Bocconi University, Italy
Annalisa Prencipe - Bocconi University, Italy

Discussant: Barry O'Grady - Curtin University of Technology, Australia

This paper provides an empirical test of the 'waiting-to-invest' strategy. It demonstrates that waiting is used to reduce the decision-makers' risk exposure. The empirical tests use a unique set of data on NYSE specialists' trades. We show that specialists use the waiting-to-invest strategy to mitigate potential information disadvantage and that such a strategy is correlated with other decisions (such as investing in security and revising quotes). We test our hypotheses under three information and trading environments: 1) when loss probability is low; 2) when loss probability is high; and 3) when the decision-maker is able to use an additional risk mitigating tool (i.e., to change the bid-offer spread). Our results show that waiting-to-invest is significant and is derived by the intensity of information and by the surprise factor of the order. We also show that waiting-to-invest is correlated with other decisions: the specialists' investment rate (i.e., adjustments in the security inventory levels) and the bid-offer spread. Additionally, our findings indicate that the specialist waits longer when there is a significant increase in the probability of a loss to better informed traders. Finally, we find that waiting time is shortened when the specialist is able to apply an additional risk-mitigating device.

"Renewable Energy & Risk Modeling in an Australian Market Context"

Barry O'Grady - Curtin University of Technology, Australia

Darren O'Connell - Curtin University of Technology, Australia

Discussant: Ian A. Cooper - London Business School, UK

This research examines methods of modelling the stochastic price process of Renewable Energy Certificates (RECs) under uncertainty using both probabilistic and Monte Carlo techniques to assist in managing price risk at a portfolio level in an Australian market context. RECs are the unit of currency underpinning the amended Renewable Energy (Electricity) Act 2000 designed to increase investment in renewable electricity. For many electricity companies operating in Australia managing a RECs portfolio is consuming more resources and understanding of the price risk associated with holding such a portfolio is more important than ever. Two simple approaches using Microsoft Excel and Palisade's Decision Tools Suite to modelling the volatility of REC prices are evaluated and their effectiveness within a VAR framework is analysed. This foundation allows electricity market participants to develop answers to a number of questions such as what is the likelihood and consequence that an adverse RECs price movement will have upon my portfolio and business.

"Optimal Passive Currency Holdings: Equilibrium Currency Hedging"
Ian A. Cooper - London Business School, UK

Discussant: Shmuel Hauser - ONO Academic College, Israel

International investors can use foreign currency holdings to hedge the currency exposure of their risky asset holdings, to hedge their exposure to in?ation, to speculate on currency movements, or to hold foreign currency as an asset based on its risk-return characteristics. The optimal choice depends on exchange rate expectations and investor preferences, both of which are unobservable. In order to get around this difficulty, Fischer Black proposed that the exchange rate expectations used to select the optimal currency policy should be consistent with equilibrium. From this he derived a result about the optimal amount of currency hedging, which he called the universal hedge ratio. Other authors have pointed out that his result requires several very strong assumptions, including all investors having the same risk aversion, equity portfolios, and wealth. Despite these objections, assuming equilibrium expected returns is a powerful tool in estimating optimal currency positions for portfolios. The purpose of this paper is to use Black?s basic approach, but incorporate more realistic assumptions. In particular I derive the optimal currency portfolios for investors that differ in risk aversion, equity portfolios, and wealth, but have equilibrium currency beliefs. The resulting currency portfolios can be estimated from observable parameters. I do this for a typical US investor. The optimal currency holding for a typical US investor is to hold long positions in foreign currencies. This policy differs signi?ficantly from other frequently advocated currency strategies. It may be viewed as a passive benchmark against which other currency strategies can be evaluated.

"Financial Markets and Terrorism: Two Sides of the Barricade Perspective"
Rafi Eldor - Interdisciplinary Center, Israel
Shmuel Hauser - ONO Academic College, Israel
Yoram Kroll - ONO Academic College, Israel
Sharbel Shoukair - ONO Academic College, Israel

Discussant: Sasson Bar-Yosef - Bocconi University, Italy

This paper uses a unique data set aimed at examining the effect of terrorism on financial markets of both sides of the barricade in the Israeli-Palestinian conflict. The paper also investigates the causality effects of the Israeli and Palestinian financial markets. The main findings are: (1) Real economy suffered during the intifada period and share prices declined significantly in both markets; (2) there is a bi-directional causality effects in the two markets but to a significant lesser effect on the Palestinian side; both markets are affected by the US market although the Palestinian markets are affected by a lesser extent; (3) share prices declined in both markets but more so on the Israeli markets – A significant decline of about 0.43% each terror event compared to insignificant -0.23%. These findings indicate that the negative effects of terrorism are significantly negative on both markets and more so, on the Israeli markets.

PORTFOLIO & INVESTMENTS

Session Chair: George Athanassakos - The University of Western Ontario, Canada

"Testing for Preference Orderings Efficiency"

Sergio Ortobelli - University of Bergamo, Italy
Nikolas Topaloglou - Athens University of Economics and Business, Greece

Discussant: Luis Ferruz Agudo - University of Zaragoza, Spain

In the literature several parametric methods have been proposed to test the mean variance efficiency of a given portfolio. These tests serve to value the efficiency only in the case the underlying portfolios are uniquely determined by the mean and the variance. However, the return distributions could depend on many parameters. In addition, investors are not always risk averse and they do not necessarily follow the classical stochastic dominance rules. In this paper we propose a class of semi-parametric methods to value the efficiency of a given portfolio with respect to a given ordering of preferences. Semi-parametric tests suggest to value the distributional distance of some parameters between the given portfolio and few other optimal portfolios. The empirical application reveals that the Fama and French market portfolio is efficient with respect to all preference orderings while the S&P500 stock index is inefficient.

"Stock-Picking and Style Timing Abilities: A Comparative Analysis between Conventional and SR Mutual Funds in the USA"

Luis Ferruz Agudo - University of Zaragoza, Spain
Fernando Munoz - University of Zaragoza, Spain
Ruth Vicente - University of Zaragoza, Spain

Discussant: Simone Dieckmann - University of Osnabruck, Germany

This paper analyzes stock-picking and timing abilities with regards to different management styles, making a comparative analysis with an extensive sample of conventional and socially responsible (SR) mutual funds of the US market. Style timing is a question which has been largely ignored in financial literature, particularly with regards to socially responsible funds. To this end, conditional and multifactorial versions of the market timing models of Treynor & Mazuy and of Merton & Henriksson are implemented. The results obtained indicate that both the conventional and SR fund managers in our sample show no stock-picking ability and are unable to time market return and book-to-market and size investment styles. However, it is observed that whilst SR fund managers are incapable of timing momentum at 1 year style, their conventional counterparts are able to do so. Finally, an analysis of the experience and size effects of the fund on the aspects studied is carried out.

"Crisis and Risk Dependencies"

Peter Grundke - University of Osnabruck, Germany
Simone Dieckmann - University of Osnabruck, Germany

Discussant: Edward Nelling - Drexel University, USA

The knowledge of the multivariate stochastic dependence between asset classes is of importance for many finance applications, such as, e.g., asset allocation or risk management. By means of goodness-of-fit tests, it has been analyzed for a multitude of portfolios consisting of different asset classes whether the stochastic dependence between the portfolios' constituents can be adequately described by multivariate versions of some standard parametric copula functions. Furthermore, it has been tested whether the stochastic dependence between the returns of different asset classes has changed during the recent financial crisis. The main findings are: First, whether a specific copula assumption can be rejected or not, crucially depends on the asset class and the time period considered. Second, different goodness-of-fit tests for copulas can yield very different results and these differences can vary for different asset classes. Third, even when using various goodness-of-fit tests for copulas, it is not always possible to differentiate between various copula assumptions.

"Effective Delays in Portfolio Disclosures"

Maneesh Chhabria - Drexel University, USA
Seung Hee Choi - The College of New Jersey, USA
Edward Nelling - Drexel University, USA

Discussant: Nikolas Topaloglou - Athens University of Economics and Business, Greece

Ever since the Investment Company Act of 1940 mandated the reporting of portfolio holdings, the timeliness of such disclosure has been of interest. The Securities Exchange Commission has tried to strike a balance between investor interest in timely disclosure and the potential costs associated with revealing the actions of investment managers. This paper investigates whether current rules regarding delay in disclosure adequately protect investors' interest. It also examines whether the delay in disclosure could possibly be reduced from 60 to 30 days. The analysis provides strong evidence that a 60-day delay for portfolio holdings disclosure provides the appropriate balance between the benefit of transparent and timely disclosure and the costs incurred by mutual fund shareholders in the form of a decrease in portfolio performance. The evidence also strongly suggests that shortening the delay in disclosure to thirty days is not in the best interests of mutual fund investors.

SESSION 14 — Monday 2:15 - 4:00 — Ciutadella B

FINANCIAL CRISIS

Session Chair: Ian A. Cooper - London Business School, UK

"The Financial Crises Magnitude. An Approach Based on the Earthquake Richter Scale"
Bogdan-Cristian Negrea - Bucharest Academy of Economic Studies, Romania

Discussant: Eleftherios Aggelopoulos - Technological Institute of Patras, Greece

By analogy with the Richter scale used to determine the earthquake magnitude, the paper proposes a statistical measure for the magnitude of the "financial earthquake" by means of the market energy. The energy released by the market is defined by means of the trading volume and the market volatility. The "financial earthquake" occurs if the market energy is higher than an estimated threshold market energy called critical energy. The paper shows that the statistical pattern of the market crash is given by two statistic law regimes: Pareto and Wakeby distribution laws.

"The Impact of the Financial Crisis on the Efficiency of Retail Banks"
Eleftherios Aggelopoulos - Technological Institute of Patras, Greece
Antonios Georgopoulos - University of Patras, Greece
Costas Siriopoulos - University of Patras, Greece

Discussant: Robert Inklaar - University of Groningen, The Netherlands

This paper evaluates for the first time the efficiency in operations of homogenous branches of a private commercial bank, before and during the recent crisis. Based on a unique data set we employ the input-oriented data envelopment analysis (DEA) to provi

"The Severity of Financial Crises and Tolerance for Uncertainty"
Robert Inklaar - University of Groningen, The Netherlands
Jing Yang - University of Oxford, UK

Discussant: Sofiane Aboura - University of Paris-Dauphine, France

Financial crises can have severe negative effects on investment and output. One reason for this is that a financial crisis increases uncertainty, increasing the real option value of delaying investment. In this paper, we show that the negative effect of crises on investment differs significantly across countries: in countries with low tolerance for uncertainty, the negative effect is strong. The negative effect is absent in countries that are more tolerant of uncertainty. These findings are similar across different types of financial crisis, suggesting that increased uncertainty in times of crisis is a key channel by which crisis affect investment.

"Disentangling Crashes from Tail Events"
Sofiane Aboura - University of Paris-Dauphine, France

Discussant: Bogdan-Cristian Negrea - Bucharest Academy of Economic Studies, Romania

The study of adverse tail events has become a central preoccupation for academics, institutional investors and policy makers. Indeed, the global financial and economic turmoil has plunged the world economies into recession. But, does this financial turbulence correspond to a crash, a tail event or a crisis? More generally, what differs a crash from a tail event? This article answers this question by disentangling crashes from tail events using an extreme value theory methodology with an application to the French stock market index based on the longest daily time series ever used (1968-2008). Our results indicate that the French market did not experienced any crash during the recent financial turmoil of 2007-2008, but only a high level of volatility regime producing several adverse tail events.

SESSION 15 Monday 2:15 - 4:00 Ciutadella C

FINANCIAL INSTITUTIONS

Session Chair: Haim Shalit - Ben Gurion University, Israel

"Optimal Management of Mean-Reverting Losses"
Gerhard Hambusch - University of Technology Sydney, Australia
David Finnoff - University of Wyoming, USA
Sherrill Shaffer - University of Wyoming, USA

Discussant: Daniel Roesch - Leibniz University of Hannover, Germany

We develop an optimal stopping real option model for the management of mean-reverting losses subject to stochastic jumps. Independent of any previous investment decision, the model accounts for uncertain future losses and determines the threshold level at which the loss prevention investment is triggered. The model is solved numerically and provides comparative static results revealing an important relationship between the long run mean level of losses and the speed of mean reversion. These parameters influence the termination value and therefore, the optimal stopping results.

"Rating Performance and Agency Incentives of Structured Finance Transactions"
Daniel Roesch - Leibniz University of Hannover, Germany
Harald Scheule - University of Melbourne, Australia

Discussant: Manuel Lingo - Oesterreichische Nationalbank, Austria

The mismatch between credit ratings of structured finance transactions and their true risks has been a source of the Global Financial Crisis which manifested in criticism of models and techniques applied by credit rating agencies (CRA). This paper provides an empirical study which assesses the historical performance of credit ratings for structured finance transactions and finds that CRAs do not include all factors explaining securitization impairment risk. In addition, CRA ratings for elected asset categories underestimate risk in origination years when the fee revenue is high.

"Adverse Borrower Selection in the Context of Rating Errors"
Manuel Lingo - Oesterreichische Nationalbank, Austria
Gerhard Winkler - WU-Wien, Austria

Discussant: Elisabeta Pana - Illinois Wesleyan University, USA

Theory of finance has acclaimed initial screening and ongoing monitoring as two essential functions of banks aimed at enabling these institutions to minimize the negative effects of adverse borrower selection. Against this background, this paper studies the impact of erroneous rating systems on the performance of banks. We employ a multi-bank, multi-period model to study the effects of adverse selection caused by erroneous rating systems on banks' market shares and excess returns during changes in the economic environment. Our model is parameterized using a unique dataset on the Austrian banking market

provided by the Austrian central bank. Applying a scenario technique which also accounts for differences in customer behavior, the results of our numerical analyses show that the effects of erroneous rating systems on performance can be substantial and are furthermore heavily dependent on customer behavior and economic conditions. The empirical findings are consistent with earlier theoretical works on adverse selection, help explain banks' counter-cyclical lending standards, and may provide bank managers with useful insights on the determinants of the optimal accuracy of their rating systems.

"Credit Unions as Liquidity Creators"
Tarun Mukherjee - University of New Orleans, USA
Elisabeta Pana - Illinois Wesleyan University, USA

Discussant: Gerhard Hambusch - University of Technology Sydney, Australia

This paper examines the level and the main determinants of liquidity created by credit unions. The contribution of credit unions to the aggregate liquidity created by the financial system has increased over time from $206 billion in 2000 to $318 billion in 2008. We document a negative relationship between the level of capital and liquidity created by credit unions across all size classes. Liquidity creation is positively related to the level of deposit insurance for medium credit unions and for credit unions with no special credit and borrowing agreements and negatively related to deposit insurance for a sample of large credit unions and for credit unions with special credit and borrowing agreements. The evidence suggests that credit unions' decision to substitute insured funds with funds obtained through special credit and borrowing agreements alters the traditional role played by deposit insurance on liquidity creation.

SESSION 16 — Monday 2:15 - 4:00 — Gracia A

INFORMATION EFFICIENCY
Session Chair: Ephraim Clark - Middlesex University, UK

"Are Faithful Investors Rewarded by the Market Place? Evidence from Australian Shariah-compliant Equities"
Mehdi Sadeghi - Macquarie University, Australia

Discussant: Hakan Aygoren - Pamukkale University, Turkey

This paper investigate the impacts of index revisions on the return and liquidity of Shariah-compliant Australian shares, using a sample of 117 companies added to and 87comapanies deleted from the Dow Jones Islamic Market International index over the period of January 2006–December 2009. In contrast to findings of the conventional index revision studies, our results show that stock prices respond negatively to index additions, and positively to index deletions. Furthermore, our study provides overwhelming evidence in support of long-term decline in the return and liquidity of added shares, and long-term improvement in the returns of the deleted shares. Results for changes in the liquidity of deleted firms are mixed and no clear pattern can be determined. These findings have important implications for ethical funds in general, and Shariah-complaint investors in particular, as it clearly show that companies whose activities mirror the beliefs and value of their investors are not particularly attractive from an investment point of view.

"Impact of Firm Attributes on the Efficiency of Brokerage Houses in Turkey (2005-2008)"
Hakan Aygoren - Pamukkale University, Turkey
M. Ensar Yesilyurt - Pamukkale University, Turkey

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

Financial markets exist in order to bring together buyers and sellers of securities. Financial intermediaries, also known as financial institutions play an important role in financial markets. The most important contribution of financial intermediaries is a steady and relatively inexpensive flow of funds from savers to final users or investors. Thus efficiency of financial intermediaries is of importance for efficient markets. Therefore, brokerage houses efficiency is closely related to efficiency of financial markets due to the transaction costs and speed of transacting. This study analyzes the factors influencing the efficiency of brokerage houses by using Stochastic Frontier Analysis (SFA). The results show that several firm attributes have impact on efficiency. The results indicate that age of brokerage houses and number of employees have positive impact on efficiency, however, other firm attributes such as number of branches, firm size, financial leverage, and service ratio (Stock transactions/Total transaction) have negative impact on efficiency of brokerage houses.

"Dynamic Relationship Between Stock Prices and Unit Trust Flows in the U.K. Market"
Heung-Joo Cha - University of Redlands, USA

Discussant: Dimitris Magaritis - Auckland University of Technology, New Zealand

We study dynamic relations between stock returns and aggregate equity mutual fund flows in the U.K. market. Our empirical evidence from cointegration, ECM and Granger causality tests indicates that there is a long-run relationship between the two variables but the flows do not Granger cause the stock returns. Further, if there is a deviation from long-run equilibrium, the stock returns force the deviation to go toward the long-run equilibrium and the half-life of the deviation is around 0.12 year. Thus, stock returns might lead stock fund flows and seem to be the most important element explaining equity mutual fund flows in the U.K. market.

"Asymmetric Information and Price Competition in Small Business Lending"
Ming-Hua Liu - University of Macau, China
Dimitris Magaritis - Auckland University of Technology, New Zealand
Alireza Tourani-Rad - Auckland University of Technology, New Zealand

Discussant: Mehdi Sadeghi - Macquarie University, Australia

This paper examines the relationship between bank lending rates and their cost of funds in New Zealand. Our results show that mortgage rates respond more quickly to changes in the cost of funds than base business lending rates. We also find evidence that banks tend to adjust upward their business lending rates faster than downwards, whereas decreases in mortgage rates tend to revert faster towards their equilibrium levels. Our analysis suggests that banks prefer the plain-vanilla type of lending such as mortgages in comparison to small business lending due to the significant amount of asymmetric information associated with business loans.

SESSION 17 Monday 2:15 - 4:00 Gracia B
CAPITAL STRUCTURE
Session Chair: Darren Henry - La Trobe University, Australia

"External Finance, Capital Structure and the Euro Introduction"
Karin Joeveer - Queen's University Belfast, UK

Discussant: Raul Susmel - University of Houston, USA

Firms from 14 Western European countries are studied to detect how the introduction of the euro has influence the use of external finance. The effect on equity and debt issues as well as the effect on the choice between debt and equity finance is explored. Euro zone firms are found to rely more on external finance after 1999 than those outside the Euro area. In detail this effect comes from relative increased in debt issuing activity after euro introduction. Euro zone firms from more external finance dependent industries are more likely to issue equity, and are more likely to be equity than debt issuers after 1999. Further, there is evidence that firms in our sample follow a dynamic leverage target.

"Testing the Trade-off Theory of Capital Structure: A Kalman Filter Approach"
Raul Susmel - University of Houston, USA
Tian Zhao - Invesco Aim Capital Management LLC, USA

Discussant: Andreas Andrikopoulos - University of the Aegean, Greece

In this paper, we use a Kalman filter in order to test the standard dynamic trade-off model of capital structure. In this model, the observed realized debt-equity ratio is a weighted average of the unobservable target debt-equity ratio and last period's realized debt-equity ratio. The use of the Kalman filter, however, allows us to directly estimate the unobservable target debt-equity ratio. We find that the trade-off model cannot be rejected for 32% to 52% of the firms in our sample at the standard 5% level. We also use a regression in order to test if our Kalman filter estimated target debt-equity ratios are related to the fundamental variables usually proposed in the corporate structure literature. We find that profitability does not affect the target debt-equity ratio for the firms where the trade-off theory is not rejected. This result may help to resolve one of the main scars against the trade-off model as discussed in Fama and French (2002). Moreover, since our test has provided us with a sample of firms, for which a dynamic trade-off model could not be rejected, we also analyzed what firm characteristics drove the decision of whether to have a target capital structure.

"The Capital Structure Choice and the Consumption Tax"
Andreas Andrikopoulos - University of the Aegean, Greece

Discussant: Karin Joeveer - Queen's University Belfast, UK

The consumption tax is imposed on the consumer, but it also affects the wealth of the producer because of the tax incidence effect: depending on supply and demand elasticity, the consumption tax reduces the market clearing price. Therefore it affects cash flows from corporate investment and becomes a significant factor for capital budgeting choices on investment timing and financing and the respective conflicts of interest between shareholders and creditors. This paper employs a real option model to explore the impact of the consumption tax and tax incidence on corporate valuation: the consumption tax delays investment and precipitates default, because the tax incidence on the producer makes the investment less attractive. Furthermore, we find that the consumption tax has a negative effect on the agency costs of debt, the yield spreads and the optimal leverage ratio. Finally, the model also produces implications for governmental tax policy, suggesting the magnitude of the consumption tax that maximizes expected government tax revenue.

SESSION 18 — Monday 2:15 - 4:00 — Putxet

ACCOUNTING ISSUES I
Session Chair: Emilios C. Galariotis - Audencia Nantes School of Management, France

"Sources of Variation in Firm Profitability: Evidence from Listed Manufacturing Firms"
Awan Hayat - Bahauddin Zakariya University, Pakistan
M. Azeem Qureshi - Oslo University College, Norway
Ishaq Bhatti - Latrobe University, Australia
Muhammad Yousaf - Bahauddin Zakariya University, Pakistan

Discussant: Dennis Olson - American University of Sharjah, UAE

We have demonstrated that leverage is the dominant factor in affecting, and accounting for, more than half of the total explained variation in profitability. It is interesting to note that impact of leverage becomes positive in foreign owned firms. Size and liquidity also have a positive and negative impact on profitability, with the two explaining the 6.19%and 0.84% variation in profitability respectively. Age, growth and market share have only a very minor contribution in explaining profitability. We found an insignificant relationship between capital intensity and profitability. Furthermore, transient industry effect was observed to be significant but its explanation in the profitability was very low (only 0.17%) while stable industry and year effect was insignificant.

"Loan Loss Accounting Practices in the MENA Region: A Simultaneous Equations Approach"
Dennis Olson - American University of Sharjah, UAE
Taisier A. Zoubi - American University of Sharjah, UAE

Discussant: Yew Kee Ho - National University of Singapore, Singapore

"Analysts' Recommendations: Benchmarking, Timeliness and Coverage"

Rob Brown - University of Melbourne, Australia
Howard W.H. Chan - University of Melbourne, Australia
Yew Kee Ho - National University of Singapore, Singapore
Grace Weiying Yan - National University of Singapore, Singapore

Discussant: Ugo Rigoni - University of Venice, Italy

When an analyst releases a recommendation, the stock market responds to the signaling content of the level of the recommendation and/or to the difference between the recommendation and a benchmark. Two benchmarks have received considerable attention: the analyst's previous recommendation and the consensus recommendation. However, it is not known which signal is the strongest. We find that, when tested simultaneously, the strongest signal is the difference between the analyst's recommendation and the consensus recommendation but the difference between the analyst's current and previous recommendations is also a significant signal. We attribute the strength of the former signal to the greater timeliness of the consensus recommendation. However, this conclusion is conditional on the number of analysts covering the firm.

"Properties of Equity Analysts Reports and Market Reaction"

Elisa Cavezzali - University of Venice, Italy
Ugo Rigoni - University of Venice, Italy

Discussant: Ishaq Bhatti - Latrobe University, Australia

The paper catalogs the complete contents of more than 4600 sell-side security analyst reports and aims to test the market reaction to their release. Security analyst reports have been the subject of extensive empirical and experimental early investigation

SESSION 19 Monday 4:15 -6:15 Ciutadella A

BEHAVIORAL FINANCE

Session Chair: Laurence Booth - University of Toronto, Canada

"Individual Investors' Behavior: Are Small Investors Different?"

Enrico Maria Cervellati - University of Bologna, Italy
Pino Fattori - Banca di Credito Cooperativo di Gatteo, Italy
Pierpaolo Pattitoni - University of Bologna, Italy

Discussant: Jose Luis Sarto - University of Zaragoza, Spain

Individual investors' stock trading has increased over time, thus attracting the attention of academics. The greater availability of information and the development of e-trading platforms are among the main determinants of this phenomenon. The behavioral finance literature has pointed out the dangers related to individual trading, mainly regarding overconfidence. This leads to excessive trading and consequent underperformance due to the effect of commissions on net returns. Since it has be shown that individual characteristics are important in determining the degree of overconfidence of a person, in this paper, we investigate the relationship between age, gender, job type, and income with the number of stock trades made by the clients of a small Italian cooperative bank. The aim of the analysis is to verify if being the client of such a bank affects somehow the trading behavior. In particular, given the emphasis that these cooperative banks put on trust and transparency with their client we could expect different trading attitudes. Alternatively, it could be that the trading behavior is mainly affected by individual characteristics irrespectively of being client of a small or big bank. Using a unique dataset for the three-year period 2005-2007, we propose bivariate and multivariate analysis using the Negative Binomial model. Our results show that the number of trades depends on individual characteristics, in line with previous research focusing on big banks. It seems therefore that neither the bank size, nor the cooperative nature of the bank is relevant when it comes to the determinants of trading behavior.

"Herding Behavior in Strategic Style Allocations: Empirical Evidence on UK Pension Plan

Managers"
Laura Andreu - University of Zaragoza, Spain
Cristina Ortiz - University of Zaragoza, Spain
Jose Luis Sarto - University of Zaragoza, Spain

Discussant: Giovanna Zanotti - University of Bergamo, Italy

This study firstly examines herding behavior in the strategic style allocations of UK pension plans by using the traditional measure developed by Lakonishok et al. (1992). Afterwards, some original analyses are carried out to overcome certain shortcomings and limitations existing in this metric. The results show that UK pension managers are involved in herd behavior although the magnitude of this phenomenon is reduced after the application of our alternative approach. Furthermore, this phenomenon is also confirmed when using additionational analyses to test this behavior from other perspectives.

"On the Role of Behavioral Finance in the Pricing of Financial Derivatives: The Case of the S&P 500 Options"
Barbara Alemanni - University of Genova, Italy
Alonso Pena - SDA Bocconi, Italy
Giovanna Zanotti - University of Bergamo, Italy

Discussant: Wendy Rotenberg - University of Toronto, Canada

The object of this study was to investigate some implications of the tenets of behavioral finance on the pricing of financial derivatives. In particular, based on the work by Wolff et al (2009) we have investigated how prospect theory (Kahneman and Tversky, 1979) can be intregrated into the Black and Scholes (1973) option pricing framework. We have then used the resulting "behavioral version" of the Black-Scholes equation to price market quoted options. As an empirical test we have calibrated three month market-quoted call options on the Standard & Poor's 500 index (SPX) at the Chicago Board of Options Exchange (CBOE) during the period January to December 2007. As a comparison, we have also calibrated the Heston (1993) stochastic volatility option pricing model to the same contracts. Our results show that during the period of study the market option prices are captured better by the behavioral version of the Black-Scholes equation than by the Heston stochastic volatility model. Further work is required to investigate if this is the case for other option types and under different market conditions.

"Hedging Strategies of Non-Financial Firms under Different Economic Conditions: Evidence from Canada"
Wendy Rotenberg - University of Toronto, Canada

Discussant: Enrico Maria Cervellati - University of Bologna, Italy

Prior research suggests the potential importance of current economic conditions for corporate hedging, but there is limited direct evidence supporting this relationship. This study examines financial and operational hedging strategies of the same sample of Canadian nonfinancial firms in different economic environments to shed some light on this issue. The results suggest that approximately one third of sample firms do adjust their short term financial hedging strategies when economic conditions change. Also, short and long term financial hedging with derivatives and foreign debt financing appear to be complementary. However, long term financial and operational hedging appear to be substitutes and are relatively stable. Also, in both time periods examined, more intense financial hedging and greater operational diversity are associated with lower systematic risk, suggesting that benefits accrue to hedging firms in the form of lower financing costs. Consistent with previous findings, the benefits of operational hedging appear to be larger in magnitude than those of financial hedging.

"Intra-National Cultural Influences on Household Financial Decision-Making: An Exploratory Study of the Netherlands"
Michael Dowling - Lancashire Business School, UK

Discussant: Ephraim Clark - Middlesex University, UK

Research into cultural influences on financial decision-making is increasingly delivering interesting and novel findings on how households make their financial decisions. This study utilises a large population-representative survey of households in the Netherlands to investigate whether World Values Survey cultural dimensions are related to intra-national differences in household financial decision-making. The main findings are that subcultures characterised by secular and self-expression values display a greater tendency to invest in risky assets and to hold insurance policies. These findings are consistent with research in areas outside of finance and robust to checks for confounding factors.

SESSION 20 Monday 4:15 -6:15 Ciutadella B

CAPITAL MARKETS

Session Chair: Daniel Roesch - Leibniz University of Hannover, Germany

"The Role of Default Risk and Growth Options in Explaining the Market Value of Equity"

Andreas Charitou - University of Cyprus, Cyprus
Neophytos Lambertides - Aston University, UK
Lenos Trigeorgis - University of Cyprus, Cyprus

Discussant: George Athanassakos - The University of Western Ontario, Canada

We examine the role of default risk and growth options in explaining the market value of equity, besides that of earnings and book value of equity. Default risk is measured by the option-based probability of default at debt's maturity, while the growth options measure capturing the firm's upside growth potential is estimated from a regression model of option-based variables. Our main sample consists of 965 U.S. firms that filed for bankruptcy during 1992-2002. We also use three additional sub-samples of "healthy" firms as controls, with varying degrees of financial distress and growth prospects, to examine the conditionality of the impact of these factors. Our results confirm that growth options dominate the role of book equity (and net income) in proxying for unrecognized net assets. The default risk seems to have a mixed effect: a traditional distress risk penalty with a negative impact on equity value for distressed firms or value firms on main exchanges; and a (equityholders') default option, reflected positively in current equity market values in the case of more volatile firms traded on Nasdaq. Our results confirm that use of earnings and book equity indeed proxy for (omitted) distress and growth option effects.

"Seasonality in Value vs. Growth Stock Returns and the Value Premium"

George Athanassakos - The University of Western Ontario, Canada

Discussant: John B. McDermott - Fairfield University, USA

This paper merges the January Effect literature with that on the Value Premium and uses explanations of the former to help identify whether risk drives the latter over the 1985-2006 sample period by examining the seasonal behavior of value and growth stock returns and the value premium in each of three US markets separately, namely AMEX, NASDAQ and NYSE as a robustness test of the generability of our findings. This paper argues that portfolio rebalancing and gamesmanship by portfolio managers drive not only the seasonal behavior of stock returns, in general, but also those of the value and growth stocks and the value premium, in particular. Since portfolio rebalancing and stock return seasonality are driven by risk based rebalancing by portfolio managers throughout the year, seasonality in the value premium, and differential seasonal behavior in the returns of value and growth stocks, if documented, will also be driven by risk differences between value and growth stocks. The paper finds that both value and growth stocks exhibit seasonal strength in January and the first half of the year, but the effect is stronger for the value stocks. In the second half of the year, however, the opposite is true. Growth stocks exhibit weaker performance than value stocks. Seasonality is also observed in the value premium, which exhibits peak seasonal strength in the June to July period and seasonal weakness thereafter. There is no evidence that NASDAQ stocks drive the results. The findings, which are pervasive across all markets examined, are consistent with the gamesmanship hypothesis and portfolio rebalancing by professional portfolio managers. However, they are not consistent with the argument that it may be higher risk that drives the outperformance of value stocks. This is because while portfolio managers seem to rebalance aggressively into value stocks at the beginning of the year, they switch out of growth stocks more aggressively in the second half of the year (which they would not do if growth stocks had lower risk than value stocks), thus negating the argument that value stocks bear more risk that growth stocks. Finally, the paper shows that the difference we observe in value and growth stock return seasonality is not driven by size, but it is rather a pure value effect.

"US Small Cap Indexes: Risk and Reconstitution"
Asli Ascioglu - Bryant University, USA
John B. McDermott - Fairfield University, USA

Discussant: Ernest N. Biktimirov - Brock University, Canada

"Market Reactions to Changes in the FTSE SmallCap Index"
Ernest N. Biktimirov - Brock University, Canada
Boya Li - Brock University, Canada

Discussant: Tajana Barbic - Institute of Economics Zagreb, Croatia

Stocks added to (removed from) the small-cap Russell 2000 and S&P 600 indexes experience positive (negative) abnormal returns following the announcement. However, researchers disagree on whether these abnormal returns are permanent or temporary and offer competing explanations. We address this controversy by examining market reactions for firms that are added to or deleted from the FTSE SmallCap index. Our main result is an asymmetric price response: added firms show a permanent increase in price, while deleted firms experience only a temporary decline. The results support the investor awareness hypothesis.

"Relationship Between Macroeconomic Fundamentals and Stock Market Indices in Selected CEE Countries"
Tajana Barbic - Institute of Economics Zagreb, Croatia
Iva Condic-Jurkic - Institute of Economics Zagreb, Croatia

Discussant: Neophytos Lambertides - Aston University, UK

The aim of this paper is to test for the presence of informational inefficiencies on stock markets of selected CEE countries (Croatia, Czech Republic, Hungary, Poland and Slovenia) analyzing the relationship between stock market indices and macroeconomic variables. In order to test for bilateral long run equilibrium relationships between stock market index and set of macroeconomic variables, including inflation rate, broad money supply, money market interest rate and foreign currency reserves, we use Johansen cointegration method. To gain more information about market efficiency Granger causality test is employed. Results point to established long run relationship between stock market indices and macroeconomic variables, especially in case of Poland and Czech Republic. The results of Granger (non) causality tests reveal that (a) there is no causal linkage between foreign exchange reserves and money market interest rate on the one side and stock market indices on the other, (b) inflation rate leads stock index in Slovenia and Czech Republic, (c) money supply leads stock index in Czech Republic, (d) stock market index leads foreign exchange reserves in Slovenia, inflation rate in Croatia, money supply in Hungary and Poland and money market interest rate in Hungary and Czech Republic.

SESSION 21 — Monday 4:15 -6:15 — Ciutadella C

MARKET ANOMALIES
Session Chair: Asli Ascioglu - Bryant University, USA

"The Efficiency of the Buy-Write Strategy: Evidence from Australia"
Tafadzwa Mugwagwa - RMIT University, Australia
Vikash Ramiah - RMIT University, Australia
Tony Naughton - RMIT University, Australia

Discussant: Thomas Dimpfl - University of Erfurt, Germany

We examine the performance of the buy-write option strategy on the Australian Stock Exchange and analyze whether such an investment opportunity violates the efficient market hypothesis on the basis of its risk and returns. This study investigates the relationship between buy-write portfolios returns and past trading volume and other fundamental financial factors including dividend yield, firm size, book to market ratio, earnings per share (EPS), price earnings ratio and value stocks within these portfolios. We also test the profitability of the buy-write strategy during bull and bear markets. The empirical results demonstrate that buy-write portfolios do not outperform basic equity portfolios among the strategies examined in Australia. Surprisingly, the buy-write strategy does not generate a lower risk investment opportunity. Inconsistently with the bulk of the literature we find that the buy-write strategy does not violate the efficient market hypothesis, but on the contrary, it is an efficient strategy.

"Stock Return Autocorrelations Revisited: A Quantile Regression Approach"
Dirk G. Baur - University of Technology Sydney, Australia
Thomas Dimpfl - University of Erfurt, Germany
Robert C. Jung - Universitat Erfurt, Germany

Discussant: Emilios C. Galariotis - Audencia Nantes School of Management, France

This paper provides a complete picture of the autocorrelation pattern of stock returns by studying the entire conditional return distribution by means of Quantile regression. This enables us to study the behavior of extreme quantiles associated with large positive and negative returns as opposed to central quantiles displaying only the average autocorrelation. Our empirical results are based on 30 years of daily, weekly and monthly returns of 600 stocks comprised in the Dow Jones Stoxx 600 index. We find that low quantiles exhibit positive autocorrelation while high quantiles are marked by negative autocorrelation. This finding is robust with respect to market capitalization, industry, or exposure to market risk.

"What Should Investors Know about the Stability of Momentum Investing and its Riskiness? The Case of the Australian Security Exchange."
Emilios C. Galariotis - Audencia Nantes School of Management, France

Discussant: Mei Qiu - Massey University, New Zealand

This paper investigates momentum strategies and their stability of performance for Australia employing separately two samples a) the S&P/ASX 200 constituents and b) all market securities; for different time periods and market states. To avoid transaction intensive strategies, non-overlapping portfolios are employed. Results show that momentum performance is not sample specific and is positive in all cases, yet at varying magnitudes for different states and years. The profits are robust to univariate and multivariate risk considerations, seasonality, which is however present, and to different starting months.

"Opinion Divergence, Short Sales and Overnight Return Premiums on Stock Markets Around the World"
Mei Qiu - Massey University, New Zealand
Tao Cai - Massey University, New Zealand

Discussant: Houda Ben Mhenni Haj Youssef - IHEC Carthage, TIME University, France

As divergence of opinions builds up among investors over the night due to their inability to trade when market is closed, securities tend to be overpriced when market reopens the next trading day. As a result, the overnight non-trading period returns maybe superior to the daytime trading period returns. We find evidence supportive of this argument in twenty out of the thirty-two stock markets we study. Our panel data regression results suggest that overnight return premiums are positively related to our measure of the divergence of investors' opinions. We find, however, that overnight return premiums are higher in the markets where short selling is commonly practices but lower in short selling constrained markets.

"Are Diversified Firms Mispriced on the Stock Market?"
Houda Ben Mhenni Haj Youssef - IHEC Carthage, TIME University, France
Lassad El Moubarki - And Olfa Benouda Sioud -

Discussant: Vikash Ramiah - RMIT University, Australia

This paper studies the impact of the diversification degree on stock market mispricing. Specifically we test the profitability of the WRSS trading strategies implemented on the non diversified sample and on the diversified sample. Firms are classified as diversified and non diversified according to the intensity of their industrial diversification by Ward's (1963) method of hierarchical cluster analysis. We find that only a contrarian strategy is profitable in the medium and long run for the two samples. This contrarian anomaly is less pronounced for the diversified sample. This implies that mispricings are less accentuated for the diversified firms. Furthermore, this paper examines the three hypotheses advanced by the rational approach: the data snooping problem, the risk based explanation and the transaction costs hypothesis. The data snooping problem is avoided by extending the period studied to April 2009. The risk hypothesis is tested by the CAPM, the Fama–French three-factor model and the bootstrap approach. The results imply that the risk does not explain the profits of the WRSS strategy implemented on the two samples. The transaction cost hypothesis is studied using the proportional quoted and effective spread. Our results infirm the transaction costs hypothesis.

SESSION 22 Monday 4:15 -6:15 Gracia A

FX MARKETS & HEDGING
Session Chair: Dimitris Magaritis - Auckland University of Technology, New Zealand

"Real Exchange Rate Behavior Under Peg: Evidence from the Chinese RMB and Malaysian MYR"
E Yongjian - Bank of Communications, China
Anthony Yanxiang Gu - State University of New York, USA
Chau-Chen Yang - National Taiwan University, China

Discussant: Yacine Belghitar - Middlesex University, UK

The exchange-rate behavior of the Chinese yuan (RMB) and the Malaysian ringgit (MYR) indicates that the real exchange rate volatility of both the pegged currency/the anchor currency (the U.S. dollar), and the pegged currency/the non-anchor currencies (Japanese yen and British pound) are lower under the pegged regime. The dynamic behavior of the pegged currencies' real exchange rates is consistent with the anchor currency as the speed of convergence of the Big Mac real exchange rates of the RMB, MYR, and the dollar against the floating currencies are almost identical during the pegged period. This may be due to similar inflation rate movements in the related economies. These results do not support the opinion that China has manipulated the value of its currency.

"Asymmetric Foreign Currency Risk Premiums and the Effect of Derivatives Use on Corporate Returns"
Yacine Belghitar - Middlesex University, UK
Ephraim Clark - Middlesex University, UK
Salma Mefteh - ESSCA Business School, France

Discussant: Abimbola Adedeji - University of Birmingham, UK

This paper analyzes foreign currency (FC) exposure and its relationship with derivative based corporate hedging strategies for a sample of, French multinationals. FC exposure is estimated with respect to the trade weighted Euro effective index, the US dollar (USD) and the non- USD component of the Euro effective index. By introducing nonlinearity in foreign currency exposure and discriminating between USD and non-USD exposure, we noticeably increase the precision and the significance of exposure estimates. We find that 65% of our sample is significantly affected by currency movements and that more than half of this exposure is asymmetric with respect to appreciations and depreciations of the euro. We provide strong evidence that FC derivatives use does reduce exposure but that hedging strategies driving FC derivatives use are not taking advantage of the asymmetric exposures. When we measure the overall effect of derivatives use on firm value, the effect is positive but not significant, which suggests that overall the use of FC derivatives is not a value adding activity. However, when we break down their use with respect to exposure to the USD and exposure to non-USD currencies, we find that although there is no value added by hedging exposure to the USD, FC derivatives use with respect to exposure to non-USD currencies is positive and significant. The paper discusses the implications of the findings for corporate hedging practices.

"Further Examination of the Relationship Between Currency Risk Hedging and Firm Value on the London Stock Exchange"

Abimbola Adedeji - University of Birmingham, UK
XingYan Wu - Oracle Research and Development Centre, China

Discussant: Pedro Gurrola - Regent's College, UK

Risk management theories suggest that hedging increases firm value. Evidence obtained from previous tests of the theories support the suggestion and also indicates that the market value of firms that hedge their exposures to currency risks is higher than the market value of firms that do not hedge their exposures to the risks by at least 10% on the London Stock Exchange. But the evidence was obtained from the data of 1990s. In this study, we re-examine the effect of hedging on firm value on the London Stock Exchange using the data of 178 companies listed on the Exchange in 2007. Evidence obtained does not support either the suggestion of the theories, or the previous empirical evidence, referred to above. The evidence shows that the market value of firms that hedged their exposures to currency risks was generally lower than the market value of firms that did not hedge their exposures to the risks in 2007. The difference between our results and the previous evidence appears to arise because the previous evidence was obtained from an old data set when the practice of hedging was relatively new, less common among companies, and its potential impact on firm value was probably less understood by investors and managers of firms, than now. We also test the empirical validity of the premises that the suggestion of the risk management theories that hedging increases firm value appears to be based. Our results do not support any of the premises.

"Inverse Maturity Effects in Short-Term Interest Rate Futures Markets"

Pedro Gurrola - Regent's College, UK
Renata Herrerias - Instituto Tecnologico Autonomo de Mexico, Mexico

Discussant: Isabel Figuerola-Ferretti - Universidad Carlos III de Madrid, Spain

This study examines the relation between futures volatility and contract's maturity. The negative covariance hypothesis predicts that the negative covariance between changes in carry costs and changes in spot prices is a key factor for observing the "maturity effect" (volatility increases as maturity approaches). In this framework, our study provides additional criteria to explain why, even when the negative covariance condition holds, an inverse maturity effect will be more likely to be observed. Moreover, when applied to the case of short term interest rate futures, it shows how changes in the futures volatility are linked with the term structure dynamics. To provide empirical evidence supporting our results, we analyze the behavior of the 3-month Eurodollar, Euribor, Short Sterling, and Euroyen futures contracts.

"On the Long Run Relationship and Price Discovery Between VIX and European Credit Risk"

Isabel Figuerola-Ferretti - Universidad Carlos III de Madrid, Spain
Ioannis Paraskevopoulos - Quantitative Development, Spain

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

This study examines the long run trend and price discovery between VIX and the European credit reference index Itraxx and concludes that both variables are cointegrated and that VIX tends to lead Itraxx. The underlying causes and implications of this finding are discussed.

SESSION 23 Monday 4:15 -6:15 Gracia B

DIVIDENDS

Session Chair: Raul Susmel - University of Houston, USA

"Ownership Structure and Tax-Friendly Dividends"
Darren Henry - La Trobe University, Australia

Discussant: Laurence Booth - University of Toronto, Canada

The paper examines the existence of tax-based dividend clienteles using the novel environment of Australia, which is one of few countries currently operating a full dividend imputation system. Under this taxation system, the receipt of dividends with attached franking credits is hypothesized as being increasingly attractive to most categories of shareholders, thus, providing an environment conducive to identifying dividend-preferred clienteles. The analysis focuses on the tax-based preferences of five categories of shareholders, including both domestic and foreign-domiciled shareholder classes. The empirical analysis suggests that shareholders have a general preference for earnings retention or share repurchase distributions relative to dividend payment. However, incorporating the dividend franking percentage as a direct measure of the degree of tax benefit associated with dividends, strong evidence supporting the existence of tax-based dividend clienteles is observed for both domestic and foreign shareholder categories. These findings persist after considering the effect of share repurchases, and under various model specifications controlling for unobserved firm heterogeneity and potential endogeneity between ownership structure and dividend payout policy.

"Market Power and Dividend Policy: a Risk-Based Perspective"
Laurence Booth - University of Toronto, Canada
Jun Zhou - University of Toronto, Canada

Discussant: Laurie Prather - Bond University, Australia

Over the past two decades, by some measures, paying dividends has become a less favorable choice for firms. At the same time, the business environment in which firms operate has also become more competitive. This raises an interesting question: does a firm's market power in its product market have an effect on its dividend policy, that is, is the competitive structure of the industry within which the firm operates important for financial policy? This paper investigates how and why market power affects a firm's dividend policy. We use three measures of market power, the Herfindahl-Hirschman index, the degree of import competition and the Lerner Index and find that market power positively affects the dividend decision, both in terms of the probability of paying a dividend and the amount of the dividend. We also provide evidence that the route through which market structure affects the dividend decision is business risk: more competitive firms are riskier and less likely to pay dividends than firms with market power.

"Re-Examining the Dividend Drop Ratios with Dividend Capture Trading"
Vyas Balasubramaniam - University of New South Wales, Australia
William Bertin - Bond University, Australia
Thomas Henker - University of New South Wales, Australia
Laurie Prather - Bond University, Australia

Discussant: Yi Liu - University of North Texas, USA

We calculate dividend drop ratios over periods with changing quotation and taxation frameworks to assess the veracity of competing explanations. We use intraday prices, adjusted for non-trading, to provide a more accurate picture of price changes due to dividend payments than those produced in previous literature. Intraday estimates for dividend drop ratios are consistently higher than those calculated with end of day prices. Further we find that stocks trading ex-dividend, on average, underperform the market by a large amount over the following month. We attribute this phenomenon to dividend capture trading by tax advantaged and tax indifferent market participants.

"The Information Content of Dividend Changes: Shareholders' Wealth, Revision of Earnings' Forecasts and Reason Cited for Dividend Change"
Yi Liu - University of North Texas, USA
Samuel H. Szewczyk - Drexel University, USA
Zaher Zantout - American University of Sharjah, UAE

Discussant: Darren Henry - La Trobe University, Australia

We examine the cash flow signaling and free cash flow explanations for the stock price response to dividend change announcements. We find that investors and analysts react less unfavorably to announcements of growth-motivated dividend reductions and omissions by high q firms than by low q firms, and the percentage dividend reduction is not a determinant of investors' reaction to these announcements. These findings are consistent with the free cash flow hypothesis. In addition, we find that the reaction of investors and analysts to announcements of loss-motivated dividend reductions and omissions is not different for high q firms and low q firms, and the percentage dividend reduction is a determinant of investors' reaction to these announcements. These results are consistent with the cash flow signaling hypothesis.

SESSION 24 **Putxet**

PORTFOLIO MANAGEMENT

Session Chair: Hakan Aygoren - Pamukkale University, Turkey

"Portfolio Choice Implications of Parameter and Model Uncertainty in Factor Models"
Deniz Kebabci - San Francisco State University, USA

Discussant: Haim Shalit - Ben Gurion University, Israel

This paper examines the portfolio choice implications of incorporating parameter and model uncertainty in (conditionally) linear factor models using industry portfolios. I examine a CAPM, a linear factor model with different predictor variables (dividend yield, price to book ratio, price to earnings ratio, and price to sales ratio), and a time-varying CAPM. All approaches incorporate parameter uncertainty in a mean-variance framework. I consider a time-varying CAPM with changing conditional variance. It is shown that taking into account the time variation in market betas improves the portfolio performance as measured by the ex-post Sharpe ratio compared to both an unconditional CAPM and a linear factor model with predictor variables. I also show the implications of using a Black- Litterman framework versus using a standard mean-variance approach in the asset allocation step. Black-Litterman framework can be thought as a model averaging approach and thus helps deal with both the parameter and model uncertainty problems. I show that Black-Litterman approach results in portfolios with a higher Sharpe ratio than those obtained by a standard mean-variance framework using a single model or historical averages.

"International Equity Flows: Diversification Does Matter"
Ephraim Clark - Middlesex University, UK
Konstantinos Kassimatis - Athens University of Economics and Business, Greece

Discussant: Deniz Kebabci - San Francisco State University, USA

This paper examines whether diversification opportunities, measured as differences in the distributions of equity returns, play a significant role in the determination of international equity flows. Using the concept of Marginal Conditional Stochastic Dominance (MCSD) to estimate the diversification opportunities, it provides strong evidence that diversification opportunities are significant determinants of international equity flows and that these opportunities are concentrated on the dominant distributions, thereby implying a tendency towards MCSD efficiency. It also shows that the relationship between diversification opportunities and equity flows is much stronger for developed markets than for emerging markets. These results are robust with respect to a range of conventional control variables documented in the outstanding literature.

"Firm's Visibility and Firm's Opacity: A New Evidence of How the Local Home Bias is Really a Bias"
Giulia Baschieri - Cass Business School, UK
Andrea Carosi - University of Bologna, Italy
Stefano Mengoli - University of Bologna, Italy

Discussant: Konstantinos Kassimatis - Athens University of Economics and Business, Greece

This paper investigates the (ir)rationality of the local home bias. According to the well documented investors' preference towards local assets and to the existing literature, we find that isolated firms benefit from the effect of a local stock supply scarcity, which translates into higher market value. This effect is significantly weaker, sometimes even inverted, for bigger firms, for firms highly covered by analysts, and for firms characterized by the prevalence of buy-recommendations. On the contrary the information asymmetries' degree of the firm, approximated by its tendency to manipulate accounting results, is found no significant in determining the local market segmentation induced by the investors' preference for local. Since firms which are, even temporarily, well known and more familiar among investors, are found less exposed to the local market segmentation due to local home bias, while firms characterized by a high level of information asymmetries resulted equally exposed, we interpret our findings as consistent with the recent strand of literature arguing that behavioral factors are the main causes driving the local home bias.

"Portfolio Risk Management with the Lorenz Curve"
Haim Shalit - Ben Gurion University, Israel

Discussant: Andrea Carosi - University of Bologna, Italy

The paper compiles for the financial practitioner the risk measures associated with the Lorenz curve. The Lorenz curve is the main tool measuring income distribution and inequality in economics. For the past decades some of its spin-offs have been used in risk analysis and finance. In particular, I address the concepts of second degree stochastic dominance, Gini’s mean difference, and Conditional- Value- at-Risk in portfolio theory and provide a practical example for in its use.

SESSION 25 Tuesday 8:30 - 10:15 Ciutadella A
REGULATION
Session Chair: Van Son Lai - Laval University, Canada

"The Dynamics of EMU Stock Market Cycles Before and After the Euro"
Jose G. Dias - Lisbon University Institute, Portugal
Sofia B. Ramos - Lisbon University Institute, Portugal

Discussant: Anna Zalewska - University of Bath, UK

The effects of the introduction of the euro were expected not only on the real convergence of economies but also on stock markets. This paper compares the dynamics and synchronization of stock markets regimes in European markets before and after the launch of the euro. The results show that countries of the euro zone have different dynamics concerning the switching between bull and bear markets. However, after the introduction of the single currency, the differences have become less pronounced. The results delineate a framework of a core-periphery of stock markets, i.e., a large group of stock markets that share the same market regime, and some stock markets on the periphery, like Austria and Portugal, characterized by a distinctive behavior. Stock markets in the core group show a high level of synchronization of cycles, while countries on the periphery distinguish themselves by having low synchronization with the markets in the core group.

"Using Stock Market Evidence to Inform the Definition of Relevant Product Markets in Competition Law"
Paul A. Grout - University of Bristol, UK
Frank Windmeijer - University of Bristol, UK
Anna Zalewska - University of Bath, UK

Discussant: Elias Semaan - James Madison University, USA

Standard approaches to relevant market definition in competition law are time consuming and often replaced with more informal approaches, particularly when time is limited (e.g., in merger cases). This paper suggests a formal approach using stock market data that is simple and very quick to undertake. The approach assumes that share prices change as a result of unanticipated shocks and that these shocks are economy wide, company specific and product market specific. We show under reasonable conditions that in this case the residuals from Market Model of CAPM regressions (with constant and time varying coefficients) is more correlated between firms in the same relevant product market than between firms that are not in the same product market. Hence the correlation matrix of residuals conveys information about the relevant product market. We then test this conjecture with product market data from the UK Competition Commission and share price data. Using the correlation of returns we 'blindly' allocate each of the companies to product markets using our approach. If the correlation of residuals contained no information with regard to relevant product market then the chance of being allocated to the right market would be roughly 8%. However, using our preferred model, the use of the correlation of residuals to allocated companies to product market resulted in almost three quarters (72%) of the companies being allocated to the exact product market indicated by the relevant Competition Commission investigation.

"Deregulation and Risk"
Elias Semaan - James Madison University, USA
Pamela Drake - James Madison University, USA

Discussant: Alexandre M. Baptista - The George Washington University, USA

The recent market turmoil has brought attention to how deregulation of the financial sector may affect risk. The purpose of our study is to examine the market's perception of risk associated with deregulation. We accomplish this by decomposing security risk around deregulation into idiosyncratic and systematic risk. We examine deregulation of several industries, and find a consistent pattern of risk adjustment to deregulation. We find that the increase in security risk is temporary, and largely idiosyncratic.

"Bank Regulation, Risk Management, and Financial Stability"
Gordon J. Alexander - MIT, USA
Alexandre M. Baptista - The George Washington University, USA
Shu Yan - University of South Carolina, USA

Discussant: Jose G. Dias - Lisbon University Institute, Portugal

In attempting to promote financial stability, the Basle Committee on Banking Supervision (2006) provides a framework whereby banks utilize Value-at-Risk (VaR) and Stress Testing (ST) to assess the tail risk of their trading books and determine capital adequacy. Some researchers, however, advocate the use of Conditional Value-at-Risk (CVaR) for doing so. Accordingly, our paper examines the question of whether a risk management system based on both VaR and ST constraints is effective in controlling CVaR. While we find that these constraints lead to the selection of portfolios with relatively small CVaRs when short selling is disallowed, they permit the selection of portfolios with relatively large CVaRs when short selling is allowed. Since trading books have expanded tremendously over the last two decades and often involve large short positions, our results suggest that risk management systems based on VaR and ST constraints are of dubious effectiveness in preventing large losses. Hence, the Basle framework is of questionable adequacy in promoting financial stability.

SESSION 26 — Tuesday 8:30 - 10:15 — Ciutadella B

PRICE DISCOVERY
Session Chair: Stylianos Perrakis - Concordia University, Canada

"Intraday Price Discovery Following Stale News"
Ariel Markelevich - Suffolk University, USA
Howard Nemiroff - Carleton University, Canada
Ryan Riordan - Karlsruhe Institute of Technology, Germany

Discussant: Massimo Scotti - University of Technology Sydney, Australia

Using a unique data set and following a procedure similar to Desai and Jain (1995), we document news releases on particular stocks during a given week. The stocks examined are those mentioned in the column of Alan Abelson in Barron's "Up and Down Wall Street" on the following Saturday. It is expected that these stocks, after the release of news over the daily wires during the week, will have certain price adjustments. The conjecture is that these companies, if they subsequently appear in Alan Abelson's column on the weekend, may experience additional price movement once the market reopens on the following Monday. Based on previously released news on the stocks mentioned, we attempt to determine whether the information provided in the column is substantive.

"Dynamic Setting of Distribution Fees in the US Mutual Fund Industry"
Lorenzo Casavecchia - University of Technology Sydney, Australia
Massimo Scotti - University of Technology Sydney, Australia

Discussant: Jos van Bommel - Universidad CEU, Spain

The distribution strategies of mutual funds directly or indirectly affect both their growth and their revenues. The extent of resources dedicated by a fund to its distribution channel(s) is therefore an important strategic decision. For a sample of US diversified equity mutual funds in the period from 1994 to 2007, we analyze the distribution fees and their components (12b-1 fees and loads) with the aim to identify their economic determinants. In particular, we examine the temporal and cross-sectional relation between distribution fees and past performance, and show that past performance is an important determinant of distribution fees. Our subsequent analysis of the relation between flows and performance supports the hypothesis that management companies strategically adjust their distribution fees in response to reported returns in an attempt to influence future net money flows. We highlight that this strategic behavior is particularly concentrated in the broker-sold segment of funds and, quite surprisingly, among poor performing funds. We suggest that poorly performing funds that use their distribution channels intensively to market improvements in performance experience increased net flows, even if these improvements are merely ameliorated bad performance. Finally, we show that the higher flow benefit enjoyed by poorly performing funds occurs only when an increase in distribution fees is accompanied by a simultaneous decrease in management expenses, which suggests that investors do pay attention to the total cost of investment. Our results also show that mutual funds are always penalized by investors for raising both of these fees simultaneously. This phenomenon is furthermore amplified in the case of funds with good past performance results.

"Measuring Price Discovery: The Variance Ratio, the R2, and the Weighted Price Contribution"
Jos van Bommel - Universidad CEU, Spain

Discussant: Hatem Ben-Ameur - HEC Montreal, Canada

We analyze the statistical properties of three measures of price discovery: The variance ratio, the weighted price contribution (WPC), and the R2 of unbiasedness regressions. We find that, if the price process is a driftless martingale, only the WPC is an unbiased estimator. For autocorrelated processes, only the unbiasedness R2 is consistent. We also show that macro-heteroskedasticity adversely affect the precision of the price discovery estimators, and suggest a method to increase their power. We illustrate our measures with an intraday price discovery analysis of the CAC40 index.

"Pricing the CBOT T-Bonds Futures"
Ramzi Ben-Abdallah - University of Quebec, Canada
Hatem Ben-Ameur - HEC Montreal, Canada
Michele Breton - HEC Montreal, Canada

Discussant: Howard Nemiroff - Carleton University, Canada

The aim of this paper is to investigate the pricing of the Chicago Board of Trade Treasury-Bond futures. The difficulty to price it arises from its multiple inter-dependent embedded delivery options, which can be exercised at various times and dates during the delivery month. We consider a general Markov delusion process model for stochastic interest rates and propose a pricing algorithm that can handle all the delivery rules embedded in the CBOT T-bond futures. Our procedure combines dynamic programming, ?nite-elements approximation, and fixed-point evaluation. Numerical illustrations are provided under the one-factor Vasicek (1977) and Cox-Ingesoll-Ross (1985) models, and under the time in-homogeneous Hull-White (1990) model.

SESSION 27 **Tuesday 8:30 - 10:15** **Ciutadella C**

AGENCY ISSUES

Session Chair: Shahid S. Hamid - Florida International University, USA

"Corporate Philanthropy, Agency Problems, and Shareholder Wealth"

Eliezer Fich - Drexel University, USA
Diego Garcia - University of North Carolina, USA
Timothy Robinson - University of North Carolina, USA
Adam Yore - Northern Illinois University, USA

Discussant: Jayasinghe Wickramanayake - Monash University, Australia

In a large sample of publicly traded firms during 1998-2006 we find that companies donating to charity display weaker governance, excess free cash flow, lower market-adjusted returns and a higher propensity to be defendants in class action fraud lawsuits. Giving CEOs receive $1.4 million in additional compensation and extra perquisites but are less likely to be dismissed for poor performance. Consistent with Jensen and Meckling (1976), our results indicate that corporate philanthropy proxies for residual agency problems: when managers have discretion to give the firm's money away to charities, firms face severe agency problems.

"Exit Market Liquidity and Venture Capitalists' Investment Behavior in Australia, Canada and the United Kingdom"

Tabita Bertsch - Monash University, Australia
Shrimal Perera - Monash University, Australia
Jayasinghe Wickramanayake - Monash University, Australia

Discussant: Anand Venkateswaran - Northeastern University, USA

This study investigates the effect of exit market liquidity on venture capitalists' (VCs') investment behavior. The sample consists of 4,758 investment rounds disbursed by venture capital funds in three selected common law based OECD countries (Australia, Canada and United Kingdom). The results indicate that investments in early-stage projects by VCs are not related to exit market liquidity conditions (except for the Canadian sample) after controlling for exogenous factors. Empirical results, however, show that exit market liquidity is positively associated with VCs' investments in new projects (as opposed to follow-on projects).

"To Specialize or Diversify Coverage? Determinants and Effects of Variation Within International Analyst Research Portfolios"

Omesh Kini - Georgia State University, USA
Michael Rebello - University of Texas at Dallas, USA
Anand Venkateswaran - Northeastern University, USA

Discussant: Usha R. Mittoo - University of Manitoba, Canada

We investigate how forecast accuracy varies across stocks within analysts' research portfolios. We focus on the difference in forecast accuracy for core-stocks—stocks belonging to the country-sector with the largest representation in an analyst's portfolio—and non-core stocks. Our evidence indicates that analysts who diversify their portfolios benefit from information spillovers that flow from core to non-core stocks. The information spillovers are strong enough to ensure that analysts produce the most accurate forecasts for non-core stocks and when their portfolios are slightly diversified. Since the manner in which analyst research coverage is organized affects the quality of research output, our study has implications for not only how investors should assess the quality of analysts' earnings forecasts but also for the efficiency of information production in the economy.

"The Geography of European Convertible Bonds: Why Firms Issue Convertibles?"
Franck Bancel - ESCP-EAP, France
Usha R. Mittoo - University of Manitoba, Canada
Zhou Zhang - University of Regina, Canada

Discussant: Eliezer Fich - Drexel University, USA

Why firms issue convertible debt is still one of the unresolved puzzles in finance. While several theories provide different rationales for convertible issuance, empirical evidence is mixed and unclear. Another puzzling feature is that a few countries dominate the global convertible market, suggesting that country-specific factors may play an important role in the use of convertibles. The traditional convertible theories, however, assign little role to country-factors and little prior research has been done to examine their influence on the convertible issuance decision. In this paper, we study the role of country-specific factors in convertible issuance by examining the evolution of European convertible market and the cross-country variation in its development from 1990 to 2007. We find that countryspecific factors have a significant impact on the likelihood of convertible issuance, after controlling for firm, industry and market-specific factors.

SESSION 28 Tuesday 8:30 - 10:15 Gracia A

ACCOUNTING ISSUES II

Session Chair: Jeffrey L. Callen - University of Toronto, Canada

"Analyst Forecast Dispersion, R&D and Stock Returns: Evidence from the UK"
Seraina C. Anagnostopoulou - Athens University of Economics and Business, Greece

Discussant: Christos I. Negakis - University of Macedonia, Greece

Existing literature has documented that Research and Development (R&D) expenses have a statistically significant influence on subsequent stock returns, and that R&D intensive firms are characterized by significant excess risk-adjusted market returns. The study examines whether these R&D-related effects on returns are robust to controlling for analyst forecast dispersion, decomposed into a pure lack of consensus and forecast uncertainty component, according to Barron et al (1998). Information received from R&D expenses is expected to be non-exhaustive of the risk and uncertainty arising from R&D investments, regarding the future economic performance of R&D intensive firms. This is first because of a mismatch in expected future costs and benefits from R&D, due to the expensing of such costs. In addition, R&D investments are inherently characterized by very high uncertainty of future benefits. Thus, controlling for forecast uncertainty and consensus is considered necessary because these analyst forecast characteristics are expected to capture additional R&D-related economic information with a possibility to affect stock returns, compared to R&D expenses. At the same time, forecast dispersion and/or its components per se have been significantly associated with stock returns as well. The study documents that significant excess returns of R&D intensive firms observed by prior literature generally disappear upon controlling for forecast uncertainty and lack of consensus. The study contributes to prior literature by providing for the first time evidence that the existence of significant excess returns for high R&D firms no longer represents a deviation from market efficiency, upon implementing more controls for R&D-related information deficiencies.

"The Effects of the IFRS on the Earnings Attributes"
Dimitrios V. Kousenidis - Aristotle University of Thessaloniki, Greece
Anestis Ladas - University of Macedonia, Greece
Christos I. Negakis - University of Macedonia, Greece

Discussant: Ilanit Gavious - Ben-Gurion University, Israel

The present study examines the changes imposed by the International Financial Reporting Standards (IFRS) adoption on certain attributes of the earnings of Financial Sector firms. In particular, the attributes examined are the value relevance and the timeliness of earnings. The introduction of IFRS and the substitution of historical cost accounting (cost model) with fair value accounting (revaluation model) for

several classes of financial assets is predicted to have a substantial effect on the earnings attributes. Using a sample of Greek Financial Sector firms listed on the Athens Stock Exchange we show that both the value relevance and the timeliness of earnings have been changed after the introduction of IFRS. The findings of the change in the earnings attributes are most likely to be connected with valuation effects induced by fair value accounting.

"The Complementary Relationship between Financial and Non-Financial Information in the Biotechnology Industry and the Degree of Investor Sophistication"

Jeffrey L. Callen - University of Toronto, Canada
Ilanit Gavious - Ben-Gurion University, Israel
Dan Segal - University of Toronto, Canada

Discussant: Terry Walter - University of Technology Sydney, Australia

We examine whether financial and non-financial variables are value relevant in explaining returns, market value of equity and the degree of investment by sophisticated investors for a sample of drug development companies. We use patent counts, the number of collaborations and the probability adjusted portfolio of drugs under development as non-financial information metrics, and (the change in) earnings as the main financial information variable. We show that news related to these non-financial measures are significantly associated with abnormal returns. Although drug companies invest significant amounts in research and development, and these costs are usually expensed as incurred, we find that earnings are value relevant in explaining cumulative abnormal returns and equity prices around earnings announcement dates. We also find that nonfinancial information is value relevant in explaining annual returns, equity prices and degree of investment by sophisticated investors, especially long-term horizon investors. Furthermore, non-financial variables are still value relevant after controlling for financial variables suggesting that the two types of variables are complements.

"Errors in Estimating Unexpected Accruals in the Presence of Large Changes in Net External Financing"

Yaowen Shan - University of Technology Sydney, Australia
Stephen Taylor - University of Technology Sydney, Australia
Terry Walter - University of Technology Sydney, Australia

Discussant: Seraina C. Anagnostopoulou - Athens University of Economics and Business, Greece

We demonstrate that the articulation among accruals, cash flows and revenues which is typically assumed in tests of earnings management does not hold when large (positive or negative) external financing activities are present. Our study provides evidence that managers' "normal" operating decisions associated with net external financing activities are likely to lead to economically and statistically significant measurement errors in unexpected accruals. This is a serious concern given the frequency with which the partitioning variable used to identify instances of alleged earnings management is correlated with significant movements in net external financing. Simulation tests show that even at modest levels of net external financing changes, rejection frequencies for the null hypothesis of no earnings management rise dramatically. This result underscores the importance of additional specification tests being conducted to control for estimation biases in unexpected accruals associated with external financing. We suggest the use of a matched-firm approach using industry and external financing matches. Using this method, we demonstrate that prior conclusions about the existence of earnings management around open market repurchases (Gong et al. 2008) do not appear robust when attempts are made to control for the effect on expected accruals of large changes in net external financing.

SESSION 29 — Tuesday 8:30 - 10:15 — Gracia B

EXECUTIVE COMPENSATION

Session Chair: Nikolaos T. Milonas - University of Athens, Greece

"CFO Compensation"

Otgontsetseg Erhemjamts - Bentley University, USA
Atul Gupta - Bentley University, USA

Bayar Tumennasan - Bentley University, USA

Discussant: Bruce A. Rosser - University of Adelaide, Australia

We examine CFO compensation over the years 1994–2006 and report on three related questions: the level of compensation, the determinants of compensation, and the relationship between CFO pay and performance. We also examine changes in CFO compensation following the passage of SOX in 2002. We find that (i) total compensation increased steadily over this period, and is significantly higher in the post-SOX period, (ii) the proportion of S&P 1,500 firms where the CFO is one of the five highest-paid executives increased from just over 50% in 1994 to over 90% in 2006, (iii) the likelihood of the CFO being one of the five highest paid executives within the firm is declining in firm size and growth opportunities, but increasing in firm profitability, risk, board size and board independence, and (iv) CFO compensation is positively related to firm size, growth opportunities, annual stock returns, and earnings surprises, a measure of CFO-specific performance.

"Executive Bonuses"
Jean M. Canil - University of Adelaide, Australia
Bruce A. Rosser - University of Adelaide, Australia

Discussant: Lale Guler - City University of New York, USA

Criticism by the Administration at the height of the global financial crisis of ‘excessive’ company bonuses rekindles debate on the link between executive pay and firm performance. We model the relationship between realized CEO pay and an earnings-adjusted barrier call as the dependent variable. We employ both externally- and internally-derived metrics of target financial performance. Pay components are found strongly interrelated. Salary sensitivities to the dependent variable are broadly consistent with determination of a reservation wage set by the executive labor market, while annual bonuses are paid for expected above-target performance, but are also capped. Long-term incentive plans are used to mitigate noise in earnings only when above-target performance is expected. Hence, we find no evidence of ‘excessive’ bonuses, at least during the interval ending in fiscal 2005. Rather, we document evidence that the ‘excessiveness’ may in fact be present in salaries.

"CEO Compensation and Acquisition Performance: Evidence from Goodwill Impairment Losses"
Masako Darrough - Baruch College, USA
Lale Guler - City University of New York, USA

Discussant: Samuel H. Szewczyk - Drexel University, USA

Prior research documents that executives receive large bonuses for completing M&A deals; yet many acquisitions do not create value for shareholders. We examine whether cash compensation of CEOs is reduced when goodwill impairment losses are recognized. We find that, on average, CEOs are penalized for impairment when they are in the early stage of their tenure, their firms have overpaid for targets, and their firms are not R&D intensive. However, the sensitivity of compensation to impairments is reduced during recession. Our results suggest that CEOs pay a price for non-value maximizing acquisitions, but are also shielded from excessive risk exposure.

"Corporate Governance Dynamics in Strategic Decisions: Evidence from Major Acquisitions and Large Loss Acquisitions"
Suenghee Choi - The College of New Jersey, USA
Samuel H. Szewczyk - Drexel University, USA

Discussant: Otgontsetseg Erhemjamts - Bentley University, USA

We examine major acquisitions and among them acquisitions resulting in large losses. The corporation’s decision system is put to a severe test when the chief executive officer proposes a major strategic acquisition. The decision process is highly influenced by corporate governance dynamica. We present evidence that the decision to implement a major acquisition is significantly driven by CEOs’ attributes and compensation. CEOs of firms making major acquisitions are younger, are recently hired as CEOs, and are in an environment that is amenable to risk taking. Managerial compensation is less sensitive to performance and more sensitive to firm-size expansion. Those boards ratifying major acquisitions are not necessarily less independent or less efficient in any meaningful way; however, their oversight committees tend to be less independent. Large loss acquisitions are characterized by entrenched and powerful CEOs facilitated by weak monitoring systems, internal and external. Their boards of directors are less independent, as are their oversight committees, and less efficient. They are more insulated from the market for corporate control. The compensation of their CEOs has high option intensity and is designed to reward firm-sales-volume expansion. On the other hand, we find firms making major acquisitions resulting in large gains are characterized by greater independence in their boards and committees and by higher board efficiency. They have higher managerial ownership. Consequently, their CEOs incur a higher fraction of the cost of poor decisions. The compensation of their CEOs exhibit high bonus incentive and low option incentive, and, consequently, provides lower incentive for taking excessively high risk acquisitions. Finally, we present evidence of the corporate governance dynamic triggered by a large loss acquisition. We find that firms experiencing large losses in major acquisitions improve their internal governance structure over the subsequent three years by raising the level of outside expertise on their boards as well as the board's independence.

SESSION 30 Tuesday 8:30 - 10:15 Putxet

IPO MARKETS

Session Chair: Piet Sercu - Catholic University of Leuven, Belgium

"The Role of Investor Sentiment in the IPO Aftermarket"

Sanjiv Jaggia - Cal Poly State University, USA
Satish Thosar - University of Redlands, USA

Discussant: Olfa Hamza - UQAM, Canada

We find that IPO stocks exhibit considerable initial momentum and sharp reversals within a six-month aftermarket window. Two price signals on the cusp of an IPO: price revision (change from pre-offer to offer price) and initial return (change from offer to market open price) appear to be important indicators of investor sentiment. We show that a mechanical trading strategy designed to exploit aftermarket patterns generates economically significant risk-adjusted returns compared to a buy-and-hold benchmark. The returns are amplified for portfolios appropriately conditioned on the price signals.

"Does Venture Capitalists Reputation Improve the Survival Profiles of IPO Firms?"

Olfa Hamza - UQAM, Canada
Maher Kooli - UQAM, Canada

Discussant: Andre Dorsman - Vrije University Amsterdam, The Netherlands

This paper examines the effect of Venture Capital (VC) reputation on the survival profile of U.S. Initial Public Offerings (IPOs) firms for the 1985-2005 period. To do so, we construct a VC quality index and develop multinomial logit models based on the information contained in the prospectus. The main findings of the paper are that VC reputation does indeed improve the IPO survival profile. While we find that leaving money on the table is a bad survival signal, we confirm that having a prestigious underwriter to market the issue is a good survival signal. Further, we find that Sarbanes-Oxley Act adoption has a positive effect on IPO survival. We also confirm our result after controlling for self selection bias and estimating an accelerated-failure-time model as robustness tests.

"Insights in the Performance of Dutch IPOs"

Andre Dorsman - Vrije University Amsterdam, The Netherlands
Dimitrios Gounopoulos - University of Surrey, United Kingdom
Duco Wildeboer - Euronext Stock Exchange, The Netherlands

Discussant: Christodoulos Louca - Cyprus University of Technology

We estimate both initial underpricing and long-run stock performance for 138 Dutch IPOs that were listed during the period 1990–2009 making use of widely used BHAR and CAR and of alternative benchmarks (CAPM, FF3F, FF4F, Calendar time) over 36 months of secondary market performance. Findings align with international evidence and reveal long-term underperformance while they differentiate as this underperformance appears only few months after listing. Measuring these returns in calendar time, we find statistical significance with several of the benchmarks employed. Using buy and hold abnormal returns, we confirm low underpricing level of Dutch IPOs. Cross-sectional regressions of short and long-run performance disclose several significant factors. Underwriter's reputation and market (hot) condition proves to be significant in both short and long term cases. Opposite to many studies we attribute long-run underperformance to the IPO listed during cold market periods. Results associated with pricing during the "hot IPO period" indicate better long-term (3-year) performance.

"Can Managerial Overconfidence Explain the Diversification Discount?"
Panayiotis C. Andreou - Cyprus University of Technology, Cyprus
Christodoulos Louca - Cyprus University of Technology, Cyprus

Discussant: Satish Thosar - University of Redlands, USA

SESSION 31 Tuesday 10:30 - 12:15 Ciutadella A
OPTION PRICING
Session Chair: Terry Walter - University of Technology Sydney, Australia

"Geometric Average Options Pricing Under Stochastic Volatility"
Nabil Tahani - York University, Canada

Discussant: Stylianos Perrakis - Concordia University, Canada

This paper derives semi-analytical pricing formulae for geometric average options (GAO) within a stochastic volatility framework. Assuming a general mean reverting process for the underlying asset and a square-root process for the volatility, the cross-moment generating function is derived and the cumulative probabilities are recovered using the Gauss-Laguerre quadrature rule. Fixed and floating strikes as well as other exotic GAO on different assets such as stocks, currency exchange rates and interest rates are derived. The approach is found to be very accurate and efficient.

"Jump-Diffusion Option Valuation Without a Representative Investor: a Stochastic Dominance Approach"
Ioan Mihai Oancea - National Bank of Canada, Canada
Stylianos Perrakis - Concordia University, Canada

Discussant: Konstantinos Konstantaras - University of Patras, Greece

We present a new method of pricing plain vanilla call and put options when the underlying asset returns follow a jump-diffusion process. The method is based on stochastic dominance insofar as it does not need any assumption on the utility function of a representative investor apart from risk aversion. It develops discrete time multiperiod reservation write and reservation purchase bounds on option prices. The bounds are valid for any asset dynamics and are such that any risk averse investor improves her expected utility by introducing a short (long) option in her portfolio if the upper (lower) bound is violated by the observed market price. The bounds are evaluated recursively and the limiting forms of the bounds are found as time becomes continuous. It is found that the two bounds tend to the common limit equal to the Black-Scholes-Merton (BSM) price when there is no jump component, but to two different limits when the jump component is present.

"An Option Valuation Approach to Gauge Trading Halt Economic Drivers and Impact on Listed Firms"
Konstantinos Konstantaras - University of Patras, Greece
Costas Siriopoulos - University of Patras, Greece

Discussant: Mehmet Baha Karan - Hacettepe University, Turkey

In order to estimate the economic factors which drive companies undergo trading Supervision or Halting we emphasize analysis from shareholder's and creditor's viewpoint. Following an option theoretical formulation we explain why trading Suspension should influence the most companies experiencing lower financial burden and the least companies with higher; in the middle, a situation characterized by negative gamma for creditors and long gamma for shareholders, conflicts are easier to arise. Results confirm our theoretical formulation and uncover economic drivers such as economic distress, managerial inefficiency, small size and macroeconomic hardness to influence the probability of Supervision/Suspension's occurrence.

"Price Efficiency in Option Markets: An Empirical Study on Izmir Derivatives Exchange"

Ceren Bektas - Hacettepe University, Turkey
Mehmet Baha Karan - Hacettepe University, Turkey
Ozgur Arslan - Hacettepe University, Turkey

Discussant: Nabil Tahani - York University, Canada

In this study, in order to test whether TRYUSD and TRYEuro futures contracts are price efficient in the weak form, a random walk model is utilized covering the period of 04.02.2005 and 16.01.2009. Results of the Corelogram test shows that there exists an autocorrelation within the observed values for TRYUSD futures contract, however such a finding is not obtained for TRYEuro futures contracts. Low level of coefficient of determination for TRYUSD and TRYEuro contracts supports the existence of random walk for TRYEuro contracts indicating the necessity of making different analysis for TRYUSD contracts. Our findings show that neither TRYUSD nor TRYEuro futures contracts are normally distributed. Besides, both of the contracts have leptokurtic distribution therefore we referred to the nonparametric tests, which resulted in a failure to reject existence of random walk for TRYUSD and TRYEuro contracts. Finally unit root tests results in failure to reject existence of random walk. As a conclusion, TRYEuro contracts are found to be more volatile than TRYUSD contracts in the IDE.

SESSION 32 — Tuesday 10:30 - 12:15 — Ciutadella B

VOLATILITY

Session Chair: Eliezer Fich - Drexel University, USA

"Do Volatility and Margin Requirements Measure Up? Further Evidence from Canadian Equity Market."

Mohamed Ayadi - Brock University, Canada
Skander Lazrak - Brock University, Canada
Kwan Yiu Lee - Brock University, Canada

Discussant: Ihsan Ullah Badshah - Hanken School of Economics, Finland

Margin policy is used by regulators for the purpose of inhibiting excessive volatility and stabilizing the stock market in the long run. This paper aims to directly examine the effect of changing the margin requirements on return, volume, and volatility of individual companies and by using recent data in the Canadian stock market. Using the methodologies of variance ratio tests and event study with conditional volatility, we find no convincing evidence that change in margin requirement affects subsequent stock return volatility. We also find similar results for returns and trading volume. These empirical findings lead us to conclude that the use of margin policy by regulators fails to achieve the goal of inhibiting speculating activities and stabilizing volatility.

"Quantile Regression Analysis of Asymmetric Return-Volatility Relation"

Ihsan Ullah Badshah - Hanken School of Economics, Finland

Discussant: Sheraz Ahmed - Lappeenranta University of Technology, Finland

This paper uses quantile regression to investigate the asymmetric return-volatility phenomenon with the newly adapted and robust implied volatility indices VIX, VXN, VDAX and VSTOXX. A particular goal is to quantify the effects of positive and negative stock index returns at various quantiles of the implied volatility distribution. As the level of the new volatility index increases during market declines, we believe that the negative asymmetric return-volatility relationship should be significantly more pronounced at upper quantiles of the IV distribution than is indicated by ordinary least squares (OLS) regression. We find pronounced negative and asymmetric return-volatility relationships between each volatility index and its corresponding stock market index. The asymmetry increases monotonically when moving from the median quantile to the uppermost quantile (i.e., 95%); OLS thereby underestimates this relation at upper quantiles. Additionally, the asymmetry is pronounced with a volatility skew-adjusted new volatility index measure in comparison to the old at-themoney volatility index measure. The VIX volatility index presents the highest asymmetric return-volatility relationship, followed by the VSTOXX, VDAX and VXN volatility indices. Our findings have implications for trading strategies, hedging portfolios, pricing and hedging volatility derivatives, and risk management.

"Interdependence or Political Risk? A Case of South Asian Equity Markets"
Sheraz Ahmed - Lappeenranta University of Technology, Finland
Syed Mujahid Hussain - Hanken School of Economics, Finland

Discussant: Goknur Umutlu - Hacettepe University, Turkey

This paper examines the magnitude of return and volatility spillovers in South Asian equity markets by employing a bivariate EGARCH framework. We further explore the plausible reasons of return and volatility linkages among two rival stock markets and the lead lag relationship in price discovery mechanism. To this end, we measure the financial impact of political news coming from both India and Pakistan on the price and volatility dynamics of these equity markets. This paper derives implications for policy makers, international investors and fund managers for pricing domestic securities and asset allocation decisions by asking how and to what extent stock return and volatility in local market is influenced by political upheavals.

"Market Coupling of Electricity Markets"
Andre Dorsman - Vrije University Amsterdam, The Netherlands
Mehmet Baha Karan - Hacettepe University, Turkey
Erdinc Telatar - Hacettepe University, Turkey
Goknur Umutlu - Hacettepe University, Turkey

Discussant: Skander Lazrak - Brock University, Canada

Historically, electricity networks in Europe have been nationally oriented. Electricity traffic between the networks is limited. One of the imperfections concerns entry into a closed market. When bidders and suppliers are not able to easily enter into a market or withdraw without any risk or costs, a deviant price-making process may arise. Electricity markets are public markets and electricity traffic is limited between such markets. In November 21 2006 the markets of Belgium, France and The Netherlands have been coupled. In this research, we look at the influence of market coupling on the volatility of electricity prices in Belgium, France and The Netherlands. The price dependent ARCH results indicate that the variance is affected negatively from one to two days lagged prices in the three markets. After the moment of coupling the volatility of base, peak and offpeak electricity prices in the Netherlands and France declines. The biggest decline in volatility occurs in Belgium offpeak prices. However in Belgium even significant higher volatility than before the moment of coupling are observed for base and peak prices after the coupling event.

SESSION 33 — Tuesday 10:30 - 12:15 — Ciutadella C

FINANCE INSTITUTIONS

Session Chair: Olfa Hamza - UQAM, Canada

"Estimating the Intertemporal Substitution Elasticity"
Fang Liu - Catholic University of Leuven, Belgium
Piet Sercu - Catholic University of Leuven, Belgium

Discussant: Claudia Champagne - University of Sherbrooke, Canada

To estimate the elasticity of intertemporal substitution (eis), one traditionally assumed time-additive utility and constant relative risk aversion, but that model is often regarded as a failure as little or no link is detected between expected real consumption growth and the real interest rate. We test whether the inverse of the eis is really all that different from the rra estimates we get from eg equity markets, ie, whether time-additive utility is really such a bad assumption. We find that by simple modifications of the basic model|namely, accounting for seasonals and allowing for effects stemming from changes in wealth|produces elasticities that are quite compatible with other studies, including values implied by the more reasonable range of risk-aversion estimates obtained from capm tests. Our eis estimates are obtained from gmm, after unsuccessfully trying the standard proxy for expected in

"Information Asymmetry in Syndicated Loans: The Cost of the Distribution Method"
Claudia Champagne - University of Sherbrooke, Canada

Discussant: Van Son Lai - Laval University, Canada

This paper examines the impact of the distribution method on the loan syndicate structure and spread. Although club deals are associated with riskier and less transparent borrowers than syndications, their average loan spread is lower. Multivariate regressions show that country effect and syndicate structure differences can explain, at least partly, this lower spread. Specifically, club deal are associated with syndicates that are smaller, are more homogeneous in terms of lender industries and countries, are more concentrated and denser. Finally, switching regressions with a correction for selection show that borrowers in syndications would pay lower spreads in club deals, everything else held equal.

"An Analysis of Government Loan Guarantees and Direct Investment through Public-Private Partnerships"
Van Son Lai - Laval University, Canada
Issouf Soumare - Laval University, Canada

Discussant: Mona Soufian - Liverpool Hope University Business School, UK

This paper compares two forms of government support: loan guarantee and direct investment through public-private partnerships (PPPs). With loan guarantee, government provides financial guarantees to enhance project creditworthiness. With direct investment, government invests capital directly in the project. In both forms of support, the government receives shares proportional to its financial commitment. We find that loan guarantees are more effective in reducing project borrowing costs. In a perfect information environment, loan guarantee support will yield more wealth t the government than a cost equivalent direct investment. But, in an informationally asymmetric environment where the government knows less about project quality than do private partners, in other words the so-called plum problem rather than the familiar lemon problem, this implication is mitigated. We show how the portion of shares given to the government can be a bargaining tool and can mitigate information asymmetry when structuring PPPs.

"What Drives the Premium Labor Model, Beta Instability Risk or Human Capital? Premium Model Outperforms Premium Labor model in UK"
Mona Soufian - Liverpool Hope University Business School, UK
Stuart Horsburgh - Manchester Metropolitan University Business School, UK

Discussant: Piet Sercu - Catholic University of Leuven, Belgium

We examine the Conditional Capital Asset Pricing Model of Jagannathan and Wang (1996) using UK data and develop a data driven measure of beta instability risk that is pertinent to the UK stock market. This measure is priced over all time periods covered in this study. In contrast to the view that the main part of the Jagannathan and Wang's model is the inclusion of human capital, however, we find that human capital remains insignificant in most tests. Our results revive the importance of beta instability risk in conditional CAPM of Jagannathan and Wang's model and suggest that the beta instability drives this model.

MICROSTRUCTURE I

Session Chair: Usha R. Mittoo - University of Manitoba, Canada

"The Relative Contribution of Ask and Bid Quotes to Price Discovery"

Roberto Pascual - Universitat de les Illes Balears, Spain
Bartolome Pascual-Fuster - Universitat de les Illes Balears, Spain

Discussant: Shahid S. Hamid - Florida International University, USA

This paper offers new insights about the price discovery process of common stocks and the role the trading process plays on it. For the first time in the literature, we provide robust evidence of asymmetries in the daily contribution of ask and bid quotes to price discovery. We show that asymmetric contributions are not the exception, but the rule. Days with stronger asymmetries are characterized by lower than usual trading activity, higher than usual absolute returns, and more illiquid than usual limit order books. Prominent daily order imbalances coincide with, and also lead to, notorious asymmetric contributions, even after controlling for returns and liquidity. Daily asymmetric contributions, however, are hardly predictable.

"Effect on Option Trading Volume When Equity Short Sale Restrictions are Imposed or Removed"

Gizelle Fernandez - Florida International University, USA
Shahid S. Hamid - Florida International University, USA

Discussant: Francisco J. Callado Munoz - Girona University, Spain

The financial crisis of 2008 and the accompanying temporary short sale ban on hundreds of stocks provide a unique laboratory to examine several hypotheses concerning the link between the options and equity markets, and in determining if options are effective substitutes for short sales. The use of options can to some degree undermine the ban on short sales and provide potential efficiencies depending on relative transaction costs. The SEC banned “naked” short selling in 14 financial companies on Monday, July, 21, 2008. The SEC then banned “naked” short selling for 967 financial companies on September 22th, 2008. This study attempt to analyze how the put and call options on stocks reflected this market signal. Did short sellers shift to using put and call options as substitutes? Are options effective substitutes for short sale? Preliminary results suggest that option volumes and short interest increased during the ban, and larger firms had more pronounced peaks.

"Intraday Liquidity in Gross Payment Systems"

Francisco J. Callado Munoz - Girona University, Spain
Natalia Utrero Gonzalez - Universitat de Girona, Spain

Discussant: Yan M. Alperovych - University of Liege, Belgium

The purpose of this paper is to make a comparative analysis of modern gross payment systems, emphasizing on the implications of the availability of intraday liquidity and the different mechanisms used to provide this liquidity. The possibility of default and the risk of the intraday credit are first introduced to determine the implications on banks’ behavior and on the probability of a systemic crisis. This allows for the comparison of the effects on social welfare for different sets of parameters that characterize social risk aversion, opportunity set of banks and the functioning of each settlement model. Finally, the performance of each model is analyzed using real data to resemble the payment and financial structure of a group of countries.

"VC-Backed Firm Efficiency and Public Investor: Belgian Evidence"

Yan M. Alperovych - University of Liege, Belgium
Georges Hubner - University of Liege, Belgium
Fabrice Lobet - University of Brussels, Belgium

Discussant: Bartolome Pascual-Fuster - Universitat de les Illes Balears, Spain

This paper examines the efficiency of the Belgian venture capital backed firms with respect to the type of investor. The initial sample of financing rounds is used to construct a database covering the period 1998-2007. The data envelopment analysis shows that most of the venture capital backed companies are inefficient. These inefficiencies are positively and significantly related to the presence of the public investor in the capital of the firm. These findings are consistent with the insights that public venture capital funds are unable to identify potential high-quality small and medium firms. This suggests that the role of the public investor should be reconsidered especially in the context of the possible harmful consequences on the regional ecnonomic growth, job creation and innovation spurring.

SESSION 35 **Tuesday 10:30 - 12:15** **Gracia B**

CORPORATE GOVERNANCE II

Session Chair: Anna Zalewska - University of Bath, UK

"The Impact of Board Diversity on Boards' Monitoring Intensity and Firm Performance: Evidence from the Istanbul Stock Exchange"

Melsa Ararat - Sabanci University, Turkey
Mine Aksu - Sabanci University, Turkey
Ayse Tansel Cetin - Gebze Institute of Technology, Turkey

Discussant: Benjamin Maury - Hanken School of Economics, Finland

The main objective of this paper is to investigate the impact of board diversity on the financial performance of the ISE-100 index firms traded in the Istanbul Stock Exchange (ISE). Diversity, as a proxy for cognitive diversity, is calculated as a composite index of multiple diversity indicators. We use gender and generation differences as observable attributes and directors' educational and nationality backgrounds as proxies of non-observable attributes of values, beliefs, skills and competencies. We combine these different diversity indicators through a diversity index to account for the critical mass of diverse opinions needed for critical inquiry. We use market-to-book ratio and Tobin's Q as our market based and return on equity as our accounting based measures of performance. Second, to understand the process by which board diversity affects firm performance, we focus on the relationship between board diversity and the board's monitoring intensity, on the one hand, and monitoring intensity and firm performance, on the other. We define board's monitoring intensity as a composite mediating variable consisting of the number of board meetings, the number of committees established by the board, auditing and financial reporting quality and the firm's disclosure intensity. We find a positive relationship between board diversity and performance and board diversity and board monitoring intensity. Furthermore, not only does monitoring intensity impact performance, but it also decreases the explanatory power of board diversity when it enters the model in the diversity-performance estimations. Overall, our results suggest that diverse boards are better monitors, mitigating agency conflict and enhancing firm performance. We expect that the findings would be interesting for researchers, investors, shareholders, boards, and regulators.

"External Shareholders: Incentives and Returns"

Anders Ekholm - Hanken School of Economics, Finland
Benjamin Maury - Hanken School of Economics, Finland

Discussant: Cristina Martinez-Sola - University of Jaen, Spain

We explore the relation between external shareholder incentives and investment returns using a unique transactions data set representing all the more than 1.3 million different shareholders active in the Finnish stock market during a 12-year period. We develop a novel Incentive Index that gauges how concentrated the shareholders' holdings are in each firm. We find that our Incentive Index is significantly positively related to the operating returns, as measured by ROA and ROI, suggesting that shareholders who focus their investments perform a valuable monitoring role. We also find that the Incentive Index is significantly positively related to stock returns.

"Corporate Cash Holdings and Firm Value"

Cristina Martinez-Sola - University of Jaen, Spain

Pedro J. Garcia-Teruel - University of Murcia, Spain
Pedro Martinez-Solano - University of Murcia, Spain

Discussant: Nikolaos T. Milonas - University of Athens, Greece

The aim of this paper is to contrast the effect of cash holding on firm value for a sample of US industrial firms over the period 2001-2007. In order to do this, we first empirically test the existence of an optimal cash level that maximizes firm value. Secondly, we analyze whether deviations from the optimum cash level reduce firm value. Our results show a concave relation between cash holding and firm value, verifying that there is an optimal level of cash holding. Additionally, and consistent with the initial analysis, we also find that deviations above and below optimal cash holding decrease firm value.

"The Voting Rights at Voting"
Theoharry E. Grammatikos - University of Luxembourg, Luxembourg
Nikolaos T. Milonas - University of Athens, Greece
Nickolaos G. Travlos - ALBA, Greece

Discussant: Mine Aksu - Sabanci University, Turkey

In this paper we study the value shareholders receive from voting rights during the Shareholders' meetings. We examine the behavior of stock prices around the days shareholders exercise their voting rights. The valuation of these rights is examined in a large sample of companies listed in various European exchanges having dual class shares with different voting rights during the period 2006-2009. Our hypothesis is that voting rights should behave as options with multiple expiration dates. Such options have a value akin to the institutional characteristics and corporate governance laws in each country. However, whatever the value of voting right, we hypothesize that this value increases some time prior to the shareholders' meeting. Then, after the voting right is exercised, it returns back to its previous average value. The study also examines the different behavior voting rights have in the case of the extraordinary shareholders' meetings relatively to the regular annual meetings.

SESSION 36 — Tuesday 10:30 - 12:15 — Putxet

ACCOUNTING ISSUES III
Session Chair: Andre Dorsman - Vrije University Amsterdam, The Netherlands

"Voluntary Financial Disclosure and the Setting of a Communication Policy: Empirical Test on SBF French Firms Using a Publication Score"
Hubert de La Bruslerie - University Paris Dauphine, France
Heger Gabteni - University Paris-Sorbonne, France

Discussant: Jeffrey L. Callen - University of Toronto, Canada

A publication score of voluntary disclosed information disclosed by French firms was built on the 2003-2007 period. This original set of data is used to analyze the impact of the introduction of IFRS standards. It is also used to identify the determinants of communication policies followed by listed firms. The publication score, for some firms and not all of them, results effectively in useful qualitative information brought to the market. Particularly, we show that highly communicant firms will reduce their information symmetry as measured by the dispersion of analysts' forecasts of earning.

"Accounting Quality, Stock Price Delay and Future Stock Returns"
Jeffrey L. Callen - University of Toronto, Canada
Mozaffar Khan - Massachusetts Institute of Technology, USA
Hai Lu - University of Toronto, Canada

Discussant: Philip Gharghori - Monash University, Australia

We test the hypotheses that (i) poor accounting quality is associated with delayed stock price adjustment to information, and (ii) investors require a stock return premium for this effect of poor accounting quality. We define accounting quality as the precision with which financial reporting informs equity investors about future cash flows. Consistent with our hypotheses, the results suggest poor accounting quality is economically costly in that it hinders timely price adjustment and increases the cost of equity.

"Difference of Opinion and the Cross-Section of Equity Returns: Australian Evidence"
Philip Gharghori - Monash University, Australia
Quin See - Monash University, Australia
Madhu Veeraraghavan - Monash University, Australia

Discussant: Nikolas Hourvouliades - American College of Thessaloniki, Greece

This paper examines the relationship between difference of opinion among investors and the return on Australian equities. The paper is the first to employ dispersion in analysts' earnings forecasts and abnormal turnover as proxies for difference of opinion. We document a negative relationship between difference of opinion and stock returns when using dispersion in analysts' forecasts to proxy difference of opinion. This result provides support for Miller's (1977) model and is consistent with the findings of Diether et al. (2002). In contrast, we find mixed results when using abnormal turnover to proxy difference of opinion. In the second stage of our analysis, we augment the Carhart (1997) model with a difference of opinion factor and run asset pricing tests on the augmented model. Our findings suggest that the difference of opinion factor is not useful in pricing assets and that difference of opinion is not a proxy for risk.

"The Q-Betas of a Stock"
Vassilis Polimenis - Aristotle University, Greece
Nikolas Hourvouliades - American College of Thessaloniki, Greece

Discussant: Hubert de La Bruslerie - University Paris Dauphine, France

The q-beta, a new measure of stock risk that measures quadratic sensitivities is proposed. The aim of the q-beta is to facilitate the disentanglement between noise trading and information. The central idea is that noise evolution occurs with small price movements, while new information arrival that fundamentally alters the state of a stock is recorded with larger and abrupt transitions. We postulate that knowledge of the q-betas can help quantify and mitigate the uncertainty in investment decision making and thus enhance financial risk management. The model is used to extract the q-betas for a large collection of stocks on NASDAQ.

SESSION 37 — Tuesday 2:15 - 4:00 — Ciutadella A

MONETARY & POLITICAL ECONOMY

Session Chair: Frank S. Skinner - University of Surrey, UK

"Estimating Monetary Policy Preferences of the ECB"
Philip Arestis - University of Cambridge, UK
Michael Karoglou - Newcastle University, UK
Kostas Mouratidis - University of Sheffield, UK

Discussant: Francesca Carrieri - McGill University, Canada

This paper estimates central bank policy preferences of the euro area and of the UK. We do so, by adopting the framework suggested by Cecchetti and Ehrmann (1999), which, however, we extent in two respects. First, we allow policy preferences to be asymmetric by assuming that in?ation and output follow a Markov process. Second, following Bean (1998) we introduce dynamics into the supply and demand relationships. In doing so we can only estimate state-dependent policy frontiers rather than policy preferences. Empirical results from the static model show that euro area countries put more weight on in?ation than the UK. Especially after 2006, in the high volatility regime, the UK has reduced the weight on in?ation from 72% to 18%. Alternatively, estimates of optimal policy frontier suggest that although the UK enjoys higher anti-in?ationary credibility (i.e. steeper slope), it also faces a higher trade-off between in?ation and output variability than the euro area does. This is in line with evidence from the static model where the UK enjoys the advantage of its anti-in?ationary credibility. This has changed substantially the policy preferences.

"Do Implicit Barriers Matter for Globalization?"
Francesca Carrieri - McGill University, Canada
Ines Chaieb - University of Amsterdam, The Netherlands
Vihang Errunza - McGill University, Canada

Discussant: John Simpson - Curtin University, Australia

Understanding and measuring the evolution of market integration and its variation across countries is of critical importance. Market liberalization may not result in global pricing or increased market integration if implicit barriers are relevant. We use the conditional version of the Errunza and Losq (1985) model to test this proposition, and estimate pricing of investable indices for 22 emerging markets. Our results show that local factors are priced and the implicit barriers related to institutional environment, corporate governance and quality of information are significantly associated with the integration measure and hence play a major role in globalization.

"A Market Based Composite Political Risk Indicator for the International Banking Industry"
John Simpson - Curtin University, Australia

Discussant: Janne Aijo - University of Vaasa, Finland

The purpose of this paper is to test an international bank market pricing model, hypothesised to arrive at new indicator of pure composite political risk for country banking sectors. The motivation is that current political risk ratings (rating social, legal and cultural factors that impact political environments in countries) are largely subjectively quantified and are not frequently published. Political risk has not been a focus in media commentary to date on the global economic and financial spillovers of 2008/2009. An international capital asset pricing model for a banking system is useful as long as systemic interdependence, the degree of global integration, and country size and wealth can be controlled for as well as the impact on a country banking system of that country's stock market. The selected sample contains examples of country banking systems in developed and developing countries. The policy implications of the paper are that investors in banking portfolios, trade and investment policy formulators as well as banking regulators should be aware that it is possible that pure political risk indicators may be obtained as a daily management tool rather than monthly, from an analysis of international stock and banking market generated data.

"Monetary Policy Decisions and Stock Market Uncertainty"
Sami Vahamaa - University of Vaasa, Finland
Janne Aijo - University of Vaasa, Finland

Discussant: Kostas Mouratidis - University of Sheffield, UK

This paper examines how the Fed's monetary policy decisions affect the implied volatility of the S&P 500 index. The results show that option-implied stock market uncertainty is significantly affected by monetary policy decisions. In particular, we find that stock market volatility generally decreases after the FOMC meetings. However, our results also indicate that stock market uncertainty may increase after positive target rate surprises. We further document that the policy decisions made in unscheduled FOMC meetings exert a stronger influence on volatility. Finally, our findings demonstrate that the effect of policy decisions on implied volatility is more pronounced during periods of expansive monetary policy.

SESSION 38 — Tuesday 2:15 - 4:00 — Ciutadella B

VOLATILITY
Session Chair: Ydriss Ziane - Sorbonne Graduate Business School, France

"Arch Family Models and VaR Estimation"
Francisco Lopez Herrera - Universidad Nacional Autonoma de Mexico, Mexico

Edgar Ortiz - Universidad Nacional Autonoma de Mexico, Mexico
Raul de Jesus - Universidad Nacional Autonoma de Mexico, Mexico

Discussant: Sirimon Treepongkaruna - Monash University, Australia

This work employs models ARCH from the ARCH family based on the normal, student-t and skewed student-t distributions to analyze the volatility behavior and estimating VaR for the long and short positions.retunrs from the Mexican Stock market. Research about the volatility from stock markets has recently emphasized problems related to the changing correlation of its prices over time, as well as those concerned with its implications from on the stochastic behavior returns, Several models and empirical approaches have been applied. However, they have been mostly dealt with the case of developed markets. Furthermore, models previously applied to the case of emerging markets have neglected to study the presence of long memory on share returns. Finally, recent financial literature has failed to examine the presence of autoregressive fractionally integrated series. This study widens such perspectives. In order to analyze volatility this work applies models from the ARCH family with autoregressive fractionally integrated moving average (ARFIMA) for the mean equation. Analyses presented are compared with models estimated under alternative assumptions of normal, student-t, and student-t sesgada distributions of the error term. VaR has been validated and recommend by the Basle Committee. which has been accepted by major central bank and regulating authorities. However, there is ´potential tail risk in the use of VaR since it neglects to take into account valuable information conveyed by sizes of losses or profits beyond the VaR level. Thus using VaR to determine minimum capital requirements from banks or simply for investment decision making may lead to erroneous decisions, if a Var model produces too many incorrect predictions due to the use of incorrect distributions. Thus to determine more efficient alternatives for VaR analyses this work employs ARCH models with different distributions assumptions. Backtestig, which allows to compare actual profits and losses with VaR measures, is used to validate their eeficiency. VaR estimates corresponnd to one day investment horizon- The period analyzed is January 1983 to December 2009. The empirical evidence strongly suggests that the asymmetrical GARCH models are the most reliable to estimate VaR and minimum capital requirements for any confidence level than the symmetrical GARCH models, particularly for the GJR and APARVH models with skewed t distribution. These findings clearly evidence that the asymmetrical GARCH models great potential to capture in a more efficient manner different levels os asymmetry and excess kurtosis from returns from the Mexican stock market, generated by extreme fluctuations derived from booms and crakx that have characterized this market during the last three decades.

"Realizing the Volatility Impacts of Sovereign Credit Ratings on Equity and Currency Markets During Financial Crises"
Sirimon Treepongkaruna - Monash University, Australia
Eliza Wu - Australian School of Business, Australia

Discussant: Meher Manzur - Curtin University of Technology, Australia

We examine the effects of different types of sovereign rating announcements on realized stock and currency market volatilities and cross-asset correlations around periods of financial crises. Using intraday market data and sovereign ratings data for nine sample countries in the Asia-Pacific region over 1997-2001, we find that currency and stock markets react somewhat heterogeneously to various rating announcements and that stock markets are more responsive to rating news than currency markets. We find new evidence that ratings events have significant and asymmetric impacts on intraday market data and that national market attributes influence rating impacts during financial crises.

"Options Pricing and Realized Volatility: The Missing Link?"
Meher Manzur - Curtin University of Technology, Australia
Ariful Hoque - University of Southern Queensland, Australia
Geoffrey Poitras - Simon Fraser University, Canada

Discussant: Iuliana Ismailescu - Pace University, USA

This paper explores the possibility of implanting alternative specifications of volatility as an input in the Black-Scholes options pricing procedure. The idea is to examine the relative performance of implied, realized, and GARCH-based models as predictors of market volatility to forecast currency options prices. Using exchange-traded, daily and intra-daily data for three major European currencies, the results indicate that the realized volatility model tends to outperform the other two specifications, both in-sample and out-of-sample.

"Contagion and its Sources: Evidence from Emerging Debt Markets"
Iuliana Ismailescu - Pace University, USA

Discussant: Edgar Ortiz - Universidad Nacional Autonoma de Mexico, Mexico

This paper uses a multinomial logistic regression model to test for contagion in emerging debt markets during 1997-2004. We find strong evidence of intra- and inter-regional contagion in extreme returns during the entire sample period, as well as during the two crisis periods contained in our sample and a more tranquil period. We, thus, conclude that contagion in emerging bond markets is more likely driven by their high linkages than by crisis episodes. The main sources of contagion are regional volatility, correlation of countries' default risks, the investor attitude toward risk, and the global economic cycles.

SESSION 39 Tuesday 2:15 - 4:00 Ciutadella C
MICROSTRUCTURE II
Session Chair: Bjorn Eraker - Wisconsin School of Business, USA

"Day End Returns on the Istanbul Stock Exchange"
Ali C. Akyol - University of Melbourne, Australia
David Michayluk - University of Technology Sydney, Australia

Discussant: Victor Fang - Monash University, Australia

Increasing prices at the end of the trading day has been linked to window dressing because end of day prices disseminate information about asset values. One explanation offered for the end of day price rise is inelastic demand in advance of the non-trading session. Using the unique two session trading day on the Istanbul Stock Exchange, we find that both the morning and afternoon trading sessions are found to have high final transaction returns, supporting the inelastic demand hypothesis. However, the magnitude of the returns in the afternoon session is 50% larger than the return at the end of the morning session. The effect at the end of the day is more pronounced in lower liquidity stocks suggesting it is transitory and related to short term price pressure. We find corroboratory evidence of a shift to the ask price but this does not explain all the increase since we also find a shift in the midpoint that is not present at the end of the morning session. The evidence suggests that there is an end of period increase but the end of the day has additional factors that increase its size. End of period procedures such as closing auctions may be able to reduce the volatility of trading and thereby improve end of period price representativeness.

"Idiosyncratic Risk and Australian Corporate Bond Returns"
Victor Fang - Monash University, Australia
Chi-Hsiou Hung - Durham University, UK
Chien-Ting Lin - University of Adelaide, Australia

Discussant: Matthew Clifton - University of Technology Sydney, Australia

This paper distinguishes the impacts of the direction and the magnitude of idiosyncratic risk measured respectively by idiosyncratic return and idiosyncratic volatility on bond prices. Idiosyncratic returns unexplained by the Fama-French three factors are positively associated with returns on bonds issued by financial firms. The previous day idiosyncratic returns positively impact on the prices of bonds issued by firms with higher credit ratings or firms experiencing decreasing leverage ratios as well as bonds with durations less than 5 years. Idiosyncratic volatility, by contrast, negatively influences bond prices contemporaneously for firms with lower credit ratings and with a one-day lag for firms experiencing increasing leverage ratios.

"The Impact of Short Selling Restrictions and Extreme Uncertainty on Liquidity and Order Flow:

Evidence from the London Stock Exchange"
Matthew Clifton - University of Technology Sydney, Australia
David Michayluk - University of Technology Sydney, Australia

Discussant: Elvis Jarnecic - University of Sydney, Australia

During the 2008-9 UK emergency temporary short selling ban, restricted stocks experienced lower trading activity, wider spreads, reduced order book depth, more trading using market orders and less of a concentration of limit orders at the best quotes. The restrictions occurred at a time of extreme uncertainty when price volatility increased and there was more trading activity in the upstairs market. Our findings suggest that limit order trading may be less viable during turbulent times and regulation aimed at maintaining orderly markets may be needed to restrict the type of trading during crisis periods.

"An Empirical Analysis of High Frequency Trading on the London Stock Exchange"
Mark Snape - University of Sydney, Australia
Elvis Jarnecic - University of Sydney, Australia

Discussant: David Michayluk - University of Technology Sydney, Australia

This paper examines the characteristics, magnitude and determinants of high frequency trading in an electronic limit order book. Using unique data that identifies a sample of high frequency participants, we find that high frequency trading contributes significantly to trading on the London Stock Exchange. High frequency trading varies widely across stocks and is more prevalent in large stocks, in stocks with high on-market volume and strong off-exchangecompetition and price volatility. High frequency trading is inversely related to the bid-ask spread, off-book volume and informed trading. High frequency participants are almost as likely to demand as supply liquidity and are more likely to trade and supply liquidity when bid-ask spreads, trade frequency and volatility are high and when they hold non-zero inventories. High frequency strategies participate more in smaller trades.

SESSION 40 — Tuesday 2:15 - 4:00 — Gracia A

BANKING ISSUES I
Session Chair: Hans Bystrom - Lund University, Sweden

"The African Credit Trap"
Svetlana Andrianova - University of Leicester, U.K.
Badi H. Baltagi - Syracuse University, U.S.
Panicos Demetriades - University of Leicester, UK
David Fielding - University of Otago, New Zealand

Discussant: Lammertjan Dam - University of Groningen, The Netherlands

We put forward a plausible explanation of African financial underdevelopment in the form of a bad credit market equilibrium. Utilising an appropriately modified IO model of banking, we show that the root of the problem could be unchecked moral hazard (strategic loan defaults) or adverse selection (lack of good projects). We provide empirical evidence from a large panel of African banks which suggests that loan defaults are a major factor inhibiting bank lending when the quality of regulation is poor. We also find that once a threshold level of regulatory quality has been reached, improvements in the default rate or regulatory quality do no matter, providing support for our theoretical predictions.

"Moral Hazard Implications of Bank Bail-Outs"
Lammertjan Dam - University of Groningen, The Netherlands
Michael Koetter - University of Groningen, The Netherlands

Discussant: Kyriaki Kosmidou - Aristotle University, Greece

To test if safety nets create moral hazard in the banking industry, we develop a simultaneous structural equations model and estimate whether a higher probability of receiving capital injections increases the risk-taking behavior of banks. We use confidential data provided by the German Central Bank on observed bail-outs and exits for all German banks during the period 1994-2004. An increase in the bail-out probability of 1% percent increases the probability of being in distress with 0.2% on average. Most regulatory interventions, such as warnings and penalties, do not reduce moral hazard. Only interventions directly targeting bank management mitigate moral hazard.

"Evaluating the Performance of the European Banking System"
Kyriaki Kosmidou - Aristotle University, Greece
Konstantinos Perperidis - Aristotle University, Greece

Discussant: Najah Attig - Saint Mary's University, Canada

The recent financial crisis of 2008 has highlighted the need for further reinforce of the global financial system and review of the regulatory framework. Many changes were realized during this year. Banks have been forced to be competitive and to implement bank rating systems to evaluate their financial risks. Thus, it is reasonable to study the effective that these changes may have on the performance and efficiency of European banks. This paper intends to evaluate the performance and profitability factors of the European banking system. Based on their size, a classification of banks into the group of small or large for the period 2006-2008 takes place. In order to investigate the differences of performance related with the size of banks, the discriminant analysis and the logistic regression have been used. The results can be used to analyze the impact of the recent financial crisis to the evaluation of their financial characteristics. The conclusions of this analysis are useful tools for further examination of banks during this period and can support the efforts of central governments and financial institutions to enhance the stability of the global financial system so as to acquire powerful and sufficient resistances in unexpected vibrations.

"Does Trading in Derivatives Affect Bank Risk? The Canadian Evidence"
Najah Attig - Saint Mary's University, Canada
Jie Dai - Saint Mary's University, Canada

Discussant: Panicos Demetriades - University of Leicester, UK

We delineate the impact of derivatives trading on asset risk for Canadian banks over the period starting 1997 till the fallout of the bank crisis in 2007. In light of the remarkable resilience of Canadian banks in dodging the current financial turmoil, we investigate whether such bank stability is attributable to effective risk management through derivatives use. After imputing asset risk from bank stock prices based on the option-theoretic model of Merton (1974), we ascertain the links between the implied asset risk and derivatives use for trading and hedging purposes. Our findings reveal that not only bank risk increases with trading in derivatives, but increases also with derivatives reportedly used for hedging. This puzzling evidence is robust to different model specifications and alternative methods of estimations. Our new evidence is important in two ways. First, it casts doubt on the effectiveness of hedge accounting. Second, it shows that the use of derivatives by Canadian banks does not explain their envied soundness. We therefore conclude that prudent practices limiting original risk exposures remain fundamental for safeguarding a healthy financial system. This lesson from Canada is particularly relevant in today's financial system instability and economic downturn.

SESSION 41 **Tuesday 2:15 - 4:00** **Gracia B**

MERGERS
Session Chair: Ghulam Sorwar - Nottingham University, UK

"Impact of Foreign Bank Acquisitions on Access to Financial Services: Evidence from Turkey"
A. Yasemin Yalta - Hacettepe University, Turkey
A. Talha Yalta - TOBB University of Economics and Technology, Turkey

Discussant: Jo Danbolt - University of Glasgow, UK

Turkey has relaxed the rules in the banking industry in the 1980s and welcomed foreign bank entries.

With the share of foreign banks in the system reaching 16% of bank assets in 2007, the costs and benefits of foreign bank participation has become an important discussion topic. We investigate this issue in terms of how foreign bank participation has affected access to financial services in Turkey. Using quarterly country and bank-level data between 2002 and 2009, we consider the effect of bank ownership structure on branch penetration as well as the volume of deposits and loans. The empirical findings show that foreign bank acquisitions have brought about an increase in branch intensity and the volume of deposits. However, we do not find a statistically significant relation between foreign bank acquisitions and the amount of credit supplied.

"Cross-Border Versus Domestic Acquisitions and the Impact on Shareholder Wealth"
Jo Danbolt - University of Glasgow, UK
Gillian Maciver - University of Glasgow, UK

Discussant: Isabel Feito-Ruiz - University of Oviedo, Spain

An increasing proportion of mergers and acquisitions cross national boundaries, and UK companies, accounting for almost a third of acquisitions worldwide, have played a significant role in this process. Indeed, cross-border acquisitions account for almost 40% of all acquisitions by UK companies, and a quarter of all acquisitions of UK firms. Still, despite the significant scale of cross-border acquisition activity involving UK companies, little is known regarding the impact of such transactions on the shareholders of the target and bidding companies, and of whether such transactions overall create more or less shareholder wealth than domestic acquisitions. This study aims to fill this gap. We analyse the impact on targets and bidders – and on the two companies combined – from cross-border acquisitions both into and out of the UK, comparing this to domestic UK acquisitions. Controlling for differences in bid characteristics, we find targets gain a significant 3.4 percentage points more in cross-border than in domestic acquisitions (the target company 'cross-border effect'). While domestic UK bidders on average suffer significant negative abnormal returns around the time of the bid announcement, both UK and overseas cross-border bidders on average earn zero abnormal returns. We thus find bidding companies also to perform significant better in cross-border than in domestic acquisitions, with the bidding company 'cross-border effect' amounting to approximately 1.2 percentage points. The overall wealth creation, as captured by the change in shareholder value around the time of the bid announcement, is thus substantially higher in cross-border than in domestic acquisitions. The wealth creation is higher when UK bidders enter new markers, consistent with the market access hypothesis, while acquisitions into the European Free Trade Area result in small abnormal returns. It appears that acquisitions within the integrated free trade area are viewed by the market as little different from domestic acquisitions.

"Cash vs. Stocks for M&A Payments: Determinants and Shareholder Valuation"
Isabel Feito-Ruiz - University of Oviedo, Spain
Susana Menendez-Requejo - University of Oviedo, Spain

Discussant: Leonidas Barbopoulos - University of St Andrews, Scotland

The aim of this paper is to analyze how payment method influences acquiring shareholder valuation around the merger and acquisition (M&A) announcement, considering the possibility of the payment method being an endogenous decision. We also pay attention to the nuances that agency conflicts, asymmetric information and the legal and institutional environment may provoke. The database includes 351 M&As of European listed firms, with target firms being worldwide (36 countries), public or private firms, during the 2002-2006 period. The empirical analysis shows that stock payment is positively valued by acquiring shareholders when target firms are unlisted and acquiring firms have a major shareholder with less than 37% of ownership, and negatively valued for a higher ownership level. M&A stock payment is positively valued in countries with "strong" legal and institutional environments when the acquiring firm has a major shareholder with less than 44% of ownership, negatively on the contrary.

"Mitigating Risks in Mergers and Acquisitions of Financial Institutions"
Panagiotis Alexakis - University of Athens, Greece
Leonidas Barbopoulos - University of St Andrews, Scotland

Discussant: A. Talha Yalta - TOBB University of Economics and Technology, Turkey

Bidding for targets that operate in the financial sector present great challenges for the acquiring firm. Even greater challenges are presented to merger partners when both firms operate in the financial sector. This paper examines the gains of US, UK, Canadian, and Australian bidders engaged in mergers and acquisitions of financial institutions, and compare the gains generated to bidders when earnout versus non-earnout instruments are employed as the acquisition's payment currency. Earnout instruments are in principle employed in deals that are subject to high information asymmetry (i.e. one party of the deal have more information in terms of the accurate value of the deal than the other party), or when there is enough uncertainty with regards the synergistic gains of the deal (i.e. post-merger performance of the final entity). Previous literature suggests that earnout instruments are more likely to occur when (a) the target is a private firm, (b) the target is operating in an intangible rich industry, and (c) the retention of experienced managers from the target firm's side is rather necessary in order to ensure the delivery of the expected value ex-post. In this paper we employ a logistic regression approach and we confirm that earnout instruments are more likely to be employed when the target is operating in intangible rich industry. We also confirm findings of previous literature (Kohers and Ang, 2000) which suggests that earnout instruments are more likely to occur in countries with strong corporate governance mechanisms, such as in countries under the Anglo-Saxon legal system (US, UK, Canada, and Australia).

SESSION 42 Tuesday 2:15 - 4:00 Putxet

BANKRUPTCY

Session Chair: Youngsoo Kim - University of Regina, Canada

"Default Prediction of Small and Medium sized Enterprises with Industry Effects"

Frieda Rikkers - Tilburg University, The Netherlands
Andre E. Thibeault - Vlerick Leuven Gent Management School, Belgium

Discussant: Sean Cleary - Queen's University, Canada

Financial statements vary between industries. Therefore, economic intuition suggests that industry effects should be an important component in bankruptcy prediction; however, in previous academic literature on default prediction, not much attention has been paid to these effects. In this study a number of questions concerning credit risk modeling of small and medium-sized enterprises (SMEs) and industry are answered. The results indicate that financial ratios of SMEs differ between industries. Industry, measured by the weight-of-evidence (WoE), is significant in default prediction of SMEs. A default prediction model containing the WoE industry variable outperforms a probability of default (PD) model that excludes industry. Rating models designed for a specific industry (trade, service, or manufacturing) contain other variables and/or variables have other weights than for a generic PD model. Industry specific default prediction models perform slightly better than the generic model with industry effects, except for the service industry, where the industry specific model considerably outperforms the generic PD model.

"Bankruptcy Prediction for U.S. Banks"

Sean Cleary - Queen's University, Canada
Gregory Hebb - Dalhousie School University, Canada

Discussant: Regis Blazy - Strasbourg University, France

We examine the bankruptcy of 119 U.S. banks over the 2002 to November 2009 period, using multivariate discriminant analysis (MDA) to attempt to predict banks that would fail. Our models use variables that measure general financial health, loan reliance, funding of loans, loan management, capital adequacy, and reliance on off-balance sheet items. Our in-sample results suggest that we are able to successfully distinguish between banks that would fail and those that wouldn't 85% of the time, while the most important variables are related to bank profitability, capital adequacy and loan quality. More importantly, our model does a very good job of distinguishing healthy banks from those that are at high risk of failure. In addition, when we apply our model "out-of-sample," it provides useful assessments of bank health. While a statistical model such as ours is no substitute for "on-site" examinations, it does represent an effective supplement to them. In particular, since we are able to effectively classify a large number of firms, it can be used to identify those banks that should be scrutinized in more detail, and hence make use of more detailed qualitative information.

"Can Bankruptcy Codes Create Value? Evidence from Creditors' Recoveries in France, Germany, and the UK"
Regis Blazy - Strasbourg University, France
Joel Petey - Strasbourg University, France
Laurent Weill - Strasbourg University, France

Discussant: Aydin Ulucan - Hacettepe University, Turkey

The aim of this paper is to provide new evidence on the value-creation process taking place in bankruptcy procedures that belong to different legal systems (French civil law, German civil law, and common law): to do so, we assess to which extent the debtor's value can be preserved under bankruptcy by analyzing the recovery rates in France, Germany, and the United Kingdom. We use a unique European sample of 900 corporate bankruptcy files that were manually collected in commercial courts on the period 1993-2005. We also contribute to the literature by considering the recovery rates on the various classes of claimants (senior claims, junior claims, and new money) for each bankruptcy procedure. Our main conclusions are: (a) France and Germany show quite similar global recovery rates which are greater than in the UK, (b) when controlling for the quality of assets at the beginning of the procedure and for the structure of claims, we observe the recovery rates are not significantly different between France and the UK, while they remain greater for German companies, (c) Germany has the greatest recovery rates for senior and junior creditors, (d) the reorganization procedure and the liquidation procedure leading to the highest global recovery rate are, respectively, the French continuation and the German liquidation.

"A Multiple Criteria Sorting Methodology with Uncertain Data and an Application to Country Risk Evaluation"
Aydin Ulucan - Hacettepe University, Turkey
Volkan Haskilic - Hacettepe University, Turkey

Discussant: Andre E. Thibeault - Vlerick Leuven Gent Management School, Belgium

In this paper we present an extension of the standard UTADIS (UTilities Additives DIScriminantes) methodology, an approach that originates from multicriteria decision aid (MCDA) for sorting problems, such that it can handle uncertain data. We propose the SMAA (Stochastic Multicriteria Acceptibility Analysis) based UTADIS method that allows UTADIS to be applied with stochastic values for classification criteria and evaluation criteria values. Moreover, an application to country risk evaluation is performed. In this application, classifications of various credit rating agencies and World Bank are taken as different classification criteria. Results indicate that data uncertainty is an important issue in MCDA based country risk evaluation problems.

SESSION 43 — Tuesday 4:15 - 6:00 — Ciutadella A

FUNDS & DIVERSIFICATION
Session Chair: Jo Danbolt - University of Glasgow, UK

"Design Considerations for Retirement Savings and Retirement Income Products in the Post-Crisis Era"
Lakshman A. Alles - Curtin University of Technology, Australia

Discussant: Stefan Frey - University of Tubingen, Germany

The impact of the global financial crisis on the values of pension and superannuation funds underscored the vulnerability of the wealth pool of retirees and their well being during retirement. In light of this, it is important to examine how the design and delivery of retirement savings and income products can address these vulnerabilities. The purpose of this article is to review the factors that need to be considered and the features that need to be incorporated in designing retirement savings and retirement income products to address the concerns of investors, both in the accumulation and draw down phases of retirement investment management.

"The Influence of Buy-side Analysts on Mutual Fund Trading"

Stefan Frey - University of Tubingen, Germany
Patrick Herbst - Goethe University Frankfurt, Germany

Discussant: Maria Teresa Medeiros Garcia - ISEG, Portugal

We present evidence of the impact of buy-side analysts on the behavior and performance of fund managers. Using data provided by a large global asset manager, we relate buy-side analysts' recommendations to fund transactions on a daily basis. Our results show that buy-side analysts have a significant influence on trading decisions: Fund managers almost certainly follow recent recommendation revisions in their trades. Fund flows and sell-side recommendations matter as well, but to a lesser extent. Positive abnormal returns to buy-side analysts' revisions are also reflected in the performance of mutual fund trades: trades triggered by buy-side recommendations have higher returns than other trades.

"Private Pensions and Individual Responsibility"
Maria Teresa Medeiros Garcia - ISEG, Portugal

Discussant: Anna A. Merika - Deree College, Greece

Population ageing is challenging social security systems financial sustainability. Recent reforms rely on the diversification of the sources for retirement income and the development of private pensions as a complement to public schemes. The paper presents these reforms in Portugal and analyses the role that individuals are supposed to assume. Additionally, the paper considers the problem of individuals' capacity to protect themselves adequately in the absence of proper financial education and consumer regulation.

"House Price Co-Movement and Real Estate Diversification in Europe"
Anna A. Merika - Deree College, Greece
Anna Triantafyllou - Deree College, Greece
Andreas Merikas - University of Piraeus, Greece

Discussant: Lakshman A. Alles - Curtin University of Technology, Australia

The house price boom in major industrialized countries since the early 1990s has been unprecedented. Co-movement is a key feature of it and it has been attributed by scholars to synchronization of monetary policy, financial liberalization, integration of international financial markets, as well as global business cycle linkages. In this paper we focus on seven European countries, all members of the EMU, and ask the question if, in spite of the apparent house price co-movement, there is room for diversification benefits in holding real estate portfolios made up of assets from the seven countries selected. We apply PCA analysis and find that the correlation matrix derived from the volatility of the trend among the house prices of the group indicates negative movements between Germany and each of the other counties, thus pointing to opportunities for diversification in the post-1990 period. In an attempt to give investors further insight by identifying leaders and followers in house price changes, we develop a VEC model and find that German house prices pave the way for changes in the same direction in each of the other countries of the group.

SESSION 44 — Tuesday 4:15 - 6:00 — Ciutadella B

CORPORATE FINANCE
Session Chair: Sean Cleary - Queen's University, Canada

"Governance Quality and Information Alignment"
Ahmed Elbadry - University of Cairo, Egypt
Dimitrios Gounopoulos - University of Surrey, United Kingdom
Frank S. Skinner - University of Surrey, UK

Discussant: Petko S. Kalev - University of South Australia, Australia

We examine the effect of corporate governance mechanisms on asymmetric information. Using a sample of 392 non-financial UK companies listed in the London Stock Exchange we find that board independence, performance related executive compensation, the number of insiders and leverage are significantly negatively related to asymmetric information whereas the percentage of insider ownership and block ownership are significantly positively related to asymmetric information. The results suggest that UK companies have a high degree of compliance with the combined code on corporate governance and as a result mitigate asymmetric information while contributing towards resolving agency problems.

"Investors Protection and Market Liquidity in the Hong Kong Stock Exchange"
Xiaofeng Shi - Monash University, Australia
Michael Dempsey - Monash University, Australia
Huu Nhan Duong - Deakin University, Australia
Petko S. Kalev - University of South Australia, Australia

Discussant: Basil Al-Najjar - Middlesex University, UK

We examine empirically the relation between stock liquidity and investor protection in the context of Hong Kong stock market. In order to test the impact of firm-specific protections, we develop an Internal Corporate Governance Index based on hand-collected corporate provisions data from annual reports of firms listed on the Hong Kong Stock Exchange. Our results provide strong empirical support that investor protection is positively correlated to the market liquidity. Furthermore, we conclude that shareholder protection at the firm level dominates shareholders' legal environment protections. Our findings have important normative implications for policy makers.

"Corporate Governance Monitoring and Dividend Policy"
Basil Al-Najjar - Middlesex University, UK
Yacine Belghitar - Middlesex University, UK

Discussant: Stuart Archbold - Kingston University, UK

This is the first major study to investigate empirically the effect of corporate governance monitoring on firms' dividend policy. In particular, the study assesses the role of the outside auditors and the activity of the audit committee, board composition, and institutional ownership on the decision of paying dividends. Surprisingly, the results indicate that the effectiveness of the audit committee appears to have no significant impact on the decision to pay dividends. This result suggests that the audit committee effectiveness is not active in internally monitoring firms. On the other hand, the results show that institutional investors play an important role on firms' dividend policy. This implies that institutional investors serve as a monitoring tool to minimize agency costs. Consistent with the substitution hypothesis, the study provides some evidence that independent directors affect the dividend policy decision. The results also show that firm specifics affect the dividend policy decision, namely, business risk, firm size, and leverage ratio. The results are consistent across several robustness checks.

"Capital Structure Decisions and Decision Making: Survey Evidence from the UK and Greece"
Stuart Archbold - Kingston University, UK
Ioannis Lazaridis - University of Macedonia, Greece

Discussant: Frank S. Skinner - University of Surrey, UK

SESSION 45 Tuesday 4:15 - 6:00 Ciutadella C

HEDGE & MUTUAL FUNDS

Session Chair: Vihang Errunza - McGill University, Canada

"Competition and Fees in the Mutual Fund Industry: Evidence from a Multimarket Setting"
Christo A. Pirinsky - George Washington University, USA
Qinghai Wang - Georgia Institute of Technology, USA

Discussant: Hans Bystrom - Lund University, Sweden

We use data on single-state municipal bond mutual funds to study the effect of competition on the pricing decisions of mutual funds. Based on a large cross section of (state) markets and measures of demand elasticity we present evidence that mutual funds exhibit substantial market power when setting their fees. Part of the market power could be attributed to investor preference for variety, especially towards families with more diverse baskets of funds. This product differentiation, however, does not necessarily make investors better off since variety often generates excessive entry, high prices, and inferior products in the industry. Fund loads are set more competitively than fees, suggesting that funds are also able to effectively shroud part of their expenses in the form of more complex payment structures.

"An Index to Evaluate Fund- and Fund Manager Performance"
Hans Bystrom - Lund University, Sweden

Discussant: Dennice Allen - RMIT University, Australia

I propose a new index, the b-index, to measure the performance of funds and fund managers. A fund or fund manager has a b-index equal to b if b is the highest number for which it holds that the fund/fund manager has returned more than b% at least b years throughout the history of the fund/fund manager.

"A Fund Manager's Dilemma: Integrating Environment, Social and Governance (ESG) Principles Throughout the Process of Managing Investment Portfolios"
Dennice Allen - RMIT University, Australia

Discussant: Mahmod Qadan - Haifa University, Israel

Increasingly, individual and institutional investors are questioning fund managers on whether, and to what extent, ESG principles are considered or integrated within the investment management process. Apart from satisfying an investor's religious, moral or ethical preferences, such questions are asked because some investors believe that a link exists between ESG behavior and investment performance. Incorporation of ESG principles can present a dilemma for the fund manager whose traditional objective is to maximize the fund's return subject to risk limits, but now must also satisfy environmental, social and governance constraints. Integral to this process is how regulatory authorities and Common Law doctrines provide a framework to actively encourage or indeed impose consideration of ESG principles in investment decision-making behavior.

"The Limit-Hit Frequency in Futures Contracts"
Tamir Levy - Netanya Academic College, Israel
Mahmod Qadan - Haifa University, Israel
Joseph Yagil - Haifa University, Israel

Discussant: Christo A. Pirinsky - George Washington University, USA

This study demonstrates how the predicted frequency of a limit hit can assist in designing an optimal futures contract with regard to two issues – the cost of trading and the construction of an optimal limit regime. Using a logit function, we present an initial attempt to estimate the probability of a price-limit hit for a given price-limit regime. The estimation procedure is applied to pork bellies, orange juice and oats futures. The results imply that the logit model can be employed for predicting the expected limit-hit frequency. Our findings also demonstrate the magnitude of the reduction in the limit-hit frequency resulting from a given increase in the price-limit rate.

SESSION 46 — Tuesday 4:15 - 6:00 — Gracia A

BANKING ISSUES II
Session Chair: Regis Blazy - Strasbourg University, France

"Better Borrowers, Fewer Banks?"
Christophe J. Godlewski - University of Strasbourg, France
Frederic Lobez - University of Lille, France
Jean-Christophe Statnik - University of Lille, France

Ydriss Ziane - Sorbonne Graduate Business School, France

Discussant: Ka Kei Chan - Cass Business School, UK

We investigate the relationship between borrower quality and the structure of the pool of banks. First, we develop a theoretical model where the size of the banking pool is a credible signal of firm quality. We argue that better borrowers seek to disclose their quality in a credible way through the structure of the banking pool involving fewer banks. Second, we test our prediction using a sample of more than 3,000 loans from 19 European countries. We perform regressions of the number of bank lenders on various proxies of borrower quality. Our empirical tests corroborate the theoretical predictions. The size of the banking pool is a signal of borrower quality. Hence, good quality firms have fewer lenders in their banking pools.

"A Theoretical Model on Balance Sheet Securitization"
Ka Kei Chan - Cass Business School, UK
Alistair Milne - Cass Business School, UK

Discussant: Ilkay Sendeniz-Yuncu - IESEG School of Management, France

In this paper, we study balance sheet securitization of commercial banks. We use a theoretical model to analyze how balance sheet securitization affects the value of bank, what motivates the bank to securitize its assets, and how moral hazard originated from deposit insurance can lead to extreme behavior which endangers depositors and the ?financial system. In the numerical analysis, we show that most of the regulations proposed by researchers and policymakers may be ineffective in controlling the risk from securitization. We suggest that restructuring cost may be a better constraint for the risk, and a potential direction for making relevant policy on the bank?s securitization. We also point out that banks may not have a preference to securitize its better assets, which is an assumption for some previous research.

"Which Firms Engage Small, Foreign, or State Banks? And Who Goes Islamic? Evidence from Turkey"
Steven Ongena - Tilburg University, The Netherlands
Ilkay Sendeniz-Yuncu - IESEG School of Management, France

Discussant: Denis Davydov - University of Vaasa, Finland

We study a representative dataset from Turkey that identifies firm-bank connections. Banks in Turkey differ not only in size and nationality, but also in ownership and orientation (Non-Islamic versus Islamic), resulting in at least six very different bank types. We estimate a multinomial logit of the choice by the firm of bank type. We document a strong correspondence between bank type and firm characteristics that is not always the same as was documented so far for US datasets. Small firms engage large rather than small banks for example. Young, large, multiple-bank, and industry diversified firms, that are located in or close to Istanbul, team up with foreign banks. Islamic banks mainly deal with young, multiple-bank, industry-focused and transparent firms.

"Does the Choice Between Public and Bank Debt Affect Firm Performance? Russian Evidence"
Denis Davydov - University of Vaasa, Finland
Sami Vahamaa - University of Vaasa, Finland
Jussi Nikkinen - University of Vaasa, Finland

Discussant: Ydriss Ziane - Sorbonne Graduate Business School, France

This paper focuses on the association between firm performance and the choice of debt sources. In particular, we use data on Russian large-capitalization firms to examine whether the choice between bonds and bank debt affects the firm's financial performance and market valuation. Our results suggest that firms with public debt have higher market valuations, as measured by Tobin's Q. Moreover, we document that the firms with recurrent bond issues have higher market valuations, while the firms with initial bond issues have higher profitability. In general, our findings indicate that public debt may improve firm performance.

BONDS & STOCKS

Session Chair: Andre E. Thibeault - Vlerick Leuven Gent Management School, Belgium

"Correlations Between Stock Returns and Bond Returns: Income and Substitution Effects"

Gwangheon Hong - Sogang University, Korea
Youngsoo Kim - University of Regina, Canada
Bong-Soo Lee - Florida State University, USA

Discussant: Cristina Ortiz - University of Zaragoza, Spain

We attempt to better understand varying correlations between stock and bond returns across countries and over sample periods using international data. The observation is that there are two forces that affect the correlation between stock and bond returns. The force that drives a positive correlation is identified as the income effect. The force that drives a negative correlation is identified as the substitution effect. In combination, the two effects help determine the actual correlation between stock and bond returns. We contribute to the literature by proposing an empirical method, structural vector auto regression (VAR) identification method, to identify the two -- income and substitution -- effects and to measure the relative importance of the two effects that determine the actual net relation between the two asset returns. We further provide some evidence that the income and substitution effects are related to, among other things, the size of the financial market, the growth and volatility (risk) of the economy, and the business cycle over time. In addition, the framework of the income and substitution effects helps us better understand the automatic stabilizing effects of the dynamic optimal asset allocation during business cycles.

"The Role of Individual and Institutional Investors in Spanish Stock Returns"

Cristina Ortiz - University of Zaragoza, Spain
Gloria Ramirez -
Luis Vicente - University of Zaragoza, Spain

Discussant: Bjorn Eraker - Wisconsin School of Business, USA

In this paper we analyse the Spanish stock return anomalies around quarterly portfolio disclosures. We increase the usual frequency of the analysis in order to identify the role of institutional investors in return patterns around disclosure dates. We extend previous studies by analysing the daily cumulative abnormal return in the first trading days of a quarter in order to understand better the behaviour of stocks. Consistently with existing literature, results do not show clear stock return anomalies during the first three quarters of the year. Nevertheless, results provide evidence that the turn-of-the-year effect persists, especially for loser small cap stocks, being stronger in bear market years than in bull market years. The closer daily return analysis in January shows that the main cumulative abnormal return is reached in the first trading days of the year and that the current personal income tax law in Spain has prolonged the duration of January effect.

"Over the Counter Stock Markets"

Bjorn Eraker - Wisconsin School of Business, USA
Mark Ready - Wisconsin School of Business, USA

Discussant: Feifei Li - Research Affiliates, LLC, USA

We study returns on stocks trading in the Over-the-Counter markets (including the OTCBB and Pink Sheets) in the US. Using a sample of more than eleven thousand OTC companies, we document substantial negative average rates of return on companies trading in these markets. Using different sample selection criteria, we document average total returns (from the first to last price observation) of about negative forty percent. The average firm in our sample has a life of a about a year and a half, so the average annualized return is approximately negative thirty percent. The returns on OTC stocks are significantly negative after controlling for standard risk factors. Returns of companies that originate in the OTC market are worse than companies that have been delisted from the regular exchanges. We also find that OTC stocks with lower initial prices have more negative the subsequent returns.

"Valuation-Indifferent Weighting for Bonds"
Robert D. Arnott - Research Affiliates, LLC, USA
Jason C. Hsu - Research Affiliates, LLC, USA
Feifei Li - Research Affiliates, LLC, USA
Shane D. Shepherd - Research Affiliates, LLC, USA

Discussant: Youngsoo Kim - University of Regina, Canada

In historical testing, valuation-indifferent weighting as applied to U.S. and global equities has produced statistically significant and economically large out performance when compared with traditional capitalization-weighted benchmarks. In this paper, we apply the method to U.S. investment-grade corporate bonds, U.S. high-yield bonds, and hard-currency emerging market bonds. We find that fixed-income portfolios constructed using valuation-indifferent weighting outperform the corresponding cap-weighted benchmarks. We also find that the out performance is higher for markets in which we might typically expect more inefficiencies and greater volatilities. Both findings are consistent with the empirical evidence found in the equity applications of valuation-indifferent weighting, as well as the proposed noise-in-price theoretical rationale for these results.

SESSION 48 Tuesday 4:15 - 6:00 Putxet

TAKEOVERS II

Session Chair: Mehmet Baha Karan - Hacettepe University, Turkey

"What Determines Takeover Premia? An Empirical Analysis"
Karen Simonyan - Suffolk University, USA

Discussant: Amalia Di Iorio - RMIT University, Australia

We empirically analyze the behavior of takeover premia over the last two decades (1985– 2005) and investigate four different factors affecting the dynamics of these premia over the sample period. Our results can be summarized as follows. First, takeover premia were affected by market misvaluation: they were higher during periods of investor pessimism and market undervaluation and were lower during periods of investor optimism and market overvaluation. Consistent with the above result, takeover premia were also negatively related to prior stock market return and positively related to stock market volatility. Second, takeover premia exhibited momentum, being positively correlated with premia paid in other takeovers in the recent past. Third, takeovers which involved firms in deregulated industries immediately prior to deregulation events were associated with significantly lower premia, while premia paid in takeovers which involved firms in deregulated industries after deregulation events were not significantly different from those in the rest of the sample. Finally, takeovers of firms in industries with excess capacity and too many firms (industries going through consolidation) commanded higher premia compared to takeovers in other industries.

"The Role of R&D in Cross-Border Mergers & Acquisitions"
Amalia Di Iorio - RMIT University, Australia
Michael Graham - RMIT University, Australia
Terrence Hallahan - RMIT University, Australia
Richard Heaney - RMIT University, Australia

Discussant: Ghulam Sorwar - Nottingham University, UK

This study examines the synergy and internalization hypotheses for international acquisitions using a sample of Australian companies with particular focus on the relationship between the synergistic gains and R&D capabilities of both the acquirer and target. We focus on three research questions: (1)Are significant cumulative abnormal returns observed for the Australian acquirers on announcement of cross border acquisitions? (2)Are significant cumulative abnormal returns observed for R&D intensive Australian acquirers during cross-border acquisitions? and (3) Does R&D intensity explain cross sectional variation in wealth effects on announcement of cross-boarder acquisitions? We find that, overall, significant and positive cumulative abnormal returns are observed for the Australian acquirers

in cross-border acquisitions, with the most pronounced effect apparent for R&D intensive Australian acquirers. Consistent with previous studies, target firm shareholders experienced positive and significant abnormal returns. Taken together, these results indicate the existence of synergistic gains, which are shared between acquirer and target shareholders. When we regress the target firms' characteristics on acquirers CARs we find strong and consistent evidence of a positive influence of targets firms R&D intensity on acquirers CARs, suggesting shareholders' wealth increases due to the increasing scale for which the target companies R&D intangible assets are applied. However, when target CARs are regressed on acquirers' financials to explore whether acquirer characteristics can explain target wealth gains, acquirer firms' R&D intensity is found to have a significant and negative effect of target firms' CARs.

"Determinants of Takeover Premium in Share-exchange Takeover Offers: An Exchange Option Pricing Approach: U.S. Experience"

Sudi Sudarsanam - Cranfield School of Management, UK
Ghulam Sorwar - Nottingham University, UK

Discussant: Karen Simonyan - Suffolk University, USA

Mergers and acquisitions are driven by the assumption that such activities increase share holder value. However, many empirical studies report value decline. Among the reasons for this is overpayment by acquirers. To investigate this, we decompose the observed takeover premium into undervaluation, synergy and transaction-related components. In share exchange mergers, target shareholders hold an option to exchange their shares for those of the bidder at a specified exchange ratio. Using the Margrabe (1978) model, we value the exchange option and decompose the observed takeover premium into various components. The observed target stock price is a combination of the exchange option plus the unobserved target stock value that reflects revaluation to correct for any undervaluation. Based on a sample of US share exchange takeover bids during 1993-2004, we find that both target revaluation and exchange option value account for significant proportions of the takeover premium. The exchange option value is driven by the probability of successful acquisition, nature of the bid and the length of the bid period. Our results support theoretical predictions of a positive relationship between exchange options and, synergy and risk.

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