

EIGHTEENTH ANNUAL CONFERENCE MULTINATIONAL FINANCE SOCIETY

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**Faculty of Economics and Management
LUISS Guido Carli University, Rome, Italy**

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**Economic Notes
Review of Banking, Money and Finance**



June 26 - June 29, 2011
LUISS Guido Carli University
Viale Pola, 12
00198 Roma
ITALY

EIGHTEENTH ANNUAL CONFERENCE OF THE MULTINATIONAL FINANCE SOCIETY

June 26 - 29, 2011, LUISS Guido Carli University, Rome, Italy

Multinational Finance Society

Multinational Finance Society : A non-profit organization established in 1995 for the advancement and dissemination of financial knowledge and research findings pertaining to industrialized and developing countries among members of the academic and business communities.

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 including the recent financial and economic crisis.

Keynotes Speakers

George Constantinides - University of Chicago, USA
Hersh Shefrin – Santa Clara University, USA
Marti G. Subrahmanyam – New York University, USA

Program Committee

Giorgio Di Giorgio (Chair) - Luiss Guido Carli University, Italy
Panayiotis Theodossiou (Chair) - Cyprus University of Technology, Cyprus
Panayiotis C. Andreou - Cyprus University of Technology, Cyprus
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Andre Dorsman - VU University Amsterdam, Netherlands
Robert Faff - University of Queensland, Australia
Petko S. Kalev - University of South Australia, Australia
Mehmet Baha Karan - Hacettepe University, Turkey
Alan Wong Wing Keung - Hong Kong Baptist University, Hong Kong
Johan Knif - HANKEN, Finland
Neophytos Lambertides – Aston Business School, UK
Christodoulos Louca - Cyprus University of Technology, Cyprus
Tassos Malliaris - Loyola University of Chicago, USA
Tony Naughton - RMIT, Australia
Christos Negakis - University of Makedonia, Greece
Edgar Ortiz - UNAM, Mexico
Christos Savva - Cyprus University of Technology, Cyprus
Frank Skinner - University of Surrey, UK
Samuel H. Szewczyk - Drexel University, USA

Local Organizing Committee

Enrico Maria Cervellati (Chair), University of Bologna and Luiss Guido Carli University, Italy
Ugo Rigoni (Co-Chair), University of Venice Ca' Foscari, Italy
Giorgia Aramu, University of Cagliari, Italy
Enrica Bolognesi, University of Bologna, Italy
Nicola Borri, Luiss Guido Carli University, Italy
Stefano Bozzi - Catholic University of the Sacred Heart, Italy
Marianna Caccavaio, Luiss Guido Carli University, Italy
Lisa Cavezzali, University of Venice Ca' Foscari, Italy
Domenico Curcio, Luiss Guido Carli University, Italy
Antonio Fasano, University of Salerno, Italy
Daniele Germano - University of Rome II Tor Vergata, Italy
Pierpaolo Pattitoni, University of Bologna, Italy
Luca Piras, University of Cagliari, Italy

LETTER FROM THE PROGRAM CHAIRS

Dear Colleagues:

Welcome to the Eighteenth 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 judgment 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. The program includes about 320 high quality papers, to be presented by researchers representing more than 39 countries. A large number of participants come from countries such as the Australia, Canada, China, Finland, France, Germany, Greece, India, Italy, Mexico, New Zealand, Spain, South Africa, Taiwan, Thailand, Turkey, the UK and the US.

This year, we are also especially lucky to have three distinguished speakers in, Marti Subrahmanyam, George Constantinides and Hersh Shefrin: no research conference would be complete without a sprinkling of papers by these three!

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 great support from the Faculty of Economics and Management, LUISS Guido Carli University, Rome, Italy, the Faculty of Management and Economics, Cyprus University of Technology, Cyprus, and the Economic Notes of the Review of Banking, Money and Finance.

On behalf of everyone involved we would like to thank these institutions, the program committee and our colleagues Panayiotis Andreou, Marianna Caccavaio, Enrico Maria Cervellati, Domenico Curcio, Neophytos Lambertides, Christodoulos Louca, Christos Savva for all their hard work. Special thanks goes to our staff Alice Felci, Roberta Picconi and Tiziana Tettoni of Luiss Guido Carli University and Niki Theodossiou of the Multinational Finance Society for excellent administrative support.

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

Giorgio Di Giorgio
Panayiotis Theodossiou
Conference Program Chairs

GENERAL INFORMATION

SPONSORING INSTITUTIONS

Faculty of Economics and Management
LUISS Guido Carli University, Rome, Italy

Faculty of Management and Economics
Cyprus University of Technology, Cyprus

Economic Notes
Review of Banking, Money and Finance

CONFERENCE INQUIRIES

Global Business Publications
9 Vassili Michaelides
Globalserve Business Centre
3026, Limassol-Cyprus
mfs@camden.rutgers.edu

CONFERENCE REGISTRATION

Sunday, June 26 (FENIX Hotel)	10:00 a.m. - 12:30 p.m. & 7 p.m. - 10 p.m.
Monday, June 27 (LUISS)	8:00 a.m. - 5:00 p.m.
Tuesday, June 28 (LUISS)	8:00 a.m. - 5:00 p.m.

SOCIAL FUNCTIONS

Sunday, June 26

Welcome Reception, Hotel FENIX	7:30 p.m. - 9:00 p.m.
City Tour, buses will leave Hotel FENIX between 12:30 p.m. - 1:00 p.m.	1:00 p.m. - 6:00 p.m.
Meeting of the Board of Directors and Trustees, Hotel FENIX	8:00 p.m. - 9:00 p.m.

Monday, June 27

Refreshments	10:15-10:30 a.m.
Luncheon (Square)	12:15-1:00 p.m.
Keynote Speech (Prof. Subrahmanyam - Aula Magna)	1:00-2:00 p.m.
Refreshments	4:15-4:30 p.m.

Tuesday, June 28

Refreshments	10:15-10:30 a.m.
Luncheon (Square)	12:15-1:15 p.m.
Keynote Speech (Prof. Constantinides - Aula Magna)	1:15-2:00 p.m.
Refreshments	4:15-4:30 p.m.
Keynote Speech (Prof. Shefrin - Aula Magna)	6:15-7:00 p.m.
Reception (Square)	7:00-9:45 p.m.

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Session 14	Payout Policy	Room 105
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Session 16	Ownership Structure	Room 108
Session 17	International Finance	Room 110
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Session 20	Valuation	Room 210
Session 21	Asset Pricing	Room 118

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Session 24	Bonds	Room 104
Session 25	Executive Compensation	Room 105
Session 26	Corporate Restructuring	Room 107
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Session 29	IPOs	Room 208
Session 30	Real Options & Real Estate	Room 209

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Tuesday 10:30-12:15

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Session 57	M&As	Room 110
Session 58	Exchange Rates	Room 208
Session 59	Portfolio Management	Room 209
Session 60	Valuation	Room 210
Session 61	Corporate Issues	Room 118

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SESSION 1

Room 102

ASSET PRICING

Session Chair: Bjorn Hansson - Lund University, Sweden

"The Equity Premium Puzzle: Empirical Evidence from Emerging Markets"

Michael Donadelli - LUISS Guido Carli University, Italy

Lorenzo Prosperi - LUISS Guido Carli University, Italy

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

"Key Macroeconomic Factors that Explain the Difference between Predicted and Real Stock Prices"

Stella Spilioti - Athens University of Economics & Business, Greece

Discussant: Minh Phuong Doan - RMIT University, Australia

"On the Robustness of Higher-Moment Factors in Explaining Average Expected Returns: Evidence from Australia"

Minh Phuong Doan - RMIT University, Australia

Chien-Ting Lin - National Taiwan University of Science and Technology, Taiwan

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

"Separating Winners from Losers Among Value and Growth Stocks in Canada: Another Step in the Value Investing Process"

George Athanassakos - The University of Western Ontario, Canada

Discussant: Michael Donadelli - LUISS Guido Carli University, Italy

SESSION 2

Room 103

BANKS

Session Chair: William J. McNally - Wilfrid Laurier University, Canada

"Bank Failure Prediction: Empirical Evidence from Asian Banks"

Malick Sy - RMIT University, Australia

Richard Heaney - RMIT University, Australia

Tony Naughton - RMIT University, Australia

Dirk Hollander -

Terrence Hallahan - RMIT University, Australia

Discussant: Wenjuan Xie - University of New Hampshire, USA

"Challenges for the Unified Financial Supervision in the Post-Crisis Era: Singaporean Experience and Chinese Practice"

Jing Geng - Harvard Kennedy School, USA

Wenjuan Xie - University of New Hampshire, USA

Guibin Zhang - Monash Asia Institute, Australia

Honggeng Zhou - University of New Hampshire, USA

Discussant: Jochen Lawrenz - University of Innsbruck, Austria

"Contingent Convertibles. Solving or Seeding the Next Banking Crisis?"

Christian Koziol - University of Hohenheim, Germany
Jochen Lawrenz - University of Innsbruck, Austria

Discussant: Shann Turnbull - International Institute for Self-Governance, Australia

"Could the 2008 US Financial Crisis be Avoided with Network Governance?"

Shann Turnbull - International Institute for Self-Governance, Australia
Michael Pirson - Fordham University, USA

Discussant: Terrence Hallahan - RMIT University, Australia

SESSION 3

Room 104

FINANCIAL CRISIS

Session Chair: Paola Bongini - University of Milano–Bicocca, Italy

"Leverage Risk, Financial Crisis, and Stock Returns"

Vaishnavi Bhatt - ICFAI University, India
Jahangir Sultan - Bentley University, USA

Discussant: Jan Novotny - CERGE-EI, Czech Republic

"Were Stocks During the Financial Crisis More Jumpy?: A Comparative Study"

Jan Novotny - CERGE-EI, Czech Republic

Discussant: George Milunovich - Macquarie University, Australia

"Measuring the Impact of the GFC on European Equity Markets"

George Milunovich - Macquarie University, Australia

Discussant: Hui Zhu - University of Calgary, Canada

"Crash Risk and Investor Horizon"

Hui Zhu - University of Calgary, Canada

Discussant: Jahangir Sultan - Bentley University, USA

SESSION 4

Room 105

MICROSTRUCTURE

Session Chair: Ephraim Clark - Middlesex University, UK

"Order Imbalance, Order Book Slope and the Volume-Volatility Relation"

Huu Nhan Duong - Deakin University, Australia
Liwen Fang - Deakin University, Australia
Petko S. Kalem - University of South Australia, Australia

Discussant: Ming-Chun Wang - National Kaohsiung First University of Science and Technology, Taiwan

"Intraday Market Activity for Stock Options in Taiwan"

Chia-Ying Chan - Yuan Ze University, Taiwan

Ming-Chun Wang - National Kaohsiung First University of Science and Technology, Taiwan

Discussant: Peter B. Lerner - Rollins College, USA

"Empirical Test of Microstructure Determinants of Volatility"

Peter B. Lerner - Rollins College, USA

Discussant: Asli Ascioğlu - Bryant University, USA

"Order Imbalance and the Tokyo Stock Exchange"

Asli Ascioğlu - Bryant University, USA

Thomas H. McInish - University of Memphis, USA

Mark Van De Vyver - University of Sydney, Australia

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

SESSION 5

Room 107

ECONOMETRICS

Session Chair: George J. Georgopoulos - York University, Canada

"The Bivariate GARCH Approach to Investigating the Relation Between Stock Returns, Trading Volume, and Return Volatility"

Wen-I Chuang - National Taiwan University, Taiwan

Hsiang-His Liu - National Taipei University, Taiwan

Rauli Susmel - University of Houston, USA

Discussant: Francisco Lopez-Herrera - Universidad Nacional Autonoma de Mexico, Mexico

"Persistence of Long Memory in the Returns of the Mexican Stock Market: Arfima Models and Value at Risk Estimation"

Francisco Lopez-Herrera - Universidad Nacional Autonoma de Mexico, Mexico

Edgar Ortiz - Universidad Nacional Autonoma de Mexico, Mexico

Raul DeJesus-Gutierrez - Universidad Autonoma del Estado de Mexico, Mexico

Discussant: Thomas Dimpfl - University of Tübingen, Germany

"On the Impossibility of Detecting Cointegration between International Financial Markets"

Thomas Dimpfl - University of Tübingen, Germany

Discussant: Orhan Erdem - Istanbul Bilgi University, Turkey

"A New Correlation Coefficient for Bivariate Time-Series Data"

Orhan Erdem - Istanbul Bilgi University, Turkey

E. Ceyhan - Koc University, Turkey

Yusuf Varli - Istanbul Bilgi University, Turkey

Discussant: Rauli Susmel - University of Houston, USA

SESSION 6

Room 108

DERIVATIVE MARKETS

Session Chair: Wi Saeng Kim - Hofstra University, USA

"Collateral Smile"

Marcus Leippold - University of Zurich, Switzerland

Lujing Su - University of Zurich, Switzerland

Discussant: Panayiotis Andreou - Cyprus University of Technology, Cyprus

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

Panayiotis Andreou - Cyprus University of Technology, Cyprus

Discussant: Charles Corrado - Deakin University, Australia

"Accounting Earnings Announcements and the Options Market Response: An Implied Volatility View"

Charles Corrado - Deakin University, Australia

Cameron Truong - Monash University, Australia

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

"Impact of Macroeconomic News Announcements on Options Market"

Sol Kim - Hankuk University of Foreign Studies, Korea

Geul Lee - University of New South Wales, Australia

Discussant: Lujing Su - University of Zurich, Switzerland

SESSION 7

Room 110

MONETARY POLICY

Session Chair: Alireza Tourani-Rad - Auckland University of Technology, New Zealand

"Would Some Model Please Give Me Some Hints? In Search of Some Stylized Facts of the Monetary Policy and Asset Return Dynamics"

Kuang-Liang Chang - National Chiayi University, Taiwan

Nan-Kuang Chen - National Taiwan University, Taiwan

Charles Ka Yui Leung - City University of Hong Kong, Hong Kong

Discussant: Rafaela Perez - Universidad Complutense de Madrid, Spain

"Estimating Persistent and Transitory Monetary Shocks in a Learning Environment"

J. A. Lafuente - Universidad Jaume I, Spain

Rafaela Perez - Universidad Complutense de Madrid, Spain

J. Ruiz - Universidad Complutense de Madrid, Spain

Discussant: Britta Niehof - Philipps-University of Marburg, Germany

"Identification Through Heteroscedasticity in a Multicountry and Multimarket Framework"

Bernd Hayo - Philipps-University of Marburg, Germany

Britta Niehof - Philipps-University of Marburg, Germany

Discussant: Juan Ignacio Pena - Universidad Carlos III, Spain

"Towards a Common European Monetary Union Risk Free Rate"

Sergio Mayordomo - Universidad Carlos III, Spain

Juan Ignacio Pena - Universidad Carlos III, Spain

Eduardo S. Schwartz - UCLA, USA

Discussant: Charles Ka Yui Leung - City University of Hong Kong, Hong Kong

SESSION 8

Room 208

CROSS LISTING

Session Chair: Mubariz Hasanov - Hacettepe University, Turkey

"Listing and Being Listed Costs: An International Comparison"

Manuela Geranio - University of Bocconi, Italy

Valter Lazzari - Universita Carlo Cattaneo, Italy

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

"Evolution of Control of Cross-listed Companies"

Wissam Abdallah - Cardiff University, UK

Marc Goergen - Cardiff University, UK

Discussant: Manuela Geranio - University of Bocconi, Italy

"The Evolving World of Rule 144A Market: A Cross-Country Analysis"

Usha R. Mittoo - University of Manitoba, Canada

Zhou Zhang - University of Regina, Canada

Discussant: Wissam Abdallah - Cardiff University, UK

SESSION 9

Room 209

IPOS

Session Chair: Heng-Chih Chou - National Taiwan Ocean University, Taiwan

"Do Industry Growth Prospects Drive IPO Stock Performance?"

Ming Dong - York University, Canada

Jean-Sebastien Michel - HEC Montreal, Canada

Discussant: Katrin Migliorati - University of Bergamo, Italy

"The European Underwriting IPO Compensation"

Michele Meoli - University of Bergamo, Italy

Katrin Migliorati - University of Bergamo, Italy

Stefano Paleari - University of Bergamo, Italy

Silvio Vismara - University of Bergamo, Italy

Discussant: Chao Chen - Fudan University, China

"Underwriter Reputation, Issuer Ownership, and Pre-IPO Earnings Management: Evidence from China"

Chao Chen - Fudan University, China
Haina Shi - Fudan University, China
Haoping Xu - Fudan University, China

Discussant: Dionysia Dionysiou - University of Stirling, Scotland

"The Puzzling Reversal of Private Placement Abnormal Returns"

Dionysia Dionysiou - University of Stirling, Scotland

Discussant: Jean-Sebastien Michel - HEC Montreal, Canada

SESSION 10

Room 210

FUNDS

Session Chair: Richard Saito - FGV EAESP, Brazil

"Is Information Priced in Closed-End Fund Discounts?"

Paul Moon Sub Choi - Ewha School of Business, Korea
Jungsuk Han - Stockholm School of Economics, Sweden

Discussant: Braam Lowies - University of Pretoria, South Africa

"The Rationality of Investment Decision Making by Listed Property Fund Managers in South Africa"

Braam Lowies - University of Pretoria, South Africa

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: John Watson - Monash University, Australia

"The Relationship Between Aggregate Managed Fund Flows and Share Market Returns in Australia"

John Watson - Monash University, Australia
J. Wickramanayake - Monash University, Australia

Discussant: Paul Moon Sub Choi - Ewha School of Business, Korea

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

SESSION 11

Room 102

LIQUIDITY

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

"Tracking Illiquidities in Intradaily and Daily Characteristics"

Serge Darolles - LYXOR AM, France
Gaelle Le Fol - University of Paris-Dauphine, France
Gulten Mero - University of Evry, France

Discussant: Neophytos Lambertides - Aston University, UK

"Liquidity Effects on Stock Co-Movements: New Evidence Using Smooth Transition"

Patricia Chelley-Steeley - Aston University, UK
Christos S. Savva - Cyprus University of Technology, Cyprus
Neophytos Lambertides - Aston University, UK

Discussant: Philip Gharghori - Monash University, Australia

"Liquidity in Asset Pricing: New Evidence Using Low Frequency Data"

Daniel Chai - Monash University, Australia
Robert Faff - University of Queensland, Australia
Philip Gharghori - Monash University, Australia

Discussant: Bjorn Hansson - Lund University, Sweden

"Conditional Asset Pricing with Liquidity Risk"

Bjorn Hagstromer - Stockholm University, Sweden
Bjorn Hansson - Lund University, Sweden
Birger Nilsson - Lund University, Sweden

Discussant: Gulten Mero - University of Evry, France

SESSION 12

Room 103

INSIDER TRADING

Session Chair: Jochen Lawrenz - University of Innsbruck, Austria

"Do Criminal Sanctions Deter Insider Trading?"

Bart Frijns - Auckland University of Technology, New Zealand
Aaron Gilbert - Auckland University of Technology, New Zealand
Alireza Tourani-Rad - Auckland University of Technology, New Zealand

Discussant: Christian Westheide - University of Mannheim, Germany

"Idiosyncratic Volatility and the Timing of Corporate Insider Trading"

Jasmin Gider - University of Bonn, Germany
Christian Westheide - University of Mannheim, Germany

Discussant: Peter Bednarek - University of Bonn, Germany

"Corporate Governance and Price Reactions to Corporate Insider Trading"

Peter Bednarek - University of Bonn, Germany
Jasmin Gider - University of Bonn, Germany
Christian Westheide - University of Mannheim, Germany

Discussant: William J. McNally - Wilfrid Laurier University, Canada

"How Much Do Insiders Actually Earn?"

William J. McNally - Wilfrid Laurier University, Canada
Brian F. Smith - Wilfrid Laurier University, Canada

Discussant: Alireza Tourani-Rad - Auckland University of Technology, New Zealand

SESSION 13

Room 104

BANKS

Session Chair: Peter B. Lerner - Rollins College, USA

"Income-Specific Estimates of Competition in European Banking"

Ioannis Samantas - University of Athens, Greece

Discussant: Ka Kei Chan - Cass Business School, UK

"Bank Liquidity, Moral Hazard and Deposit Market Competition"

Ka Kei Chan - Cass Business School, UK
Alistair Milne - Cass Business School, UK

Discussant: Angela Maddaloni - European Central Bank, Germany

"Trusting the Bankers: A New Look at the Credit Channel of Monetary Policy"

Matteo Ciccarelli - European Central Bank, Germany
Angela Maddaloni - European Central Bank, Germany
Jose-Luis Peydro - European Central Bank, Germany

Discussant: Paola Bongini - University of Milano–Bicocca, Italy

"Was there a "Small-Bank" Anomaly in the Great Crisis of 2007-09?"

Paola Bongini - University of Milano–Bicocca, Italy
Giovanni Ferri - University of Bari, Italy
Punziana Lacitignola - University of Bari, Italy

Discussant: Ioannis Samantas - University of Athens, Greece

SESSION 14

Room 105

PAYOUT POLICY

Session Chair: Asli Asciglu - Bryant University, USA

"Are the Institutional Investors Really Informed? Evidence from Share Repurchases Announcements"

Weifeng Hung - Feng Chia University, Taiwan

Discussant: Qingwei Meng - University of Birmingham, UK

"Corporate Investment, Financing, and Payout Decisions under Financial Constraints and Uncertainty: Evidence from UK Panel Data"

Qingwei Meng - University of Birmingham, UK

Discussant: Xiao-Ming Li - Massey University, New Zealand

"Asset Pricing and Share Reforms: An Anatomy of China's Investable Stocks"

Xiao-Ming Li - Massey University, New Zealand

Discussant: Mohammed Alzahrani - King Fahd University, Saudi Arabia

"Investor Protection, Taxation, and Dividends"

Mohammed Alzahrani - King Fahd University, Saudi Arabia

Meziane Lasfer - Cass Business School, UK

Discussant: Weifeng Hung - Feng Chia University, Taiwan

SESSION 15

Room 107

CORPORATE FINANCE

Session Chair: Petko S. Kalev - University of South Australia, Australia

"An Empirical Note on US Stock Split Announcements, 2000-2009"

Xiaoqi Li - Massey University, New Zealand

Philip Stork - VU University, The Netherlands

Liping Zou - Massey University, New Zealand

Discussant: Richard Saito - FGV EAESP, Brazil

"Empirical Study of Flipping in IPOs in Brazil"

Ricardo Fuscaldi de Figueiredo Baptista - FGV EAESP, Brazil

Richard Saito - FGV EAESP, Brazil

Discussant: George J. Georgopoulos - York University, Canada

"Financing Constraints and U.S. Affiliates"

George J. Georgopoulos - York University, Canada

Discussant: Josep A. Tribo - University Carlos III of Madrid, Spain

"Implications of Covenant Violations for Firm Investment and Performance: The Role of Investment Opportunities"

Beatriz Mariano - University Carlos III of Madrid, Spain

Josep A. Tribo - University Carlos III of Madrid, Spain

Discussant: Liping Zou - Massey University, New Zealand

SESSION 16

Room 108

OWNERSHIP STRUCTURE

Session Chair: Charles Corrado - Deakin University, Australia

"The Role of Blockholders in the Governance of a Firm. US Empirical Evidence"

Silvia Rossetto - Toulouse School of Economics, France

Raffaele Stagliano - Toulouse School of Economics, France

Discussant: Fabiola Montalto - University of Calabria, Italy

"Antecedents and Consequences of Ownership in Italy"

Maurizio La Rocca - University of Calabria, Italy

Fabiola Montalto - University of Calabria, Italy

Discussant: Yacine Belghitar - Middlesex University, UK

"The Prudential Effect of Strategic Institutional Ownership on Stock Performance"

Yacine Belghitar - Middlesex University, UK

Ephraim Clark - Middlesex University, UK

Konstantino Kassimatis - Athens University of Economics and Business, Greece

Discussant: Wi Saeng Kim - Hofstra University, USA

"A Theory of the Firm Under Non-Dispersed Ownership Structure"

Wi Saeng Kim - Hofstra University, USA

Young-Jin Kim - Seoul National University, South Korea

Discussant: Raffaele Stagliano - Toulouse School of Economics, France

SESSION 17

Room 110

INTERNATIONAL FINANCE

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

"Financial Integration in Selected South Asian Association for Regional Co-Operation (SAARC) Countries"

R A Anil Perera - Monash University, Australia

Jayasinghe Wickramanayake - Monash University, Australia

Discussant: Piyadasa Edirisuriya - Monash University, Australia

"Predicting Power of Financial Variables: New Evidence from Australia"

Piyadasa Edirisuriya - Monash University, Australia

Discussant: Heungjoo Cha - University of Redlands, USA

"Capital Market Integration: U.S. and Japan Equity and Debt Markets"

Heungjoo Cha - University of Redlands, USA

Discussant: Faten Ben Slimane - ESC Troyes, France

"Stock Exchange: Structural Organization and Financial Performance"

Faten Ben Slimane - ESC Troyes, France

Discussant: Jayasinghe Wickramanayake - Monash University, Australia

SESSION 18

Room 208

EXCHANGE RATES

Session Chair: Jahangir Sultan - Bentley University, USA

"The Exchange Rate Exposure of Chinese Corporations"

Zhichao Zhang - Durham University, UK

Boyang Miao - University of Hei Longjiang, China

Si Zhou - Durham University, UK

Discussant: Mubariz Hasanov - Hacettepe University, Turkey

"Re-Examining Purchasing Power Parity for the Australian Real Exchange Rate"

Mubariz Hasanov - Hacettepe University, Turkey

Discussant: Abimbola Adedeji - University of Birmingham, UK

"Do Foreign Loans Reduce Exposure to Currency Risk as much as Currency Derivatives?"

Abimbola Adedeji - University of Birmingham, UK

Discussant: Si Zhou - Durham University, UK

SESSION 19

Room 209

PORTFOLIO MANAGEMENT

Session Chair: Juan Ignacio Pena - Universidad Carlos III, Spain

"Portfolio Selection with Commodities Under Conditional Dependence and Skew Preferences"

Carlos Gonzalez-Pedraz - Universidad Carlos III de Madrid, Spain

Manuel Moreno - Universidad de Castilla La Mancha, Spain

Juan Ignacio Pena - Universidad Carlos III de Madrid, Spain

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

"Efficient Markowitz Frontiers with Volatility Adjustments In the NAFTA Stock Markets"

Christian Bucio - Universidad Nacional Autonoma de Mexico, Mexico

Alejandra Cabello - Universidad Nacional Autonoma de Mexico, Mexico

Discussant: Andre Cadime de Godoi - Escola Politecnica da Universidade de Sao Paulo, Brazil

"Robust Multistage Portfolio Optimization with Location and Dispersion Parameters Subject to Uncertainty"

Andre Cadime de Godoi - Escola Politecnica da Universidade de Sao Paulo, Brazil

Flavio Almeida de Magalhaes Cipparrone - Escola Politecnica da Universidade de Sao Paulo, Brazil

Discussant: Wing-Keung Wong - Hong Kong Baptist University, China

"An Improved Estimation to Make Markowitz's Portfolio Optimization Theory Practically Useful and Users Friendly"

Pui-Lam Leung - The Chinese University of Hong Kong, China

Hon-Yip Ng - The Chinese University of Hong Kong, China

Wing-Keung Wong - Hong Kong Baptist University, China

Discussant: Carlos Gonzalez-Pedraz - Universidad Carlos III de Madrid, Spain

SESSION 20

Room 210

VALUATION

Session Chair: Rauli Susmel - University of Houston, USA

"Share Market Reaction to the BP Oil Spill and the US Government Moratorium on Exploration"

Seyed Amir Hossein Sabet - RMIT University, Australia

Marie-Anne Cam - RMIT University, Australia

Richard Heaney - RMIT University, Australia

Discussant: Sonia Banos-Caballero - University of Murcia, Spain

"Working Capital Management, Corporate Performance, and Financial Constraints"

Sonia Banos-Caballero - University of Murcia, Spain

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

Pedro Martinez-Solano - University of Murcia, Spain

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

"Trade Credit Policy 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: Shuh-Chyi Doong - Feng Chia University, Taiwan

"Human-Resource-Related Investments and Firm Value"

Shuh-Chyi Doong - Feng Chia University, Taiwan

Hung-Gay Fung - University of Missouri, USA

Jr-Ya Wu - Feng Chia University, Taiwan

Discussant: Marie-Anne Cam - RMIT University, Australia

SESSION 21

Room 118

ASSET PRICING

Session Chair: Sol Kim - Hankuk University of Foreign Studies, Korea

"Capital Investment, Earnings, and Annual Stock Returns: Causality Relationships in China"

A. Can Inci - Bryant University, USA

Discussant: Daniel Lazar - Pondicherry University, India

Monday 10:30-12:15

"Validity of Capital Asset Pricing Model: Evidence from Indian Capital Market"

Daniel Lazar - Pondicherry University, India

K.M. Yaseer - Pondicherry University, India

Discussant: Enrico Maria Cervellati - University of Bologna, Italy

"BP's Failure to Debias: Underscoring the Importance of Behavioral Corporate Finance"

Hersh Shefrin - Santa Clara University, USA

Enrico Maria Cervellati - University of Bologna, Italy

Discussant: Dariusz Zarzecki - University of Szczecin, Poland

"Valuing Internet Companies. Selected Issues"

Dariusz Zarzecki - University of Szczecin, Poland

Discussant: A. Can Inci - Bryant University, USA

LUNCHEON

12:15-1:00 p.m. Square

KEYNOTE SPEECH

1:00-2:00 p.m. Aula Magna

**Professor Marti G. Subrahmanyam
Leonard N. Stern School of Business, New York University, USA**

LIQUIDITY EFFECTS IN THE U.S. CORPORATE BOND MARKET

SESSION 22

Room 102

ASSET PRICING

Session Chair: Jean-Francois Gajewski - University of Savoie, France

"Effects of Football on Stock Markets: Return-Volatility Relationship"

M. Hakan Berument - Bilkent University, Turkey

Nildag Basak Ceylan - Atilim University, Turkey

Discussant: Yi Zhou - University of Oklahoma, USA

"Variance Risk Premium and Cross-Section of Stock Returns"

Bing Han - University of Texas, USA

Yi Zhou - University of Oklahoma, USA

Discussant: Hue Hwa Au Yong - Monash University, Australia

"Is there a Banking Risk Premium in the US Stock Market?"

Liuqing Zeng - Monash University, Australia

Hue Hwa Au Yong - Monash University, Australia

Sirimon Treepongkaruna - University of Western Australia, Australia

Robert Faff - University of Queensland, Australia

Discussant: Jorge Brusa - Texas A&M International University, USA

"The Other January Effect and Risk"

Jorge Brusa - Texas A&M International University, USA

Rodrigo Hernandez - Radford University, USA

Pu Liu - University of Arkansas, USA

Discussant: Nildag Basak Ceylan - Atilim University, Turkey

SESSION 23

Room 103

BANKS

Session Chair: Peter Grundke - University of Osnabruck, Germany

"Risk Overhang and International Lending"

Andrew Logan - Oxford Economic Forecasting, UK

Ron Shrieves - University of Tennessee, USA

Drew Dahl - Utah State University, USA

Discussant: Giacomo Nocera - University of Bocconi, Italy

"The Impact of Government Ownership on Bank Risk Profile and Lending Behaviour"

Giuliano Iannotta - University of Bocconi, Italy

Giacomo Nocera - University of Bocconi, Italy

Andrea Sironi - University of Bocconi, Italy

Discussant: Cesario Mateus - University of Greenwich, UK

"Financing of SMEs: Do They Match Their Assets and Liabilities?"

Jan Bartholdy - Aarhus School of Business, Denmark
Cesario Mateus - University of Greenwich, UK
Dennis Olson - American University of Sharjah, UAE

Discussant: Tram Vu - Monash University, Australia

"Roles of Relationship Lending in Commercial Banks Pre- and Post-Mergers"

Tram Vu - Monash University, Australia
Viet Do - Monash University, Australia
Michael Skully - Monash University, Australia

Discussant: Drew Dahl - Utah State University, USA

SESSION 24

Room 104

BONDS

Session Chair: Sazali Abidin - University of Waikato, New Zealand

"The Impact of Fallen Angels on Investment Grade Corporate Bonds Portfolios"

Enrica Bolognesi - University of Bologna, Italy
Marianna Ferro - London School of Economics and Political Science, UK
Andrea Zuccheri - University of Bologna, Italy

Discussant: Ramazan Aktas - TOBB University of Economics and Technology, Turkey

"Predicting Bond Ratings of S&P 500 Firms by Using Multivariate Statistical Methods"

Murat Kors - TOBB University of Economics and Technology, Turkey
Ramazan Aktas - TOBB University of Economics and Technology, Turkey
M. Mete Doganay - Cankaya University, Turkey

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

"The Problem of Estimating the Volatility of Zero Coupon Bond Interest Rate"

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: Enrica Bolognesi - University of Bologna, Italy

SESSION 25

Room 105

EXECUTIVE COMPENSATION

Session Chair: Francesco Baldi - LUISS Guido Carli University, Italy

"Excessive CEO compensation: Market Reaction and Reputational Effects"

Sanjiv Jaggia - California Polytechnic State University, USA
Satish Thosar - University of Redlands, USA

Discussant: Peggy Huang - Indiana University, USA

"Contractual Versus Actual Severance Pay Following CEO Departure"

Eitan Goldman - Indiana University, USA

Peggy Huang - Indiana University, USA

Discussant: Rani Hoitash - Bentley University, USA

"Internal Control Material Weaknesses and CFO Compensation"

Udi Hoitash - Northeastern University, USA

Rani Hoitash - Bentley University, USA

Karla M. Johnstone - University of Wisconsin, USA

Discussant: Xiaoming Ding - Xi'an Jiaotong-Liverpool University, China

"Executive Compensation, Firm Risk and Firm Value in China"

Xiaoming Ding - Xi'an Jiaotong-Liverpool University, China

Jing Huang - Xi'an Jiaotong-Liverpool University, China

Chi-Yi Yang - Xi'an Jiaotong-Liverpool University, China

Discussant: Satish Thosar - University of Redlands, USA

SESSION 26

Room 107

CORPORATE RESTRUCTURING

Session Chair: Andreas Rathgeber - University of Augsburg, Germany

"The Choice between Informal and Formal Restructuring: The Case of French Banks Facing Distressed SMEs"

Regis Blazy - University of Strasbourg, France

Jocelyn Martel - ESSEC Business School, France

Nirjhar Nigam - Luxembourg School of Finance, Luxembourg

Discussant: Christodoulos Louca - Cyprus University of Technology, Cyprus

"Organizational Learning and Corporate Diversification Performance"

Panayiotis Andreou - Cyprus University of Technology, Cyprus

Christodoulos Louca - Cyprus University of Technology, Cyprus

Discussant: Fei Ding - Hong Kong University of Science and Technology, Hong Kong

"To Diversify or To Focus? Information Asymmetry, Internal Allocation, and Firm Value"

Fei Ding - Hong Kong University of Science and Technology, Hong Kong

Hyoung Goo Kang - Hanyang University, Korea

Discussant: Ling-Yu Huang - National Sun Yat-sen University, Taiwan

"Competition in Multiple Geographic Markets: The Impact on Market Entry, Growth and Exit"

Hsiao-Jung Chen - Southern Taiwan University, Taiwan

Ling-Yu Huang - National Sun Yat-sen University, Taiwan

Discussant: Jocelyn Martel - ESSEC Business School, France

SESSION 27

Room 108

ECONOMETRICS

Session Chair: Robert Cressy - University of Birmingham, UK

"The Term Structure of Interest Rates: A Cointegration Analysis in the Non-Linear STAR Framework"

Pelin Oge Guney - Hacettepe University, Turkey

Discussant: Heng-Chih Chou - National Taiwan Ocean University, Taiwan

"Estimation of Tail-Related Value at Risk Measures: Range-Based Extreme Value Approach"

Heng-Chih Chou - National Taiwan Ocean University, Taiwan

David Wang - Chung Yuan Christian University, Taiwan

Discussant: Zhuo Qiao - University of Macau, China

"Regime-Dependent Relationships Among the Stock Markets of the US, Australia, and New Zealand: A Markov-Switching VAR Approach"

Zhuo Qiao - University of Macau, China

Yuming Li - California State University, USA

Wing-Keung Wong - Hong Kong Baptist University, Hong Kong

Discussant: Iлона Shiller - University of New Brunswick, Canada

"Persistence of Canadian Corporate and Government Index Yields and Yield Spreads"

Iлона Shiller - University of New Brunswick, Canada

Discussant: Pelin Oge Guney - Hacettepe University, Turkey

SESSION 28

Room 110

INTEREST RATES

Session Chair: Andre Dorsman - VU University, The Netherlands

"Testing for Preference Orderings Efficiency"

Sergio Ortobelli - University of Bergamo, Italy

Nikolas Topaloglou - Athens University of Economics and Business, Greece

Discussant: Dionisis Philippas - University of Patras, Greece

"Measuring the Effect of Information Flow to Euribor (3-Months): An Empirical Analysis"

Dionisis Philippas - University of Patras, Greece

Costas Siriopoulos - University of Patras, Greece

Discussant: Raquel Lopez - University of Castilla-La Mancha, Spain

"Information Content of the Term Structure of Interest Rate Volatility"

Raquel Lopez - University of Castilla-La Mancha, Spain

Eliseo Navarro Arribas - University of Castilla-La Mancha, Spain

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

SESSION 29

Room 208

IPOS

Session Chair: Stefan Ruenzi - University of Mannheim, Germany

"IPO Amendments and Offer Price Reactions"

Hugh M. J. Colaco - Merrimack College, USA
Chinmoy Ghosh - University of Connecticut, USA
John D. Knopf - University of Connecticut, USA
John L. Teall - Rensselaer Polytechnic Institute, USA

Discussant: Joseph K. Achua - Benue State University, Nigeria

"Determinants of Initial Price Offerings' Underpricing in Emerging African Capital Markets"

Joseph K. Achua - Benue State University, Nigeria

Discussant: Dimitrios Gounopoulos - University of Surrey, UK

"IPO Under pricing Over a Century Period"

Dimitrios Gounopoulos - University of Surrey, UK
Christos Nounis - University of Athens, Greece
Stavros Thomadakis - University of Athens, Greece

Discussant: Elisa Cavezzali - University Ca' Foscari, Italy

"Tell Me More. Analysts' Recommendations and the Market Impact of the Valuation Methods"

Elisa Cavezzali - University Ca' Foscari, Italy
Enrico Maria Cervellati - University of Bologna, Italy
Pierpaolo Pattitoni - University of Bologna, Italy
Ugo Rigoni - University Ca' Foscari, Italy

Discussant: John L. Teall - Rensselaer Polytechnic Institute, USA

SESSION 30

Room 209

REAL OPTIONS & REAL ESTATE

Session Chair: Van Son Lai - Laval University, Canada

"Valuing Catastrophe Derivatives Under Limited Diversification: a Stochastic Dominance Approach"

Stylianos Perrakis - Concordia University, Canada
Ali Bolorforoosh - Concordia University, Canada

Discussant: Nicos Koussis - Frederick University, Cyprus

"Multi-Stage Product Development with Exploration, Value-Enhancing, Preemptive and Innovation Options"

Nicos Koussis - Frederick University, Cyprus
Spiros H. Martzoukos - University of Cyprus, Cyprus
Lenos Trigeorgis - University of Cyprus, Cyprus

Discussant: Jarno Kiviaho - University of Vaasa, Finland

Monday 2:15-4:00

"Short-Term and Long-Term Interdependencies of Securitized Real Estate Markets"

Michael Graham - Royal Melbourne Institute of Technology University, Australia

Jarno Kiviaho - University of Vaasa, Finland

Jussi Nikkinen - University of Vaasa, Finland

Discussant: Mohsen Saad - American University of Sharjah, UAE

"Do Real Estate Loans Respond Anomalously to Monetary Policy?"

Mohsen Saad - American University of Sharjah, UAE

Ali Termos - American University of Sharjah, UAE

Discussant: Ali Boloorforoosh - Concordia University, Canada

Refreshments 4:15-4:30 p.m.

SESSION 31

Room 102

ANALYSTS

Session Chair: Nildag Basak Ceylan - Atilim University, Turkey

"The Financial Analysts' Accuracy: Do the Valuation Methods Matter?"

Elisa Cavezzali - University Ca' Foscari, Italy

Ugo Rigoni - University Ca' Foscari, Italy

Discussant: Ari Yezegele - Bentley University, USA

"R&D Intensity and the Value of Analysts' Recommendations"

Dan Palmon - Rutgers University, USA

Ari Yezegele - Bentley University, USA

Discussant: Jean-Francois Gajewski - University of Savoie, France

"Do Individual Investor's Follow Financial Analysts' Forecasts? An Experimental Approach"

Thanh Huong Dinh - University of Paris, France

Jean-Francois Gajewski - University of Savoie, France

Duc Khuong Nguyen - ISC Paris School of Management, France

Discussant: Elvis Jarnecic - University of Sydney, Australia

"Asymmetric Effects of Sell-Side Analyst Optimism and Broker Market Share by Clientele"

Andrew Grant - University of Sydney, Australia

Elvis Jarnecic - University of Sydney, Australia

Mark Su - University of Sydney, Australia

Discussant: Ugo Rigoni - University Ca' Foscari, Italy

SESSION 32

Room 103

BANKS

Session Chair: Sirimon Treepongkaruna - University of Western Australia, Australia

"Quality in the Financial Sector from the Perspective of Consumer Credits"

Ozge Kucuktalash - Hacettepe University, Turkey

Ozgur Arslan - Hacettepe University, Turkey

Mehmet Baha Karan - Hacettepe University, Turkey

Discussant: Hakan Aygoren - Pamukkale University, Turkey

"The Relationship Between Stock Performance and the Efficiency in Banking Industry"

Hakan Aygoren - Pamukkale University, Turkey

M. Ensar Yesilyurt - Pamukkale University, Turkey

Bulent Guloglu - Pamukkale University, Turkey

Ilhan Kucukkapan - Pamukkale University, Turkey

Discussant: Ceylan Onay - Bogazici University, Turkey

"The Impact of Internet-Banking on Brick and Mortar Branches- The Case of Turkey"

Ceylan Onay - Bogazici University, Turkey

Emre Ozsoz - SUNY, USA

Discussant: Andreas Blochlinger - Zurcher Kantonalbank, Switzerland

"Management Framework for Non-Maturity Accounts: From the Marketing to the Hedging Strategy"

Andreas Blochlinger - Zurcher Kantonalbank, Switzerland

Discussant: Mehmet Baha Karan - Hacettepe University, Turkey

SESSION 33

Room 104

CORPORATE GOVERNANCE

Session Chair: Francisco Jareno - Universidad de Castilla-La Mancha, Spain

"Can Family-Owned Groups Attract a Loyal Shareholder Base? Evidence from India"

Nikhil Arora - ESCP-Europe, France

Jyoti Gupta - ESCP-Europe, France

Alain Chevalier - ESCP-Europe, France

Discussant: Frederiek Schoubben - Lessius University College, Belgium

"Market Share and Cash Policy"

Frederiek Schoubben - Lessius University College, Belgium

Cynthia Van Hulle - K.U. Leuven, Belgium

Discussant: Nico Dewaelheyns - Lessius University College, Belgium

"Cash Holdings Within Subsidiaries: Impact of Group Health"

Nico Dewaelheyns - Lessius University College, Belgium

Rosy Locorotondo - Katholieke Universiteit Leuven, Belgium

Cynthia Van Hulle - Katholieke Universiteit Leuven, Belgium

Discussant: Basil Al-Najjar - Middlesex University, UK

"The Impact of External Financing on Firm Value and Corporate Governance Index: SMES Evidence"

Basil Al-Najjar - Middlesex University, UK

Discussant: Jyoti Gupta - ESCP-Europe, France

SESSION 34

Room 105

CAPITAL STRUCTURE

Session Chair: Satish Thosar - University of Redlands, USA

"Impact of Ownership on Performance and Capital Structure Decisions"

Muhammad Ramzan - Bahauddin Zakariya University, Pakistan

Muhammad Imdadullah - Bahauddin Zakariya University, Pakistan

Muhammad Azeem Qureshi - University of Oslo, Norway

Discussant: Roberto Steri - Bocconi University, Italy

"The Relative Leverage Premium"

Filippo Ippolito - Bocconi University, Italy

Roberto Steri - Bocconi University, Italy

Claudio Tebaldi - Bocconi University, Italy

Discussant: F.Y. Eric C. Lam - City University of Hong Kong, Hong Kong

"External Financing, Access to Debt Markets, and Stock Returns"

F.Y. Eric C. Lam - City University of Hong Kong, Hong Kong

K.C. John Wei - Hong Kong University of Science and Technology, Hong Kong

Discussant: Francesco Baldi - LUISS Guido Carli University, Italy

"The Internal vs. External Equity Capital Dilemma: Evidence from Italy"

Francesco Baldi - LUISS Guido Carli University, Italy

Discussant: Muhammad Azeem Qureshi - University of Oslo, Norway

SESSION 35

Room 107

EARNINGS QUALITY

Session Chair: Alejandra Cabello - Universidad Nacional Autonoma de Mexico, Mexico

"The Relationship Between Earnings Quality, Control Mechanisms of Corporate Governance, and Future Stock Price Returns"

Elisabetta Basilico - University of St. Gallen, Italy

Hugh Grove - University of Denver, USA

Tommi Johnsen - University of Denver, USA

Discussant: Ilanit Gavious - Ben-Gurion University, Israel

"Has Sarbanes-Oxley Affected the Earnings Quality of M&A Targets?"

Ilanit Gavious - Ben-Gurion University, Israel

Mosi Rosenboim - Ben-Gurion University, Israel

Discussant: Anestis Ladas - University of Macedonia, Greece

"Asset Impairments and Financial Reporting Quality"

Dimitrios V. Kousenidis - Aristotle University of Thessaloniki, Greece

Anestis Ladas - University of Macedonia, Greece

Christos I. Negakis - University of Macedonia, Greece

Discussant: Mine Aksu - Sabanci University, Turkey

"The Impact of Ownership Concentration and IFRS Adoption on Earnings Quality: Evidence from an Emerging Market"

Mine Aksu - Sabanci University, Turkey

Yaz Gulnur Muradoglu - Cass Business School, UK

Ayşe Tansel Cetin - Yalova University, Turkey

Discussant: Elisabetta Basilico - University of St. Gallen, Italy

SESSION 36

Room 108

OTHER CORPORATE DIS/INVESTMENT DECISIONS

Session Chair: John L. Teall - Rensselaer Polytechnic Institute, USA

"Outsourcing, Integration and Investment in Costly Capacity"

Bart M. Lambrecht - Lancaster University, UK

Grzegorz Pawlina - Lancaster University, UK

Joao C.A. Teixeira - University of the Azores, Portugal

Discussant: Peng-Wen Chen - Nanhua University, Taiwan

"International Investigation on Foreign Bank's Post Entering Performance—The Differential Impact of Entry Mode Choice"

Sheng-Hung Chen - Nanhua University, Taiwan
Peng-Wen Chen - Nanhua University, Taiwan

Discussant: Milena Petrova - Syracuse University, USA

"Why do Managers Divest Corporate Assets? New Perspectives from Equity Carve-Outs"

Chinmoy Ghosh - University of Connecticut, USA
Milena Petrova - Syracuse University, USA

Discussant: William Dimovski - Deakin University, Australia

"Discounts and Underwriting Fees Associated with A-REIT Rights Issues"

William Dimovski - Deakin University, Australia

Discussant: Joao C.A. Teixeira - University of the Azores, Portugal

SESSION 37

Room 110

CREDIT RISK

Session Chair: Ramazan Aktas - TOBB University of Economics and Technology, Turkey

"Re-Mapping Credit Ratings"

Alexander Eisl - Vienna University of Economics and Business, Austria
Hermann Elendner - Vienna University of Economics and Business, Austria
Manuel Lingo - Oesterreichische Nationalbank, Austria

Discussant: Lung-fu Chang - National Taipei College of Business, Taiwan

"A Reexamination of Jump Effect on Credit Spreads with Noisy Information"

Jia-Hau Guo - National Chiao Tung University, Taiwan
Lung-fu Chang - National Taipei College of Business, Taiwan
Hsuan Rern - National Chiao Tung University, Taiwan

Discussant: Andreas Rathgeber - University of Augsburg, Germany

"Currency Dependent Differences in Credit Spreads of EUR and USD Denominated Foreign Currency Government Bonds"

Andreas Rathgeber - University of Augsburg, Germany
David Rudolf - University of Augsburg, Germany
Stefan Stockl -

Discussant: Gonzalo Cortazar - Pontificia Universidad Catolica de Chile, Chile

"Credit Spreads in Illiquid Markets"

Gonzalo Cortazar - Pontificia Universidad Catolica de Chile, Chile
Eduardo S. Schwartz - University of California at Los Angeles, USA
Claudia Tapia - Pontificia Universidad Catolica de Chile, Chile

Discussant: Manuel Lingo - Oesterreichische Nationalbank, Austria

SESSION 38

Room 208

EMERGING MARKETS

Session Chair: Heungjoo Cha - University of Redlands, USA

"Asymmetric Investor Overreaction to Political Events in Emerging Markets: A Panel Data Approach"

Hisham Farag - University of Birmingham, UK

Robert Cressy - University of Birmingham, UK

Discussant: Azende Terungwa - Bayero University, Nigeria

"An Assessment of the Financing Options Available to Small and Medium Scale Enterprises (SMEs) in Nigeria"

Azende Terungwa - Bayero University, Nigeria

Kabiru Dandago - Bayero University, Nigeria

Discussant: Lakshman Alles - Curtin University, Australia

"The Rewards for Downside Risk in Emerging Markets: An Assessment of Asian Markets"

Lakshman Alles - Curtin University, Australia

Louis Murray - University College Dublin, Ireland

Discussant: Kemal Saatcioglu - Ozyegin University, Turkey

"Are Foreign Investors Better Informed? Evidence from an Emerging Market"

Kemal Saatcioglu - Ozyegin University, Turkey

Discussant: Hisham Farag - University of Birmingham, UK

SESSION 39

Room 209

COMMODITIES

Session Chair: Wing-Keung Wong - Hong Kong Baptist University, China

"The Effect of Extreme Spikes in Demand on Electricity Prices: A GARCH-based Event Study Approach"

Stuart Thomas - RMIT University, Australia

Discussant: Sazali Abidin - University of Waikato, New Zealand

"Information Flow between Price Change and Trading Volume in Silver and Platinum Futures Contracts"

Sazali Abidin - University of Waikato, New Zealand

Ruilin Lou - University of Waikato, New Zealand

Qian Niu - University of Waikato, New Zealand

Discussant: Andre Dorsman - VU University, The Netherlands

"Market Perfection in a Changing Energy Environment"

Andre Dorsman - VU University, The Netherlands
Kees van Montfort - VU University, The Netherlands
Paul Pottuijt - GEN Nederland, The Netherlands

Discussant: Stuart Thomas - RMIT University, Australia

SESSION 40

Room 210

LIQUIDITY

Session Chair: Jorge Brusa - Texas A&M International University, USA

"Commonality in Liquidity: A Demand-Side Explanation"

Andrew Koch - University of Texas, USA
Stefan Ruenzi - University of Mannheim, Germany
Laura Starks - University of Texas, USA

Discussant: Martin Larch - University of Innsbruck, Austria

"Google Search Volume, Trading Activity and the Liquidity of Stocks"

Matthias Bank - University of Innsbruck, Austria
Martin Larch - University of Innsbruck, Austria
Georg Peter - University of Innsbruck, Austria

Discussant: Maytinee Wasumadee - Norwegian School of Economics, Norway

"Korean Dual Class Share Price Differences and Liquidity Discount"

Maytinee Wasumadee - Norwegian School of Economics, Norway

Discussant: Dimitrios Vagias - Erasmus University, The Netherlands

"International Capital Flows and Liquidity"

Dimitrios Vagias - Erasmus University, The Netherlands
Mathijs van Dijk - Erasmus University, The Netherlands

Discussant: Stefan Ruenzi - University of Mannheim, Germany

SESSION 41

Room 102

ANALYSTS

Session Chair: Constantin Mellios - University of Paris 1, France

"The Impact of Analyst-Market Disagreement on the Cross-Section of Implied Cost of Capital"

Michalis Makrominas - Frederick University, Cyprus

Discussant: Sheraz Ahmed - Lappeenranta University of Technology, Finland

"Do Governance Reforms Increase Performance of Analysts' Recommendations? Evidence from an Emerging Market"

Sheraz Ahmed - Lappeenranta University of Technology, Finland

Omar Farooq - Al-Akawayn University, Morocco

Discussant: Veronique Bessiere - Montpellier University, France

"Uncertainty and Financial Analysts' Overconfidence: European Evidence Between High-Tech and Low-Tech Firms"

Veronique Bessiere - Montpellier University, France

Taoufik Elkemali - Montpellier University, France

Discussant: Constantinos Antoniou - University of Exeter, UK

"Peer Effects Among Sell-Side Analysts"

Constantinos Antoniou - University of Exeter, UK

Discussant: Michalis Makrominas - Frederick University, Cyprus

SESSION 42

Room 103

FINANCIAL CRISIS

Session Chair: Minna Martikainen - Lappeenranta University of Technology, Finland

"On the Over-Dispersed Nature of Operational Losses: Does it Influence Capital at Risk? (CAR)?"

Jose M. Feria-Dominguez - Pablo de Olavide University, Spain

Enrique J. Jimenez-Rodriguez - Pablo de Olavide University, Spain

Ola Sholarin - University of Westminster, UK

Discussant: Konstantinos A. Moutsianas - Aristotle University of Thessaloniki, Greece

"Stress Testing and the Basel II Accord"

Konstantinos A. Moutsianas - Aristotle University of Thessaloniki, Greece

Kyriaki Kosmidou - Aristotle University of Thessaloniki, Greece

Discussant: Lin Guo - Suffolk University, USA

"Bank Executive Compensation Structure, Risk Taking and the Financial Crisis"

Lin Guo - Suffolk University, USA

Abu Jalal - Suffolk University, USA

Shahriar Khaksari - Suffolk University, USA

Discussant: Fernando F. Moreira - University of Edinburgh, UK

"Enhancing Basel Method via Conditional Distributions that Capture Stronger Connection Among Credit Losses in Downturns"

Fernando F. Moreira - University of Edinburgh, UK

Discussant: Jose M. Feria-Dominguez - Pablo de Olavide University, Spain

SESSION 43

Room 104

INTERNATIONAL FINANCE

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

"Payment Systems in the Accession Countries"

Francisco Callado - Universitat de Girona, Spain

Jana Hromcova - Universitat Autònoma de Barcelona, Spain

Natalia Utrero - Universitat de Girona, Spain

Discussant: Alexander Peter Groh - EM-LYON Business School, France

"The Attractiveness of Emerging Economies for Foreign Direct Investment"

Alexander Peter Groh - EM-LYON Business School, France

Matthias Wich - Darmstadt University of Technology, Germany

Discussant: Bharat Kolluri - University of Hartford, USA

"Asymmetric Effects of U.S. and Japan Equity markets on Emerging Asian Equity Markets: Some Evidence"

Bharat Kolluri - University of Hartford, USA

Mahmoud Wahab - University of Hartford, USA

Discussant: Edgar Ortiz - Universidad Nacional Autónoma de México, México

"Stock Market Anomalies in Latin America and the Americas: Seasonality and the January Effect Re-Examined"

Domingo Rodríguez Benavides - Universidad Autónoma Metropolitana, México

Francisco López-Herrera - Universidad Nacional Autónoma de México, México

Edgar Ortiz - Universidad Nacional Autónoma de México, México

Discussant: Francisco Callado - Universitat de Girona, Spain

SESSION 44

Room 105

VOLATILITY

Session Chair: Lynn A. Stout - UCLA, USA

"Importance of the Macroeconomic Variables for Volatility Prediction: A GARCH-MIDAS Approach"

Hossein Asgharian - Lund University, Sweden

Ai Jun Hou - Lund University, Sweden

Farrukh Javed - Lund University, Sweden

Discussant: Christos S. Savva - Cyprus University of Technology, Cyprus

"Skewness and the Relationship Between Risk and Return"

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

Discussant: Minh Viet Do - Monash University, Australia

"The Volume-Volatility Relationship in the New Zealand Equity Market"

Minh Viet Do - Monash University, Australia
Daniel Chai - Monash University, Australia
Daniel FS Choi - University of Waikato, New Zealand

Discussant: Saint Kuttu - Hanken School of Economics, Finland

"Return and Volatility Dynamics among Four African Capital Markets: A Multivariate VAR-EGARCH Analysis"

Saint Kuttu - Hanken School of Economics, Finland

Discussant: Farrukh Javed - Lund University, Sweden

SESSION 45

Room 107

OPTION MARKETS

Session Chair: George F. Tannous - University of Saskatchewan, Canada

"Investor Sentiment and Option Prices: Evidence from Value and Growth Index Options"

Jerry Coakley - University of Essex, UK
George Dotsis - University of Essex, UK
Xianquan Liu - University of Essex, UK
Jia Zhai - Xi'an Jiaotong-Liverpool University, China

Discussant: Mohammad S. Hasan - University of Kent, UK

"The Effectiveness of Dynamic Hedging: Evidence from Emerging Markets' Stock Futures"

Mohammad S. Hasan - University of Kent, UK
Taufiq Choudhry - University of Southampton, UK

Discussant: David P. Simon - Bentley University, USA

"The Intraday and Overnight Behavior of SPY Options"

David P. Simon - Bentley University, USA

Discussant: Robin K. Chou - National Chengchi University, Taiwan

"Trader Types and Consequences of the Disposition Effect"

Robin K. Chou - National Chengchi University, Taiwan
Yun-Yi Wang - Feng Chia University, Taiwan
Xuemin Yan - University of Missouri, USA

Discussant: Jia Zhai - Xi'an Jiaotong-Liverpool University, China

SESSION 46

Room 108

CORPORATE GOVERNANCE

Session Chair: Michael D. McKenzie - The University of Sydney, Australia

"Who is the Boss for Major Decisions? Chairmen – Not CEOs – as Powerful Leaders"

Alexandre Di Miceli da Silveira - University of Sao Paulo, Brazil

Lucas Ayres B. de C. Barro - University of Sao Paulo, Brazil

Marc Deloof - University of Antwerp, Belgium

Discussant: Nirosha Hewa Wellalage - University of Waikato, New Zealand

"Do Women Make a Difference in the Governance of Sri Lankan Companies?"

Nirosha Hewa Wellalage - University of Waikato, New Zealand

Stuart Locke - University of Waikato, New Zealand

Discussant: Olubunmi Faleye - Northeastern University, USA

"Determinants and Productivity Effects of CEO–Employee Pay Disparity"

Olubunmi Faleye - Northeastern University, USA

Ebru Reis - Bentley University, USA

Anand Venkateswaran - Northeastern University, USA

Discussant: Jean M. Canil - University of Adelaide, Australia

"A Test of the Incremental Power of CEO Productivity in Optimum Incentive Modeling"

Jean M. Canil - University of Adelaide, Australia

Bruce A. Rosser - University of Adelaide, Australia

Discussant: Lucas Ayres B. de C. Barro - University of Sao Paulo, Brazil

SESSION 47

Room 110

M&AS

Session Chair: Hubert de La Bruslerie - University Paris-Dauphine, France

"The Relationship between Short Term Value Creation and Long Term Performance for the Bidder: The Case of UK Financial Institutions"

Syrine Chatti - University of Sousse, France

Romdhane Hamza - University of Sousse, France

Discussant: Alain Chevalier - ESCP-Europe, France

"The Acquisition of Non Public Firms in Europe: Bidders' Returns, Payment Methods and Stock Market Evolution"

Alain Chevalier - ESCP-Europe, France

Etienne Redor - Audencia Nantes, France

Discussant: Mario Ossorio - The Second University of Naples, Italy

"Capital Structure and the Method of Payment for Acquisitions. Evidence from a Sample of Bidders Listed on the Italian Stock Exchange"

Mario Ossorio - The Second University of Naples, Italy

Discussant: Azilawati Banchit - University of Waikato, New Zealand

"Effects of Size of Acquisition on Post-Acquisition Performance of Target Firms"

Azilawati Banchit - University of Waikato, New Zealand

Stuart Locke - University of Waikato, New Zealand

Daniel Choi - University of Waikato, New Zealand

Sazali Abidin - University of Waikato, New Zealand

Discussant: Romdhane Hamza - University of Sousse, France

SESSION 48

Room 208

FUNDS

Session Chair: Samuel H. Szewczyk - Drexel University, USA

"Performance Implications of Active Management of Institutional Mutual Funds"

Ron Bird - University of Technology Sydney, Australia

Paolo Pellizzari - University of Venice, Italy

Danny Yeung - University of Technology Sydney, Australia

Discussant: William J. Bertin - Bond University, Australia

"What do Emerging Market Mutual Funds Offer Domestic US Investors?"

William J. Bertin - Bond University, Australia

Laurie Prather - Bond University, Australia

Discussant: Sarayut Nathaphan - Thammasat University, Thailand

"Determinants of Growth for Thai Mutual Fund Industry"

Sarayut Nathaphan - Thammasat University, Thailand

Pornchai Chunhachinda - Thammasat University, Thailand

Discussant: Ines Gargouri - Concordia University, Canada

"US Mutual Fund M&As"

Ines Gargouri - Concordia University, Canada

Lawrence Kryzanowski - Concordia University, Canada

Discussant: Ron Bird - University of Technology Sydney, Australia

SESSION 49

Room 209

BEHAVIORAL FINANCE

Session Chair: Raul DeJesus-Gutierrez - Universidad Autonoma del Estado de Mexico, Mexico

"Dynamic Herding Behavior in Pacific-Basin Markets: Evidence and Implications"

Thomas C. Chiang - Drexel University, USA

Jiandong Li - Central University of Finance and Economics, China

Lin Tan - California State Polytechnic University, USA

Edward Nelling - Drexel University, USA

Discussant: Daniel FS Choi - University of Waikato, New Zealand

"Market Uncertainty and Sentiment, and the Post-Earnings Announcement Drift"

Ron Bird - University of Technology Sydney, Australia

Daniel FS Choi - University of Waikato, New Zealand

Danny Yeung - University of Technology Sydney, Australia

Discussant: Zana Grigaliuniene - ISM University of Management and Economics, Lithuania

"Investor Sentiment, Overreaction and Underreaction in Stock Market"

Zana Grigaliuniene - ISM University of Management and Economics, Lithuania

Discussant: Spyros Spyrou - Athens University of Economics & Business, Greece

"Sentiment Changes, Stock Returns and Volatility: Evidence from NYSE, AMEX, and NASDAQ Stocks"

Spyros Spyrou - Athens University of Economics & Business, Greece

Discussant: Edward Nelling - Drexel University, USA

SESSION 50

Room 210

VENTURE CAPITAL

Session Chair: Vinay Patel - University of Technology, Australia

"Optimal Allocation of Control Rights in Venture Capital Contracts"

Guillaume Andrieu - GSCM-Montpellier Business School, France

Discussant: Pascal Francois - HEC Montreal, Canada

"A Portfolio Approach to Venture Capital Financing"

Pascal Francois - HEC Montreal, Canada

Georges Hubner - University of Liege, Belgium

Discussant: Camino Ramon-Llorens - Polytechnic University of Cartagena, Spain

"Classification and Analysis of Criteria used in the Due Diligence Process"

Camino Ramon-Llorens - Polytechnic University of Cartagena, Spain

Gines Hernandez-Canovas - Polytechnic University of Cartagena, Spain

Discussant: Guillaume Andrieu - GSCM-Montpellier Business School, France

"The Determinants of Capital Structure for Vietnam's Seafood Processing Enterprises"

Nguyen Thi Canh - Vietnam National University, Vietnam

Nguyen Thanh Cuong - Nha Trang University, Vietnam

Discussant: Dimitrios V. Kousenidis - Aristotle University of Thessaloniki, Greece

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

SESSION 51

Room 102

HEDGING

Session Chair: Alexander Peter Groh - EM-LYON Business School, France

"Hedging Inflation Risk in a Developing Economy"

Marie Briere - Amundi, France

Ombretta Signori - Amundi Asset Management, France

Discussant: Nathan Liu - Feng Chia University, Taiwan

"How Much Would You Like to Pay for Dynamic Hedging Strategies?"

Nathan Liu - Feng Chia University, Taiwan

Discussant: Constantin Mellios - University of Paris 1, France

"The Traditional Hedging Model Revisited With A Non Observable Convenience Yield"

Constantin Mellios - University of Paris 1, France

Pierre Six - Rouen Business School, France

Discussant: Ryan Williams - Georgia State University, USA

"How do Firms Hedge Input Prices?"

Ryan Williams - Georgia State University, USA

Discussant: Ombretta Signori - Amundi Asset Management, France

SESSION 52

Room 103

ASSET PRICING

Session Chair: Bharat Kolluri - University of Hartford, USA

"Is There a Speculative Bubble in the Price of Gold?"

Jedrzej P. Bialkowski - University of Canterbury, New Zealand

Martin T. Bohl - University of Muenster, Germany

Patrick M. Stephan - University of Muenster, Germany

Tomasz P. Wisniewski - University of Leicester, UK

Discussant: Kashif Saleem - Lappeenranta University of Technology, Finland

"Oil Risk and Asset Returns: Evidence from Oil Producing Countries"

Jussi Nikkinen - University of Vaasa, Finland

Kashif Saleem - Lappeenranta University of Technology, Finland

Minna Martikainen - Lappeenranta University of Technology, Finland

Mohammed Omran - Arab Academy for Science & Technology, Egypt

Discussant: Harminder Singh - Deakin University, Australia

"Short-Run and Long-Run Oil Price Sensitivity of Chinese Stocks"

Mohan Nandha - Deakin University, Australia

Harminder Singh - Deakin University, Australia

Discussant: Sofia B. Ramos - Lisbon University Institute, Portugal

"The Puzzle of Asymmetric Effects of Oil: New Results from International Stock Market"

Sofia B. Ramos - Lisbon University Institute, Portugal
Helena Veiga - Universidad Carlos III de Madrid, Spain

Discussant: Patrick M. Stephan - University of Muenster, Germany

SESSION 53

Room 104

FINANCIAL CRISIS

Session Chair: Edgar Ortiz - Universidad Nacional Autonoma de Mexico, Mexico

"International Propagation of the Credit Crisis"

Richard A. Brealey - London Business School, UK
Ian A. Cooper - London Business School, UK
Evi Kaplanis - London Business School, UK

Discussant: A. Yasemin Yalta - Hacettepe University, Turkey

"The Interrelationship Between LIBOR and Treasury Bill Yields During the Global Financial Crisis"

A. Yasemin Yalta - Hacettepe University, Turkey
A. Talha Yalta - TOBB University of Economics and Technology, Turkey

Discussant: Lynn A. Stout - UCLA, USA

"The Legal Origin of the 2008 Credit Crisis"

Lynn A. Stout - UCLA, USA

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

SESSION 54

Room 105

CREDIT RISK

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

"Credit Derivatives and Loan Pricing"

Nimita Azam - University of Saskatchewan, Canada
Abdullah Mamun - University of Saskatchewan, Canada
George F. Tannous - University of Saskatchewan, Canada

Discussant: Jonatan Groba - University Carlos III, Spain

"What Drives Corporate Default Risk Premia? Evidence from the CDS Market"

Antonio Diaz - University of Castilla La-Mancha, Spain
Jonatan Groba - University Carlos III, Spain
Pedro Jose Serrano - University Carlos III, Spain

Discussant: Stefano Lugo - DIG - Politecnico di Milano, Italy

"Sovereign Wealth Fund Investments: A Credit Risk Perspective"

Fabio Bertoni - DIG - Politecnico di Milano, Italy
Stefano Lugo - DIG - Politecnico di Milano, Italy

Discussant: George Chalamandaris - Athens University of Economics and Business, Greece

"The Impact of the Financial Crisis on the Joint Dynamics of CDS and Bond Markets: Evidence from the US Corporate Credit Market"

George Chalamandaris - Athens University of Economics and Business, Greece

Discussant: George F. Tannous - University of Saskatchewan, Canada

SESSION 55

Room 107

PAYOUT POLICY

Session Chair: Lucas Ayres B. de C. Barro - University of Sao Paulo, Brazil

"Dividends and Stockholder Conflicts: A Comprehensive Test for Private Firms"

Janis Berzins - Norwegian School of Management, Norway
Oyvind Bohren - Norwegian School of Management, Norway
Bogdan Stacescu - Norwegian School of Management, Norway

Discussant: Cal Muckley - University College Dublin, Ireland

"Corporate Payout Policy in Japan"

Abhinav Goyal - University College Dublin, Ireland
Cal Muckley - University College Dublin, Ireland

Discussant: Michael D. McKenzie - The University of Sydney, Australia

"Selectivity and Sample Bias in Dividend Drop-Off Studies"

Michael D. McKenzie - The University of Sydney, Australia
Graham Partington - The University of Sydney, Australia

Discussant: Bogdan Stacescu - Norwegian School of Management, Norway

SESSION 56

Room 108

BANKRUPTCY/FINANCIAL DISTRESS

Session Chair: Alain Chevalier - ESCP-Europe, France

"The Determinants of Bankruptcy Protection Duration for Canadian Firms"

Mohamed Ayadi - Brock University, Canada
Skander Lazrak - Brock University, Canada
Dan Xing - Brock University, Canada

Discussant: Randi Naes - University of Stavanger, Norway

"The Relationship between Bankruptcy Risk and Growth for Non-listed Firms"

Kjell Bjo rn Nordal - Norges Bank, Norway
Randi Naes - University of Stavanger, Norway

Discussant: Pornchai Chunchachinda - Thammasat University, Thailand

"Bankruptcy Prediction of Real Estate Firms in Thailand"

Suporn Treewichayapong - Thammasat University, Thailand
Pornchai Chunhachinda - Thammasat University, Thailand
Chaiyuth Padungsaksawasdi - Florida International University, USA

Discussant: Andrea Pescatori - International Monetary Fund, USA

"Debt Overhang in a Business Cycle Model"

Filippo Occhino - Federal Reserve Bank of Cleveland, USA
Andrea Pescatori - International Monetary Fund, USA

Discussant: Skander Lazrak - Brock University, Canada

SESSION 57

Room 110

M&AS

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

"The Microstructure of Australian Takeover Announcements"

Martin Bugeja - University of Technology, Australia
Vinay Patel - University of Technology, Australia
Terry Walter - University of Technology, Australia

Discussant: Chee-Meng Yap - National University of Singapore, Singapore

"Are Mergers and Acquisitions Good for R&D? Answers from the Holding Period Returns Perspective"

Chee-Meng Yap - National University of Singapore, Singapore
Yew-Kee Ho - National University of Singapore, Singapore

Discussant: Bart Frijns - Auckland University of Technology, New Zealand

"Cultural Values, CEO Risk Aversion and Corporate Takeovers"

Bart Frijns - Auckland University of Technology, New Zealand
Aaron Gilbert - Auckland University of Technology, New Zealand
Thorsten Lehnert - University of Luxembourg, Luxembourg
Alireza Tourani-Rad - Auckland University of Technology, New Zealand

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

"Crossing Takeover Premiums and Mix of Payment: Empirical Test of Contractual Setting in M&A Transactions"

Hubert de La Bruslerie - University Paris-Dauphine, France

Discussant: Vinay Patel - University of Technology, Australia

SESSION 58

Room 208

EXCHANGE RATES

Session Chair: William J. Bertin - Bond University, Australia

"Macroeconomic News Surprises and Volatility Spillover in the Foreign Exchange Markets"

Walid Ben Omrane - Brock University, Canada

Christian Hafner - University of Louvain, Belgium

Discussant: Gautam Goswami - Fordham University, USA

"Non-Monotonic Relation Between Real Exchange Rates and Economic Fundamentals: Theory and Evidence"

Gautam Goswami - Fordham University, USA

Milind Shrikhande - Georgia State University, USA

Liuren Wu - City University of New York, USA

Discussant: Raul DeJesus-Gutierrez - Universidad Autonoma del Estado de Mexico, Mexico

"The Impact of Exchange Rate Variability on the Returns and Risk in Mexican Stock Market"

Raul DeJesus-Gutierrez - Universidad Autonoma del Estado de Mexico, Mexico

Discussant: Stefano Mazzotta - Kennesaw State University, USA

"The Unconditional and Conditional Exchange Rate Exposure of U.S. Firms"

Ines Chaieb - University of Geneva, Switzerland

Stefano Mazzotta - Kennesaw State University, USA

Discussant: Walid Ben Omrane - Brock University, Canada

SESSION 59

Room 209

PORTFOLIO MANAGEMENT

Session Chair: Laurie Prather - Bond University, Australia

"Performance of Private Equity Investments: Are Management Companies' Shareholders Relevant?"

Stefano Caselli - Bocconi University, Italy

Stefano Gatti - Bocconi University, Italy

Francesca Querci - University of Genova, Italy

Discussant: Rosanne Vanpee - Hogeschool-Universiteit Brussel, Belgium

"The Value of Clean Hands: Public Policy and International Asset Allocation"

Piet Sercu - Katholieke Universiteit Leuven, Belgium

Rosanne Vanpee - Hogeschool-Universiteit Brussel, Belgium

Discussant: Massimo Scotti - University of Technology Sydney, Australia

"Delegated Portfolio Management with Career Concerns"

Massimo Scotti - University of Technology Sydney, Australia

Discussant: Thi Hong Van Hoang - GSCM-Montpellier Business School, France

"Gold Quoted at Paris and the Diversification of France Portfolios from 2004 to 2009"

Thi Hong Van Hoang - GSCM-Montpellier Business School, France

Discussant: Francesca Querci - University of Genova, Italy

SESSION 60

Room 210

VALUATION

Session Chair: Edward Nelling - Drexel University, USA

"Diminishing Marginal Returns from R&D Investment: Evidence from Manufacturing Firms"

Robert Faff - University of Queensland, Australia

Yew-Kee Ho - National University of Singapore, Singapore

Wei-Lin Lin - National University of Singapore, Singapore

Chee-Meng Yap - National University of Singapore, Singapore

Discussant: Samuel H. Szewczyk - Drexel University, USA

"Impact of EVA Adoption on Long-Term Shareholder Value: An Empirical Investigation"

WaQar I. Ghani - Saint Joseph's University, USA

Samuel H. Szewczyk - Drexel University, USA

Discussant: Andreas Andrikopoulos - University of the Aegean, Greece

"Finance: A Critical-Realist Account of a Changing Discipline"

Andreas Andrikopoulos - University of the Aegean, Greece

Discussant: Yi Liu - University of North Texas, USA

"Is There Value in Growth?"

Yi Liu - University of North Texas, USA

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

SESSION 61

Room 118

CORPORATE ISSUES

Session Chair: Robin K. Chou - National Chengchi University, Taiwan

"Fiat Privatization: The Non-Tradable Share Reform and Stock Market Fundamentals in China"

Andrea Beltratti - Bocconi University, Italy

Bernardo Bortolotti - University of Torino, Italy

Marianna Caccavaio - Luiss Guido Carli University, Italy

Discussant: Hakan Jankensgard - Lund University, Sweden

"Asset Illiquidity and Corporate Hedging"

Hakan Jankensgard - Lund University, Sweden

Bjorn Hagstromer - Stockholm University, Sweden

Discussant: Angelo Aspris - University of Sydney, Australia

Tuesday 10:30-12:15

"The Relationship between Board Independence and Stock Liquidity"

Angelo Aspris - University of Sydney, Australia

Alex Frino - University of Sydney, Australia

Discussant: Samuel B. Bulmash - University of South Florida, USA

"Further Revisiting the Impacts of Factors like CEO Experience or Age or Compensation have on Corporate Performance."

Samuel B. Bulmash - University of South Florida, USA

Discussant: Marianna Caccavaio - Luiss Guido Carli University, Italy

LUNCHEON

12:15-1:15 p.m. Square

KEYNOTE SPEECH

1:15-2:00 p.m. Aula Magna

**Professor George M. Constantinides
Booth School of Business, The University of Chicago, USA**

ASSET PRICING AND MACROECONOMICS: A PRODUCTIVE COLLABORATION

SESSION 62

Room 102

ASSET PRICING

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

"Contrarian and Momentum Strategies: The Impact of the Business Cycle"

Greg Filbeck - Pennsylvania State University, USA

Mingsheng Li - Bowling Green State University, USA

Xin Zhao - Pennsylvania State University, USA

Discussant: Tassos Malliaris - Loyola University of Chicago, USA

"Dividends, Momentum and Macroeconomic Variables as Determinants of the U.S. Equity Premium Across Economic"

Ramaprasad Bhar - The University of New South Wales, Australia

Tassos Malliaris - Loyola University of Chicago, USA

Discussant: Panagiotis G. Artikis - University of Piraeus, Greece

"Foreign Exchange Risk, Equity Risk Factors and Macroeconomic Growth"

Nicholas Apergis - University of Piraeus, Greece

Panagiotis G. Artikis - University of Piraeus, Greece

Discussant: Byoung-Kyu Min - University of Neuchatel, Switzerland

"Long-Run Consumption Risk and Momentum Profits"

Byoung-Kyu Min - University of Neuchatel, Switzerland

Tong Suk Kim - KAIST Business School, South Korea

Discussant: Xin Zhao - Pennsylvania State University, USA

SESSION 63

Room 103

BANKS

Session Chair: Jason Wei - University of Toronto, Canada

"Bank Market Power and Revenue Diversification: Evidence from Selected ASEAN Countries"

My Nguyen - Monash University, Australia

Michael Skully - Monash University, Australia

Shrimal Perera - Monash University, Australia

Discussant: Andreja Bandelj - Bocconi University, Italy

"Should Banks be Diversified Geographically? Evidence from Cross-Country Diversification of European Banks"

Andreja Bandelj - Bocconi University, Italy

Discussant: Stephanos Papadamou - University of Thessaly, Greece

"Interest Rate Risk and Bank of England Operational Independence: Evidence from Bank and Life Insurance Companies"

Stephanos Papadamou - University of Thessaly, Greece
Costas Siriopoulos - University of Patras, Greece

Discussant: Mohamed Belkhir - UAE University, UAE

"Market Discipline of Bank Risk and the Too-Big-To-Fail Protection: Evidence from Risk Management Decisions"

Mohamed Belkhir - UAE University, UAE

Discussant: Shrimal Perera - Monash University, Australia

SESSION 64

Room 104

BONDS

Session Chair: Mehmet Baha Karan - Hacettepe University, Turkey

"Term Structure Information and Bond Investment Strategies"

Maria de la O Gonzalez - Universidad de Castilla-La Mancha, Spain
Frank S. Skinner - University of Surrey, UK
Samuel Agyei-Ampomah - University of Surrey, UK

Discussant: Khalid El Badraoui - ESC Rennes School of Business, France

"The Long-Run Operating Performance of Canadian Convertible Debt Issuers: Trends and Explanatory Factors"

Khalid El Badraoui - ESC Rennes School of Business, France
Jean Jacques Lilti - IGR – IAE de Rennes, France

Discussant: Ming Dong - York University, Canada

"Why Do Firms Really Issue Convertible Bonds: Evidence from the Field"

Ming Dong - York University, Canada
Marie Dutordoir - University of Manchester, UK
Chris Veld - University of Glasgow, UK

Discussant: Zvika Afik - Ben-Gurion University, Israel

"The Term Structure of Expected Bond Returns"

Zvika Afik - Ben-Gurion University, Israel
Simon Benninga - Tel Aviv University, Israel

Discussant: Maria de la O Gonzalez - Universidad de Castilla-La Mancha, Spain

SESSION 65

Room 105

ECONOMETRICS

Session Chair: Sonia Falconieri - Cass Business School, UK

"Realized Spill-over Effect Within-Between Stock and Foreign Exchange Markets"

Hung Do - Monash University, Australia

Robert Brooks - Monash University, Australia

Sirimon Treepongkaruna - University of Western Australia, Australia

Discussant: Mary Malliaris - Loyola University of Chicago, USA **"Using Data Mining Technologies to Find Currency Trading Rules"**

Tassos Malliaris - Loyola University of Chicago, USA

Mary Malliaris - Loyola University of Chicago, USA

Discussant: Barry O'Grady - Curtin University, Australia

"A Study on the Application of Technical Analysis to the Malaysian and Thai Stock Markets"

Barry O'Grady - Curtin University, Australia

David Allen - Edith Cowan University, Australia

Darren O'Connell - Curtin University, Australia

Discussant: Muhammad Surajo Sanusi - Robert Gordon University, UK

"Analyzing the Effectiveness of Fundamental and Technical Analysis in Firm Valuation: A Case Study of Oil and Gas Sector in Nigeria"

Muhammad Surajo Sanusi - Robert Gordon University, UK

Discussant: Sirimon Treepongkaruna - University of Western Australia, Australia

SESSION 66

Room 107

COST OF EQUITY CAPITAL

Session Chair: Anna Zalewska - University of Bath, UK

"Determinants of Capital Budgeting Methods and Hurdle Rates in Nordic Firms"

Tor Brunzell - Stockholm University, Sweden

Eva Liljebloom - Hanken School of Economics, Finland

Mika Vaihekoski - University of Turku, Finland

Discussant: Kartick Gupta - Auckland University of Technology, New Zealand

"Financial Development, Corporate Governance and Cost of Equity Capital"

Kartick Gupta - Auckland University of Technology, New Zealand

Chandrasekhar Krishnamurti - University of Southern Queensland, Australia

Alireza Tourani-Rad - Auckland University of Technology, New Zealand

Discussant: John H. Hall - University of Pretoria, South Africa

"Capital Budgeting Methods and the Cost of Capital: A Multivariate Analysis of Listed South African Firms"

John H. Hall - University of Pretoria, South Africa
Hendrik P. Wolmarans - University of Pretoria, South Africa

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

"The Term Structure of Implied Costs of Equity Capital"

Jeffrey L. Callen - University of Toronto, Canada
Matt Lyle - University of Toronto, Canada

Discussant: Eva Liljeblom - Hanken School of Economics, Finland

SESSION 67

Room 108

EARNINGS QUALITY

Session Chair: Tony Naughton - RMIT University, Australia

"The Aggregate Earnings-Return Relationship: A Global Perspective"

Xiaoquan Jiang - Florida International University, USA
Andrew Vivian - Loughborough University, UK

Discussant: Mukesh Garg - Monash University, Australia

"Earnings Management and Political Intervention: Evidence from the Pharmaceutical Industry"

Jerry Bowman - University of Queensland, Australia
Mukesh Garg - Monash University, Australia
Farshid Navissi - Monash University, Australia
Vic Naiker - University of Auckland, New Zealand

Discussant: Panayiotis Tahinakis - University of Macedonia, Greece

"R & D Expenditures and Earnings Management: Results after the Implementation of IFRS in Greece"

Panayiotis Tahinakis - University of Macedonia, Greece

Discussant: Andrianos E. Tsekrekos - Athens University of Economics & Business, Greece

"Earnings Management in Firms Seeking to Be Acquired"

Seraina C. Anagnostopoulou - Athens University of Economics & Business, Greece
Andrianos E. Tsekrekos - Athens University of Economics & Business, Greece

Discussant: Andrew Vivian - Loughborough University, UK

SESSION 68

Room 110

DERIVATIVE MARKETS

Session Chair: Nabil Khoury - University of Quebec, Canada

"Analyzing the Impact of Futures Trading on Spot Price Volatility: Evidence from the Spot Electricity Market in France and Germany"

Fotis G. Kalantzis - University of Athens, Greece

Nikolaos T. Milonas - University of Athens, Greece

Discussant: Chun-Chou Wu - National Kaohsiung First University of Science and Technology, Taiwan

"Option Listing, Trading Activity and the Informational Efficiency of the Underlying Stocks"

Khelifa Mazouz - Bradford University, UK

Shuxing Yin - University of Surrey, UK

Sam Agyei-Ampomah - University of Surrey, UK

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

"The Effect for Investor's Trading Volume Behavior on Futures and Stock Market Volatilities in Taiwan"

Chun-Chou Wu - National Kaohsiung First University of Science and Technology, Taiwan

Yi-Kai Su - National Kaohsiung First University of Science and Technology, Taiwan

Discussant: Javier Estrada - IESE Business School, Spain

"Black Swans, Beta, Risk, and Return"

Javier Estrada - IESE Business School, Spain

Maria Vargas - University of Zaragoza, Spain

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

SESSION 69

Room 208

HEDGE FUNDS

Session Chair: Marko Savor - University of Quebec, Canada

"Systemic Risk and Cross-Sectional Hedge Fund Returns"

Stephen Brown - New York University, USA

Inchang Hwang - Korea Advanced Institute of Science and Technology, Korea

Francis In - Monash University, Australia

Tong Suk Kim - Korea Advanced Institute of Science and Technology, Korea

Discussant: Olfa Hamza - UQAM, Canada

"Do "Hot Hands" Exist in Fund of Hedge Funds?"

Olfa Hamza - UQAM, Canada

Maher Kooli - UQAM, Canada

Discussant: Efthymios Roumpis - University of the Aegean, Greece

"Evaluating Risk and Return Performance in Core Dynamic Hedge Fund Strategies"

Efthymios Roumpis - University of the Aegean, Greece
Theodore Syriopoulos - University of the Aegean, Greece

Discussant: Deniz K. Kebabci - San Francisco State University, USA

"The Absolute Returns of Hedge Funds"

Deniz K. Kebabci - San Francisco State University, USA
Bolong Cao - Ohio University, USA

Discussant: Inchang Hwang - Korea Advanced Institute of Science and Technology, Korea

SESSION 70

Room 209

FUNDS

Session Chair: Andrew Worthington - Griffith University, Australia

"On the Precision of Public Information and Mutual Fund Performance"

Gerald Abdesaken - Bocconi University, Italy

Discussant: Andrew Mason - University of Surrey, UK

"Revealed Preferences and Investment Outcomes: Characteristic Based Style Analysis and Market Phases"

Andrew Mason - University of Surrey, UK

Discussant: Shafir Offer - Ben-Gurion University, Israel

"Commercial vs. Classical Mutual Fund Performance Measures: Empirical Evidence from Israel"

Shafir Offer - Ben-Gurion University, Israel
Uri Ben-Zion - Ben-Gurion University, Israel
Koresh Galil - Ben-Gurion University, Israel

Discussant: Alexandra Niessen-Ruenzi - University of Mannheim, Germany

"Sex Matters: Gender and Prejudice in the Mutual Fund Industry"

Alexandra Niessen-Ruenzi - University of Mannheim, Germany
Stefan Ruenzi - University of Mannheim, Germany

Discussant: Gerald Abdesaken - Bocconi University, Italy

SESSION 71

Room 210

CORPORATE GOVERNANCE

Session Chair: Dennis Y. Chung - Simon Fraser University, Canada

"Corporate Governance and Survival of Listed Companies: Evidence from Korean Backdoor Listing"

SeungHun Han - Korea Advanced Institute of Science and Technology, Korea
Yonghyun Kwon - Korea Advanced Institute of Science and Technology, Korea

Discussant: Ifigenia Georgiou - Aston University, UK

"Board Composition and Value: The Case of Quality Excellence"

Andreas Charitou - University of Cyprus, Cyprus

Ifigenia Georgiou - Aston University, UK

Andreas C. Soteriou - University of Cyprus, Cyprus

Discussant: Yu Cao - Citigroup Inc, USA

"Shareholder Interests vs. Board of Director Members' Interests and the Operating Performance of Firms"

Lorne N. Switzer - Concordia University, Canada

Yu Cao - Citigroup Inc, USA

Discussant: Yoon K. Choi - University of Central Florida, USA

"CEO Involvement and Effectiveness of Audit Committees in Emerging Market: Evidence from Korea"

Yoon K. Choi - University of Central Florida, USA

Seung Hun Han - Korea Advanced Institute of Science and Technology, Korea

Sangwon Lee - Korea Advanced Institute of Science and Technology, Korea

Discussant: Yonghyun Kwon - Korea Advanced Institute of Science and Technology, Korea

Refreshments 4:15-4:30 p.m.

SESSION 72

Room 102

ASSET PRICING

Session Chair: Tassos Malliaris - Loyola University of Chicago, USA

"What Causes Momentum Profits? Evidence from Optioned and Non-Optioned Stocks"

Sina Badreddine - Middlesex University, UK

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

Phil Holmes - University of Leeds, UK

Discussant: Nader Shahzad Virk - Hanken School of Economics, Finland

"Canonical Asset pricing Models with Risk Separability and Habit Formation: Empirical Evidence from Finland"

Nader Shahzad Virk - Hanken School of Economics, Finland

Discussant: Jason Wei - University of Toronto, Canada

"Do Momentum and Reversals Coexist?"

Jason Wei - University of Toronto, Canada

Discussant: Johan Knif - Hanken School of Economics, Finland

"The Role of Multifactors in Asset Pricing Models"

Johan Knif - Hanken School of Economics, Finland

James W. Kolari - Texas A&M University, USA

Gregory Koutmos - Fairfield University, USA

Seppo Pynnonen - University of Vaasa, Finland

Discussant: Sina Badreddine - Middlesex University, UK

SESSION 73

Room 103

BANKS

Session Chair: Christos I. Negakis - University of Macedonia, Greece

"Short Term Market Effects of the Second Stress Test Disclosure on European Banks"

Anouk G.P. Claes - Facultes Universitaires Saint-Louis, Belgium

Marc J.K. De Ceuster - University of Antwerp, Belgium

Fan Wu - Facultes Universitaires Saint-Louis, Belgium

Hairui Zhang - University of Antwerp, Belgium

Discussant: Van Son Lai - Laval University, Canada

"Performance, Risk and Capital Buffer Under Business Cycles and Banking Regulations: Evidence from the Canadian Banking Sector"

Alaa Guidara - Laval University, Canada

Van Son Lai - Laval University, Canada

Issouf Soumare - Laval University, Canada

Discussant: Kyriaki Kosmidou - Aristotle University of Thessaloniki, Greece

"The Effect of Basel Accord on the Banking System"

Kyriaki Kosmidou - Aristotle University of Thessaloniki, Greece
Olga Vafeidou - Aristotle University of Thessaloniki, Greece

Discussant: Peter Grundke - University of Osnabruck, Germany

"Reverse Stress Tests with Bottom-Up Approaches"

Peter Grundke - University of Osnabruck, Germany

Discussant: Fan Wu - Facultes Universitaires Saint-Louis, Belgium

SESSION 74

Room 104

OPTION MODELS

Session Chair: Mary Malliaris - Loyola University of Chicago, USA

"Derivatives Pricing under a New Macro-financial Square-Root Process for the Term Structure of Interest Rates"

Manuel Moreno - Universidad de Castilla-La Mancha, Spain
Federico Platania - Universidad de Castilla-La Mancha, Spain

Discussant: Jia-Hau Guo - National Chiao Tung University, Taiwan

"Closed-Form Solution for Options with Daily Price Limits"

Jia-Hau Guo - National Chiao Tung University, Taiwan
Wei-Lun Huang - National Chiao Tung University, Taiwan

Discussant: Hsiang-Tai Lee - National Chi Nan University, Taiwan

"Optimal Futures Hedging under Multi-chain Markov Regime Switching"

Hsiang-Tai Lee - National Chi Nan University, Taiwan

Discussant: Nabil Tahani - York University, Canada

"Path-Dependent Options Pricing under Stochastic Volatility"

Nabil Tahani - York University, Canada

Discussant: Manuel Moreno - Universidad de Castilla-La Mancha, Spain

SESSION 75

Room 105

M&AS

Session Chair: Eva Liljeblom - Hanken School of Economics, Finland

"Competition and Dynamics of Takeover Contests"

Riccardo Calcagno - EM Lyon Business School, France
Sonia Falconieri - Cass Business School, UK

Discussant: Abdullah Mamun - University of Saskatchewan, Canada

"Industry Merger Intensity and Cost of Capital"

Abdullah Mamun - University of Saskatchewan, Canada
Dev Mishra - University of Saskatchewan, Canada

Discussant: Mehdi Sadeghi - Macquarie University, Australia

"Misvaluation on Mergers Waves: Evidence from Australia"

Mehdi Sadeghi - Macquarie University, Australia
Joseph Ngyuen -

Discussant: Anna McAdam - University of Sydney, Australia

"The Apportionment of Takeover Wealth Gains over Investor Groups"

Anna McAdam - University of Sydney, Australia

Discussant: Sonia Falconieri - Cass Business School, UK

SESSION 76

Room 107

CAPITAL STRUCTURE

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

"Debt Maturity Structure in Chinese Firms: Do Ownership Controller and Bank Monitor Matter?"

Wenjuan Ruan - University of Wollongong, Australia
Gary Tian - University of Wollongong, Australia
Shiguang Ma - University of Wollongong, Australia

Discussant: Georgia Nifora - University of Piraeus, Greece

"The Leverage Effect on Stock Returns. An Interesting Comparison Between Greece and Italy."

Panayiotis G. Artikis - University of Piraeus, Greece
Georgia Nifora - University of Piraeus, Greece

Discussant: Larry Li - RMIT University, Australia

"Robust and Fragile Firm-Specific Determinants of the Capital Structure of Chinese Firms"

Imad Moosa - RMIT University, Australia
Larry Li - RMIT University, Australia
Tony Naughton - RMIT University, Australia

Discussant: Manfred Fruhwirth - WU Wien, Austria

"Do Equity Tax Shields Reduce Leverage? The Austrian Case"

Manfred Fruhwirth - WU Wien, Austria
Marek Kobialka - WU Wien, Austria

Discussant: Shiguang Ma - University of Wollongong, Australia

SESSION 77

Room 108

CORPORATE ISSUES

Session Chair: Inchang Hwang - Korea Advanced Institute of Science and Technology, Korea

"Corporate Culture and the Tournament Hypothesis"

Neslihan Ozkan - University of Bristol, UK
Oleksandr Talavera - University of East Anglia, UK
Anna Zalewska - University of Bath, UK

Discussant: Otgontsetseg Erhemjamts - Bentley University, USA

"Determinants of Corporate Social Responsibility and its Implications on Firms' Investment Policy, Organizational Strategy, and Performance"

Otgontsetseg Erhemjamts - Bentley University, USA
Qian Li - Midwestern State University, USA
Anand Venkateswaran - Northeastern University, USA

Discussant: Wenfeng Wu - Shanghai Jiao Tong University, China

"Interjurisdictional Competition, Ownership, and Firm Taxation"

Wenfeng Wu - Shanghai Jiao Tong University, China
Chongfeng Wu - Shanghai Jiao Tong University, China
Oliver M. Rui - Chinese University of Hong Kong, China

Discussant: William L. Megginson - University of Oklahoma, USA

"Employment Protection Laws and Privatization"

Krishnamurthy Subramanian - Indian School of Business, India
William L. Megginson - University of Oklahoma, USA

Discussant: Anna Zalewska - University of Bath, UK

SESSION 78

Room 110

CROSS LISTING

Session Chair: John H. Hall - University of Pretoria, South Africa

"Cross-Listing, Corporate Governance, and Firm Valuation: An Empirical Test of the Bonding Hypothesis"

Lixian Liu - RMIT University, Australia
Vikash Ramiah - RMIT University, Australia
Tony Naughton - RMIT University, Australia

Discussant: Nabil Khoury - University of Quebec, Canada

"One Security, Four Markets: Canada-US Cross-Listed Options and Underlying Equities"

Michal Czerwonko - McGill University, Canada
Nabil Khoury - University of Quebec, Canada
Stylianos Perrakis - Concordia University, Canada
Marko Savor - University of Quebec, Canada

Discussant: Walid Busaba - University of Western Ontario, Canada

"Why Do Firms Dual-List Their Stocks? Insights from the Chinese Financial Markets"

Walid Busaba - University of Western Ontario, Canada

Lin Guo - Suffolk University, USA

Zhenzhen Sun - University of Rhode Island, USA

Tong Yu - University of Rhode Island, USA

Discussant: Cecilia Caglio - Securities Exchange Commission, USA

"Going Public Abroad: The Role of International Markets for IPOs"

Cecilia Caglio - Securities Exchange Commission, USA

Kathleen Weiss Hanley - Federal Reserve Board of Governors, USA

Jennifer Marietta-Westberg - Securities Exchange Commission, USA

Discussant: Tony Naughton - RMIT University, Australia

SESSION 79

Room 208

EMERGING MARKETS

Session Chair: Kashif Saleem - Lappeenranta University of Technology, Finland

"Modelling and Forecasting the Volatility of Thin Emerging Stock Markets: The Case of Bulgaria"

Plamen Patev - Tsenov Academy of Economics, Bulgaria

Nigokhos Kanaryan - Standard Asset Management, Bulgaria

Katerina Lyroudi - University of Macedonia, Greece

Discussant: Aleksandr V. Gevorkyan - New York University, USA

"Fundamental Uncertainty, Fiscal Policy Rules, and Scenarios for Emerging Financial Markets"

Aleksandr V. Gevorkyan - New York University, USA

Arkady V. Gevorkyan - T3 Alpha, USA

Discussant: Rochdi Keffala - University Claude Bernard Lyon 1, France

"Barriers to the Adoption and the Usage of Internet Banking by Tunisian Consumers"

Rochdi Keffala - University Claude Bernard Lyon 1, France

Discussant: Murad Harsheh - Birzeit University, Palestine

"Efficient Market Hypothesis in Palestine Securities Exchange (PEX)"

Akram Alkhatib - Birzeit University, Palestine

Murad Harsheh - Birzeit University, Palestine

Discussant: Katerina Lyroudi - University of Macedonia, Greece

SESSION 80

Room 209

PENSION FUNDS

Session Chair: Skander Lazrak - Brock University, Canada

"Multicurrency ALM for Pension Funds"

Angela Gallo - University of Salerno, Italy

Discussant: Maria Teresa Medeiros Garcia - Technical University of Lisbon, Portugal

"Pension Funds Management: The Case of Portugal"

Maria Teresa Medeiros Garcia - Technical University of Lisbon, Portugal

Discussant: Ghulame Rubbaniy - Erasmus University Rotterdam, The Netherlands

"Herd Behaviour and Trading of Dutch Pension Funds"

Ghulame Rubbaniy - Erasmus University Rotterdam, The Netherlands

I.P.P. van Lelyveld - De Nederlandsche Bank, The Netherlands

W.F.C. Verschoor - Erasmus University Rotterdam, The Netherlands

Discussant: Andrew Worthington - Griffith University, Australia

"Economies of Scale and Scope in Australian Superannuation Funds"

Helen Higgs - Griffith University, Australia

Andrew Worthington - Griffith University, Australia

Discussant: Angela Gallo - University of Salerno, Italy

SESSION 81

Room 210

MARKET EFFICIENCY

Session Chair: Randi Naes - University of Stavanger, Norway

"The Relationship between Uncertainty and the Market Reaction to Information: How is it influenced by Market and Stock-Specific Characteristics?"

Ron Bird - University of Technology Sydney, Australia

Krishna Reddy - University of Waikato, New Zealand

Danny Yeung - University of Technology Sydney, Australia

Discussant: Suk-Joong Kim - The University of Sydney, Australia

"The Impact of Informational Arrival on the Australian Dollar"

Suk-Joong Kim - The University of Sydney, Australia

Michael D. McKenzie - The University of Sydney, Australia

Amy Shi - Deutsche Bank AG, Australia

Discussant: Dennis Y. Chung - Simon Fraser University, Canada

"Speed of Convergence to Market Efficiency: The Role of ECNs"

Dennis Y. Chung - Simon Fraser University, Canada

Karel Hrazdil - Simon Fraser University, Canada

Discussant: Richard A. Ajayi - University of Central Florida, USA

"Investors Reaction to Market Surprises on the Indian Stock Exchange and Currency Markets"

Richard A. Ajayi - University of Central Florida, USA

Yaman O. Erzurumlu - Dogus University, Turkey

Discussant: Krishna Reddy - University of Waikato, New Zealand

Tuesday 7:00-9:30

KEYNOTE SPEECH

6:15-7:00 p.m. Aula Magna

**Professor Hersh Shefrin
Leavey School of Business, Santa Clara University, USA**

THE BEHAVIORAL DIMENSION OF THE FINANCIAL CRISIS

RECEPTION

7:00-9:45 p.m. Square

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Review of Banking, Money and Finance**

June 26 - June 29, 2011
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ITALY

ASSET PRICING

Session Chair: Bjorn Hansson - Lund University, Sweden

"The Equity Premium Puzzle: Empirical Evidence from Emerging Markets"

Michael Donadelli - LUISS Guido Carli University, Italy

Lorenzo Prosperi - LUISS Guido Carli University, Italy

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

The understanding of the Equity Risk Premium (ERP) and the Equity Premium Puzzle (Mehra and Prescott 1985), is still widely discussed in the economic and financial literature. The purpose of this paper is to show differences in the ERP between developed and emerging markets. Using data from both markets, we first provide an ex-post simple time series analysis on the ERP. Compared to developed markets, and in line with existing literature, we find that emerging markets compensate investors with higher returns. We observe that the time varying nature of the equity risk premium in emerging economies, relates mainly to economic cycles, shocks and other macro phenomena (i.e. global financial market integration). Basic statistics also show that during the last decade the ERP shrunk, especially in advanced economies. To improve investigations on the higher emerging markets' equity premium, a standard global asset pricing model is adopted (i.e. CAPM). On one hand, we mainly find that the one-factor model does not fully characterize emerging markets' equity premia. On the other hand, we discover that the inclusion of liquidity conditions and time-varying components provides reasonable explanations for the behaviour of equity premia in these "young" markets.

"Key Macroeconomic Factors that Explain the Difference between Predicted and Real Stock Prices"

Stella Spilioti - Athens University of Economics & Business, Greece

Discussant: Minh Phuong Doan - RMIT University, Australia

Barberis et al. (1998) present a parsimonious model of investor sentiment, consistent with the empirical findings in the literature of investor under reaction and overreaction to information. The implication is that, in the Barberis et al. (1998) model, price deviations from fundamental value are not treated as model estimation errors but rather as deviations that are due to psychological factors that affect investor reaction to information. In this paper, we use the valuation model proposed by Barberis (1998), in order to calculate the fundamental value of a stock and then examine whether the differences between predicted and real stock prices are explained by key macroeconomic factors, using data from the London Stock Exchange. On the whole the results show that these differences are explained by important macroeconomic variables.

"On the Robustness of Higher-Moment Factors in Explaining Average Expected Returns: Evidence from Australia"

Minh Phuong Doan - RMIT University, Australia

Chien-Ting Lin - National Taiwan University of Science and Technology, Taiwan

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

This study tests the importance of systematic skewness and systematic kurtosis of Australian stock returns in the spirit of the higher-moment asset pricing model. We apply the Dagenais and Dagenais (1997) higher-moment estimators to correct for the errors-invariables (EIVs) problems commonly found in the Fama and Macbeth (1973) two-pass regression methodology. After correcting for the EIVs problems, the two higher-moment factors, especially systematic skewness, are important in pricing Australian stocks. Systematic kurtosis appears to replace beta which plays a diminished role in the heavy tailed return distribution.

"Separating Winners from Losers Among Value and Growth Stocks in Canada: Another Step in the Value Investing Process"

George Athanassakos - The University of Western Ontario, Canada

Discussant: Michael Donadelli - LUISS Guido Carli University, Italy

The paper investigates three questions (a) whether there is value premium in a sample of Canadian non-interlisted stocks for the period 1985-2008, (b) whether risk drives the value premium by relating the value premium to company fundamental ratios that determine a company's financial and business/operating risk, as well as market metrics, and (c) whether an additional step to screening for possibly undervalued stocks can be employed to separate the good stocks from the bad ones, as not all low P/E stocks are worth investing in. The paper extends this analysis to both value and growth stocks. We document a consistently strong value premium over the 1985-2008 sample period, which persists in both bull and bear markets, as well as in recessions and recoveries. We show that the value premium is not driven by a few outliers, but it is pervasive as the overwhelming majority of stocks in the value portfolio have positive

returns, and all business risk categories in our sample have positive value premiums. The value premium remains positive and statistically significant over time. Our results are consistent with, but, in general, stronger than, those of other Canadian and US studies. In terms of explaining the drivers of the value premium, having looked at this question from many angles, using summary statistics, univariate and regression analysis, we do not find support for the risk based argument of the value premium and only mixed support for the behavioral explanation. Finally, we were able to construct a composite score indicator (SCORE), combining various fundamental and market metrics, which enabled us to predict future stock returns and separate the winners from the losers among value and growth stocks. A strategy which would involve shorting the high SCORE value stocks and buying the low SCORE value stocks would have beaten the low P/E portfolio by over 30% over the 1985-2008 period. On the other hand, shorting the high SCORE growth stocks and buying the low SCORE growth stocks would have beaten the high P/E portfolio by over 50% over the same period. We also found that the return of a portfolio strategy that buys (sells) stocks that rank low (high) in the composite score indicator has significant explanatory power in an asset pricing model framework.

SESSION 2

Room 103

BANKS

Session Chair: William J. McNally - Wilfrid Laurier University, Canada

"Bank Failure Prediction: Empirical Evidence from Asian Banks"

Malick Sy - RMIT University, Australia

Richard Heaney - RMIT University, Australia

Tony Naughton - RMIT University, Australia

Dirk Hollander -

Terrence Hallahan - RMIT University, Australia

Discussant: Wenjuan Xie - University of New Hampshire, USA

This research contributes to the literature on bank failure prediction by augmenting the set of traditional bank-specific financial distress indicators incorporated in econometric bank failure forecasting models, with a range of indicators that capture information relating to a bank's business structure, off-balance sheet items, derivative investments and credit risk. To evaluate both classification accuracy and to estimate probable time to failure, we use a Cox proportional hazards model incorporating an expanded vector of explanatory variables in the hazard function. Our data set comprises both publicly-listed banks and private banks, engaged in commercial banking or investment banking, from nine Central and East Asian countries, over the period 2000-2009. We also estimate a Probit model incorporating the same explanatory variables to provide a benchmark for evaluation of the classification accuracy of the Cox model. We find that while variables relating to a bank's derivative investments and credit risk have predictive power, variables relating to business structure and off-balance sheet items do not have a role in bank failure prediction in our sample.

"Challenges for the Unified Financial Supervision in the Post-Crisis Era: Singaporean Experience and Chinese Practice"

Jing Geng - Harvard Kennedy School, USA

Wenjuan Xie - University of New Hampshire, USA

Guibin Zhang - Monash Asia Institute, Australia

Honggeng Zhou - University of New Hampshire, USA

Discussant: Jochen Lawrenz - University of Innsbruck, Austria

The financial supervision functions in China are currently performed by three relatively independent Ministry-level supervisory bodies: China Banking Regulatory Commission, China Insurance Regulatory Commission and China Securities Regulatory Commission. In an era when financial conglomerates become more and more prominent, and amid the increasing concerns in academia over the effectiveness of supervision by multiple regulatory and supervisory agencies, this paper reviews the origin and development of the Chinese financial system supervisory practice, and it analyses the Chinese case to see whether an integrated financial supervision model is suitable for the economic giant. We focus on the integrated financial supervision adopted by the Monetary Authority of Singapore (MAS) after the 1997 financial crisis in response to the emerging international trends of blurring boundaries between financial industries of banking, insurance and capital markets, as well as the rapid growth of financial conglomeration. Within a single regulator, the nature and intensity of supervision may vary based on the systemic importance of a financial institution and the sophistication of its customers. Integrated supervision can centralize regulatory functions and maximize economy of scale, thus reducing the operating costs of financial supervisory entities. However, there are also some drawbacks of the practice and foreseeable feasibility issues in the transition towards integrated financial supervision in a country whose financial system is still in the gradual process of opening and integration. Weighing on the aftermath effect of the 1997 crisis and the pros and cons of this practice and accounting for potential issues in its implementation, the paper finally proposes a gradual solution for China to move towards integrated financial supervision, which is most suitable and proved robust during the 2007-2010 financial crisis.

"Contingent Convertibles. Solving or Seeding the Next Banking Crisis?"

Christian Koziol - University of Hohenheim, Germany

Jochen Lawrenz - University of Innsbruck, Austria

Discussant: Shann Turnbull - International Institute for Self-Governance, Australia

A recent proposal to enhance banking stability recommends the use of contingent convertibles (CoCos). Since these hybrid securities are mandatorily converted into equity when banks are in need of recapitalization, they are credited for reducing banks' likelihood of financial distress. In this paper, we show within a continuous-time framework that this allegedly beneficial impact hinges critically on the assumption of complete contracts. If contracts are incomplete in the sense that manager-owners enjoy discretion over the risk of the investment program, our analysis shows that CoCo bonds always distort risk taking incentives. Our main contribution is to demonstrate that there exist conditions under which CoCo bond financing increases investors' wealth, but also increases the bank's probability of financial distress, so that the banking system as a whole will be destabilized. Thus, individually rational decisions can have systemically undesirable outcomes. Further results indicate that CoCos should be used only in conjunction with devices to control risk shifting incentives.

"Could the 2008 US Financial Crisis be Avoided with Network Governance?"

Shann Turnbull - International Institute for Self-Governance, Australia

Michael Pirson - Fordham University, USA

Discussant: Terrence Hallahan - RMIT University, Australia

Banks failed in 2008 because individuals with knowledge of risks were not connected to individuals who had the incentive and power to take corrective action. Evidence of this problem is provided by reports from the Lehman liquidator and The Financial Crisis Inquiry Commission. Improved communications and control within and between banks, their regulators, and stakeholders can be achieved with network governance. Lawmakers and/or regulators can introduce network governance by requiring bank shareholders to amend corporate constitutions to introduce a division of power with checks and balances from stakeholders who can take on the role of supplementary and/or co-regulators. Such decentralized regulatory architecture is how simple living creatures sustain their existence in complex, dynamic and unpredictable environments without suffering communication errors and/or overload. The natural science of communication and control identified in 1948 by Wiener explains why centralized control and communication systems are not found in nature. This science of regulatory systems explains why regulators and large firms fail to reliably manage, regulate or govern complexity. Examples of large network governed firms provide evidence that they obtain sustainable operating advantages over business cycles. This indicates how natural systems provide design criteria to enhance the efficacy of business operations, governance and regulation.

SESSION 3

Room 104

FINANCIAL CRISIS

Session Chair: Paola Bongini - University of Milano-Bicocca, Italy

"Leverage Risk, Financial Crisis, and Stock Returns"

Vaishnavi Bhatt - ICAI University, India

Jahangir Sultan - Bentley University, USA

Discussant: Jan Novotny - CERGE-EI, Czech Republic

Traditional asset pricing factors such as the SMB, HML, and the market risk premium lose their significance when leverage risk as a systematic risk factor is added to the model. The leverage risk factor performs consistently across various categories of firms and its impact is more pronounced during the recent financial crisis. Higher sensitivity to the leverage factor translates into a higher risk exposure on stocks and subsequently higher risk premium. These results offer a test of the hypothesis that the leverage risk factor subsumes the effects of the SMB and HML by directly capturing systemic distress risk.

"Were Stocks During the Financial Crisis More Jumpy?: A Comparative Study"

Jan Novotny - CERGE-EI, Czech Republic

Discussant: George Milunovich - Macquarie University, Australia

This paper empirically analysis the price jump behavior of heavily traded US stocks during the recent financial crisis. Namely, I test the hypothesis that the recent financial turmoil caused no change in the price jump behavior. To accomplish this, I employ data on realized trades for 16 stocks and one ETF from the NYSE database. These data are at a 1-minute frequency and span the period from January 2008 to the end of July 2009, where the recent financial crisis is generally understood to start with the plunge of Lehman Brothers shares on September 9, 2008. I employ five model-independent and three model-dependent price jump indicators to robustly assess the price jump behavior. The results confirm an increase in overall volatility during the recent financial crisis; however, the results cannot reject the hypothesis that there was no change in price jump behavior in the data during the financial crisis. This implies that the uncertainty during the crisis was scaled up but the structure of the uncertainty seems to be the same.

"Measuring the Impact of the GFC on European Equity Markets"

George Milunovich - Macquarie University, Australia

Discussant: Hui Zhu - University of Calgary, Canada

I investigate the impact of the Global Financial Crisis (GFC) on the returns and volatilities of eleven major European share markets, and test the proposition that the GFC developed over two stages: a subprime mortgage crisis

(pre-Lehman), and a more severe global liquidity shortage phase (post-Lehman). Significant structural breaks are found in the returns and volatilities associated with the two stages of the crisis. However, while there is strong statistical evidence suggesting that Phase 2 of the GFC experienced higher volatility levels than Phase 1, we are unable to reject the null that the impact on the returns was equal across the two stages. Further, it appears that the mean of the return series over the post-GFC period has returned to its pre-crisis level for all markets, whereas post-GFC volatilities remain statistically higher than their pre-crisis averages for ten of the eleven markets studied.

"Crash Risk and Investor Horizon"

Hui Zhu - University of Calgary, Canada

Discussant: Jahangir Sultan - Bentley University, USA

Using skewness as a proxy for crash risk, this paper examines the relationship between the probability of stock's crash and investor horizon. We find that the documented negative relation between institutional ownership and skewness in equity returns is actually driven by short-term institutional investors, whereas the existence of long-term institutional investors has a positive influence on return skewness. Further, we show that skewness in equity returns is negatively and positively associated with short-term and long-term institutional trading, respectively. Our findings are robust to alternative regression specifications and alternative proxies of the variables of interest. Moreover, short-term institutions' trading behavior around the earnings announcement provides further evidence that short-term institutions create incentives for managers to maximize short-run earnings at the expense of long-run value. Overall, the evidences in this paper suggest the importance of the investment horizon on crash risk.

SESSION 4

Room 105

MICROSTRUCTURE

Session Chair: Ephraim Clark - Middlesex University, UK

"Order Imbalance, Order Book Slope and the Volume-Volatility Relation"

Huu Nhan Duong - Deakin University, Australia

Liwen Fang - Deakin University, Australia

Petko S. Kalev - University of South Australia, Australia

Discussant: Ming-Chun Wang - National Kaohsiung First University of Science and Technology, Taiwan

This paper investigates the effect of number of trades, average trade size, order imbalance and order book slope on volatility. Examining three interest rate futures (90-day Bank Accepted Bill, 3-Year Treasury Bond and 10-Year Treasury Bond) traded on the Australian Securities Exchange, it is documented that the number of trades has a more significant impact on volatility than the average trade size. Supportive evidence is also observed for the explanatory power of order imbalance and order book slope on volatility but these two variables are not the main factors determining the relation between volatility and number of trade and size of trades.

"Intraday Market Activity for Stock Options in Taiwan"

Chia-Ying Chan - Yuan Ze University, Taiwan

Ming-Chun Wang - National Kaohsiung First University of Science and Technology, Taiwan

Discussant: Peter B. Lerner - Rollins College, USA

This study contributes to the extant literature on derivatives by investigating options trading behavior in Taiwan based upon a unique intraday stock options dataset covering the period from January 2003 to December 2007. Our primary aim is to provide a more detailed examination of market makers and investors (non-market makers), with the latter falling into the various categories of individual investors, local companies, futures and stock brokers, and qualified foreign institutional investors. We provide a further contribution to the extant literature by identifying options trading behaviour amongst these different classes of investors. Our empirical results demonstrate that individual investors dominate the options market in Taiwan, with the writing of call options being more popular for futures/stock brokers, whereas individuals and local companies seem to prefer speculation trading through the purchase of call positions. There is no discernible adoption of straddle/strangle trading strategies by qualified foreign institutional investors, essentially due to the low participation rate of this type of investor in Taiwan.

"Empirical Test of Microstructure Determinants of Volatility"

Peter B. Lerner - Rollins College, USA

Discussant: Asli Ascioğlu - Bryant University, USA

In 2008, Epstein and Schneider formulated a microstructure-inspired theory in which one could determine price volatility through a number of other market parameters such as asset volatility, risk free rate and dividend rate. A particular feature of the Epstein-Schneider theory is an extremely high price elasticity of the volatility of a risky stock with respect to a risk-free rate. This conclusion begs for an empirical investigation. I use the specially filtered high-frequency returns on Nasdaq as proxy for the stock market and several possible proxies for the risk-free rate.

"Order Imbalance and the Tokyo Stock Exchange"

Asli Ascioğlu - Bryant University, USA

Thomas H. McInish - University of Memphis, USA
Mark Van De Vyver - University of Sydney, Australia

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

Using Poisson order arrivals, we introduce a simple procedure for testing the null hypothesis that the number of buyer-initiated trades equals the number of seller-initiated trades. A good (bad) news period contains informed trading, and, hence, is a period for which we reject the null hypothesis in favor of the alternative that the number of buyer-initiated (seller-initiated) trades is greater than the number of seller-initiated (buyer-initiated) trades. No-news periods contain only uninformed trading, and, hence, are periods for which we cannot reject the null hypothesis. We illustrate our approach using both simulated and the Tokyo Stock Exchange transactions data.

SESSION 5

Room 107

ECONOMETRICS

Session Chair: George J. Georgopoulos - York University, Canada

"The Bivariate GARCH Approach to Investigating the Relation Between Stock Returns, Trading Volume, and Return Volatility"

Wen-I Chuang - National Taiwan University, Taiwan
Hsiang-His Liu - National Taipei University, Taiwan
Rauli Susmel - University of Houston, USA

Discussant: Francisco Lopez-Herrera - Universidad Nacional Autonoma de Mexico, Mexico

We use a bivariate GJR-GARCH model to investigate simultaneously the contemporaneous and causal relations between trading volume and stock returns and the causal relation between trading volume and return volatility in a one-step estimation procedure, which leads to the more efficient estimates and is more consistent with finance theory. We apply our approach to ten Asian stock markets: Hong Kong, Japan, Korea, Singapore, Taiwan, China, Indonesia, Malaysia, the Philippines, and Thailand. Our major findings are as follows. First, the contemporaneous relation between stock returns and trading volume and the causal relation from stock returns and trading volume are significant and robust across all sample stock markets. Second, there is a positive bi-directional causality between stock returns and trading volume in Taiwan and China and that between trading volume and return volatility in Japan, Korea, Singapore, and Taiwan. Third, there exists a positive contemporaneous relation between trading volume and return volatility in Hong Kong, Korea, Singapore, China, Indonesia, and Thailand, but a negative one in Japan and Taiwan. Fourth, we find a significant asymmetric effect on return and volume volatilities in all sample countries and in Korea and Thailand, respectively.

"Persistence of Long Memory in the Returns of the Mexican Stock Market: Arfima Models and Value at Risk Estimation"

Francisco Lopez-Herrera - Universidad Nacional Autonoma de Mexico, Mexico
Edgar Ortiz - Universidad Nacional Autonoma de Mexico, Mexico
Raul DeJesus-Gutierrez - Universidad Autonoma del Estado de Mexico, Mexico

Discussant: Thomas Dimpfl - University of Tubingen, Germany

Research about the long memory behavior from stock markets has recently emphasized problems related to the changing correlation of prices over time, as well as those concerned with its implications on the stochastic behavior of returns. The potential presence of long memory signals that current information is highly correlated with past information at different levels; that is, stock returns data reflects time dependency in the generation of information flows to the market so that distant returns impact current returns. This facilitates prediction and opens the possibility to obtain speculative returns, contrary to assertions from the efficient market hypothesis. Another important implication concerning the existence of long memory in asset returns series concerns the application of risk analysis models to estimate potential losses, which is the case of Value at Risk (VaR). In this respect, identifying the presence of long memory in financial assets series must aid in producing more conservative and precise estimations in VaR analysis. Several models and empirical approaches have been applied. However, they have 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 asset returns taking into account autoregressive fractionally integrated models and different distribution alternatives. This study overcomes those limitations. In order to analyze volatility and the persistence of long memory in the returns of the Mexican stock market, 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 skewed student-t distributions of the error term. Due to recommendations from regulatory authorities, derived from the Basel Committee agreements, VaR has become the most applied model to assess potential losses from investment. However, there is potential tail risk in the use of VaR since conventional models neglect to take into account valuable information from the tails of a distribution of returns of financial series, which can convey to sizable losses or profits. Therefore 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 comparing actual profits and losses with VaR measures, is used to validate their efficiency. VaR estimates correspond to one day ahead investment horizon.

Daily returns data for the period January 1983 to December 2009 are used to carry out the corresponding econometric analysis. The rest of the paper is organized as follows. Section II presents a review of the literature, emphasizing long memory studies about emerging markets. Section III describes the methodology; Section IV focuses on the empirical application and analysis of results. The paper ends with a brief section of conclusions.

"On the Impossibility of Detecting Cointegration between International Financial Markets"

Thomas Dimpfl - University of Tübingen, Germany

Discussant: Orhan Erdem - Istanbul Bilgi University, Turkey

Cointegration has frequently been used in the financial econometrics literature to assess the degree of interdependence of financial markets. We show that if individual stock prices are generated by random walks with possibly contemporaneously correlated innovations, the resulting indices cannot be cointegrated as they are a combination of n random walks which itself is non-stationary by construction. This result holds if (as in factor models) an additional common global or local random walk is allowed for. There will, however, never be less than n random walk components, as otherwise company specific characteristics would be ruled out to affect the stock price permanently. To substantiate the theoretical propositions we simulate stock prices (allowing for heteroscedasticity, correlated innovations and common factors), construct indices and test whether these indices are cointegrated. We show that while heteroscedasticity alone is able to mislead cointegration tests, it is not sufficient to explain at the same time the empirically found high correlation between stock market indices. A common stochastic factor as well as correlated price innovations are necessary to reproduce the empirical characteristic features. We conclude that cointegration is not a suitable method to analyze stock market interdependence.

"A New Correlation Coefficient for Bivariate Time-Series Data"

Orhan Erdem - Istanbul Bilgi University, Turkey

E. Ceyhan - Koc University, Turkey

Yusuf Varli - Istanbul Bilgi University, Turkey

Discussant: Rauli Susmel - University of Houston, USA

Various financial models such as pairs trading etc. are interested in the correlation between two different time series data, e.g. stock prices, returns etc. Pearson's correlation coefficient is one of the most commonly used formula to measure this correlation. However there are many assumptions for the usage of this formula that people ignore. In this article we propose a new correlation coefficient that measures the distance between two subsequent data points by taking the lag difference. Even though the very first data point is lost, we demonstrate that the new correlation coefficient captures the direction of the movements of the two variables over time. We also propose various extensions of this coefficient to obtain more reasonable and reliable results at the expense of having more complex formulas.

SESSION 6

Room 108

DERIVATIVE MARKETS

Session Chair: Wi Saeng Kim - Hofstra University, USA

"Collateral Smile"

Marcus Leippold - University of Zurich, Switzerland

Lujing Su - University of Zurich, Switzerland

Discussant: Panayiotis Andreou - Cyprus University of Technology, Cyprus

We analyze the impact of funding costs and margin requirement on prices of exchange-traded index options. Funding costs refer to the spread between the borrowing rate and the risk-free rate. The margin requirement is the collateral the option seller is enforced to deposit with the exchange. As we want to isolate the effect of these costs on implied volatilities, we choose the classical Black-Scholes model as starting point. For our study, we focus on the effect of the margin rules for index options traded on the CBOE and EUREX. For both margin rules, we can decompose the resulting option prices into the classical Black-Scholes price and a margin adjustment. We find that the margin adjustment may become dominant when the option is out-of-the-money. As a result, implied volatility exhibits a smile pattern even under the standard Black-Scholes assumption of constant volatility. Furthermore, we test violation ratios of the put-call parity and the bid-ask spread of options using index options data. Both empirical tests confirm that funding costs are a significant factor in determining option prices and therefore should be accounted for in option pricing models.

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

Panayiotis Andreou - Cyprus University of Technology, Cyprus

Discussant: Charles Corrado - Deakin University, Australia

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 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, which I also compare with some key results reported by 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. My 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 Prucyt (1997). More importantly, in a regression analysis, where I disentangle the role of leverage effect by separating it from the asset return, I show that the contemporaneous S&P 500 index return is still significantly 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 S&P 500 risk-neutral density function. These factors are related to characteristics of the underlying asset and micro-structure variables characterizing the option markets 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.

"Accounting Earnings Announcements and the Options Market Response: An Implied Volatility View"

Charles Corrado - Deakin University, Australia

Cameron Truong - Monash University, Australia

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

We examine the reaction of the equity options market to accounting earnings announcements over the period 1996–2008. We use changes in implied volatility to measure the options market response to earnings news. We find that positive earnings surprises or profit earnings announcements result in a larger uncertainty resolution than negative earnings surprises or loss earnings announcements. We present a key finding that there is an inverse relation between the change in implied volatility and earnings news in a three-day window immediately after an earnings announcement. We refer to the magnitude of this relation as the 'options market earnings response coefficient'. We show that this 'options-market earnings response coefficient' is stronger for both bad news earnings announcements and profit earnings announcements. We do not find any significant relation between changes in implied volatility in the pre-or post-announcement period and earnings news. We conclude that the options market efficiently absorbs earnings information.

"Impact of Macroeconomic News Announcements on Options Market"

Sol Kim - Hankuk University of Foreign Studies, Korea

Geul Lee - University of New South Wales, Australia

Discussant: Lujing Su - University of Zurich, Switzerland

This study examines the impact of scheduled macroeconomic news announcement on the implied risk-neutral distribution(RND) from option prices. We choose KOSPI200 index options market as the sample market, and investigate whether the implied RND responses with the scheduled South Korea and US macroeconomic news announcement. We choose 6 important macroeconomic news announcements each from South Korea and US, and classify them as good news and bad news using the KOSPI200 index return on the announcement day. We use two parametric methods and one non-parametric method to recover RND, then conduct regression analyses on daily, hourly and 5-minute time interval. The results show several interesting aspects. First, RND responses with the most of macroeconomic news announcements, but the response disappears within a day in many cases. Second, the longevity of response significantly depends on the type of news. Third, implied volatility tends to increase and RND tends to become less leptokurtic after news announcement. Fourth, RND tends to become less(more) negatively-skewed after good(bad) news announcement, although there is some discordance among the models. Finally, there is no clear evidence of information contents about the effect of news announcements in RND.

SESSION 7

Room 110

MONETARY POLICY

Session Chair: Alireza Tourani-Rad - Auckland University of Technology, New Zealand

"Would Some Model Please Give Me Some Hints? In Search of Some Stylized Facts of the Monetary Policy and Asset Return Dynamics"

Kuang-Liang Chang - National Chiayi University, Taiwan

Nan-Kuang Chen - National Taiwan University, Taiwan

Charles Ka Yui Leung - City University of Hong Kong, Hong Kong

Discussant: Rafaela Perez - Universidad Complutense de Madrid, Spain

This paper compares the explanatory power of a series of regime-switching SVAR models. Before the crisis occurs (1975-2005), the federal funds rate, term spread and external finance premium outperform others in explaining the asset returns. Since 2006, the term spread and TED spread outperform other variables in predicting both the stock and

housing returns. In addition, the single-regime version always underperforms the regime-switching counterpart. We also find preliminary evidence that the housing return helps predicting the stock return since 2006. None of the models we examine predict the 2008 downfall of housing returns. All these suggest a "structural change" in the asset markets.

"Estimating Persistent and Transitory Monetary Shocks in a Learning Environment"

J. A. Lafuente - Universidad Jaume I, Spain
Rafaela Perez - Universidad Complutense de Madrid, Spain
J. Ruiz - Universidad Complutense de Madrid, Spain

Discussant: Britta Niehof - Philipps-University of Marburg, Germany

This paper proposes an estimation method for persistent and transitory monetary shocks using the monetary policy modeling proposed in Andolfatto et al. [Journal of Monetary Economics 55 (2008) 406–422]. The contribution of the paper is twofold: a) we propose a state-space representation for the time evolution of monetary shocks that allow us the use of the Kalman filter as the optimal signal extraction mechanism, b) it offers the possibility to perform a maximum likelihood estimation for all the parameters involved in the monetary policy, and c) it allows us to get, as a by-product, the probability that a regime change has occurred in the current period conditional on an observed monetary shock. We present empirical evidence for the US to show the potential applicability of our estimation method. Our findings show that the evidence of a regime change in US monetary policy making from 1980 to 2001 is weak. However, September eleven and the recession that started in the second quarter of 2001 emerge as events that probably led to regime shifts in US monetary policy making. Interestingly enough, we show that the use of a Taylor rule with time-varying responses in accordance with a Markov-switching setting leads to similar qualitative findings.

"Identification Through Heteroscedasticity in a Multicountry and Multimarket Framework"

Bernd Hayo - Philipps-University of Marburg, Germany
Britta Niehof - Philipps-University of Marburg, Germany

Discussant: Juan Ignacio Pena - Universidad Carlos III, Spain

This paper formally proves that Rigobon and Sack (2004)'s approach of identifying monetary policy shocks through heteroscedasticity can be extended to a multimarket and multicountry framework. Applying our multivariate framework, allows deriving consistent estimators of monetary policy effects. To show the usefulness of the approach, it is applied to European financial markets. We analyze monetary policy actions of the European Central Bank, the Bank of England, the Swiss National Bank, and the Swedish Riksbank on major stock indices. First, in line with the approach of Rigobon and Sack (2004), we find an increase in the variance of European stock and money market returns on days of monetary policy committee meetings. Second, monetary policy actions exert a significant impact on financial markets. Third, we identify spillover effects from ECB monetary policy moves to the British and Swiss financial markets but find no evidence for reverse causality.

"Towards a Common European Monetary Union Risk Free Rate"

Sergio Mayordomo - Universidad Carlos III, Spain
Juan Ignacio Pena - Universidad Carlos III, Spain
Eduardo S. Schwartz - UCLA, USA

Discussant: Charles Ka Yui Leung - City University of Hong Kong, Hong Kong

A common European bond would yield a common European Monetary Union risk free rate. We present tentative estimates of this common risk free for the European Monetary Union countries from 2004 to 2009 using variables motivated by a theoretical portfolio selection model. First, we analyze the determinants of EMU sovereign yield spreads and find significant effects of the credit quality, macro, correlation, and liquidity variables. However, their effects are different before and after the current financial crisis, being stronger in the latter period. Robustness tests with different data frequencies, benchmarks, liquidity variables, cross section regressions and balanced panels confirm the initial results. We propose four different estimates of the common risk free rate and show that, in most cases, this common rate could imply savings in borrowing costs for all the countries involved.

SESSION 8

Room 208

CROSS LISTING

Session Chair: Mubariz Hasanov - Hacettepe University, Turkey

"Listing and Being Listed Costs: An International Comparison"

Manuela Geranio - University of Bocconi, Italy
Valter Lazzari - Università Carlo Cattaneo, Italy

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

Competition among exchanges is growing fast on trading services. Differently, competition for listing securities has so far been minimal, if not absent, especially in Europe. The purpose of this paper is to investigate the listing services and compare the listing fees pricing policies adopted by the most important and well renowned exchanges around the world. We try first to clarify the content of listing services, which essentially combine a quality certification, the access to a well organized pool of liquidity and a monitoring activity on an ongoing basis. The meaning of the EU official

listed status is also discussed. We then quantify fees applied by different exchanges to companies according to their size. We consider both initial and annual fees. Our results show that US exchanges are more expensive for medium sized firms while EU markets apply higher fees to largest companies. Many exchanges, particularly in the EU, are still taking advantage of their monopolistic position by applying premium price policies to largest companies in order to cross subsidize smaller companies.

"Evolution of Control of Cross-listed Companies"

Wissam Abdallah - Cardiff University, UK

Marc Goergen - Cardiff University, UK

Discussant: Manuela Geranio - University of Bocconi, Italy

Some – such as La Porta et al. (1999) explain the dispersed control, which is the norm in common law countries, by the better protection of minority shareholders. Conversely, concentrated control, which prevails in civil law countries, is thought to be caused by low shareholder protection. This paper examines whether changes in the legal environment of a company, via cross-listing, affect its control structure. In particular, we investigate whether companies that cross-list on common law markets evolve towards dispersed control. Using a sample of 126 companies that have cross-listed on 18 stock markets during the period of 1990 to 2000, our analysis does not reveal that cross-listing on common law markets affects the subsequent control structure of the sample companies. We find that company characteristics such as initial control structure and risk are better determinants of the evolution of control. In addition, we find that firms that incorporate in countries with good quality of accounting are more likely to evolve towards a dispersed control structure. Our results suggest that the optimal ownership and control structure varies across companies.

"The Evolving World of Rule 144A Market: A Cross-Country Analysis"

Usha R. Mittoo - University of Manitoba, Canada

Zhou Zhang - University of Regina, Canada

Discussant: Wissam Abdallah - Cardiff University, UK

We compare debt issuances by U.S. and international firms to examine differences in the borrowing costs, measured by yield spread, between the Rule 144A and public debt markets across countries and over time in 1991-2008 period. We find that the yield spread is 48 basis points higher in the 144A market than in public bond market, after controlling for other determinants of yield spread. The non-U.S. developed country issuers pay a similar borrowing cost as their U.S. peers do, but emerging country issuers pay significantly higher costs to access the U.S. debt market. The results hold after controlling for additional country-specific legal and institutional variables. We also find that the borrowing costs increased after the enactment of the 2002 Sarbanes-Oxley Act, and surged to the highest level in 2008 during the financial crisis for both U.S. and international issuers.

SESSION 9

Room 209

IPOS

Session Chair: Heng-Chih Chou - National Taiwan Ocean University, Taiwan

"Do Industry Growth Prospects Drive IPO Stock Performance?"

Ming Dong - York University, Canada

Jean-Sebastien Michel - HEC Montreal, Canada

Discussant: Katrin Migliorati - University of Bergamo, Italy

We examine the relation between an ex ante measure of IPO growth prospects – the industry level analyst earnings growth forecast – and short- and long-run IPO performances. Using a sample of 7,434 IPOs from 1982 to 2006, we find that IPOs in industries with high growth prospects generally earn high short-run and long-run returns up to three years after the IPO. Industry growth has the largest economic impact on long-run performance among all factors we consider including underwriter quality and offer proceeds. However, during the Internet bubble period (1999-2000), the effect of industry growth on long-run performance reverses so that IPOs in high-growth industries underperform in the long run. Our evidence suggests that barring bubble period overreaction to growth prospects, IPO investors tend to under react to industry growth prospects, leading to superior long-run performance for firms in high-growth industries.

"The European Underwriting IPO Compensation"

Michele Meoli - University of Bergamo, Italy

Katrin Migliorati - University of Bergamo, Italy

Stefano Paleari - University of Bergamo, Italy

Silvio Vismara - University of Bergamo, Italy

Discussant: Chao Chen - Fudan University, China

This paper sheds light on the cost of going public an issuer faces when decides to raise capital in one of the main four European stock exchanges. In general, we support the striking puzzling role of the European segmentation from a cost perspective. Empirical results show a different effect of underwriter prestige and privatization dummy on underwriter

commission respect to other cost-variables. According to the literature, we document the existence of a non-linear relationship between the cost-variables and the amount of capital raised but with different effect depending on the item cost considered. Finally, underwriter commission and under pricing result endogenously and negatively related.

"Underwriter Reputation, Issuer Ownership, and Pre-IPO Earnings Management: Evidence from China"

Chao Chen - Fudan University, China
Haina Shi - Fudan University, China
Haoping Xu - Fudan University, China

Discussant: Dionysia Dionysiou - University of Stirling, Scotland

Based on a sample of 503 IPO issuers during the period of 2002-2008 in China, we investigate the relationship between pre-IPO earnings management and underwriter reputation for issuers of different ownership structure. We document a significantly negative relationship between underwriter reputation and pre-IPO earnings management only for the non state-owned enterprises (NSOE) issuers while no significant association is found for the state-owned enterprises (SOE) issuers. We argue that the results are driven by the fact that compared with SOE issuers, NSOE issuers have more incentives to signal their earnings quality to avoid adverse selection by the investors, and/or reputable underwriters are more influential over their clients in mitigating earnings management. We also find that for the NSOE new issue market, underwriter reputation is positively correlated with issuers' post-IPO performance, even after controlling for reduced earnings management, indicating that prestigious underwriters can incrementally improve the post-IPO performance of the issuers.

"The Puzzling Reversal of Private Placement Abnormal Returns"

Dionysia Dionysiou - University of Stirling, Scotland

Discussant: Jean-Sebastien Michel - HEC Montreal, Canada

This paper investigates why abnormal returns following private placements are likely to reverse. It re-examines the overreaction hypothesis (Hertzel et al., 2002) that casts strong doubts on market efficiency. We report that the reversal is observable only when long-horizon abnormal returns are estimated following the traditional long-run event-study methods such as buy-and-hold (e.g. Barber and Lyon, 1997; Lyon et al., 1999) and calendar-time abnormal returns (e.g. Fama, 1998; Mitchell and Stafford, 2000). We directly address the possibility of liquidity risk reduction following the equity offering. The reversal disappears when the benchmark model controls for liquidity risk changes. Overall, the findings suggest that the traditional models used to measure long-run post-issue abnormal performance are misspecified. They appear unable to adjust for reduction in liquidity risk. This has a negative bias to the long-horizon abnormal returns following a private placing.

SESSION 10

Room 210

FUNDS

Session Chair: Richard Saito - FGV EAESP, Brazil

"Is Information Priced in Closed-End Fund Discounts?"

Paul Moon Sub Choi - Ewha School of Business, Korea
Jungsuk Han - Stockholm School of Economics, Sweden

Discussant: Braam Lowies - University of Pretoria, South Africa

We report that asymmetric information, proxied for by the probability of informed trading (PIN), appears to be priced in the closed-end fund (CEF) discount. This is contrary to the existing studies that the "information-transparent" discount is largely sentiment-based. One can suspect that the PIN estimates may be noisy with behavioral biases. We further control for the aggregate investor sentiment and illiquidity measures and find the informativeness of discount is mostly reduced but still mysteriously meaningful.

"The Rationality of Investment Decision Making by Listed Property Fund Managers in South Africa"

Braam Lowies - University of Pretoria, South Africa

Discussant: Dennice Allen - RMIT University, Australia

The purpose of this study is to determine whether property fund managers in South Africa are rational in their decisions regarding property investments. As objective the factors influencing their decision-making will be determined by the investigation of the holding periods applied as well as the availability, quality and applicability of information to base decisions on. This is necessitated by the need to look at ways of how human behaviour influence decision-making. It will shed light on how property fund managers adjust their decisions based on these influences, given an investment environment that is ever changing due to economic conditions in South Africa as an emerging economy.

"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: John Watson - Monash University, Australia

Increasingly, individual and institutional investors are seeking information from fund managers on whether, and to what extent, Environment, Social and Governance (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 behaviour 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 may now be required to 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 behaviour.

"The Relationship Between Aggregate Managed Fund Flows and Share Market Returns in Australia"

John Watson - Monash University, Australia

J. Wickramanayake - Monash University, Australia

Discussant: Paul Moon Sub Choi - Ewha School of Business, Korea

This paper presents the relation between aggregate equity managed fund flows and excess share market returns in Australia and evaluates the issue of causality therein. Using a large data set of 3,613 managed funds for the period January 1990 to September 2009, the paper addresses two important questions yet to be addressed within the Australian market: First, for research question one; it aims to determine whether a positive feedback process exists between aggregate equity managed fund flows and excess share market returns. Second, for research question two; it examines the relation between unexpected aggregate equity managed fund flows and excess share market returns. The empirical findings contribute to the literature by confirming, in Australia, aggregate equity managed fund flows do not Granger-cause excess share market returns; however, compelling evidence reveals that share market returns do in fact Granger-cause managed fund flows. These findings support those of Edwards and Zhang (1998), who find similar evidence for the United States over the sample period 1961–1996. In addition, aggregate equity managed fund flows are found to be positively related to excess share market returns, indicating herding behavior.

Monday 10:30-12:15

SESSION 11

Room 102

LIQUIDITY

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

"Tracking Illiquidities in Intradaily and Daily Characteristics"

Serge Darolles - LYXOR AM, France

Gaelle Le Fol - University of Paris-Dauphine, France

Gulten Mero - University of Evry, France

Discussant: Neophytos Lambertides - Aston University, UK

In this article, we distinguish between two types of liquidity problems called respectively liquidity frictions and illiquidity events. The first one is related to order imbalances that are resorted within the trading day. It can be assimilated to "immediacy cost" and impacts the traded volume at the intraday and daily frequencies while affecting the price increments only at the intraday periodicity. The second one is inherent to the long lasting liquidity problems and is responsible for the time-dependence of the daily returns. We extend the MDHL framework of Darolles et al. (2010) to account for the presence of the illiquidity events. We then propose a two-step signal extraction formulation of the MDHL model in order to separate the two liquidity problem impacts on the daily returns and volume. We also provide, for a set of FTSE100 individual stocks, long lasting illiquidity indicators.

"Liquidity Effects on Stock Co-Movements: New Evidence Using Smooth Transition"

Patricia Chelley-Steeley - Aston University, UK

Christos S. Savva - Cyprus University of Technology, Cyprus

Neophytos Lambertides - Aston University, UK

Discussant: Philip Gharghori - Monash University, Australia

The aim of this paper is to study the effect that a liquidity shock has on the comovement between stock returns using the framework of a smooth transition model. We show that firms with positive illiquidity shocks are much less liquid than firms that experience negative illiquidity shocks. Negative illiquidity shocks have no statistical impact on comovement while a positive illiquidity shock leads to a fall in comovement. These results are therefore highly important for portfolio selection. We also find that following a negative illiquidity shock firms with higher friction, lower size, and higher information diffusion experience greater negative changes in correlation.

"Liquidity in Asset Pricing: New Evidence Using Low Frequency Data"

Daniel Chai - Monash University, Australia
Robert Faff - University of Queensland, Australia
Philip Ghargori - Monash University, Australia

Discussant: Bjorn Hansson - Lund University, Sweden

Employing a new proxy for liquidity, this paper examines its impact on stock returns in the context of the Fama-French framework. We augment the Carhart four-factor model with a liquidity factor and employ individual and system regression techniques. Using an extensive dataset drawn from the Australian equities market, we find a significant illiquidity premium and evidence that liquidity explains a portion of the common variation in stock returns even after controlling for size, book-to-market and momentum. However, our findings suggest that the liquidity factor only adds marginal explanatory power to contemporary asset pricing models.

"Conditional Asset Pricing with Liquidity Risk"

Bjorn Hagstromer - Stockholm University, Sweden
Bjorn Hansson - Lund University, Sweden
Birger Nilsson - Lund University, Sweden

Discussant: Gulden Mero - University of Evry, France

This paper estimates a conditional version of the liquidity adjusted CAPM by Acharya and Pedersen (2005) using NYSE and AMEX data from 1926 to 2009 to study the level and time-variation in the illiquidity premium. The illiquidity premium is in this model determined by the level of expected illiquidity together with three types of illiquidity risks. We measure illiquidity of individual stocks by the efficient spread proxy developed in Holden (2009) and employ illiquidity sorted portfolios as test assets. The average monthly illiquidity premium calculated using the preferred econometric specification is estimated to 0.76%, the respective contributions from illiquidity level being 0.10% and from the three different illiquidity risks 0.66%. Results also indicate that commonality risk is the least important component in the illiquidity risk premium, while a component related to the hedging of wealth shocks is the most important. The illiquidity premium varies substantially over time, with peaks in downturns and crises, but with no general tendency to decrease over time.

SESSION 12

Room 103

INSIDER TRADING

Session Chair: Jochen Lawrenz - University of Innsbruck, Austria

"Do Criminal Sanctions Deter Insider Trading?"

Bart Frijns - Auckland University of Technology, New Zealand
Aaron Gilbert - Auckland University of Technology, New Zealand
Alireza Tourani-Rad - Auckland University of Technology, New Zealand

Discussant: Christian Westheide - University of Mannheim, Germany

Many countries have adopted criminal sanctions as a way to deter insider trading. Although criminal sanctions represent a much greater penalty than civil sanctions, the enforceability of criminal sanctions is weaker given the higher burden of proof required. This trade-off between severity and enforceability implies that the impact of introducing criminal sanction is not unambiguous. In this paper we examine the impact of the introduction of criminal sanctions in New Zealand, where criminal sanctions (at the expense of civil sanctions) were enacted in February 2008. Using measures for the cost of trading, degree of information asymmetry, and probability of informed trading, we find that the enactment of this law has led to a deterioration in the market, indicating that the weaker enforceability outweighs the increased severity of the penalties.

"Idiosyncratic Volatility and the Timing of Corporate Insider Trading"

Jasmin Gider - University of Bonn, Germany
Christian Westheide - University of Mannheim, Germany

Discussant: Peter Bednarek - University of Bonn, Germany

The present paper addresses the question of whether corporate insiders time their trades when asymmetric information between insiders and outsiders is high. Using data on corporate insider transactions in the U.S. between 1993 and 2008, we analyze the relationship between asymmetric information and the likelihood of insider trading. Our proxy for asymmetric information is a firm's idiosyncratic return volatility. Our findings indicate that this measure positively affects the likelihood of insider purchases, which indicates that insiders buy shares when their informational advantage is high. However, the likelihood of an insider sale is, on average, not related to changes in asymmetric information. We also analyze long-term performance of insider trades to investigate whether timing is profitable. According to our results, insiders can generate significantly higher abnormal returns for insider purchases when they trade during periods of relatively high idiosyncratic volatility.

"Corporate Governance and Price Reactions to Corporate Insider Trading"

Peter Bednarek - University of Bonn, Germany

Jasmin Gider - University of Bonn, Germany
Christian Westheide - University of Mannheim, Germany

Discussant: William J. McNally - Wilfrid Laurier University, Canada

The present paper analyzes how the quality of corporate governance affects the share price reactions to the announcement of corporate insider trading. Using filings on U.S. corporate insider trades, we find that price reactions to corporate insider purchases are larger for firms with no or few anti-takeover provisions and outside block holdings that do not combine to a majority. These results lend support to the hypothesis that price reactions to insider trading are more strongly driven by the credibility of the insider signaling optimism about firm valuation, rather than by the extent of private information revealed which may be larger in poorly governed firms. Furthermore, while price reactions to all groups of insiders show timing ability, there is evidence that the position within a firm's hierarchy is significant as CEOs both time their trades more cautiously, i.e., after periods of smaller absolute abnormal returns, and lead to higher abnormal returns than the other groups, likely because of a greater informational advantage.

"How Much Do Insiders Actually Earn?"

William J. McNally - Wilfrid Laurier University, Canada
Brian F. Smith - Wilfrid Laurier University, Canada

Discussant: Alireza Tourani-Rad - Auckland University of Technology, New Zealand

In this paper we measure the returns earned by insiders when they trade their company's shares. We describe the trading pattern of insiders. We measure differences in the returns earned across categories of insiders, and we measure returns before and after option grant dates. We use a new Canadian data set of insider trades which spans 18 years. We find that insiders do not earn abnormal returns on average and that insiders are buy-and-hold investors. We find that a substantial proportion of insiders earn very large abnormal returns, but variation in those returns is not explained by their relationship to the company, their job, the size of their holdings, their trading pattern or the size of their company. Successful insiders are either lucky or smart. We find evidence that many companies which grant unscheduled options spring-load those options.

SESSION 13

Room 104

BANKS

Session Chair: Peter B. Lerner - Rollins College, USA

"Income-Specific Estimates of Competition in European Banking"

Ioannis Samantas - University of Athens, Greece

Discussant: Ka Kei Chan - Cass Business School, UK

This paper constitutes a new model of measuring competitive conditions in the European banking industry. Since the vast literature of the structure-conduct performance paradigm (SCP), the efficiency hypothesis and the so-called neo-industrial organisation (NEIO) has produced mixed results, alternative modeling is sine qua non to provide policy considerations vis-à-vis two serious issues that cannot be overlooked: first, different measures of competition do not converge when it comes to make cross-country comparisons over time, and second, banking income has been subject to substantial shifts in its quasi-generating sources. In this regard, the proposed methodology goes one step further Bolt and Humfrey (2010) in order to produce country rankings of competition. Contemporary efficiency analysis conjectures interest and non-interest service revenues of banks to be deterministically influenced by factor inputs, internal productivity and competition intensity of market structure. This study provides multiple indicators of cross-country comparability of bank competition breaking further down the subsets of bank activities. It would be interesting to realise how evidence is compared to contemporary employed measures if juxtaposed under the same sample of EU-25 group. In so doing, perceptions of current rankings of banking markets are challenged.

"Bank Liquidity, Moral Hazard and Deposit Market Competition"

Ka Kei Chan - Cass Business School, UK
Alistair Milne - Cass Business School, UK

Discussant: Angela Maddaloni - European Central Bank, Germany

The aim of this paper is to propose a model which incorporates different bank characteristics into standard liquidity models. A two-bank framework is introduced which differentiates the safe commercial banks (utility banks) from the risky commercial banks (casino banks). This framework widens the choice of consumers. The effects of different policies are analysed in three aspects. First how the policies used to promote bank safety and prevent bank runs, affect the contracts offered by banks. Second, how do the consumers react to these changes, and how do the changes affect the social welfare as a whole? The third aspect is to analyse the effectiveness of different policies. This analysis suggests that some commonly proposed or applied policies are not as effective as often assumed, due to the shift of deposits between the banks. The analysis of this paper also shows that there are two incentives for shifting deposit between banks. The first one is an increase in return to depositors in one bank, due to policy measures. The other reason for a deposit shift is moral hazard.

"Trusting the Bankers: A New Look at the Credit Channel of Monetary Policy"

Matteo Ciccarelli - European Central Bank, Germany
Angela Maddaloni - European Central Bank, Germany
Jose-Luis Peydro - European Central Bank, Germany

Discussant: Paola Bongini - University of Milano–Bicocca, Italy

Credit supply and demand are mostly unobserved, thus identifying completely the credit channel is unfeasible. Bank lending surveys by central banks, however, contain reliable quarterly information on credit supply and demand's quantity and quality. Using the U.S. and the unique Euro area surveys, we find that the credit channel amplifies a monetary policy shock on GDP and inflation, through the balance-sheets of households, firms and banks. For corporate loans, amplification is highest through credit supply; for households, demand is the strongest channel. Finally, a credit crunch for firms and tighter standards for mortgages significantly reduced GDP during the financial crisis.

"Was there a "Small-Bank" Anomaly in the Great Crisis of 2007-09?"

Paola Bongini - University of Milano–Bicocca, Italy
Giovanni Ferri - University of Bari, Italy
Punziana Lacitignola - University of Bari, Italy

Discussant: Ioannis Samantas - University of Athens, Greece

Drawing on a large set of listed banks from Europe, the US and Japan we start noticing that smaller-sized banks suffered less than larger banks in conjunction with the unfolding of the Great Crisis of 2007-09. Was this a small-bank anomaly analogous to the classic small firm effect? We conjecture that what seems to be a small bank anomaly might, in fact, signal a generalized market reassessment of the banking business model and tested whether stock markets penalized less the banks that kept more rooted to the traditional "originate-to-hold" (OTH) model while forgoing the opportunities disclosed by the "originate-to-distribute" (OTD) model. By an event study methodology, we focus on September 29, 2008, the day in which the initial rejection by Congress of the Paulson Plan provoked a true panic on the instability of banking worldwide and led the VIX (the main index measuring equity market volatility) to shoot to the highest level in 6 years. Our results detect that, indeed, banks that had kept closer to the OTH model – as proxied by a higher net interest income/operating income – experienced less negative abnormal returns. In spite of this, we still keep finding that larger-sized banks' share prices were penalized more than the share prices of their smaller-sized homologues. Presumably, the "Too Big (or Interconnected) To Fail" credence, at least for a while, had been overruled. We also find that European and Japanese banks experiences less negative abnormal returns.

SESSION 14

Room 105

PAYOUT POLICY

Session Chair: Asli Ascioğlu - Bryant University, USA

"Are the Institutional Investors Really Informed? Evidence from Share Repurchases Announcements"

Weifeng Hung - Feng Chia University, Taiwan

Discussant: Qingwei Meng - University of Birmingham, UK

Using daily institutional holdings data, first, we show that the stock repurchase announcements significantly alter institutional trading behavior, i.e., institutions are net-sellers before announcements and net buyers after. Second, institutional trading has a positive impact on stock returns surrounding share repurchase announcements. Third, institutional trading is positively associated with short-run future stock performance, however, negatively related to long-run future stock performance. Finally, the decision of institutional trading following share repurchase announcements seem to be inconsistent with the free cash flow hypothesis and better prospect hypothesis, but consistent with the herding hypothesis.

"Corporate Investment, Financing, and Payout Decisions under Financial Constraints and Uncertainty: Evidence from UK Panel Data"

Qingwei Meng - University of Birmingham, UK

Discussant: Xiao-Ming Li - Massey University, New Zealand

We empirically investigate the interactions among corporate investment, financing, and payout decisions under financial constraints and uncertainty, using a panel of UK-listed firms. We model these corporate decisions within a simultaneous equations system, where we treat each decision as endogenous and allow for their contemporaneous interdependences, as implied by the flow-of-funds framework. We find that capital investment and dividend payout as competing uses of limited funds are negatively interrelated, while both of them are positively interrelated to net amount of new debt issued during the corresponding period, suggesting the existence of a joint determination of corporate decisions under financial constraints. We also offer the first attempt to examine the effects of uncertainty on the corporate decisions within the simultaneous equations system. We find that the effect of uncertainty on corporate investment is significant and positive, while that of uncertainty on dividend payouts is significant and negative. We further observe that the simultaneity among the corporate decisions is more pronounced for firms which are financially more-constrained, while the effect of uncertainty is more significant for firms which are financially less-constrained. Accordingly, our results suggest that financial constraints intensify the simultaneity among corporate decisions, and reduce managerial flexibility to response to uncertainty. Therefore, this paper reveals new insight into

the complex interdependence of corporate behaviour by UK-listed firms, under financial constraints and uncertainty.

"Asset Pricing and Share Reforms: An Anatomy of China's Investable Stocks"

Xiao-Ming Li - Massey University, New Zealand

Discussant: Mohammed Alzahrani - King Fahd University, Saudi Arabia

China's B, H, red-chip, N and ADRs shares are accessible to unrestricted foreign/overseas investors, hence termed "investable". This paper investigates the impact of the 2001-2003 share reforms on their asset-pricing mechanisms by discriminating as per their listing locations. I show that the reforms have caused the size and dividend effects to attenuate for B shares but not for H/red-chip shares; the book-to-market effect to strengthen for H/red chip shares but not for B shares; the liquidity effect to lessen more for H/red-chip shares than for B shares; and the earnings-to-price effect to decline for H/red-chip shares but not for B shares.

"Investor Protection, Taxation, and Dividends"

Mohammed Alzahrani - King Fahd University, Saudi Arabia

Meziane Lasfer - Cass Business School, UK

Discussant: Weifeng Hung - Feng Chia University, Taiwan

We document a combined effect of investor protection and taxation on dividends across OECD countries. Unlike previous studies, we find that, in strong investor protection countries, dividends are significantly lower than in countries with weak investor protection when the classical tax system is implemented, but firms buy more shares to maximise their shareholders' after-tax returns. We find similar results for the propensity of paying and changing dividends. Our results suggest that investors in strong protection countries weigh the tax cost of dividends against the benefit of mitigating the agency cost of free cash flow, and since the agency conflicts are relatively lower, they prefer less dividends to avoid the higher tax cost. In contrast, in weak protection countries, both the magnitude of the payout and the distribution method are less responsive to taxes, implying that investors are willing to accept whatever dividends they can extract from managers to reduce the high agency cost, even when this entails high tax costs.

SESSION 15

Room 107

CORPORATE FINANCE

Session Chair: Petko S. Kalev - University of South Australia, Australia

"An Empirical Note on US Stock Split Announcements, 2000-2009"

Xiaoqi Li - Massey University, New Zealand

Philip Stork - VU University, The Netherlands

Liping Zou - Massey University, New Zealand

Discussant: Richard Saito - FGV EAESP, Brazil

This article analyses the market reaction to stock splits announcements, using a unique US sample over the period 2000 to 2009. Our event study finds a significantly positive Cumulative Average Abnormal Return (CAAR) around announcement date. Liquidity increases lead to higher stock price changes, which supports the liquidity improvement hypothesis. Further, firm size and abnormal returns are inversely related, which is in line with the attention hypothesis.

"Empirical Study of Flipping in IPOs in Brazil"

Ricardo Fuscaldi de Figueiredo Baptista - FGV EAESP, Brazil

Richard Saito - FGV EAESP, Brazil

Discussant: George J. Georgopoulos - York University, Canada

The purpose of this article is to analyze empirically the main factors that determine flipping activity in Brazilian IPOs, taking into account the results that the international literature lead one to expect. These results are characterized by demand and company size. Insights into the intraday behavior of the shares in the first day after the IPO were also obtained. As a result, the authors found that for IPOs held between 2004 and 2007, flipping was more conspicuous - depending on the IPO's performance - and that it was concentrated in the first day and homogeneous throughout it, despite intense trading in the first minute. Measures such as the relative price position of the issue based on the filing range and of the opening price based on the issue price, besides the size of the company at the time of the IPO and the volume traded in the first minute, were significant to explain flipping.

"Financing Constraints and U.S. Affiliates"

George J. Georgopoulos - York University, Canada

Discussant: Josep A. Tribo - University Carlos III of Madrid, Spain

There is significant evidence that firms face financing constraints, due to an environment unlike a Modigliani-Miller framework, due to the existence of asymmetric information. This evidence emanates from regressions where innovations to cash flow are shown to impact investment, controlling for other factors such as book to market ratios (Fazzari, Hubbard, Petersen, 1988; Kaplan and Zingales, 1997). If firms were not subject to financing constraints, then

cash flow innovations would not affect investments decisions. The existence evidence has not considered financing constraints faced by MNEs. This paper considers investment decisions made by US MNEs, where unique data is obtained on the investment activities of affiliates of US MNEs. These data are available at the industry level, and bilaterally – that is, we have data on US MNE affiliates operating abroad, broken down both by country and by industry, over the period 1998-2009. We are able to create measures of financing for these US MNEs, and we can identify whether the source is internal (i.e., retained earnings) or external (new equity). The paper measures the extent to which the investment decisions of affiliates of US MNEs are liquidity constrained. Evidence suggests with a sufficient level of equity investment by the parent, U.S. affiliates are not liquidity constrained.

"Implications of Covenant Violations for Firm Investment and Performance: The Role of Investment Opportunities"

Beatriz Mariano - University Carlos III of Madrid, Spain

Josep A. Tribo - University Carlos III of Madrid, Spain

Discussant: Liping Zou - Massey University, New Zealand

This paper studies the implications of debt covenant violations for firm investment and performance taking into account the firm's investment opportunities. It shows that while investment declines following a debt covenant violation when the violating firm has low investment opportunities, it increases when it has high investment opportunities. Investment increases even relative to a situation in which the firm has high investment opportunities and does not violate a debt covenant but is close to doing so. In any case, the operating and the market performance of a firm improve shortly after a debt covenant violation. The results suggest that creditors fine-tune their responses to debt covenant violations to address firm specific conditions, and that they act to improve the firm's investment policy.

SESSION 16

Room 108

OWNERSHIP STRUCTURE

Session Chair: Charles Corrado - Deakin University, Australia

"The Role of Blockholders in the Governance of a Firm. US Empirical Evidence"

Silvia Rossetto - Toulouse School of Economics, France

Raffaele Stagliano - Toulouse School of Economics, France

Discussant: Fabiola Montalto - University of Calabria, Italy

This paper investigates the role of block holders within a firm. It studies the relationship between the number of block holders and the volatility of US listed firms. Block holders given their undiversified portfolio should prefer lower volatility. From the study it results that block holders play a mitigating role between the largest block holder with his private benefits from lower volatility and the minority shareholders. The largest block holder retains the role of limiting the agency problems with the managers and the rest of the firm. Furthermore firms with multiple block holders show peculiar characteristics which show that multiple block holders firm are not simple a middle point between the single block holder firm and widely held firms indicating that multiple block holders' firms should be considered an typology of firm per se.

"Antecedents and Consequences of Ownership in Italy"

Maurizio La Rocca - University of Calabria, Italy

Fabiola Montalto - University of Calabria, Italy

Discussant: Yacine Belghitar - Middlesex University, UK

This paper examines antecedents and consequences of ownership of Italian firms over the period 1980-2007. In particular, given the features of the Italian context, the role of block holder is central and it can influence corporate governance with regards to opportunism, asymmetric information and financial flexibility problems. The results show a positive effect of ownership concentration, and therefore the relevance of the influence of block holders on firm performance. However, this effect is moderated by the role of other factors, jointly at work with ownership.

"The Prudential Effect of Strategic Institutional Ownership on Stock Performance"

Yacine Belghitar - Middlesex University, UK

Ephraim Clark - Middlesex University, UK

Konstantino Kassimatis - Athens University of Economics and Business, Greece

Discussant: Wi Saeng Kim - Hofstra University, USA

This paper examines the effect of prudentially obligated strategic institutional ownership on the performance of firm stock returns. Using the concept of marginal conditional stochastic dominance (MCSD), performance is measured to include the whole distribution of stock returns instead of limiting itself to the first two moments of mean and variance. It provides strong evidence that prudentially obligated strategic institutional ownership is consistent with the fiduciary responsibility of prudential investment behavior and that it is performance enhancing as well. Our results also provide evidence that although the effects of "pressure sensitive" and "pressure resistant" institutions affect the individual measures of risk aversion (moments of the distributions) differently, when the total distribution is considered, both

types of institutional ownership reflect prudence and are performance enhancing. These results are robust with respect to a range of conventional control variables and estimation techniques.

"A Theory of the Firm Under Non-Dispersed Ownership Structure"

Wi Saeng Kim - Hofstra University, USA
Young-Jin Kim - Seoul National University, South Korea

Discussant: Raffaele Stagliano - Toulouse School of Economics, France

We develop a theory of the firm under non-dispersed ownership structure since many countries have ownership structure which is not widely dispersed with less developed financial market. This environment contributes to the conflict between controlling and minority shareholders, which was substantial in some countries. The corporate governance practices adopted and recommended by the developed countries might not work for the economies with different types of ownership structure. We specifically look at the optimal investment decision made by the controlling shareholders which might not be consistent with the goal of value maximization. The optimal tradeoff between the protection of the right of minority shareholders and the positive effect of incentive problem with controlling shareholders will be ascertained. This finding has a policy implication for the optimal corporate governance structure and economic growth of the countries with less developed financial market.

SESSION 17

Room 110

INTERNATIONAL FINANCE

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

"Financial Integration in Selected South Asian Association for Regional Co-Operation (SAARC) Countries"

R A Anil Perera - Monash University, Australia
Jayasinghe Wickramanayake - Monash University, Australia

Discussant: Piyadasa Edirisuriya - Monash University, Australia

The objective of this study is to empirically examine the financial market integration in major SAARC countries: Bangladesh, India, Pakistan and Sri Lanka. South Asia has a long history with stock markets and these markets were liberalized in the 1990s facilitating foreign investment. However, bond markets in the region remain at a relatively less developed stage. With rapid changes in the financial architecture and far-reaching reforms, it is believed that financial markets in these countries are integrated to a greater extent. We mainly employ the co-integration technique to examine the integration in stock and bond markets and empirical results in this study show that both stock and bond returns are cointegrated indicating the common stochastic trends between the stock and bond markets in the selected SAARC countries. Since the degree of integration is dependent on policy and institutional infrastructure, the ongoing efforts on financial sector developments and reforms need to be accelerated to further deepen the degree of convergence between the securities markets in the SAARC countries. The increased integration would help in reducing arbitrage opportunities in financial markets and promoting growth in such economies in general. Our empirical results have policy implications for central banks, prudential regulators and financial market participants in the subject countries.

"Predicting Power of Financial Variables: New Evidence from Australia"

Piyadasa Edirisuriya - Monash University, Australia

Discussant: Heungjoo Cha - University of Redlands, USA

Many studies have been attempting to examine the predictive power of financial variables for numerous countries. However, studies with respect to future economic activities, using Australian data are very few. The main reason for using financial variables for predicting future economic events is that financial variables are the closest to expectations and activities of investors and other economic agents than any other variables. Recent sub-prime crisis has shown that financial markets have significant impact on global macroeconomic activities. In this study major financial variables such as 90-day Treasury bill rate, 10-year Treasury bond rate, interest rate spread, and Australian stock index data are used. Similar to some other countries, in Australia housing prices are playing a major role in future economic activity. In addition to other finance variables, we incorporate housing stock data to our model to get more realistic results. The results were obtained using a probit maximum likelihood estimation method. We also used a general model to forecast Australia's GDP growth till the third quarter of 2012. The results support previous research findings indicating that financial variables are a useful tool in forecasting future economic activities in Australia.

"Capital Market Integration: U.S. and Japan Equity and Debt Markets"

Heungjoo Cha - University of Redlands, USA

Discussant: Faten Ben Slimane - ESC Troyes, France

This paper studies the long-run comovement of Japanese and U.S. stock and bond markets using two different cointegration tests. Unlike the previous studies, we use both the Engle-Granger cointegration test and the Canonical Cointegration Regression (CCR) method to test the long-run comovement of asset returns. The Engle-Granger cointegration tests indicate that there is little evidence on cointegration between the bond and stock markets of the two countries, which is consistent with the results found in the previous studies. Using the CCR method, however, we find

more favorable evidence of comovement between the asset market returns. Tests with monthly data show some evidence of cointegration between the asset return series, while with quarterly data we find that most of the time series of asset returns are cointegrated. Our empirical study presents indirect evidence of the effects of cross investments leading to more integration of asset markets.

"Stock Exchange: Structural Organization and Financial Performance"

Faten Ben Slimane - ESC Troyes, France

Discussant: Jayasinghe Wickramanayake - Monash University, Australia

The increasing exchange competition forces stock exchanges to opt for different strategies to stay competitive (demutualization, consolidations, partnerships). Given the importance of these strategies, a large literature focuses on these phenomena. However, a low-interest was drawn to internal organization of stock exchanges. The exchange environment has considerably affected these entities leading them to redefine their roles and rethink their management strategies. Considering the stock exchange no longer as a nonprofit organization but as any for profit firm, the paper focuses on the structural evolution of these exchanges / firms. Utilizing data on 45 stock exchanges during the period 1995–2009, the paper also analyses empirically the impact of this organizational evolution on their financial market performance.

SESSION 18

Room 208

EXCHANGE RATES

Session Chair: Jahangir Sultan - Bentley University, USA

"The Exchange Rate Exposure of Chinese Corporations"

Zhichao Zhang - Durham University, UK

Boyang Miao - University of Hei Longjiang, China

Si Zhou - Durham University, UK

Discussant: Mubariz Hasanov - Hacettepe University, Turkey

This paper investigates the exchange rate exposure of Chinese firms. By considering asymmetric exchange rate exposure, a number of firms are found to be significantly exposed to exchange rate risk. Strong evidence of lagged responses and intervalling effects is detected, which suggests the sluggish response of stock returns to news on the exchange rate. By using the portfolio method, economic significance of the exposure is revealed, offering a direct indication of the explanatory power of the exchange rate risk on stock valuation. In addition, cross sectional analysis of the exposure shows that market capitalization is positively correlated with the exchange rate exposure of Chinese firms.

"Re-Examining Purchasing Power Parity for the Australian Real Exchange Rate"

Mubariz Hasanov - Hacettepe University, Turkey

Discussant: Abimbola Adedeji - University of Birmingham, UK

In this paper, we re-examine stationarity of the Australian real exchange rate (RER). For this purpose, we modify the test of Kapetanios et al. [Testing for a unit root in the nonlinear STAR framework. *Journal of Econometrics* 112 (2003), 359-379] to allow for a nonlinear trend function in the data generating process. Using bootstrap techniques, we show that the null hypothesis of unit root can be rejected, providing evidence in favour of PPP proposition for the Australian RER.

"Do Foreign Loans Reduce Exposure to Currency Risk as much as Currency Derivatives?"

Abimbola Adedeji - University of Birmingham, UK

Discussant: Si Zhou - Durham University, UK

Some recent publications suggest that domestic companies may have exposure to currency risk (Bartram, et al, 2009) and that currency derivatives are more effective at enhancing firm value than foreign currency denominated loans (Clark and Judge, 2009). There were also some reports in the financial newspapers that volatility of the exchange rates of the pound to other currencies increased during the recent financial crisis and recession. Following these suggestions and reports, this paper assesses the exposure of domestic companies to currency risk. The paper also checks whether derivatives are more effective than foreign currency denominated loans at reducing exposures to currency risk, as well as whether the exposures of domestic companies to currency risk is significantly different from the exposures of multinational companies to the risk. Evidence observed indicates that most of the domestic companies, as well as most of the multinational companies, in the UK do not have significant exposures to currency risk and that neither derivatives nor foreign currency denominated loans reduce exposures to currency risk significantly. It also appears from the evidence that the domestic companies have greater exposure to currency risk than the multinational companies observed. The evidence is obtained from the data of 15 domestic companies and 118 multinational companies that were listed on the London Stock Exchange and were on the FTSE All Share Index in 2007. The study has just started and much work still needs to be done on it. Therefore, the observations stated above are tentative. Tests to determine whether exposures to currency risk changed during the recent financial crisis and recession are still being conducted.

PORTFOLIO MANAGEMENT

Session Chair: Juan Ignacio Pena - Universidad Carlos III, Spain

"Portfolio Selection with Commodities Under Conditional Dependence and Skew Preferences"

Carlos Gonzalez-Pedraz - Universidad Carlos III de Madrid, Spain

Manuel Moreno - Universidad de Castilla La Mancha, Spain

Juan Ignacio Pena - Universidad Carlos III de Madrid, Spain

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

This paper addresses the portfolio selection problem when commodities are included in the investment opportunities set. We model the joint assets' distribution within a flexible multivariate setting including conditional multivariate copulas with time-varying parameters. We allow for conditional means, variances, skewness, and extreme outcomes both in the dependence structure and in the marginal distributions. We generalize the investor's standard mean-variance preferences allowing for skew preferences. The empirical application is based on S&P 500 stock index and two commodities: crude oil and gold, using weekly data from June 1990 to September 2010. The results are compared with respect to the standard Markowitz portfolio allocation both in-sample and out-of-sample. We find significant economic differences between the standard and the generalized approach in the optimal portfolio's structure and performance.

"Efficient Markowitz Frontiers with Volatility Adjustments In the NAFTA Stock Markets"

Christian Bucio - Universidad Nacional Autonoma de Mexico, Mexico

Alejandra Cabello - Universidad Nacional Autonoma de Mexico, Mexico

Discussant: Andre Cadime de Godoi - Escola Politecnica da Universidade de Sao Paulo, Brazil

This work introduces and applies GARCH based extensions of Markowitz's efficient portfolio frontier to investment portfolios from the NAFTA capital markets. The regional investment portfolios include the stock indexes from Canada, United States and Mexico for the period 1994-2010. In addition to an analysis for portfolios which include the entire period, three subsamples, which represent three different manifestations of volatility in these markets are also analyzed. For the periods 1994-1999, 2000-2005, y 2006-2010 are analyzed.

"Robust Multistage Portfolio Optimization with Location and Dispersion Parameters Subject to Uncertainty"

Andre Cadime de Godoi - Escola Politecnica da Universidade de Sao Paulo, Brazil

Flavio Almeida de Magalhaes Cipparrone - Escola Politecnica da Universidade de Sao Paulo, Brazil

Discussant: Wing-Keung Wong - Hong Kong Baptist University, China

We develop in this paper a new linear model of the robust multistage portfolio optimization problem, in which a risk restriction for mean-absolute deviation parameters is formulated and the uncertain nature of both location and dispersion parameters are accounted for. With properly chosen convex sets, it is possible to deal with parameter uncertainty and to adjust the conservatism level of the solution. The results show that this method performs very well during high volatility periods in terms of the terminal wealth and the risk-return tradeoff.

"An Improved Estimation to Make Markowitz's Portfolio Optimization Theory Practically Useful and Users Friendly"

Pui-Lam Leung - The Chinese University of Hong Kong, China

Hon-Yip Ng - The Chinese University of Hong Kong, China

Wing-Keung Wong - Hong Kong Baptist University, China

Discussant: Carlos Gonzalez-Pedraz - Universidad Carlos III de Madrid, Spain

Using the Markowitz mean-variance portfolio optimization theory, researchers have shown that the traditional estimated return greatly overestimates the theoretical optimal return, especially when the dimension to sample size ratio $p=n$ is large. Bai, Liu, and Wong (2009a,b,2011) propose bootstrap-corrected estimators to correct the overestimation, but there is no closed form for their estimator. To address this limitation, this paper derives explicit formulas for the estimator of the optimal portfolio return. We also prove that our proposed closed-form return estimator is consistent. Our simulation results show that our proposed estimators dramatically outperform traditional estimators for both the optimal return and its corresponding allocation under different values of $p=n$ ratios and different inter-asset correlations $\frac{1}{2}$, especially when $p=n$ is close to 1. We also find that our proposed estimators perform better than the bootstrap-corrected estimators for both the optimal return and its corresponding allocation. Another advantage of our improved estimation of returns is that we can also obtain an explicit formula for the standard deviation of the improved return estimate and it is smaller than that of the traditional estimate, especially when $p=n$ is large.

VALUATION

Session Chair: Rauli Susmel - University of Houston, USA

"Share Market Reaction to the BP Oil Spill and the US Government Moratorium on Exploration"

Seyed Amir Hossein Sabet - RMIT University, Australia
Marie-Anne Cam - RMIT University, Australia
Richard Heaney - RMIT University, Australia

Discussant: Sonia Banos-Caballero - University of Murcia, Spain

The U.S. offshore oil and gas drilling policy is the subject of long standing debate. It has engaged the attention of politicians, economists and U.S. voters over the last 20 years. In particular, it caught the attention of the world when the Deepwater Horizon explosion and the oil spill that followed were reported in the Wall Street Journal on 22 April 2010. The shares price of BP plc and its subcontractors were rocked as the financial markets discovered the true impact of the explosion and the resultant oil spill. These prices movement were characteristics of market efficiency. The combination of environmental impact and a difficult US political climate ensured that this disaster would have considerable media impact. Perhaps the most damaging response to the disaster was the introduction of a six months moratorium on deep water drilling and exploration in the Gulf of Mexico by the U.S. Department of Interior. The moratorium adversely affected a range of firms in the U.S. oil and gas industry, extending the economic impact of the Macondo's disaster well beyond BP plc and its subcontractors. We find that it had an economically and statistically significant impact on the equity price of firms with activities in the Gulf. . The attempt by the U.S. Government to enforce the moratorium provides a salient example of the consequences of Government intervention as a result of environmental disasters. The indiscriminate nature of the moratorium raises the question of whether this action was an appropriate regulatory response to the disaster.

"Working Capital Management, Corporate Performance, and Financial Constraints"

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

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

This paper examines linkage between working capital management and corporate performance for a sample of non-financial UK companies. Since a higher investment in working capital can increase firms' sales, a positive relation between working capital and firm value would be expected. However, as working capital increases, a firm's value is also likely to decrease, due to the low return of current assets and the additional financing expenses borne by the firm. Consequently, a negative relation between working capital and firm value might be expected at high levels of working capital. Our findings provide strong support for an inverted U-shaped relation between investment in working capital and firm performance, that is, companies have an optimal working capital level that maximizes their performance. Additionally, following Fazzari and Petersen (1993) and Hill, Kelly and Highfield (2010), who suggest that investment in working capital is sensitive to financing constraints, we also analyze whether this optimum is sensitive to alternative measures of financial constraints. Our findings show that the optimal level of working capital is lower for firms more likely to be financially constrained.

"Trade Credit Policy 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: Shuh-Chyi Doong - Feng Chia University, Taiwan

This paper studies the relationship between firm value and trade credit for a sample of Spanish listed firms in the period 2001 to 2007. To test the tradeoff between benefits and costs of investing in trade credit we estimate a non-linear relationship between accounts receivable and firm value. As expected, the results obtained show a positive relationship between firm value and trade credit at lower levels of receivables and a negative one at higher levels. Secondly, we analyze whether deviation from target accounts receivable level reduces firm value. Consistent with the previous analysis, we also find that deviations above and below this level of receivables decrease firm value.

"Human-Resource-Related Investments and Firm Value"

Shuh-Chyi Doong - Feng Chia University, Taiwan
Hung-Gay Fung - University of Missouri, USA
Jr-Ya Wu - Feng Chia University, Taiwan

Discussant: Marie-Anne Cam - RMIT University, Australia

Whether investments in human resources can improve profits and good financial performance of a company has been a great concern to shareholders. Yet, the literature on this issue is not clear. This study investigates how the extent of human-resource-related investments of Taiwanese firms affects their market value. Interestingly, we find that these investments improve the profitability of firms (i.e., ROA). The market value of a firm, which is measured by Tobin's q, is also found to be positively and significantly related to these investments, which include hiring talent with a high level of education, training and enrichment programs for employees, innovative outputs, and employee compensation and benefit plans. Our study shows that stockholders in both the family-owned or non-family-owned firms highly value human resource investments.

ASSET PRICING

Session Chair: Sol Kim - Hankuk University of Foreign Studies, Korea

"Capital Investment, Earnings, and Annual Stock Returns: Causality Relationships in China"

A. Can Inci - Bryant University, USA

Discussant: Daniel Lazar - Pondicherry University, India

The Granger-causality effects between earnings, cash flow, capital investment and on subsequent annual stock returns are examined in an international framework in China. Overall there is a Granger causality relationship from earnings to capital investment. There is strong causality in the reverse direction. Capital investment causes positive subsequent stock returns while earnings have a more direct and contemporaneous impact on stock prices. Regulatory mechanisms, managerial monitoring, state capitalism controls work best during expansions and non-crisis periods. Causality relationships diminish during recessions and crisis periods such as the Asian Crisis. The results observed in China are different from the results for G7 countries or for other non-G7 countries. Using cash flows instead of earnings confirm the conclusions. Insider ownership is not necessarily as effective as other control mechanisms in China.

"Validity of Capital Asset Pricing Model: Evidence from Indian Capital Market"

Daniel Lazar - Pondicherry University, India

K.M. Yaseer - Pondicherry University, India

Discussant: Enrico Maria Cervellati - University of Bologna, Italy

This study tested the one factor Model CAPM and compares the results of seven test periods for the prediction of the expected returns in the Indian capital Market. The tests were conducted on portfolios by using Black Jensen and Scholes methodology (1973) for seven sub periods comprising 3 years each by using daily data for the period of January 2001 to December 2010 from the BSE 100 index. Empirical results mostly in favor of the standard CAPM model. However, the result did not showed a conclusive evidence in support of CAPM.

"BP's Failure to Debias: Underscoring the Importance of Behavioral Corporate Finance"

Hersh Shefrin - Santa Clara University, USA

Enrico Maria Cervellati - University of Bologna, Italy

Discussant: Dariusz Zarzecki - University of Szczecin, Poland

This paper provides a behavioral analysis of BP, whose capital budgeting decisions in the last decade have resulted in a series of high profile accidents, including the worst environmental disaster in U.S. history. The analysis uses BP as a vehicle to discuss the application of business processes and psychological pitfalls to analyze corporate culture. The paper identifies weaknesses and vulnerabilities in BP's culture, makes comparisons with the corporate financial practices at other firms, and offers suggestions about how BP can engage in debiasing. Notably, the paper also suggests that insufficient knowledge of behavioral decision making resulted in analysts, investors, and regulators attaching insufficient emphasis to the risks in BP's operations. The paper calls for more attention to the psychological aspects of corporate behavior by analysts, regulators, corporate managers, and academics.

"Valuing Internet Companies. Selected Issues"

Dariusz Zarzecki - University of Szczecin, Poland

Discussant: A. Can Inci - Bryant University, USA

Internet business belongs to the youngest and at the same time most dynamically developing sectors of the world economy. The unquestionable leader in this business is the United States, where the initial public offering of a big internet company took place in 1992. Next big offerings were conducted by Netscape (1994) and Yahoo! (1996). Initial public offerings in Western Europe took place as late as 1999. In Poland, up to beginning of XXI century there were no public companies that could be referred to as internet firms. Taking into consideration unusual dynamic development of the market and plans of some companies that have been signalled recently, we may take for granted that the situation will change soon. Nevertheless, the issue of valuing internet companies is of great importance also at the moment since bigger investment in this sector of the economy is related to a high risk. Thus, the need for knowledge on methods of valuing internet companies, well grounded on the theory, is unquestionable and is one of the factors supporting the development of that sector of the economy.

ASSET PRICING

Session Chair: Jean-Francois Gajewski - University of Savoie, France

"Effects of Football on Stock Markets: Return-Volatility Relationship"

M. Hakan Berument - Bilkent University, Turkey
Nildag Basak Ceylan - Atilim University, Turkey

Discussant: Yi Zhou - University of Oklahoma, USA

This paper assesses the effects of domestic football teams' wins against foreign rivals on stock market returns as well as return-volatility relationship. The initial evidence from Chile, Greece, Romania and Turkey support the propositions that (i) wins are associated with higher returns and (ii) higher volatility is associated with lower returns (agents become less risk averse) after a win. Parallel to similar studies on industrial production such as Berument and Yucel (2005; Journal of Economic Psychology), we could not find similar evidence on losses and wins against domestic rivals.

"Variance Risk Premium and Cross-Section of Stock Returns"

Bing Han - University of Texas, USA
Yi Zhou - University of Oklahoma, USA

Discussant: Hue Hwa Au Yong - Monash University, Australia

This paper uses equity option prices to provide model-free estimates of the risk premium associated with stochastic return variance for 5,000 individual stocks. Two-thirds of the individual stocks have significantly positive mean variance risk premium (VRP) that is larger than the market variance risk premium. Most of the time-series variations in individual stock VRP can not be explained by the market VRP. High VRP stocks outperform low VRP stocks by over 1% per month. This difference is robust and persistent. It can not be explained by Fama-French factors, systematic volatility risks or stock characteristics. Individual stock variance risk premium is an important determinant of the cross-section of expected stock returns.

"Is there a Banking Risk Premium in the US Stock Market?"

Liuqing Zeng - Monash University, Australia
Hue Hwa Au Yong - Monash University, Australia
Sirimon Treepongkaruna - University of Western Australia, Australia
Robert Faff - University of Queensland, Australia

Discussant: Jorge Brusa - Texas A&M International University, USA

This paper investigates whether there is a banking risk premium that helps explain the returns of US publicly listed firms. We assess this phenomenon in the context of the CAPM and the Fama-French three-factor model. We use bank size to create the banking factor return (BNK) – the return on a mimicking portfolio that is long (short) big (small) banks. We find a positive premium for BNK and our analysis supports a risk-based interpretation, since the premium is priced and systematic. Our findings are notable since they point to a slight superiority of CAPM augmented by BNK over the counterpart that augments the Fama-French model with BNK.

"The Other January Effect and Risk"

Jorge Brusa - Texas A&M International University, USA
Rodrigo Hernandez - Radford University, USA
Pu Liu - University of Arkansas, USA

Discussant: Nildag Basak Ceylan - Atilim University, Turkey

In this paper we examine whether the "other January effect" can be explained by the systematic risk (beta) and/or the unsystematic risk (standard deviation) of stock returns. We ranked firms traded in the NYSE by standard deviation of returns and beta and find that the anomaly detected in broad stock indexes is also observed across portfolios of all risk levels; however we observe significant difference between the excess returns of the different portfolios. Portfolios of firms with high level of systematic or unsystematic risk exhibit more predictive power than portfolios of firms with low level of risk. In addition, we find that the differences in predicted power among the portfolios still persist after controlling by the macroeconomic variables that have been recognized in the literature for having impact on stock returns and by the variables included in the Fama and French (1993) three-factor asset pricing model.

Session Chair: Peter Grundke - University of Osnabruck, Germany

"Risk Overhang and International Lending"

Andrew Logan - Oxford Economic Forecasting, UK

Ron Shrieves - University of Tennessee, USA

Drew Dahl - Utah State University, USA

Discussant: Giacomo Nocera - University of Bocconi, Italy

We investigate whether loan portfolio shares made by banks in a particular country are sensitive to loan quality in other countries linked by trade. Using a sample of foreign loans made by 35 prominent UK-owned banks to borrowers in 17 foreign countries, 1987 to 2002, we find that international lending in a country responds to loan quality in other countries. This extends the analysis of portfolio effects associated with 'overhangs' of embedded credit exposures from a domestic to an international context. It is important in understanding how international credit risk will be managed, and regulated, as the volume of foreign claims worldwide rebounds from lows reached during recent financial crises.

"The Impact of Government Ownership on Bank Risk Profile and Lending Behaviour"

Giuliano Iannotta - University of Bocconi, Italy

Giacomo Nocera - University of Bocconi, Italy

Andrea Sironi - University of Bocconi, Italy

Discussant: Cesario Mateus - University of Greenwich, UK

We use cross country data on a sample of 210 large Western European banks during the ten year period from 2000 to 2009 to evaluate the impact of government ownership on bank risk and lending activity across the economic and political cycles. Three main results emerge from our analysis. First, government owned banks have a lower default risk but higher insolvency risk than private ones, indicating that they benefit from a government protection mechanism in the form of explicit and/or implicit guarantees. Second, government owned banks lending behavior across the economic cycle is not significantly different from the one of private banks. Finally, European government owned banks are subject to political influence and increase their lending more than private ones during election years. These results are all consistent with the political view of bank government ownership and have important policy implications for the recently nationalized European banks.

"Financing of SMEs: Do They Match Their Assets and Liabilities?"

Jan Bartholdy - Aarhus School of Business, Denmark

Cesario Mateus - University of Greenwich, UK

Dennis Olson - American University of Sharjah, UAE

Discussant: Tram Vu - Monash University, Australia

For small and medium enterprises (SMEs), the various types of debt are not identical. There are specific costs and benefits associated with each funding source. Using a sample of Portuguese SMEs over the years 1990-2000, we show that the asset and liability side of the balance sheet are interrelated because the type of financing obtained depends upon the type of asset being financed. That is, SMEs often specifically match their assets and liabilities. There is no single weighted average cost of capital (WACC) for all projects, and in many instances the WACC will vary by asset or project. Finally, we argue that debt should be broadly defined to include all sources of funds other than equity.

"Roles of Relationship Lending in Commercial Banks Pre- and Post-Mergers"

Tram Vu - Monash University, Australia

Viet Do - Monash University, Australia

Michael Skully - Monash University, Australia

Discussant: Drew Dahl - Utah State University, USA

This paper examines how the importance of relationship lending changes after a bank merges with other banks via an investigation of loan spreads and maturities offered to bank borrowers. The findings support the holdup theory where lead banks charge higher rates as their relationship with the customer strengthens. Relationship lenders tend to offer shorter loans, indicating their willingness to monitor more intensively. Consistent with the size effect of bank mergers, we find that such associations between relationship strength and loan terms are mitigated post-merger. Furthermore, the weakening effect of bank consolidation is most pronounced for small borrowers who typically rely the most on relationship lending.

SESSION 24

Room 104

BONDS

Session Chair: Sazali Abidin - University of Waikato, New Zealand

"The Impact of Fallen Angels on Investment Grade Corporate Bonds Portfolios"

Enrica Bolognesi - University of Bologna, Italy

Marianna Ferro - London School of Economics and Political Science, UK

Andrea Zuccheri - University of Bologna, Italy

Discussant: Ramazan Aktas - TOBB University of Economics and Technology, Turkey

Fallen angels are defined as corporate bonds that have suffered a shift in rank from the investment to the speculative grade category. This work examines their impact on portfolio evaluation. In accordance with the literature we observe, at the time of the downgrade announcement and during the preceding month, statistically significant negative abnormal returns with respect to the high yields. Moreover, we focus on the price reaction of fallen angels to their deletion from an investment grade index. We find significant positive abnormal returns after the index rebalancing. This suggests that the selling pressure on prices, attributable to forced selling mechanisms, cease at the time of the bond exit from the index.

"Predicting Bond Ratings of S&P 500 Firms by Using Multivariate Statistical Methods"

Murat Kors - TOBB University of Economics and Technology, Turkey
Ramazan Aktas - TOBB University of Economics and Technology, Turkey
M. Mete Doganay - Cankaya University, Turkey

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

In this paper models are developed to find out which factors are important in determining bond ratings of the non-financial firms included in S&P 500 index. Our analysis is different from other analysis in the literature because we used more recent data (most of the ratings belong to 2008, 2009, and 2010). We performed two types of analysis. In one of the analysis all the variables after some variables are eliminated to avoid multicollinearity are used as explanatory variables. In another analysis, factor analysis is performed to group the variables into the factors, and variables whose correlations with the factors are the highest are used as explanatory variables. In both analyses multiple discriminant analysis, ordered logit, and ordered probit models are used. The best model is the ordered logit model that used all the variables. The important factors that determine the bond ratings are long-term liabilities / total assets ratio, return on equity, net profit margin, trade payables, and operating income.

"The Problem of Estimating the Volatility of Zero Coupon Bond Interest Rate"

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: Enrica Bolognesi - University of Bologna, Italy

Financial literature and financial industry use often zero coupon yield curves as input for testing hypotheses, pricing assets or managing risk. They assume this provided data as accurate. We analyse implications of the methodology and of the sample selection criteria used to estimate the zero coupon bond yield term structure on the resulting volatility of spot rates with different maturities. We obtain the volatility term structure using historical volatilities and Egarch volatilities. As input for these volatilities we consider our own spot rates estimation from GovPX bond data and three popular interest rates data sets: from the Federal Reserve Board, from the US Department of the Treasury (H.15), and from Bloomberg. We find strong evidence that the resulting zero coupon bond yield volatility estimates as well as the correlation coefficients among spot and forward rates depend significantly on the data set. We observe relevant differences in economic terms when volatilities are used to price derivatives.

SESSION 25

Room 105

EXECUTIVE COMPENSATION

Session Chair: Francesco Baldi - LUISS Guido Carli University, Italy

"Excessive CEO compensation: Market Reaction and Reputational Effects"

Sanjiv Jaggia - California Polytechnic State University, USA
Satish Thosar - University of Redlands, USA

Discussant: Peggy Huang - Indiana University, USA

In this paper, we examine whether there are detectable market and reputational consequences to "excessive" compensation paid to CEOs. We first specify a model that enables us to ascertain expected compensation based on firm-specific performance measures normalized by industry affiliation. We then construct a variable, *excess_comp*, which is the difference between actual compensation and the compensation predicted by our model. An outlier analysis of *excess_comp* shows that it is inversely related to the following year's stock return performance – implying that excessive CEO compensation is viewed negatively by investors. We also find that as CEO compensation exceeds industry norms, it appears to have an adverse effect on the firm's reputation. We believe these preliminary results lay the foundation for some promising avenues of research in the area of corporate governance.

"Contractual Versus Actual Severance Pay Following CEO Departure"

Eitan Goldman - Indiana University, USA
Peggy Huang - Indiana University, USA

Discussant: Rani Hoitash - Bentley University, USA

Using hand-collected data, we document the details of the ex-ante severance contract and the ex-post separation pay given to S&P500 CEOs upon departing from their company. We analyze what are the determinants of whether or not a departing CEO receives separation pay in excess of her severance contract. This excess separation pay is on average, \$8 million, which amounts to close to 242% of a CEOs' annual compensation. We investigate several potential explanations for this phenomenon and find evidence that in voluntary CEO departures, excess separation pay represents a governance problem. In contrast, we find evidence that in forced departures, excess separation pay represents a need to facilitate a quick and smooth transition from the failed ex-CEO to a new CEO. These results help to shed light on the dual role played by severance compensation and on the bargaining game played between the board and the departing executive.

"Internal Control Material Weaknesses and CFO Compensation"

Udi Hoitash - Northeastern University, USA

Rani Hoitash - Bentley University, USA

Karla M. Johnstone - University of Wisconsin, USA

Discussant: Xiaoming Ding - Xi'an Jiaotong-Liverpool University, China

We articulate and empirically test a conceptual model of the effects of CFO fiduciary duties, controlling for CFO managerial duties, on compensation outcomes. CFO fiduciary duties involve maintaining high quality internal controls that help ensure that financial statements accurately represent a firm's financial condition. Internal control material weakness (ICMW) disclosures therefore reflect poorly on CFO performance. Consistent with expectations, we find that ICMW disclosures are negatively associated with CFO compensation (bonus, equity, and total) in terms of both levels and changes therein. Further, CFOs at firms with stronger compensation oversight experience larger compensation decreases upon ICMW disclosures compared to CFOs at firms with weaker compensation oversight. In addition, CFOs at firms with greater costs of financial statement misreporting experience larger compensation decreases upon ICMW disclosures compared to CFOs at firms with lower costs of misreporting. Taken together, these results contribute to the literature on CFO compensation that primarily focuses on CFO managerial duties (using measures of financial performance) by illustrating the importance of CFO fiduciary duties to CFO compensation outcomes.

"Executive Compensation, Firm Risk and Firm Value in China"

Xiaoming Ding - Xi'an Jiaotong-Liverpool University, China

Jing Huang - Xi'an Jiaotong-Liverpool University, China

Chi-Yi Yang - Xi'an Jiaotong-Liverpool University, China

Discussant: Satish Thosar - University of Redlands, USA

In response to the recent academic and regulatory focus on "executive compensation", this project intends to employ a simultaneous model to examine the determinants of the overall level of executive compensation and equity-based compensation of the Chinese listed companies and by controlling for the endogeneity of the compensation to look for evidence in China whether firm risk would attract the Chinese managers to increase their equity-based compensation and whether the equity-based compensation in turn motivate to maximize the firm value.

SESSION 26

Room 107

CORPORATE RESTRUCTURING

Session Chair: Andreas Rathgeber - University of Augsburg, Germany

"The Choice between Informal and Formal Restructuring: The Case of French Banks Facing Distressed SMEs"

Regis Blazy - University of Strasbourg, France

Jocelyn Martel - ESSEC Business School, France

Nirjhar Nigam - Luxembourg School of Finance, Luxembourg

Discussant: Christodoulos Louca - Cyprus University of Technology, Cyprus

This paper investigates the determinants of the arbitration taking place after a corporate defaults. Two ways of resolving financial distress are conceivable: either the creditors privately renegotiate with the debtor, or a formal bankruptcy procedure is triggered. This arbitration depends on the legal context and, more specifically, on the national bankruptcy code. We use original data coming from the recovery units of five French commercial banks. Our sample gathers 735 credit lines allocated to 386 distressed companies. We test four hypotheses. Hypothesis H1 proposes that bargaining power imbalances may have more impact on the arbitration than simple coordination failures, especially under court-administered legislations. Hypothesis H2 suggests that, to initiate the process of renegotiation, a bank needs information on the project's profitability and on the managers' reliability. To reach an agreement, the bank must ensure that both the conditions have been met. Hypothesis H3 predicts that the likelihood of renegotiation increases with the bank's financial involvement. Hypothesis H4 focuses on the level of collateralization: when the bank has inclination for liquidation, collaterals may increase the occurrence of bankruptcy, provided the law facilitates such liquidation and preserves the bank's priority. For testing the hypotheses H1 to H4, we use sequential LOGIT modeling to split between the variables explaining the decision to engage (or not) renegotiation and the variables explaining the success (or the failure) of renegotiation. Regarding H1, we find that even a court-administered procedure may not be dissuasive provided that the bank's bargaining power is strong enough. Regarding H2, we show that the profitability of the project and the reliability of the managers are two essential conditions for avoiding bankruptcy. However, it

takes some time to discover them. Regarding H3, our estimates show that, when the lending is bigger and/or when the debt contract is longer, then the chances of renegotiation are higher, but this does not predict such renegotiation shall be successful. Last, regarding H4, we do not find any evidence that the level of collateralization influences the arbitration between renegotiation and bankruptcy.

"Organizational Learning and Corporate Diversification Performance"

Panayiotis Andreou - Cyprus University of Technology, Cyprus
Christodoulos Louca - Cyprus University of Technology, Cyprus

Discussant: Fei Ding - Hong Kong University of Science and Technology, Hong Kong

This study investigates the impact of organizational learning on corporate diversification performance. First, we find that diversification significantly reduces shareholders' wealth relative to single-segment firms. Second, our findings demonstrate that diversification performance is conditional on organizational learning, as captured by diversification activity. Particularly, firms that diversify one time from single-segment to multiple-segments exhibit value destruction. In contrast, firms that diversify one time from multiple-segments to multiple-segments experience immaterial value destructions, while firms that diversify multiple-times exhibit a value creation, instead. Finally, we also find that diversified firms that do not change the number of their business segments trade neither at a discount nor at a premium relative to single-segment firms. Our evidence is consistent with the view that a firm's ability to develop capacity of organizational learning is an important determinant of diversification performance.

"To Diversify or To Focus? Information Asymmetry, Internal Allocation, and Firm Value"

Fei Ding - Hong Kong University of Science and Technology, Hong Kong
Hyoung Goo Kang - Hanyang University, Korea

Discussant: Ling-Yu Huang - National Sun Yat-sen University, Taiwan

We present a model of internal capital markets in which diversification may improve or destroy firm value. Diversified conglomerates can add value by redirecting capital to their best performing divisions. However, managers who are better informed than conglomerate headquarters might exaggerate their divisions' prospects to attract more funds, undermining the efficiency of internal capital markets. When divisional cash flows are correlated - diversification is narrow - the scope for exaggeration is limited and allocative efficiency is improved. Thus, optimal degree of diversification balances the benefits of internal capital allocation against the distortions caused by information asymmetry. The relation between firm value, diversification, and the efficiency of internal capital markets is non-monotonic, consistent with the range of empirical findings reported in the literature.

"Competition in Multiple Geographic Markets: The Impact on Market Entry, Growth and Exit"

Hsiao-Jung Chen - Southern Taiwan University, Taiwan
Ling-Yu Huang - National Sun Yat-sen University, Taiwan

Discussant: Jocelyn Martel - ESSEC Business School, France

This paper investigates three competitive behaviors: entry into new markets, and growth in, and exit from, current markets in multiple geographic markets. We use a logit model integrating multimarket contact, strategic similarity, and corporate governance to analyze the determinants of these branch activities for the Taiwanese banking industry. The empirical results show an inverted U-shape influence of multimarket contact on market entry and growth. Greater reciprocity of multimarket contact causes lower entry and growth rates. Multimarket contact has a negative effect on the market entry, growth, and exit in more concentrated markets. However, multimarket contact and strategic similarity are substitutive mechanisms only in the growth situation. Therefore, for very low levels of multimarket contact, more dissimilar firms have aggressive behavior toward rivals. On the other hand, as the number of multimarket contact rises, more dissimilar firms show the lowest growth rates. Finally, more manager ownership could strengthen corporate governance, decrease market entry or growth rates and increase market exit rates.

SESSION 27

Room 108

ECONOMETRICS

Session Chair: Robert Cressy - University of Birmingham, UK

"The Term Structure of Interest Rates: A Cointegration Analysis in the Non-Linear STAR Framework"

Pelin Oge Guney - Hacettepe University, Turkey

Discussant: Heng-Chih Chou - National Taiwan Ocean University, Taiwan

This paper analyzes the term structure of interest rates for 8 developed countries during the 1970-2010 period. In addition to standard cointegration testing procedure of Johansen and Juselius, a cointegration test in a nonlinear smooth transition autoregression (STAR) framework are also employed. The results suggest that, taking account of cointegration with non-linear adjustment results in finding of long run equilibrium relationship between short and long term interest rates of Germany and United Kingdom which seem to not cointegrated according to conventional cointegration test. Also, our findings support the proposition of expectation hypothesis for all countries under investigates.

"Estimation of Tail-Related Value at Risk Measures: Range-Based Extreme Value Approach"

Heng-Chih Chou - National Taiwan Ocean University, Taiwan

David Wang - Chung Yuan Christian University, Taiwan

Discussant: Zhuo Qiao - University of Macau, China

This study proposes a new approach for estimating value at risk (VaR). This approach combines quasi-maximum-likelihood fitting of asymmetric conditional autoregressive range (ACARR) models to estimate the current volatility and classical extreme value theory (EVT) to estimate the tail of the innovation distribution of the ACARR model. The proposed approach reflects two stylized facts exhibited by most financial time series: stochastic volatility and the fat-tailedness of conditional distributions over short time horizons. This approach presents two main advantages over the McNeil and Frey (2000) approach. First, the ACARR model in this approach is an asymmetric model that treats the upward and downward movements of the asset price asymmetrically, whereas the generalized autoregressive conditional heteroskedasticity (GARCH) model in the McNeil and Frey (2000) approach is a symmetric model that ignores the asymmetric structure of the asset price. Second, the proposed method uses classical EVT to estimate the tail of the distribution of the residuals to avoid the threshold issue in the modern EVT model. Since the McNeil and Frey (2000) approach uses modern EVT, it may estimate the tail of the innovation distribution poorly. Back testing of historical time series data shows that our approach gives better VaR estimates than the McNeil and Frey (2000) approach.

"Regime-Dependent Relationships Among the Stock Markets of the US, Australia, and New Zealand: A Markov-Switching VAR Approach"

Zhuo Qiao - University of Macau, China

Yuming Li - California State University, USA

Wing-Keung Wong - Hong Kong Baptist University, Hong Kong

Discussant: Ilona Shiller - University of New Brunswick, Canada

Adopting a multivariate Markov-switching-VAR model (Krolzig, 1997) and a recently developed regime-dependent impulse response analysis technique (Ehrmann, et al., 2003), this paper investigates the dynamic relationships among the stock markets of the US, Australia, and New Zealand. Our results reveal the existence of two different regimes in the three stock markets. We find that the correlations among the three markets are significantly higher in a bear regime than in a bull regime. In addition, the responses of each of the three markets to shocks in the other two markets are stronger and more persistent in the bear regime than in the bull regime. Finally, our findings imply that for the New Zealand stock market, the Australian stock market is more influential than the US stock market, and for the Australian stock market, the US stock market is more influential than the New Zealand stock market.

"Persistence of Canadian Corporate and Government Index Yields and Yield Spreads"

Ilona Shiller - University of New Brunswick, Canada

Discussant: Pelin Oge Guney - Hacettepe University, Turkey

We show that Canadian corporate and government index yields (yield spreads) are antipersistent (fractionally integrated), violating the assumption of a stationary, white noise, Gaussian Brownian motion processes made in most bond pricing, fixed income derivative pricing, and term structure models. We reject the complete unpredictability of Canadian corporate and government yields (yield spreads) and provide extensive evidence of their anti-persistence. The strength of anti-correlation is stronger for the monthly and daily corporate yield spreads and for the monthly short/long end slopes of the term structure. Since long-range dependence represents a special form of nonlinear dynamics, the development of nonlinear pricing and term structure models is called for to account for the long memory behaviour of the data.

SESSION 28

Room 110

INTEREST RATES

Session Chair: Andre Dorsman - VU University, The Netherlands

"Testing for Preference Orderings Efficiency"

Sergio Ortobelli - University of Bergamo, Italy

Nikolas Topaloglou - Athens University of Economics and Business, Greece

Discussant: Dionisis Philippas - University of Patras, Greece

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 in the case only that 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. We test empirically whether the Fama and French market portfolio, as well as the NYSE and the Nasdaq indices are efficient with respect to alternative orderings of preference. The empirical application reveals that the Fama and French market portfolio is efficient with respect

to all preference orderings while the NYSE and Nasdaq indices are efficient only under the first stochastic dominance criterion.

"Measuring the Effect of Information Flow to Euribor (3-Months): An Empirical Analysis"

Dionisis Philippas - University of Patras, Greece
Costas Siriopoulos - University of Patras, Greece

Discussant: Raquel Lopez - University of Castilla-La Mancha, Spain

This paper presents a framework in order to evaluate the effect of ECB and Thompson Reuters information flow and their released news to financial markets and particularly, in Euribor (3-months, 3M). This approach examines whether this information flow has a significant effect to Euribor's volatility. The information demand market is measured by the diffusion moment entropy that the information flow creates using all the public available information by hard copy and internet press. Separating the information flow to time windows and categorize it based on its impact to market participants, our approach determines when ECB and Thompson Reuters released news increase entropy and can affect market participants by changing their investing policy. Afterwards, an empirical implementation is performed for the Euribor 3M interest rate based on the measured entropy. The final part includes comments and analysis of the findings. The results show that there is a significant evidence of an announcement to Euribor 3M and, furthermore, to market participants.

"Information Content of the Term Structure of Interest Rate Volatility"

Raquel Lopez - University of Castilla-La Mancha, Spain
Eliseo Navarro Arribas - University of Castilla-La Mancha, Spain

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

This research deals with the way of measuring expectations of future volatility in the fixed-income market and the analysis of the information content of the term structure of interest rate volatility. Mention the word volatility to most traders, and VIX comes to mind. Surprisingly, much less attention has been paid to the introduction of equivalent leading indicators of expected future volatility in the fixed-income market. Thus, we suggest for the first time the construction of a set of implied volatility indices of forward interest rates with different terms to maturity from U.S. cap (floor) market data: the interest rate volatility indices (IRVIXs). Second, we aim to analyze whether interest rate volatility has additional information about the future behavior of economy over and above that contained in two traditional leading economic indicators: the yield spread and the real short-term interest rate.

SESSION 29

Room 208

IPOS

Session Chair: Stefan Ruenzi - University of Mannheim, Germany

"IPO Amendments and Offer Price Reactions"

Hugh M. J. Colaco - Merrimack College, USA
Chinmoy Ghosh - University of Connecticut, USA
John D. Knopf - University of Connecticut, USA
John L. Teall - Rensselaer Polytechnic Institute, USA

Discussant: Joseph K. Achua - Benue State University, Nigeria

The few days prior to the offer of an IPO are particularly consequential in terms of information revelation and pricing (Cornelli and Goldreich (2003)). Incomplete revelation during the book building period can necessitate filing of a price amendment with the SEC and lead to costly delays. These delays occur when prospective IPO investors fail to fully reveal relevant pricing information prior to price amendments. Our results suggest that such delays lead to reduced underpricing compensation to IPO investors because of investors' failure to fully reveal their demand during the book building process and because these delays are costly to underwriters. Furthermore, firms experience longer delays when the post-amendment price adjustment is downward, suggesting that underwriters expend more time and resources marketing them at higher prices. On the other hand, upward price adjustments between the amendment and offer occur relatively quickly as undervaluation requires lower underwriter effort.

"Determinants of Initial Price Offerings' Underpricing in Emerging African Capital Markets"

Joseph K. Achua - Benue State University, Nigeria

Discussant: Dimitrios Gounopoulos - University of Surrey, UK

This study explores the research gap created by the extremely low research findings on IPOs in emerging African capital markets. The study confirms IPO underpricing and identifies country-specific dynamics of IPOs returns' determinants in Nigeria, an emerging African capital market. The regression analysis shows that IPO volumes, offer size, the age of the firm before IPO, issuers' prospects and underwriters' reputation are not robust IPOs returns' determinants, unlike market conditions and syndicate underwriting. The implications of the findings are discussed.

"IPO Under pricing Over a Century Period"

Dimitrios Gounopoulos - University of Surrey, UK

Christos Nounis - University of Athens, Greece
Stavros Thomadakis - University of Athens, Greece

Discussant: Elisa Cavezzali - University Ca' Foscari, Italy

Under pricing has been one of the few grounds in Finance World where researchers have reached a conclusive evidence (agree). Great majority of those studies covered few decades of IPOs when it was in action an overall political stability. We address this issue by exploring Greek IPOs during the 1905-2009 period when many political, financial and regulatory changes took place. Political and financial instability proves to clear out (melt) under pricing which reassures once stability returns. Regulatory changes and improvements do not help on reducing excess initial returns while massive retail participation creates a complicated environment with speculative trends which reinforces under pricing.

"Tell Me More. Analysts' Recommendations and the Market Impact of the Valuation Methods"

Elisa Cavezzali - University Ca' Foscari, Italy
Enrico Maria Cervellati - University of Bologna, Italy
Pierpaolo Pattitoni - University of Bologna, Italy
Ugo Rigoni - University Ca' Foscari, Italy

Discussant: John L. Teall - Rensselaer Polytechnic Institute, USA

We show that the market reaction to changes in analysts' recommendations is influenced by the valuation methods used in their reports. Previous studies relying on commercial databases report the market reaction in relation to the recommendations, target prices or earning forecasts, overlooking the content and the properties of the reports. This is due to an information constraint of commercial databases, normally including only these synthetic variables, rather than to a theoretical rationale. A notable exception is provided by Asquith et al. (2005) that find no relation between the market reaction and the valuation methods. Our research, spanning from 1999 to 2009, uses a larger database and finds a different result. We show the market reacts differently to distinct types of valuation methods, without privileging the theoretically more correct ones based on discounting cash flows. Consistently with this result, we find that the market reaction is larger when the analysts support their recommendation with more than one valuation method. Our research shows that the market pays attention to the content of the reports and that analysts can be more influential when they use more valuation methodologies to cross check their estimates.

SESSION 30

Room 209

REAL OPTIONS & REAL ESTATE

Session Chair: Van Son Lai - Laval University, Canada

"Valuing Catastrophe Derivatives Under Limited Diversification: a Stochastic Dominance Approach"

Stylianos Perrakis - Concordia University, Canada
Ali Bolorforoosh - Concordia University, Canada

Discussant: Nicos Koussis - Frederick University, Cyprus

We present a new approach to the pricing of catastrophe event derivatives that does not assume a fully diversifiable event risk. Instead, we assume that the event occurrence and intensity affect the return of the market portfolio of an agent that trades in the event derivatives. Based on this approach, we derive values for an event option and a reinsurance contract on an insurer's assets using recent results from the option pricing literature. We show that the assumption of unsystematic event risk seriously under prices the event option. Last, we present numerical results for our derivatives using real data from hurricane landings in Florida.

"Multi-Stage Product Development with Exploration, Value-Enhancing, Preemptive and Innovation Options"

Nicos Koussis - Frederick University, Cyprus
Spiros H. Martzoukos - University of Cyprus, Cyprus
Lenos Trigeorgis - University of Cyprus, Cyprus

Discussant: Jarno Kiviaho - University of Vaasa, Finland

We provide a real options framework for the analysis of product development that incorporates research and exploration actions, product attribute value-enhancing actions with uncertain outcome, preemption and innovation options. We derive two-stage analytic formulas and propose a general multi-period solution using a numerical lattice approach. Our analysis reveals that exploration actions are more important when the project is out or at-the-money (near zero NPV) and less important for high project values. In a multistage setting exploration actions are important even for in-the-money projects when follow-on actions exist that can enhance the expected value of the project. With path-dependency early actions are more valuable since they enhance the impact or reduce the cost of subsequent actions. Preemptive controls affecting rare event (jump) frequency and innovations that introduce positive jumps are more valuable for firms with higher frequency of competitive threats involving low volatility.

"Short-Term and Long-Term Interdependencies of Securitized Real Estate Markets"

Michael Graham - Royal Melbourne Institute of Technology University, Australia
Jarno Kiviaho - University of Vaasa, Finland

Jussi Nikkinen - University of Vaasa, Finland

Discussant: Mohsen Saad - American University of Sharjah, UAE

We utilize the three-dimensional analysis of wavelet coherency to examine the short-term and long-term interdependencies in five securitized real estate markets (Hong Kong, Japan, Singapore, the UK, and the US) between 1990 and 2009. We find that the co-movements of all possible securitized market pairs are generally confined to long-term fluctuations and concentrated towards the end of the series, apart from co-movement between Hong Kong and Singapore. After 2000, our results show that the long-term investor gains less through international diversification relative to the short-term investor. The results presented also indicate an increase in the level of interdependence, both in the long-term and short-term, in the international securitized real estate markets as a result of economic shock brought about by the onset of the subprime mortgage crisis.

"Do Real Estate Loans Respond Anomalously to Monetary Policy?"

Mohsen Saad - American University of Sharjah, UAE

Ali Termos - American University of Sharjah, UAE

Discussant: Ali Bolorforoosh - Concordia University, Canada

This study examines whether bank lending responds asymmetrically to monetary policy shocks the way output does. The evident output asymmetry to monetary policy is demonstrated through a sluggish growth induced by expansionary monetary shift versus a significant decline due to contractionary monetary shift of the same magnitude. Examining this asymmetry for bank loans, we find that while commercial, agriculture, and consumer loans respond asymmetrically to monetary shocks the conventional way, real estate loans respond reciprocally. Growth of real estate loans is more responsive to an easing monetary policy than to a tightening. Mortgage loans are further decomposed into their four components; single-family, multifamily, business, and agriculture mortgages. Among these, the reversed asymmetry is most pronounced for single family mortgages. As securitizability stands out as a distinct feature of these loans, we examine the relationship between the reversed asymmetry and securitization of real estate loans. The anomalous asymmetric response is found significantly pronounced for highly securitizable loans.

Monday 4:15-6:00

SESSION 31

Room 102

ANALYSTS

Session Chair: Nildag Basak Ceylan - Atilim University, Turkey

"The Financial Analysts' Accuracy: Do the Valuation Methods Matter?"

Elisa Cavezzali - University Ca' Foscari, Italy

Ugo Rigoni - University Ca' Foscari, Italy

Discussant: Ari Yezegel - Bentley University, USA

This paper aims to find more evidence on the drivers of the accuracy of an observable outcome of the equity research report: the target price. The diffusion of numerous, also personalized, company valuation techniques and the frequent use of the market ratios approach to estimate the future value of a company, leads to wonder whether different methods should be considered equivalent to each other or whether there are factors that make them different in terms of application and final result. The literature has already demonstrated that there are some variables affecting the accuracy of the output of the reports, but just a handful number of prior studies analyzed the impact of "structural" variables, such as the valuation methods. Furthermore, prior results are still partial and not conclusive. Using a sample of 1650 report, issued by 53 different international investment brokerage houses, covering a total of 48 companies, across 20 different sectors, our main results show that the target price accuracy depends on the way analysts perform the company valuation task. Specifically, the target price accuracy decreases when the target price is based just on a main method. We argue that this means that the analysts can obtain better accuracy performances simply combining a few selected techniques, instead of using just one method to evaluate a company. Furthermore, we show that there are no differences in the accuracy associated to "relative or "absolute" approaches to the company valuation. Finally, analyzing the different valuation method categories, they lead to the same level of accuracy. An exception is represented by the net asset method leading to a visibly poorer accuracy level.

"R&D Intensity and the Value of Analysts' Recommendations"

Dan Palmon - Rutgers University, USA

Ari Yezegel - Bentley University, USA

Discussant: Jean-Francois Gajewski - University of Savoie, France

This study examines the relation between the value of analysts' recommendations and corporate research and development (R&D) investments. Univariate, portfolio and regression analyses controlling for public information

arrivals suggest the value of analysts' recommendations to be significantly greater for firms that are more intensely engaged in R&D investments. In addition, the results reveal that analysts with advanced degrees (e.g., Ph.D., M.D.), more firm-specific experience and greater industry expertise provide more informative recommendations particularly for R&D-intensive. Overall, our findings are consistent with financial analysts contributing more to the price discovery process of R&D-intensive firms.

"Do Individual Investor's Follow Financial Analysts' Forecasts? An Experimental Approach"

Thanh Huong Dinh - University of Paris, France

Jean-Francois Gajewski - University of Savoie, France

Duc Khuong Nguyen - ISC Paris School of Management, France

Discussant: Elvis Jarnecic - University of Sydney, Australia

Analysts' forecasts are often used as a proxy for investors' expectations. Such a consideration may be biased since these operators do not always have the same motivations or effects on market behavior. Considering these variables separately, this paper experimentally examines how investors respond to the patterns in analysts' forecasts of annual earnings, including both their expectations and volume of trades. By conducting ten experimental double-auction markets controlled in terms of forecast errors, we find that investors incorporate part of the forecasting information, not only into their expectations, but also into their trading decisions. They correct a fraction of the errors and heterogeneity in the analysts' forecasts. The heterogeneity of investors' expectations can accordingly be divided into two parts: the common heterogeneity and the idiosyncratic heterogeneity, which are respectively correlated and uncorrelated with the heterogeneity of the analysts' forecasts. While the first fraction monotonically prevents investors from trading, especially when forecasts are pessimistic, the second affects trades in a concave way, expressed by its positive effect when it is not too high and its negative impact otherwise. Finally, the analysis indicates that the errors and the homogeneity of analysts' forecasts affect trading volume, but less strongly than heterogeneity does.

"Asymmetric Effects of Sell-Side Analyst Optimism and Broker Market Share by Clientele"

Andrew Grant - University of Sydney, Australia

Elvis Jarnecic - University of Sydney, Australia

Mark Su - University of Sydney, Australia

Discussant: Ugo Rigoni - University Ca' Foscari, Italy

Using broker level data we demonstrate that relatively optimistic and relatively pessimistic analyst earnings forecasts both generate trade for their brokerage firms. This relationship is found to be asymmetric as the influence of relatively optimistic analyst forecasts on own broker market share is larger than the influence of relatively pessimistic analyst forecasts. Furthermore, upgrades and downgrades in recommendations also generate significantly higher broker market share, suggesting that sell-side institutions are rewarded for providing new information to the market. This study also provides evidence for the first time on how different broker clienteles react to earnings forecast and stock recommendations. Greater trade volume is found to be associated with optimistic earnings forecasts and stock recommendations are stronger for analysts affiliated with retail brokerage firms than those affiliated with institutional brokerage firms. Further the asymmetry between trade generated by relatively optimistic and pessimistic forecasts is greater for retail investors, consistent with retail investors facing higher short sales constraints.

SESSION 32

Room 103

BANKS

Session Chair: Sirimon Treepongkaruna - University of Western Australia, Australia

"Quality in the Financial Sector from the Perspective of Consumer Credits"

Ozge Kucuktalash - Hacettepe University, Turkey

Ozgur Arslan - Hacettepe University, Turkey

Mehmet Baha Karan - Hacettepe University, Turkey

Discussant: Hakan Aygoren - Pamukkale University, Turkey

The purpose of this study is to identify the factors causing consumer credit risks of households by considering their socioeconomic and demographic characteristics. To Do this we study on 5,120 Households from Turkey for the years 2006 And 2007, which coincide with the economic expansion period of the country. We use binary logistic regressions in which the creditworthy households identified as the ones who did not default in their payments of housing rents and mortgages within the past 12 months. We further make robustness tests by only considering high and low income earning households and our results shows discrepancies with the earlier ones. For This reason we conclude that income level must be controlled while the factors are taken under consideration.

"The Relationship Between Stock Performance and the Efficiency in Banking Industry"

Hakan Aygoren - Pamukkale University, Turkey

M. Ensar Yesilyurt - Pamukkale University, Turkey

Bulent Guloglu - Pamukkale University, Turkey

Ilhan Kucukkaplan - Pamukkale University, Turkey

Discussant: Ceylan Onay - Bogazici University, Turkey

The role of financial markets and institutions is to contribute to the prosperity and economic growth of a society by eliminating the market frictions that prevent the direct channeling of savings into profitable projects. A well developed financial system contributes to higher production and efficiency in the overall economy via steady and relatively inexpensive flow of funds from savers to final users or investors. One of the major actors of financial system is commercial banks. The efficiency of banking sector is crucial for investors and the society. Inherently, it is expected that relatively more efficient firm (bank) stock would outperform the rest of the firms. This study aims to investigate the relationship between efficiency and stock performance of banking sector in Turkey. Efficiency analysis is conducted via Stochastic Frontier Analysis (SFA). Subsequently, annual stock returns as a means of stock performance are regressed against percentage change in efficiency using panel data analysis. Stochastic Frontier Analysis shows that The concentration ratios and Capital adequacy ratio has a positive effect on the efficiency of the banks, whereas The number of employees per unit of branches and age influence negatively.

"The Impact of Internet-Banking on Brick and Mortar Branches- The Case of Turkey"

Ceylan Onay - Bogazici University, Turkey

Emre Ozsoz - SUNY, USA

Discussant: Andreas Blochlinger - Zurcher Kantonalbank, Switzerland

The increased adoption and penetration of Internet has recently redefined the playground for retail banks. The retail banks are now offering their services majorly through their internet branches. The repercussions of this change to "brick and mortar" branches have been studied in the context of developed market economies. In this paper we contribute to the literature by studying the impact of internet adoption on bank performance in an emerging market setting. By using a panel of 18 deposit banks that operate in Turkey between 1989-2008, we show that internet adoption has a negative impact on bank profitability with a lag of two years, while a positive impact on branch profitability is found in the year of adoption. Secondly, we show that internet adoption has a positive impact on the level of deposits and loans per branch. Internet banking facilitates banking activities in branches that require more human input. Accordingly, internet banking complements brick and mortar branches.

"Management Framework for Non-Maturity Accounts: From the Marketing to the Hedging Strategy"

Andreas Blochlinger - Zurcher Kantonalbank, Switzerland

Discussant: Mehmet Baha Karan - Hacettepe University, Turkey

Demand deposits are cheaper and more stable than interbank funds and credit card loans yield excessive returns over bond investments, i.e., the marketing of non-maturity accounts by commercial banks generates added value over wholesale instruments. We propose a new approach in which the marketing strategy is transformed into the hedging strategy to produce stable net interest income and which allows an internal funds transfer pricing between asset/liability management and sales. Two different marketing strategies can require vastly different hedging strategies for the same underlying account. Pricing and customer behavior typically feature embedded options which we hedge in a dynamic yet cost-efficient manner.

SESSION 33

Room 104

CORPORATE GOVERNANCE

Session Chair: Francisco Jareno - Universidad de Castilla-La Mancha, Spain

"Can Family-Owned Groups Attract a Loyal Shareholder Base? Evidence from India"

Nikhil Arora - ESCP-Europe, France

Jyoti Gupta - ESCP-Europe, France

Alain Chevalier - ESCP-Europe, France

Discussant: Frederiek Schoubben - Lessius University College, Belgium

This paper examines the rationale behind shareholder loyalty in the case of family owned groups. We have analyzed the case of "Reliance Group", the largest private sector company in India, which is headed by the Ambani Family. We have compared its performance with its competitors in the Indian market. Our results show that in spite of having a weak position with respect to voting rights and managerial influence, the minority shareholders prefer to invest in Reliance due to its consistently positive abnormal returns, low leverage, and other factors that consolidate the family brand.

"Market Share and Cash Policy"

Frederiek Schoubben - Lessius University College, Belgium

Cynthia Van Hulle - K.U. Leuven, Belgium

Discussant: Nico Dewaelheyns - Lessius University College, Belgium

This study analyses the impact of market share on corporate cash policy in a static as well as a dynamic framework. Using a panel data set of large firms in 14 European countries, we show that firms with high market share tend to have lower cash holdings. This relationship between market share and cash policy is most apparent when predation risk, measured using either the similarity of a firm's technology with its industry rivals or market concentration, is high. These findings are robust for different estimation methods, different variables definitions, and for controlling for

possible feedback effects between cash and market power.

"Cash Holdings Within Subsidiaries: Impact of Group Health"

Nico Dewaelheyns - Lessius University College, Belgium
Rosy Locorotondo - Katholieke Universiteit Leuven, Belgium
Cynthia Van Hulle - Katholieke Universiteit Leuven, Belgium

Discussant: Basil Al-Najjar - Middlesex University, UK

This study examines the cash policies of business group members (i.e. subsidiaries or affiliates). Using a panel dataset of private Belgian subsidiaries and matched stand-alone firms, the empirical results show that business group affiliates hold significantly smaller amounts of cash as compared to stand-alone firms. This finding is consistent with the notion that subsidiaries can afford to keep lower cash reserves because they can access the internal capital market of the group. Under the pressure of group wide financial distress, groups strategically reduce cash holdings in affiliates whose failure has relatively limited impact on the group as a whole. However, subsidiaries that are more important for the group's reputation and operations hold cash levels comparable to subsidiaries belonging to financially healthy groups.

"The Impact of External Financing on Firm Value and Corporate Governance Index: SMES Evidence"

Basil Al-Najjar - Middlesex University, UK

Discussant: Jyoti Gupta - ESCP-Europe, France

This paper is the first study to investigate the impact of external finances on a newly created corporate governance index and firm value within SMEs context. This empirical framework is unique and contributes to the existent literature of firm value and corporate governance, as it applies an up to date dataset of UK small and medium publicly traded companies from 2000 to 2009. Further tests are undertaken by assessing firms with better and lower corporate governance indexes. We find that external financing positively affect firm value. In addition, it is found that, size and profitability are positively affecting firm value of UK small firms. Concerning corporate governance index, it is found that big SMEs and those with low debt levels have better corporate governance structure. Finally, the results indicate that firms with better corporate governance are bigger in size and have a low debt structure.

SESSION 34

Room 105

CAPITAL STRUCTURE

Session Chair: Satish Thosar - University of Redlands, USA

"Impact of Ownership on Performance and Capital Structure Decisions"

Muhammad Ramzan - Bahauddin Zakariya University, Pakistan
Muhammad Imdadullah - Bahauddin Zakariya University, Pakistan
Muhammad Azeem Qureshi - University of Oslo, Norway

Discussant: Roberto Steri - Bocconi University, Italy

The purpose of this study is to find the impact of managerial and institutional ownership on the performance and capital structure decisions of the organization due to the control and agency problem. With a time horizon of 2000-2010 the data in our sample consists of 53 manufacturing companies listed at Karachi Stock Exchange (KSE); of which 25 companies are from chemical sectors, 20 from cement, and 8 from pharmaceutical sector. We use correlation and multiple regressions to determine the relationship between capital structure and performance of the firm in managerial and institutional ownership context. We demonstrate that both the capital structure and corporate performance have a negative relationship with managerial and institutional ownership.

"The Relative Leverage Premium"

Filippo Ippolito - Bocconi University, Italy
Roberto Steri - Bocconi University, Italy
Claudio Tebaldi - Bocconi University, Italy

Discussant: F.Y. Eric C. Lam - City University of Hong Kong, Hong Kong

The existing empirical evidence does not yet provide a clear understanding of how leverage and expected equity returns are related. While some studies show a positive relationship between financial leverage and returns, others conclude that returns are either insensitive or decrease with leverage, after controlling for size and book-to-market. We re-examine this evidence by explicitly accounting for the dynamic nature of a firm's optimal leverage policy in the presence of frictions. Specifically, we allow firms to temporarily deviate from their optimal capital structure due to adjustment costs. For each firm we estimate target leverage, and compute relative leverage as the difference between observed and target leverage. We find that relative leverage is positively and significantly related to expected equity returns, and has a dominant effect over size and book-to-market. The relative leverage premium shows a remarkable symmetry for over- and under-leveraged firms.

"External Financing, Access to Debt Markets, and Stock Returns"

F.Y. Eric C. Lam - City University of Hong Kong, Hong Kong

Discussant: Francesco Baldi - LUISS Guido Carli University, Italy

This paper offers a novel understanding of the cause of the external financing anomaly, a well established observation that net overall external financing activities and future stock returns are negatively related. Recent studies argue that the external financing anomaly is driven by earnings management and/or investment growth. However, we find that about half of the anomaly remains unexplained by these interpretations. The remaining return predictability is not due to exposures to conventional risks and firm characteristics, the accrual factor, the asset growth factor, the wealth transfer hypothesis, or the issuer risk hypothesis, and is not driven by performance delistings or delistings associated with default or bankruptcy or unknown risks. Instead, it is attributed to overvalued young and small unprofitable firms that lack internal funds and have limited access to public debt markets. They rely heavily on equity and modestly on private debt external financing to pursue their ambitious growth strategies through considerable investment in research and development.

"The Internal vs. External Equity Capital Dilemma: Evidence from Italy"

Francesco Baldi - LUISS Guido Carli University, Italy

Discussant: Muhammad Azeem Qureshi - University of Oslo, Norway

This article makes use of the unique information collected in four leading Surveys on Italian Manufacturing Firms (SIMFs) over the 1995-2006 period to infer the characteristics of those companies that use internal equity (namely, earnings retention) as the only source of capital for financing their new, positive-NPV investment projects. Indeed, while capital structure decisions of (especially) large- and medium and small-sized firms have been widely discussed in cross-country studies, little is known about the use of the various forms of equity capital in Italy. Empirical evidence suggests that firms that are more likely to make an exclusive and pro-cyclical use of internal equity capital to finance their investments are mainly located in the Northern and Central part of the country and tend to be steadily profitable but not export-oriented, not innovative and R&D spenders. More interestingly, their prevailing family-based corporate governance model characterized by an ownership-control identity causes a tension between high profitability and scarce capacity to innovate and grow, thus making it impossible for them to sustain a competitive advantage via product or process innovation and global market reach. Alternatively, an increase in private equity ownership would bring a combination of governance style and managerial discipline and, as a result, improve the way mature Italian manufacturing firms are governed and strategized by triggering a virtuous value creation process. Hence, stronger policy efforts should be directed towards promoting the growth of a private equity market in Italy by removing the major economic, legal and fiscal barriers that still prevent it from having a positive, real impact on the real economy.

SESSION 35

Room 107

EARNINGS QUALITY

Session Chair: Alejandra Cabello - Universidad Nacional Autonoma de Mexico, Mexico

"The Relationship Between Earnings Quality, Control Mechanisms of Corporate Governance, and Future Stock Price Returns"

Elisabetta Basilico - University of St. Gallen, Italy

Hugh Grove - University of Denver, USA

Tommi Johnsen - University of Denver, USA

Discussant: Ilanit Gavious - Ben-Gurion University, Israel

This paper extends prior research on the relation between earnings quality (assessed by discretionary accruals) and future stock price returns and adds new research on the relationships between direct and indirect corporate governance mechanisms of control with discretionary accruals and future stock price returns. We study public companies of the Netherlands and find the presence of mispricing associated with very high and very low discretionary accruals. We also find evidence that direct corporate governance control mechanisms, such as the existence of separate, independent, and skilled audit committees, are related to higher earnings quality and higher future stock price returns.

"Has Sarbanes-Oxley Affected the Earnings Quality of M&A Targets?"

Ilanit Gavious - Ben-Gurion University, Israel

Mosi Rosenboim - Ben-Gurion University, Israel

Discussant: Anestis Ladas - University of Macedonia, Greece

This study examines whether and how the passage of the Sarbanes-Oxley Act (SOX) affected earnings quality, proxied by accrual measures, prior to M&A transactions. Given that the capital markets underwent unusual vicissitudes in the period leading up to the passage of SOX, we subdivide the pre-SOX period into four sub-periods: (1) the pre-technology bubble (1992-1997); (2) the technology bubble (1998-3/2000); (3) the bubble collapse (4/2000-9/2001); and (4) the pre-SOX scandal period (10/2001-7/2002). We document that abnormal accruals moved from significantly positive to significantly negative during the period of the major corporate scandals immediately preceding SOX, and remained negative in the post-SOX period. However, abnormal accruals in the post-SOX period were significantly less negative than during the scandals. Thus, a reduction (increase) in abnormal accruals (earnings quality) seems to have occurred concomitantly with the scandals, not as a result of the passage of SOX. We also

document that investors' awareness of earnings manipulation by sellers consistently grew after the bursting of the technology bubble, as reflected in an increase in the discount applied to transaction prices throughout the sub-periods. Hence, concomitantly with the decrease (increase) in the levels of abnormal accruals (earnings quality) occurring during the scandals, the discount to transaction price due to suspected earnings manipulation also increased. Furthermore, the higher discount applied after SOX, relative to that immediately prior to SOX, implies that investors do not rely on SOX to prevent management from manipulating their earnings prior to a sale transaction. We conclude that changes in earnings quality prior to M&A transactions cannot be attributed to SOX. Rather, other events such as the bursting of the technology bubble and revelations of major accounting scandals seem to have affected managers' propensity to manipulate earnings. It seems that market response has a greater effect on managers' behavior than government regulation.

"Asset Impairments and Financial Reporting Quality"

Dimitrios V. Kousenidis - Aristotle University of Thessaloniki, Greece

Anestis Ladas - University of Macedonia, Greece

Christos I. Negakis - University of Macedonia, Greece

Discussant: Mine Aksu - Sabanci University, Turkey

"The Impact of Ownership Concentration and IFRS Adoption on Earnings Quality: Evidence from an Emerging Market"

Mine Aksu - Sabanci University, Turkey

Yaz Gulnur Muradoglu - Cass Business School, UK

Ayşe Tansel Cetin - Yalova University, Turkey

Discussant: Elisabetta Basilico - University of St. Gallen, Italy

We investigate the impact of two corporate governance characteristics, IFRS and ownership concentration, on earnings quality in the Istanbul Stock Exchange (ISE). Our contribution stems from the fact that ISE is characterized by low minority ownership rights protection and ownership highly concentrated in the form of family-owned pyramids, in a code law country with lax rules and weak enforcement. The sample consists of all ISE-listed firms with Datastream and ISE financial and ownership data. Our measures of earnings quality are earnings persistence, earnings smoothing and loss avoidance. We find strong first time evidence for the persistence of earnings and losses and that earnings management is practiced in the ISE and some evidence that ownership concentration impedes earnings quality while foreign ownership enhances it. An unexpected result is that mandatory IFRS adoption has had a negative effect on both earnings persistence and earnings management in the ISE.

SESSION 36

Room 108

OTHER CORPORATE DIS/INVESTMENT DECISIONS

Session Chair: John L. Teall - Rensselaer Polytechnic Institute, USA

"Outsourcing, Integration and Investment in Costly Capacity"

Bart M. Lambrecht - Lancaster University, UK

Grzegorz Pawlina - Lancaster University, UK

Joao C.A. Teixeira - University of the Azores, Portugal

Discussant: Peng-Wen Chen - Nanhua University, Taiwan

This paper models the choice between outsourcing and integration for a firm that faces output price uncertainty. The average unit cost of the firm's input is a U-shaped function of the quantity produced under integrated production and constant under outsourcing. Up to three different production regimes can endogenously arise: pure outsourcing, pure integration, or a combined regime where the firm produces the input internally up to some threshold quantity, and outsources all production in excess of this threshold. Investment in costly capacity narrows the range of output prices over which internal production is optimal because integrated production is more capacity intensive than outsourcing. The amount of capacity installed is determined - among other factors - by the discount rate, the unit cost of capacity, the outsourcing cost and the fraction of the time that the marginal unit of capacity is expected to be utilized. Imposing a capacity constraint encourages outsourcing. Switching back and forth between outsourcing and integration in response to demand shocks can be an efficient way for a firm to make optimal use of its capacity and to minimize production costs.

"International Investigation on Foreign Bank's Post Entering Performance—The Differential Impact of Entry Mode Choice"

Sheng-Hung Chen - Nanhua University, Taiwan

Peng-Wen Chen - Nanhua University, Taiwan

Discussant: Milena Petrova - Syracuse University, USA

Do different entry mode choices by foreign bank influence their post entering profitability and efficiency? While the prior banking empirical literature focus on foreign banks efficiency and profitability, however, little global investigation contributes to the differential impacts of entry mode pattern, specifically in considering the potential problem of endogeneity on bank's decision to cross-border Mergers and Acquisitions (M&As) or Greenfield

Investment (GI) in host country. Therefore, this paper investigates how different entry model affects foreign bank's profitability and cost efficiency post entrance in comparison of M&As and GI using treatment effect model. After controlling for the endogeneity of entry mode choice (M&As versus GI), we then empirically investigate whether foreign banks with access to new market via GI outperform banks via cross-border M&A with respect to their post entering performance from the perspective of profitability and efficiency using DEA approach. This paper contributes to global evidence that foreign entry via cross-border M&As in the developing country would significantly improve their post entering efficiency and profitability. Foreign banks penetrating host country via GI with less development might deteriorate their profitability in short run after entering, otherwise to enter well-developed country would perform better efficiency.

"Why do Managers Divest Corporate Assets? New Perspectives from Equity Carve-Outs"

Chinmoy Ghosh - University of Connecticut, USA
Milena Petrova - Syracuse University, USA

Discussant: William Dimovski - Deakin University, Australia

We investigate the effect of corporate governance on equity carve-out decisions by 199 firms during the period of 1990 to 2009. Consistent with the notion that managerial incentives drive corporate decisions, we find that firms where the CEO and management have larger stock ownership are more likely to carve-out their subsidiaries. Larger firms with prior poor performance are also more likely to carve-out their divisions, while smaller firms with poor prior performance, lower leverage and lower managerial ownership and CEO incentive based compensation tend to sell larger portions of their subsidiaries. We finally demonstrate that for wealth-enhancing strategic decisions such as equity carve-outs outside directors are positively related to value, while CEO tenure and classified board are negatively related to the wealth effects associated with carve-outs.

"Discounts and Underwriting Fees Associated with A-REIT Rights Issues"

William Dimovski - Deakin University, Australia

Discussant: Joao C.A. Teixeira - University of the Azores, Portugal

Rights issues are a common method for raising equity capital in Australia for entities listed on the Australian Stock Exchange. The purpose of this paper is to examine potential influencing factors on the discounts and underwriting fees of Australian REIT rights issues from 2001 to 2009.

SESSION 37

Room 110

CREDIT RISK

Session Chair: Ramazan Aktas - TOBB University of Economics and Technology, Turkey

"Re-Mapping Credit Ratings"

Alexander Eisl - Vienna University of Economics and Business, Austria
Hermann Elendner - Vienna University of Economics and Business, Austria
Manuel Lingo - Oesterreichische Nationalbank, Austria

Discussant: Lung-fu Chang - National Taipei College of Business, Taiwan

Rating agencies report ordinal ratings in discrete classes. We question the market's implicit assumption that agencies define their classes on identical scales. To this end, we develop a non-parametric method to estimate the relation of rating scales for pairs of raters. This scale relation identifies for every rating class of one rater the extent to which it corresponds to any rating class of another, and hence enables a rating-class specific re-mapping of one agency's ratings to another's scale. Our method is based purely on ordinal co-ratings to obviate error-prone estimation of PDs and disputable assumptions involved, and exploits structure in the joint estimation of all rating classes' relations from a pair of raters. We find convincing evidence against the hypothesis of identical scales for the three major rating agencies Fitch, Moody's and Standard & Poor's, provide the relations of their rating classes and illustrate the importance of correcting for scale relations in benchmarking and pricing.

"A Reexamination of Jump Effect on Credit Spreads with Noisy Information"

Jia-Hau Guo - National Chiao Tung University, Taiwan
Lung-fu Chang - National Taipei College of Business, Taiwan
Hsuan Rern - National Chiao Tung University, Taiwan

Discussant: Andreas Rathgeber - University of Augsburg, Germany

The pure diffusion approach for the credit risk model with noisy information is generalized by including double exponential jumps in the firm-value processes. The explicit solution of the default probability for this credit risk model is derived, and the impact of asymmetric jumps and noisy information on the credit risk is illustrated with numerical results in the areas of default probability, default intensity, and credit spread. With the term structure of credit spreads being enriched, our approach has potential for use in interpreting empirical data in the real world. The noisy information will cause the default intensity with jump to be less sensitive with the reported asset level and reshape the term structure of credit spreads to be more flattened. In addition, the term structure of credit spreads is monotone if noisy information and jump effects are simultaneously considered.

"Currency Dependent Differences in Credit Spreads of EUR and USD Denominated Foreign Currency Government Bonds"

Andreas Rathgeber - University of Augsburg, Germany
David Rudolf - University of Augsburg, Germany
Stefan Stockl -

Discussant: Gonzalo Cortazar - Pontificia Universidad Catolica de Chile, Chile

Can the credit spreads of one and the same issuer differ in two different currencies? If so, can an investor exploit this situation? To answer these questions and to add to the existing literature, we extend the Jarrow/Turnbull model with a second currency and test these theoretical results with an extensive empirical study. As a major result we discovered that the credit spreads, and therefore the cumulated implied default probabilities of nearly all bonds denominated in USD in comparison to EUR denominated bonds, are significantly higher for all terms. As the results could largely be explained by the dependence between event of default and exchange rate, an investor cannot therefore profit from this fact and the findings of the empirical study lend support to the validity of the paradigm of the efficient market hypothesis.

"Credit Spreads in Illiquid Markets"

Gonzalo Cortazar - Pontificia Universidad Catolica de Chile, Chile
Eduardo S. Schwartz - University of California at Los Angeles, USA
Claudia Tapia - Pontificia Universidad Catolica de Chile, Chile

Discussant: Manuel Lingo - Oesterreichische Nationalbank, Austria

This paper presents a methodology for estimating a family of credit spread term structures in a market with few transactions. We propose partitioning the market into risk classes, such as credit ratings, and modeling credit spread term structures for each risk class using a multifactor Vasicek model with some common and some risk-class-specific factors. The model is jointly estimated using an Extended Kalman Filter. The model is implemented using Chilean corporate and government bonds.

SESSION 38

Room 208

EMERGING MARKETS

Session Chair: Heungjoo Cha - University of Redlands, USA

"Asymmetric Investor Overreaction to Political Events in Emerging Markets: A Panel Data Approach"

Hisham Farag - University of Birmingham, UK
Robert Cressy - University of Birmingham, UK

Discussant: Azende Terungwa - Bayero University, Nigeria

We utilised panel data methods to explore both cross sectional variations and time series effects within the post-event period for losers stocks. Some of these effects are not observable but ignoring them lays the estimation open to bias from concealed heterogeneity amongst firms and periods (Hsiao, 2004). Using daily data from the Egyptian stock market on a sample of 100 companies experienced dramatic 1-day price change to analyse investor reactions to dramatic 1-day price change as the result of four major political events on the Egyptian stock market, a 2 way fixed effects model reveals strong evidence of price reversal with period fixed effect. Results support the disposition effect by selling winners short and buying losers. Firm size is negatively correlated with post-event abnormal returns consistent with the argument that small firms have a greater tendency to price-reverse. However temporary, unobservable time-specific phenomena common to all companies, together with permanent, unobservable company-specific factors are more important in explaining price reversals. We also find that, unobservable company-specific factors account for a much larger percentage of post-event variations in stock prices. These company effects are sufficiently large to suggest a profitable trading strategy.

"An Assessment of the Financing Options Available to Small and Medium Scale Enterprises (SMEs) in Nigeria"

Azende Terungwa - Bayero University, Nigeria
Kabiru Dandago - Bayero University, Nigeria

Discussant: Lakshman Alles - Curtin University, Australia

This study assesses the financing option available to Small and Medium Scale Enterprises (SMEs) in Nigeria, using Benue and Nasarawa States as case study. Mean scores and standard deviation were used to present and analyze the primary data obtained via questionnaires. Correlation was used to substantiate whether there is similarity in the inherent identified problems of each financing option. Simple percentages combined with mean scores were used to test hypothesis one while Chi-square was used to test hypothesis two. The result shows that SMEs are significantly financed by informal sources of finance than the formal sources of finance and the conditions for accessing SMEEIS funds was beyond the reach of the predominant SMEs in Nigeria. This shows that SMEEIS, as a formal financing option, has not made any significant impact towards SMEs growth in Nigeria. The major recommendation is that both the government and the banking sector should mutually agree on a credit guaranteed scheme strategy that will incorporate a risk-sharing arrangement as a way of encouraging the banks to channel funds to the SMEs sub sector

for their growth and development which would translate into the national economic growth and sustainable economic development of Nigeria.

"The Rewards for Downside Risk in Emerging Markets: An Assessment of Asian Markets"

Lakshman Alles - Curtin University, Australia

Louis Murray - University College Dublin, Ireland

Discussant: Kemal Saatcioglu - Ozyegin University, Turkey

Inefficiencies in emerging markets may impact on investor ability to diversify, thus invalidating CAPM assumptions. Investors may also place greater weighting on downside losses, compared to upside gains. Using individual equities in a range of emerging Asian markets, we investigate the potential contribution of downside risk measures to explain asset pricing in these markets. As realized returns are used as a proxy for expected returns, we separately examine returns in upturn and downturn periods, in order to successfully identify risk and return relationships. Results indicate that co-skewness and downside beta are priced by investors. Further testing confirms a separate premium for each measure, confirming that they capture different aspects of downside risk. Robustness tests confirm that, when combined with other risk measures, both retain their explanatory power. Tests also indicate that co-skewness may be the more robust measure.

"Are Foreign Investors Better Informed? Evidence from an Emerging Market"

Kemal Saatcioglu - Ozyegin University, Turkey

Discussant: Hisham Farag - University of Birmingham, UK

Stock portfolio holdings of foreign investors in the Istanbul Stock Exchange (ISE) have increased from below 2 billion USD in December 1995 to above 65 billion USD in December 2007. During the same time period, the ISE-100 index has increased from 400.25 to 55,538.13 in Turkish lira terms and from 382.62 to 2,789.66 in US dollar terms. While foreign investors held less than 20 percent of all equity in the ISE as of December 1995, their equity portfolios have increased to above 70 percent of the whole market by the end of 2007. This study analyzes the tremendous increase of foreign investor participation in the ISE over a period of about 20 years and attempts to find, at least in the context of the ISE, whether foreign investors act based on information or they simply herd to rising emerging markets. There is an existing body of literature evidencing home bias and high turnover rates on foreign equity portfolios. [Ahearne (2000), Karolyi (2002), Warnock (2002)] Information asymmetry is put forth as a plausible explanation for this observation. Contrary to this, there is also evidence that foreign analysts produce more timely and accurate forecasts compared to their local counterparts, and in general outperform them. [Bacmann and Bolliger (2001)] In this study, the changes in foreign portfolio holdings of individual stocks on the ISE are investigated to determine the underlying factors in these changes. Specifically, we try to determine whether these portfolio changes occur due to information or momentum. In order to differentiate between these two effects, the data is controlled for aggregate foreign capital in and outflows, as well as changes in the exchange and interest rates. The idea is that at least a portion of the aggregate foreign capital flows to equity occur due to herding, and looking at changes in the foreign investor ownership of individual stocks controlling for the aggregate changes in portfolio holdings of foreign investors likely identifies the changes in foreign ownership of these individual stocks due to information. Thus, the information effect is isolated and tested by looking at the causal relationship between the changes in foreign portfolio holdings adjusted for non-information effects and future performance of these portfolios. Furthermore, there is plenty of anecdotal evidence in the Turkish popular press proposing that changes in foreign investor equity holdings lead the changes in the market. Investigating the causal relationship between foreign portfolio holdings and future performance of these portfolios also explores this claim. As a further contribution to literature, the relationship between foreign portfolio positions and corporate governance is also investigated. It has been shown that foreign companies that interact with the U.S. markets disclose more information. [Khanna, Palepu, and Srinivasan (2004)]. To the extent that disclosure reduces information asymmetry, firms with higher levels of disclosure could attract more foreign investors, for whom the information asymmetry is greater. Using proprietary transparency and disclosure data collected by the Corporate Governance Forum of Turkey (CGFT) at Sabanci University, we investigate whether transparency and disclosure significantly affect foreign investors' portfolio choices. The data used in this study comes from Standard & Poor's Emerging Markets Database (EMDB), CGFT's transparency and disclosure database, Istanbul Stock Exchange (<http://www.imkb.gov.tr/>), and the Central Securities Depository of Turkey (<http://www.takasbank.com.tr/eng/>). The study spans the 1995-2007 time period.

SESSION 39

Room 209

COMMODITIES

Session Chair: Wing-Keung Wong - Hong Kong Baptist University, China

"The Effect of Extreme Spikes in Demand on Electricity Prices: A GARCH-based Event Study Approach"

Stuart Thomas - RMIT University, Australia

Discussant: Sazali Abidin - University of Waikato, New Zealand

The behaviour of prices in deregulated electricity markets is highly idiosyncratic, with documented features including short-run extreme values, extreme volatility, high degrees of kurtosis and volatility clustering. These characteristics are a consequence of the unique physical nature of electricity among traded commodities and the way markets are designed to accommodate it. It is a stylised fact in these markets that demand variation is a significant driver of

variation in price, but it is not clear whether this is so at the extremes. This paper investigates the interaction of extreme values in half-hourly demand and price change in a six-year sample, across five regional pools in Australian National Electricity Market. To date no other study in the electricity literature has used an event-study approach to investigate this issue. GARCH-based event study methodologies have been shown to offer superior performance over other techniques in the presence of extreme kurtosis and volatility clustering. Given that these characteristics are well-documented in electricity markets, a GARCH-based event study approach is used and results show that while there is negligible coincidence of demand and price spikes across the five NEM regions in the study, there is evidence of a small but significant price response to demand spikes in the New South Wales, Queensland and Victorian regional pools. This response is not evident in the South Australian and Snowy pools. These results suggest that supply-side effects might be more significant contributors to spike evolution and flags this possibility as a direction for future research.

"Information Flow between Price Change and Trading Volume in Silver and Platinum Futures Contracts"

Sazali Abidin - University of Waikato, New Zealand

Ruilin Lou - University of Waikato, New Zealand

Qian Niu - University of Waikato, New Zealand

Discussant: Andre Dorsman - VU University, The Netherlands

This research examines the joint relationship between the percentage price change and the trading volume of silver and platinum futures contracts traded on COMEX using the daily time series which covering a period of ten years. We adopt the two-step procedures proposed by Cheung and Ng (1996) to detect the causality of information flow between price change and trading volume. We find that lagged causality in mean running from the price change to trading volume but not for opposite direction under the original AR-GARCH model. The causality in variance is not found in our results. After that, we find evidences of mild lagged causality in variance running from the percentage price change to the trading volume under the augmented AR-GARCH model, which supports the sequential information flow hypothesis and consistent with the previous study by Bhar and Hamori (2004) in gold futures contracts. However, the contemporaneous causality has been found in the gold futures contract is not consistent with our findings.

"Market Perfection in a Changing Energy Environment"

Andre Dorsman - VU University, The Netherlands

Kees van Montfort - VU University, The Netherlands

Paul Pottuijt - GEN Nederland, The Netherlands

Discussant: Stuart Thomas - RMIT University, Australia

During the last decade of the twentieth century energy markets changed rapidly. National orientated electricity networks were more and more linked to each other. A large step was the coupling of the spot markets of Belgium, France and The Netherlands in 2006. The integration of markets is a continuing process with realization in 2010 of a market coupling between between Central Western European region (CWE, consisting of Belgium, Germany, France, Luxemburg and Netherlands) and the Nordic region. In 2011 the United Kingdom will also be part of an enlarged area where market coupling is applied, expected to be followed by further extensions of the region with Southern- and/ or Eastern European markets. This paper deals with the imperfections of the electricity spot markets. We will focus on the (capacity of) interconnectors between national grids in Europe. The relevant question is: are connectors a limiting factor in the priceforming process on electricity day ahead markets.

SESSION 40

Room 210

LIQUIDITY

Session Chair: Jorge Brusa - Texas A&M International University, USA

"Commonality in Liquidity: A Demand-Side Explanation"

Andrew Koch - University of Texas, USA

Stefan Ruenzi - University of Mannheim, Germany

Laura Starks - University of Texas, USA

Discussant: Martin Larch - University of Innsbruck, Austria

We hypothesize that a source of commonality in a stock's liquidity arises from correlated trading among the stock's investors. Focusing on correlated trading of mutual funds, we find that stocks with high mutual fund ownership have comovements in liquidity that are about twice as large as those for stocks with low mutual fund ownership. We also find that stocks owned by mutual funds with higher turnover and those owned by mutual funds that experience liquidity shocks themselves have higher commonality in liquidity. These results suggest an important role for the demand side of liquidity in explaining commonality.

"Google Search Volume, Trading Activity and the Liquidity of Stocks"

Matthias Bank - University of Innsbruck, Austria

Martin Larch - University of Innsbruck, Austria

Georg Peter - University of Innsbruck, Austria

Discussant: Maytinee Wasumadee - Norwegian School of Economics, Norway

We introduce the internet search volume of a listed company's name as a proxy for its visibility and investors' attention. We show that the number of queries on the Google search engine not only serves as an intuitive proxy for overall public interest, but also captures the attention of stock market investors. Specifically, our results suggest that an increase in search queries is associated with a rise in trading activity. We find that this increase in trading activity is primarily due to a surge in the recognition of uninformed investors, since it is accompanied by a reduction in asymmetric information costs. Moreover, because a rise in the internet search activity translates into reduced adverse selection costs, it follows that the average naive internet search provides investors with no genuine new information. These results are particularly strong for firms with low market value.

"Korean Dual Class Share Price Differences and Liquidity Discount"

Maytinee Wasumadee - Norwegian School of Economics, Norway

Discussant: Dimitrios Vagias - Erasmus University, The Netherlands

I test the hypothesis that dual class share prices differ due to liquidity discount of the less liquid share class. My contribution is that I use a new method and data set to test the hypothesis. I use data from South Korea where preferred shares are less liquid and have much lower prices compared to the underlying common stocks. Using 4,696 daily price data of 7 large cap stock pairs, from Jan 1995 to Dec 2009, I construct an implied illiquidity process using Kalman filter with log price ratios (preferred/ordinary) as measurements in the state space system. My first result shows that the illiquidity process is high during the time of liquidity stress such as the Asian financial crisis and the sub-prime crisis. Second result shows that the process moves in line with other illiquidity measures; Amihud (2002), Roll (1984) and Lesmond et al. (1999). Therefore, I conclude that price of preferred stock is less than common stock due partly to liquidity discount and the discount becomes higher during times of liquidity stress. Robust check is performed with data from Brazil, Germany and Italy to confirm the findings.

"International Capital Flows and Liquidity"

Dimitrios Vagias - Erasmus University, The Netherlands

Mathijs van Dijk - Erasmus University, The Netherlands

Discussant: Stefan Ruenzi - University of Mannheim, Germany

We examine whether international capital flows affect local market liquidity, and vice versa. We estimate vector autoregressions with monthly U.S. equity portfolio flows and local stock market liquidity and returns for 46 countries in six regions over 1995-2008. We find that flows to developed Europe and Asia/Pacific are positively related to local market liquidity, while U.S. market liquidity positively predicts flows to developed and emerging Europe and emerging Asia. Capital flows to various regions thus respond to home and host market liquidity. For developed America, Europe, Asia/Pacific, and emerging Asia, capital inflows are associated with an improvement in local market liquidity, which suggests that foreign investors tend to provide rather than consume liquidity on local markets. This effect is stronger for countries with greater transparency and less developed financial markets. Our analysis lends little support to the view that foreign investors destabilize local markets through an adverse impact on liquidity.

Tuesday 8:30-10:15

SESSION 41

Room 102

ANALYSTS

Session Chair: Constantin Mellios - University of Paris 1, France

"The Impact of Analyst-Market Disagreement on the Cross-Section of Implied Cost of Capital"

Michalis Makrominas - Frederick University, Cyprus

Discussant: Sheraz Ahmed - Lappeenranta University of Technology, Finland

Implied cost of capital estimates are typically calculated using analyst forecasts, under the dual assumption that these forecasts jointly capture the firm's underlying earnings' process and market informational efficiency. This paper examines properties of implied cost of capital estimates whereas analysts' perceptions of mis-priced securities, as demonstrated by their investment recommendations, may lead to analyst-market disagreement and a mismatch between stock prices and earnings' forecasts. It is demonstrated that stocks recommended by analysts as 'Buy'/'Strong Buy' have, ceteris paribus, higher implied cost of capital than stocks recommended as 'Underperform'/'Sell'. Changes of implied cost of capital appear to be negatively associated with investment upgrading while no analogous pattern is evident in the case of downgrading. A model is developed to capture systematic patterns in analyst expected forecasting error. The model is utilized in order to fit analyst expected errors in the estimation process of 'adjusted' implied cost of capital estimates. Adjusting for expecting analyst forecasting error appears to correct the documented relationship between analyst recommendation and implied cost of capital, indicating that a corrective mechanics with

regards to analyst errors could and should be employed in the exact calculation of implied cost of capital.

"Do Governance Reforms Increase Performance of Analysts' Recommendations? Evidence from an Emerging Market"

Sheraz Ahmed - Lappeenranta University of Technology, Finland
Omar Farooq - Al-Akawayn University, Morocco

Discussant: Veronique Bessiere - Montpellier University, France

What happens to analysts' performance when on the one hand, corporate governance mechanisms improve, and on the other hand, governance of market intermediaries worsens? Using analysts' recommendation data from Pakistan, we find that analysts' performance deteriorated significantly as the governance of market intermediaries weakened. Consistent with the prior evidence regarding price manipulation activities of market intermediaries, we argue that this decline in analysts' performance was partly due to stock price manipulation of market intermediaries who bent the laws of supply and demand in their favor by injecting or withdrawing liquidity from the market irrespective of fundamentals. They may have used analysts to facilitate their unscrupulous behavior by inducing them to issue such recommendations that served their interests. We propose that market intermediaries, therefore, should be subject to proper governance mechanisms in newly emerging markets to realize the full benefits of corporate governance reforms.

"Uncertainty and Financial Analysts' Overconfidence: European Evidence Between High-Tech and Low-Tech Firms"

Veronique Bessiere - Montpellier University, France
Taoufik Elkemali - Montpellier University, France

Discussant: Constantinos Antoniou - University of Exeter, UK

This article examines the link between uncertainty and analysts' reaction to earnings announcements for a sample of European firms during the period 1997-2007. In the same way as Daniel, Hirshleifer and Subrahmanyam (1998), we posit that overconfidence leads to an overreaction to private information followed by an underreaction when the information becomes public. Psychological findings suggest that this effect is more prominent in an uncertain environment. Our tests are based on the relationship between forecast revisions and forecast errors. When analysts excessively integrate information in their revisions (i.e. overreact), their forecast revisions are too intense, and the converse occurs when they underreact. We implement a portfolio analysis and a regression analysis for two subsamples: high-tech and low-tech, as a proxy for uncertainty. Our results support the overconfidence hypothesis. We jointly observe the two phenomena of under- and overreaction. Overreaction occurs when the information has not yet been made public and disappears just after public release. Our results also show that both effects are more important for the high-tech subsample and that the differences between high-tech and low-tech are significant. For robustness, we sort the sample using analyst forecast dispersion as a proxy for uncertainty and obtain similar results. We also document that the high-tech stocks crash in 2000-2001 moderated the overconfidence of analysts, which then strongly declined during the post-crash period.

"Peer Effects Among Sell-Side Analysts"

Constantinos Antoniou - University of Exeter, UK

Discussant: Michalis Makrominas - Frederick University, Cyprus

In this paper, motivated by a large literature which documents peer effects on economic decisions, we examine whether the behaviour and performance of sell-side analysts is affected by their colleagues. The results demonstrate that peer effects enhance forecast accuracy, influence revision direction and encourage the issuance of bold, timely and frequent forecasts. In addition, peer effects influence changes to stock recommendations. These results suggest that peer effects improve the quality of the information that is released by sell-side analysts. In additional analysis we find that the market acknowledges this improvement as it responds more strongly to earnings forecasts issued by analysts with more accurate peers.

SESSION 42

Room 103

FINANCIAL CRISIS

Session Chair: Minna Martikainen - Lappeenranta University of Technology, Finland

"On the Over-Dispersed Nature of Operational Losses: Does it Influence Capital at Risk? (CAR)?"

Jose M. Fera-Dominguez - Pablo de Olavide University, Spain
Enrique J. Jimenez-Rodriguez - Pablo de Olavide University, Spain
Ola Sholarin - University of Westminster, UK

Discussant: Konstantinos A. Moutsianas - Aristotle University of Thessaloniki, Greece

With regard to operational risk, Basel III (2010) proposes much higher convergence related those methodologies for measuring such financial risk. In this sense, according to the Basel Committee, the Loss Distribution Approach (LDA) is the most suitable methodology when estimating the corresponding capital charge. This actuarial model relies on the availability of operational loss databases from which modeling the frequency and the severity distributions. More

specifically, the Committee (2001) suggested the so called LDA-Standard, which uses the combination of the Poisson and the Lognormal distributions for both variables, in order to obtain, following a convolution process, the aggregate loss distribution and the corresponding Capital at Risk (CaR) as its 99.9 percentile. Although the Poisson distribution is commonly used, in practice, its application assumes equi-dispersion, that is, the mean and its variance are coincident. But if over-dispersion arises (in nature, operational losses are over-dispersed) alternative probabilistic functions to Poisson can capture such a phenomenon by providing with better statistical fit. In the aim of testing how sensitive could be the final capital charge, we conduct an empirical analysis on CaR comparing the traditional Poisson distribution versus the Negative Binomial and Polya models. For this purpose, we used the Algo OpData Database, provided by Algorithmics-Fitch Group. As a result, we find that LDAStandard could underestimate the regulatory capital whenever over-dispersion effect is observed.

"Stress Testing and the Basel II Accord"

Konstantinos A. Moutsianas - Aristotle University of Thessaloniki, Greece
Kyriaki Kosmidou - Aristotle University of Thessaloniki, Greece

Discussant: Lin Guo - Suffolk University, USA

The current financial crisis has highlighted serious weaknesses and imperfections that exist in the operation of financial markets and the supervisory system of financial institutions. The high degree of complexity of the international financial system in combination with the rapid development of financial innovation, technological progress and the free movement of capital among countries, impose the configuration of the appropriate conditions which will ensure the financial stability. One of the key factors that ensure the financial stability is the smooth operation of the banking sector. The present doctoral thesis proposal refers to a new tool of risk management that has been developed particularly in recent years and relates to Stress Testing. There will be extensive analysis of the supervisory framework of the Basel Committee, as well as an analysis of stress testing issues. The scientific originality of this thesis is achieved by the creation of comprehensive stress testing program that will include all risks that may threaten the stability of financial system and the viability of banking institutions. In broad terms, the stress test will include credit risk, the contagion risk of crises, and the market risk that are analyzed in: interest rate risk, currency risk, equity price, commodity price risk and liquidity risk. Moreover, the stress testing methodology will give particularly gravity in the repercussions that can have the debts and the deficits of states in the stability of financial system. The development of a completed stress testing technique, taking into account the specific characteristics of financial system of each country, as well as the particularities of each banking institution, will constitute a useful tool for the supervisory authorities and the top management of banking institutions.

"Bank Executive Compensation Structure, Risk Taking and the Financial Crisis"

Lin Guo - Suffolk University, USA
Abu Jalal - Suffolk University, USA
Shahriar Khaksari - Suffolk University, USA

Discussant: Fernando F. Moreira - University of Edinburgh, UK

This paper investigates (1) whether bank executive compensation is designed to minimize agency costs or to promote excessive risk taking that shifts risk to the debt holders and the FDIC, and (2) whether greater percentages of bank CEOs' short-term bonus and long-term incentive compensation relative to their total compensation contributed to the most recent financial crisis. We examine not only the determinants of the various components of executive compensation, but also the impact of compensation policy on bank risk taking, financial distress, valuation and performance. Overall, our findings are inconsistent with the hypothesis that the greater proportions of short-term bonus and long-term incentive compensation of bank executives led to excessive risk taking and caused the recent financial crisis. On the contrary, our results support the view that the level of the various components of bank executive compensation is designed to reduce agency costs, consistent with the prediction of the contracting theories. Interestingly, we also find that greater CEO ownership is associated with greater risk taking, higher likelihood of financial distress, and lower Sharpe ratio for the banking firms in our sample.

"Enhancing Basel Method via Conditional Distributions that Capture Stronger Connection Among Credit Losses in Downturns"

Fernando F. Moreira - University of Edinburgh, UK

Discussant: Jose M. Feria-Dominguez - Pablo de Olavide University, Spain

This paper suggests a formula able to capture potential stronger connection among credit losses in downturns without assuming any specific distribution for the variables involved. We first show that the current model adopted by regulators (Basel) is equivalent to a conditional distribution derived from the Gaussian Copula (which does not identify tail dependence). We then use conditional distributions derived from copulas that express tail dependence (stronger dependence across higher losses) to estimate the probability of credit losses in extreme scenarios (crises). Next, we present an example based on a specific copula that indicates upper-tail dependence among credit losses. Simulations show that, for both credit classes tested (retail and corporate), the alternative method outperforms the Basel formula which, in turn, is prone to result in insufficient capital when the losses have positively-skewed distributions (long tail in the right side) and are upper-tail dependent (a realistic representation of credit portfolios, according to the literature). The method proposed is extendable to any differentiable copula family which gives flexibility to future practical applications of the model.

INTERNATIONAL FINANCE

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

"Payment Systems in the Accession Countries"

Francisco Callado - Universitat de Girona, Spain
 Jana Hromcova - Universitat Autònoma de Barcelona, Spain
 Natalia Utrero - Universitat de Girona, Spain

Discussant: Alexander Peter Groh - EM-LYON Business School, France

In this paper we present a general equilibrium model on payment choice at retail level which allows us to analyze how the accession to the European Union and the influence of European institutions could shape the evolution of consumers' payments in newly acceded countries. The context of the European Union is particularly challenging because of the enlargement process. Building on model results we perform an empirical analysis with real data from countries that participate in the process.

"The Attractiveness of Emerging Economies for Foreign Direct Investment"

Alexander Peter Groh - EM-LYON Business School, France
 Matthias Wich - Darmstadt University of Technology, Germany

Discussant: Bharat Kolluri - University of Hartford, USA

We contribute to the question why some countries are more attractive for foreign direct investment (FDI) than others by the construction of a composite measure. The measure considers all identified, measurable and, for our scope, comparable socio-economic aspects that affect FDI decisions on an aggregated country level. As a result, we can rank 127 economies with respect to their FDI attraction. The measure allows detailed strengths and weaknesses analyses for the sample of countries and enhances the discussion why FDI flows remain concentrated in advanced economies. Additionally, it reveals the areas in which emerging countries should improve in order to narrow existing gaps. We run several robustness checks to test the quality of our composite measure and show that it excellently tracks real FDI activity.

"Asymmetric Effects of U.S. and Japan Equity markets on Emerging Asian Equity Markets: Some Evidence"

Bharat Kolluri - University of Hartford, USA
 Mahmoud Wahab - University of Hartford, USA

Discussant: Edgar Ortiz - Universidad Nacional Autónoma de México, México

This paper examines the effects of U.S. stock returns and volatility on nine Emerging Asian equity markets using a discrete asymmetric piecewise linear conditional mean returns specification. Conditional heteroskedasticity is captured by GARCH and EGARCH modeling of conditional variances. Predicted conditional volatilities are used to generate additional estimates of asymmetric conditional betas for comparison with betas from the piecewise mean returns model. Asian markets returns and volatilities show a clear tendency to move more with the U.S. than with Japan, on a monthly returns basis, and their co-movements with negative U.S. returns far exceeds their co-movement with positive U.S. returns. Results are consistent across all specifications used. From a U.S. investor's viewpoint, India offers the best opportunity to enhance portfolio performance followed by Malaysia. The least favorable market is Philippines.

"Stock Market Anomalies in Latin America and the Americas: Seasonality and the January Effect Re-Examined"

Domingo Rodríguez Benavides - Universidad Autónoma Metropolitana, México
 Francisco López-Herrera - Universidad Nacional Autónoma de México, México
 Edgar Ortiz - Universidad Nacional Autónoma de México, México

Discussant: Francisco Callado - Universitat de Girona, Spain

Positive abnormal returns during January have been widely reported in the financial literature concerning stock markets, albeit evidence has also been presented for other financial markets, namely bonds and futures. This anomaly also known as the "January effect" or turn-of-the-year hypothesis has been extensively studied for the case of mature stock markets, but a growing interest has been recently addressed to emerging capital markets as well. Several hypotheses explain this phenomenon. Among them the most scrutinized are the tax loss-small firm January effect hypothesis, the window dressing hypothesis, and finally explanations stressing psychological reasons.

SESSION 44**Room 105****VOLATILITY**

Session Chair: Lynn A. Stout - UCLA, USA

"Importance of the Macroeconomic Variables for Volatility Prediction: A GARCH-MIDAS Approach"

Hossein Asgharian - Lund University, Sweden

Ai Jun Hou - Lund University, Sweden
Farrukh Javed - Lund University, Sweden

Discussant: Christos S. Savva - Cyprus University of Technology, Cyprus

This paper aims to examine the role of the macroeconomic variables in determining the return volatility in the US financial market. We apply the GARCH-MIDAS (Mixed Data Sampling) model to examine whether information contained in macroeconomic variables can help to predict short-term and long-term components of the return volatility. We investigate several alternative models and a large group of economic variables. A principle component analysis is performed to incorporate the information contained in different variables. Our preliminary shows that the GARCH-MIDAS model outperforms the traditional GARCH model and the exponentially weighted moving average model, regarding the out-of-sample forecast ability. Adding the macro-variables to the GARCH-MIDAS model further improves the model's prediction power. Moreover, the model with the first principle component performs better than the other models regarding both the in-sample and the out-of-sample forecasts. Our results are of importance to both policymaker and financial market participants.

"Skewness and the Relationship Between Risk and Return"

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

Discussant: Minh Viet Do - Monash University, Australia

In this study we provide further evidence of the effects of the conditional skewness on the relationship between the excess returns and conditional volatility with our model being able to endogenously measure the impact of the skewness. More specifically we propose a model that utilizes the non-centered skewed generalized t (SGT) distribution with heteroskedastic error term. SGT distribution provides a great flexibility in modeling the dataset and an excellent fit to the empirical distribution of the data.

"The Volume-Volatility Relationship in the New Zealand Equity Market"

Minh Viet Do - Monash University, Australia
Daniel Chai - Monash University, Australia
Daniel FS Choi - University of Waikato, New Zealand

Discussant: Saint Kuttu - Hanken School of Economics, Finland

This study examines the volume-volatility relation in a small and open economy: the New Zealand equity market. To avoid variable measurement and size problems, we use three different volatility measures and classify the NZSE50 stocks into large, medium, and small sizes. We find that the realized volatility best explains volume information. Consistent with Jones, Kaul and Lipson (1994, Transaction, volume and volatility, Review of Financial Studies 7, 631-651), volatility is significantly explained by the number of trades, not the trade size. We find that only medium to large sized trades carry the richest information in explaining volatility in the New Zealand equity market. Finally, imbalances of trades contribute nothing in explaining volatility.

"Return and Volatility Dynamics among Four African Capital Markets: A Multivariate VAR-EGARCH Analysis"

Saint Kuttu - Hanken School of Economics, Finland

Discussant: Farrukh Javed - Lund University, Sweden

A multivariate VAR-EGARCH is used to examine the returns and volatility dynamics between thin traded adjusted equity returns from Ghana, Kenya, Nigeria and South Africa. The findings suggest a reciprocal returns spillover between Ghana and Kenya, and Nigeria and South Africa. Also Nigeria appears to be the source of volatility innovations to Kenya and South Africa. Thus geographic proximity and membership of an economic regional bloc do not occasion market linkages in the case of Ghana and Nigeria. Own market volatility is pronounced, and volatility is highly persistent in all the four markets with Ghana and Kenya exhibiting volatility asymmetry.

SESSION 45

Room 107

OPTION MARKETS

Session Chair: George F. Tannous - University of Saskatchewan, Canada

"Investor Sentiment and Option Prices: Evidence from Value and Growth Index Options"

Jerry Coakley - University of Essex, UK
George Dotsis - University of Essex, UK
Xianquan Liu - University of Essex, UK
Jia Zhai - Xi'an Jiaotong-Liverpool University, China

Discussant: Mohammad S. Hasan - University of Kent, UK

This paper examines the impact of investor sentiment on the valuation of value and growth index options. To this end, we study the empirical relationship between institutional and individual sentiment and time variation in the risk-neutral

skewness derived from options on S&P 500, Nasdaq 100 and Russell 2000 Value and Growth indices. We find that the risk-neutral skewness of the S&P 500 and Russell 2000 Value index options is affected by institutional sentiment. Meanwhile, the skewness of the risk-neutral density of Nasdaq 100 and Russell 2000 Growth index options is significantly positively related to individual sentiment. Our empirical results provide evidence that options on portfolios of growth stocks are more likely to be affected by the behavior of unsophisticated investors.

"The Effectiveness of Dynamic Hedging: Evidence from Emerging Markets' Stock Futures"

Mohammad S. Hasan - University of Kent, UK
Taufiq Choudhry - University of Southampton, UK

Discussant: David P. Simon - Bentley University, USA

This paper employing daily data of stock index and stock index futures empirically investigates the hedging effectiveness of time-varying hedge ratios of four emerging futures markets: Brazil, Hungary, South Africa and South Korea. This paper employs five variants of GARCH models to estimate the hedge ratios along with the conventional method. The paper compares the hedging effectiveness of these estimated hedge ratios across model specifications using both within-sample and out-of-sample forecasting performances. In cases of For Brazil, Hungary and South Africa, the modelling technique of the GARCH family is shown to offer superior risk reduction compared to traditional methods. Overall, the GARCH-X hedged portfolios show the strongest results among the GARCH class models in those countries. Only in the case of South Korea does hedging performance, based on a conventional OLS method, outperforms the GARCH class models.

"The Intraday and Overnight Behavior of SPY Options"

David P. Simon - Bentley University, USA

Discussant: Robin K. Chou - National Chengchi University, Taiwan

This study examines the intraday performance of S&P 500 exchange traded fund (SPY) options from May 2005 to May 2010. The study finds that in contrast to Bakshi et al (2000), deviations from monotonicity--the prediction of one factor option pricing models that call option prices should rise when SPY prices rise and put option prices should rise when SPY prices fall--are infrequent, typically not economically significant and can be explained readily by implied volatility changes. More generally, deviations of intraday option price changes from projections based on their deltas and SPY price changes are largely explained by implied volatility changes and that the vast majority of time decay occurs between the close of trading and the open of trading the next day. The study then examines the factors driving intraday implied volatility changes and finds that implied volatility rises in response to negative SPY returns but falls in response to positive SPY returns, which suggests that fear plays a large role in intraday implied volatility fluctuations. The results also indicate that the asymmetry of implied volatility changes to positive and negative SPY returns is greater when implied volatility is unusually high, which further suggests that fear plays a substantial role in the intraday fluctuations of implied volatility. Overall, the results strongly indicate that traders with "delta" neutral long call or long put positions must get the direction as well as the magnitude of underlying SPY returns right in order to profit as large positive SPY returns typically lead to lower implied volatilities and losses.

"Trader Types and Consequences of the Disposition Effect"

Robin K. Chou - National Chengchi University, Taiwan
Yun-Yi Wang - Feng Chia University, Taiwan
Xuemin Yan - University of Missouri, USA

Discussant: Jia Zhai - Xi'an Jiaotong-Liverpool University, China

Using a set of complete account-level transaction records from the Taiwan Futures Exchange, we perform an in-depth examination of the disposition effect. For different types of traders, we show that domestic individuals exhibit the strongest disposition biases, followed by domestic corporations, while foreign institutions do not seem to show the bias. We find that not only the trading gains and losses, but also their magnitude will affect the disposition bias. Individual's trading experiences seem to alleviate behavioral biases, albeit not completely. We also find that the disposition effect is a persistent phenomenon for individual investors. Finally, individual investors showing stronger disposition biases perform worse in their subsequent trading.

SESSION 46

Room 108

CORPORATE GOVERNANCE

Session Chair: Michael D. McKenzie - The University of Sydney, Australia

"Who is the Boss for Major Decisions? Chairmen – Not CEOs – as Powerful Leaders"

Alexandre Di Miceli da Silveira - University of Sao Paulo, Brazil
Lucas Ayres B. de C. Barro - University of Sao Paulo, Brazil
Marc Deloof - University of Antwerp, Belgium

Discussant: Nirosha Hewa Wellalage - University of Waikato, New Zealand

Corporate governance studies typically assume that the CEO function is the main locus of corporate power. This is a reasonable assumption in environments characterized by dispersed ownership, where executives tend to be stronger

vis-à-vis shareholders and the CEO usually has hierarchical ascendancy over other top managers. However, when CEO and Chairman positions are split, especially in environments characterized by concentrated ownership, the de facto role of corporate leader for major decisions may reside in the hands of a founder, family-owner or large shareholder who usually chairs the board of directors but does not necessarily hold the CEO title. A methodology for comparing the relative power of the chairman vis-à-vis the CEO is developed and applied to 204 firms in France and 215 in Brazil. The results show that for about 70% of the companies with split chairman/CEO positions in France and 75% in Brazil, chairmen could be considered more relevant decision makers than their CEOs. Our results are validated by a content analysis of annual reports, which shows that chairmen classified as “very powerful” tend to earn more, sign shareholders’ letters more frequently and receive a higher number of citations in public documents. Corporate attributes such as family control, past performance and board tenure are positively associated with chairman power, as well as chairman age. Also, chairmen who hold many outside directorships tend to be less powerful, as well as those who are foreign-born, who serve older firms or firms where other board members have significant shareholdings. Since the chairman’s individual power and influence has not been addressed in previous theoretical and empirical literature, our results add a new perspective for analyzing strategic and financial decisions in environments characterized by concentrated ownership structures.

"Do Women Make a Difference in the Governance of Sri Lankan Companies?"

Nirosha Hewa Wellalage - University of Waikato, New Zealand

Stuart Locke - University of Waikato, New Zealand

Discussant: Olubunmi Faleye - Northeastern University, USA

This study investigates the linkage between female board directors and company financial performance and agency costs. A well-balanced board is critical to the effective strategic direction and running of any company, especially in countries where external corporate governance mechanisms are less developed. In order to investigate the impact of board gender diversity on firm financial performance, dynamic panel GMM estimation is applied, using Tobin’s Q as a measure of performance. The gender diversity is measured by the percentage of women on the board and dummy of women, and “Blau” index. A Tobit model is used to investigate the impact of female board members on agency cost, using growth opportunities as measure of agency cost. After controlling for size, industry, and other corporate governance measures, this study finds a significant negative relationship between the fraction of women on boards and firm value while increasing company agency cost. This evidence provides insights for governments and academic institutions in their efforts to provide resource that may help enhance women leadership skills.

"Determinants and Productivity Effects of CEO–Employee Pay Disparity"

Olubunmi Faleye - Northeastern University, USA

Ebru Reis - Bentley University, USA

Anand Venkateswaran - Northeastern University, USA

Discussant: Jean M. Canil - University of Adelaide, Australia

We study the determinants and productivity effects of disparities in compensation between top executives and lower-level employees. We establish three major results. First, CEO–employee pay disparity depends on the balance of power between the CEO (relative to the board of directors) and ordinary employees (relative to management). Pay disparity increases with CEO power and firm size but declines with labor force unionization and skill level. Second, employee productivity is negatively related with pay disparity. Third, the reduction in productivity is greater when employees invest in firm-specific skills or have limited outside employment options. Our results highlight the potential negative effects of perceived pay inequity and are consistent with predictions of inequity aversion models.

"A Test of the Incremental Power of CEO Productivity in Optimum Incentive Modeling"

Jean M. Canil - University of Adelaide, Australia

Bruce A. Rosser - University of Adelaide, Australia

Discussant: Lucas Ayres B. de C. Barro - University of Sao Paulo, Brazil

Employing a unique dataset with varying grant sizes and exercise prices, we test the competing optimal option incentive models of Hall and Murphy (2000, 2002) (HM) and Baker and Hall (2004) (BH) which differ with respect to the impact of CEO productivity on incentive determination and also the treatment of risk aversion and firm risk. Direct testing of the BH model proves more satisfactory than direct testing of the HM model, but given this outcome, it is surprising that the HM model explains a higher proportion of grant abnormal returns than does the BH model. We attribute this outcome to PPS and not the exercise price. Since exercise prices have been shown unrelated to agency problems, we conclude that caution needs to be exercised when prescribing exercise prices to create the optimal incentive, especially for highly risk-averse CEOs and those who are also poorly diversified.

SESSION 47

Room 110

M&AS

Session Chair: Hubert de La Bruslerie - University Paris-Dauphine, France

"The Relationship between Short Term Value Creation and Long Term Performance for the Bidder: The Case of UK Financial Institutions"

Syrine Chatti - University of Sousse, France

Romdhane Hamza - University of Sousse, France

Discussant: Alain Chevalier - ESCP-Europe, France

Our study analyses short term and long-term performance of UK financial institutions in a context of takeovers over the period 1996 and 2007. In particular, we investigate the link between the bidder short term abnormal returns and his long-term performance. The event study shows that bidder exhibits significant wealth destruction. In contrast, either the BHAR approach or the value index of the bidder's portfolio provides evidence about positive and significant performance over the long-horizon. Furthermore, among a business cycle analysis, we find that acquirers obtain significantly higher returns during low valuation markets. Lastly, the market reaction to the bid announcement better predicts the evolution of the pre-winners acquisitions.

"The Acquisition of Non Public Firms in Europe: Bidders' Returns, Payment Methods and Stock Market Evolution"

Alain Chevalier - ESCP-Europe, France

Etienne Redor - Audencia Nantes, France

Discussant: Mario Ossorio - The Second University of Naples, Italy

This paper studies the returns of non public firms acquisitions. Like the American studies do, we show the existence of a "non public firms acquisition effect" for the European multiacquirer firms: abnormal returns are much higher for non-public firms (subsidiaries or private held firms) than for public firms. Our results also show that the returns are influenced by the stock market cycles: the returns are significantly higher when the market is bullish than when it is bearish. According to us, this result is consistent with Shleifer and Vishny (1988) and with Amihud and Lev (1981) and can be explained by agency phenomena. Indeed, we think that when the market is bearish, managers have incentive to compensate for the decrease of their income if it is index-linked to the performance of the firm, thanks to deals that will maximize their own wealth, at the risk of destroying value for their shareholders.

"Capital Structure and the Method of Payment for Acquisitions. Evidence from a Sample of Bidders Listed on the Italian Stock Exchange"

Mario Ossorio - The Second University of Naples, Italy

Discussant: Azilawati Banchit - University of Waikato, New Zealand

The work aims at verifying whether the capital structure of bidders influences the choice of payment method used in acquisition operations. Analysis of sample of 103 acquisitions occurring between 2002 and 2008 by buyers listed on the Italian Stock Exchange has been carried out. In agreement with the international empirical literature, it is found that bidders which have high levels of indebtedness are more likely to use shares as a means of payment in acquisition operations.

"Effects of Size of Acquisition on Post-Acquisition Performance of Target Firms"

Azilawati Banchit - University of Waikato, New Zealand

Stuart Locke - University of Waikato, New Zealand

Daniel Choi - University of Waikato, New Zealand

Sazali Abidin - University of Waikato, New Zealand

Discussant: Romdhane Hamza - University of Sousse, France

This study examines the post-acquisition performance of target firms in successful takeover deals in five Asean countries during the period of 13 years from 1993 to 2006. Our research is motivated by the inability of stock price performance to determine whether target firms experience real financial performance improvement after the acquisition. Using a regression analysis, we found that the performance of target firms is negatively related to the size of acquisition. We further examine the characteristics of the target firms and found that target firms that have high ratio of capital expenditure to total asset and high ratio of total investment to total asset before the acquisition experience higher performance after the acquisition. The findings of this study also provide evidence that target firms with low gearing ratios before the acquisition experience higher performance after the acquisition.

SESSION 48

Room 208

FUNDS

Session Chair: Samuel H. Szewczyk - Drexel University, USA

"Performance Implications of Active Management of Institutional Mutual Funds"

Ron Bird - University of Technology Sydney, Australia

Paolo Pellizzari - University of Venice, Italy

Danny Yeung - University of Technology Sydney, Australia

Discussant: William J. Bertin - Bond University, Australia

Although mutual fund performance has been dissected from almost every angle, very little attention has been paid to the connection between the actual active decisions made by management and the subsequent performance outcomes.

In this paper we use information on institutional mutual funds to examine the implications of active positions and style tilts taken by management for the fund's realised alpha, tracking error and information ratio. We identify some areas where the funds across the entire sample have success (active positions, and growth and winning stock tilts) and others where they fall short (value and loser stock tilts). We identify that there is significant variation in these findings when we extend our analysis to examine the impact of these active decisions on performance for different styles of funds during periods of weak and strong markets. Finally, we repeat the analysis by incorporating the initial choice of investment style with the active decisions in order to judge their dual impact on investment performance.

"What do Emerging Market Mutual Funds Offer Domestic US Investors?"

William J. Bertin - Bond University, Australia

Laurie Prather - Bond University, Australia

Discussant: Sarayut Nathaphan - Thammasat University, Thailand

In recent years emerging market equity mutual funds have become one of the more rapidly growing mutual fund categories. This growth is most likely due to their impressive realized returns over a successive number of years, although these returns are also quite volatile. This study reports on U.S. based emerging market mutual funds' characteristics and performance relative to domestic and international mature market equity mutual funds over the period 1998 - 2009, and through a detailed correlation analysis, explores the diversification benefits provided by these funds. The findings suggest that the emerging market funds clearly outperform their domestic and international counterparts, although their diversification benefits are limited by relatively high correlation. Given the current state of the industry, in order to achieve the maximum benefit from emerging market diversification, investors must carefully select among the funds available in this category.

"Determinants of Growth for Thai Mutual Fund Industry"

Sarayut Nathaphan - Thammasat University, Thailand

Pornchai Chunchinda - Thammasat University, Thailand

Discussant: Ines Gargouri - Concordia University, Canada

Thai mutual funds industry has grown drastically and become an alternative channel of savings and investment in the past five years, from 2006 to 2010, particularly as real deposit interest rates remain in negative territory. At present, the country's assets under mutual fund management equal Bt1.54 trillion, or around 30 per cent of total household bank savings. Proportion of equity funds to total assets under management of the industry rose from approximately 10 per cent to 20 per cent. Fixed income funds play an important role determining industry growth. It is therefore essential that all stakeholders in the capital market, especially investors, understand the nature of the mutual fund industry, both in terms of the variety of products and services, and the real advantages it offers. This is especially important at a time when the market is approaching greater financial liberalization. Three determinants of mutual funds growth besides funds performance are distribution channel, reputation of parent company, and effective communication between potential investor and fund representative. Therefore, asset management companies with better distribution channels, better access to clients through a bank's nationwide branches, and more efficient complete financial services from their parent companies have the advantage. Possessing the three determinants, a company can grab bigger market shares in both the fixed income fund sector and the equity/stock funds sector through cross-selling, even though it may charge clients comparatively higher fees with a lower rate of return (data compiled in 2008 and June 2010). Thai mutual fund industry is likely to face two major challenges: 1. Limited mutual fund product diversification and slow product development, especially if foreign-owned asset management companies, which focus more on product innovation, lose their competitive edge and ultimately leave the business. 2. Thai mutual funds may become too concentrated on simple short-term funds, which benefit from tax privileges relative to bank deposits. However, given the challenge of Thailand's ageing society, which will need savings and investment with high long-term returns, relying on these types of product will not enable us to meet the future burden. Therefore it may be time for stakeholders in the Thai capital market to start asking how they can help develop the mutual fund industry to serve Thai investors in a more efficient way.

"US Mutual Fund M&As"

Ines Gargouri - Concordia University, Canada

Lawrence Kryzanowski - Concordia University, Canada

Discussant: Ron Bird - University of Technology Sydney, Australia

We study M&A activity in the US mutual fund industry over the period 1962-2009. Any improvement in abnormal performance around M&As accrues primarily to target unit holders. The risk level of acquirers increases around such transactions. An analysis of the risk-return trade-off finds that low levels of risk do not yield greater mean-variance efficient portfolios after merger, but that higher levels of risk are associated with a loss in asset allocation efficiency for unit holders in the acquirer. The analysis of success determinants finds that bidder risk and MER post-M&A, and target past performance significantly affect the potential success of such M&As.

SESSION 49

Room 209

BEHAVIORAL FINANCE

Session Chair: Raul DeJesus-Gutierrez - Universidad Autonoma del Estado de Mexico, Mexico

"Dynamic Herding Behavior in Pacific-Basin Markets: Evidence and Implications"

Thomas C. Chiang - Drexel University, USA
Jiandong Li - Central University of Finance and Economics, China
Lin Tan - California State Polytechnic University, USA
Edward Nelling - Drexel University, USA

Discussant: Daniel FS Choi - University of Waikato, New Zealand

This study examines investor herding behavior in Pacific-Basin equity markets. We find that herding is present in both rising and falling markets. Importantly, the level of herding is time-varying. We also find that herding is positively related to stock returns, but negatively related to market volatility. Herding estimates across markets are positively correlated, signifying co-movement of investor behavior in the region.

"Market Uncertainty and Sentiment, and the Post-Earnings Announcement Drift"

Ron Bird - University of Technology Sydney, Australia
Daniel FS Choi - University of Waikato, New Zealand
Danny Yeung - University of Technology Sydney, Australia

Discussant: Zana Grigaliuniene - ISM University of Management and Economics, Lithuania

The post-earnings announcement drift (PEAD) was first identified over 40 years ago and remains to this day one of the most surprising market anomalies. There have been numerous attempts to explain its continued existence. In this paper we provide evidence to support a new explanation: the PEAD reflects the level of market uncertainty and sentiment that prevails during the post-announcement period. The finding that uncertainty plays a role in explaining how investors respond to information suggests that it should be included as a factor in our pricing models while the fact that market sentiment also has a role is another instance of the importance of human behaviour in establishing prices.

"Investor Sentiment, Overreaction and Underreaction in Stock Market"

Zana Grigaliuniene - ISM University of Management and Economics, Lithuania

Discussant: Spyros Spyrou - Athens University of Economics & Business, Greece

The proposed thesis focuses on the market overreaction and under reaction anomalies, which are widely explored in rational framed (David, 1997; Veronesi, 1999; Doking and Koch, 2005) and behaviorally framed settings (Lakonishok, Shleifer, and Vishny, 1994; Barberis, Shleifer, and Vishny, 1998; Daniel, Hirshleifer, and Subrahmanyam, 1998, Hong and Stein, 1999). Furthermore, the literature documents the directional asymmetry in market reactions that are also dependent on the economic and/or market conditions. The most of the studies concentrate on directional asymmetry to news (Alwathainani, 2010; Skinner, 1994; Skinner and Sloan, 2002), or asymmetry under varying economic conditions, mostly in macro news context (McQueen and Roley, 1993; Flannery and Protopapadakis, 2002; Veredas, 2005; Boyd et al, 2005; Pearce and Solakoglu, 2007; Laakkonen and Lanne, 2008; Knif et al, 2008). However, a few studies explore market overreactions/under reactions to firm-specific news under the varying market sentiment (Conrad et al, 2002; Doking and Koch, 2005; Livnat and Petrovits, 2009, Mian and Sankaraguruswamy, 2008, 2010). Veronesi (1999) theorizes that market overreacts to bad news in good times and under reacts to good news in bad times. However, the inconsistency in empirical evidence testing these hypotheses calls for further research and this proposed thesis aims to address this sufficient gap. It aims to explore how the market reacts to good and bad news under varying states of the economy and market sentiment. The thesis will contribute to the literature by exploring the state-dependence of various aspects of the asymmetry in market reactions. Furthermore, the proposed thesis contributes to the literature considering market reactions to firm-specific news, namely quarterly earnings announcements, affected by market sentiment or prevalent economic conditions.

"Sentiment Changes, Stock Returns and Volatility: Evidence from NYSE, AMEX, and NASDAQ Stocks"

Spyros Spyrou - Athens University of Economics & Business, Greece

Discussant: Edward Nelling - Drexel University, USA

Using well known US stock portfolios that are formed on B/M, long term reversals, momentum, and size, a long sample period (1965-2007), and the comprehensive sentiment index of Baker and Wurgler (2006), which captures the common variation of six commonly used proxies for sentiment, this paper shows that contemporaneous monthly returns of extreme portfolios are significantly related to monthly sentiment changes and tend to be higher during periods of negative sentiment. Stock returns, however, seem to Granger-cause sentiment changes and are more important in predicting sentiment changes than visa versa. In addition, conditional return volatility is significantly affected by lagged volatility rather than sentiment changes.

SESSION 50

Room 210

VENTURE CAPITAL

Session Chair: Vinay Patel - University of Technology, Australia

"Optimal Allocation of Control Rights in Venture Capital Contracts"

Guillaume Andrieu - GSCM-Montpellier Business School, France

Discussant: Pascal Francois - HEC Montreal, Canada

This article questions the allocation of control rights to venture capitalists with particular focus on liquidation decisions. According to literature, in an investment decision the principal exercise this role to prevent the agent from pursuing private objectives that may destroy value. I develop a two-staged model in which an entrepreneur asks a venture capitalist to finance its project. I consider two cases: an investor able to invest only in the seed stage, due to financial constraint or specialization; and an investor able to finance all the required investments. At the interim period, good projects should be continued and bad projects liquidated. Additionally, a development-stage investor may be asked to take over the project. I show that the investor take optimal divisions only if he is able to stay all along the lifetime of the project. If the investor has liquidation constraints, he will opportunistically decide to seal all the projects whatever be their quality, generating inefficient continuation of bad projects. The entrepreneur holding control rights will follow the same strategy. However, I show that under some parameters values (especially projects with higher liquidation proceeds), he will take the correct continuation decision unlike a venture capital investor with financial constraints. This result show that short-term constraint of investors create inefficiencies. Under some conditions an entrepreneur with control rights may reduce them. An empirical study on the portfolio of two venture capitalists illustrates this result.

"A Portfolio Approach to Venture Capital Financing"

Pascal Francois - HEC Montreal, Canada
Georges Hubner - University of Liege, Belgium

Discussant: Camino Ramon-Llorens - Polytechnic University of Cartagena, Spain

This paper studies the contracting choices between an entrepreneur and venture capital investors in a portfolio context. We rely on the mean-variance framework and derive the optimal choices for an entrepreneur with and without the presence of different kinds of venture capitalists. In particular, we show that the entrepreneur always has the incentive to share the risk and benefits of the venture whenever possible. On the basis of their objectives and characteristics, we distinguish the situations of the corporate, independent, and bank-sponsored venture capital funds. Our framework enables us to derive the optimal contract design for the entrepreneur, featuring the choice of investor, the entrepreneur's investment in the venture, and her dilution in the project's equity as a function of her bargaining power. This result allows us to characterize the choice of the investor depending on her cost of equity and debt capital. In addition to project size and risk, entrepreneur's risk aversion turns out to be a critical determinant of VC investor choice — a finding which is strongly supported by a panel analysis of VC fund flows for 5 European countries over the 2002—2009 period.

"Classification and Analysis of Criteria used in the Due Diligence Process"

Camino Ramon-Llorens - Polytechnic University of Cartagena, Spain
Gines Hernandez-Canovas - Polytechnic University of Cartagena, Spain

Discussant: Guillaume Andrieu - GSCM-Montpellier Business School, France

This paper aims to examine in a Continental European bank-based system the most important investment criteria that influence in evaluating entrepreneurs' business proposals. An extensive literature review is used to show that previous research leaves open the question regarding to what type of factors linked to the venture capital company plays the most important role in this process. The results reveal the existence of a relationship between the investment criteria used in the evaluation of new business proposals and the characteristics of the venture capital company, such as the venture capitalist's intuition, the public or private origin of the resources, the importance of the intuition, the stage of development of the investment, and the legal type of the venture capital company. Knowing the most important investment criteria to venture capitalists provides an insight for entrepreneurs to elaborate better proposals, addressing them to the most suitable venture capital company.

"The Determinants of Capital Structure for Vietnam's Seafood Processing Enterprises"

Nguyen Thi Canh - Vietnam National University, Vietnam
Nguyen Thanh Cuong - Nha Trang University, Vietnam

Discussant: Dimitrios V. Kousenidis - Aristotle University of Thessaloniki, Greece

The goal in this paper is to assess the determinants of capital structure for Vietnam's seafood processing enterprises (SEAs) in comparison with enterprises of other processing industries (DIFs). The result of this study was based on applying Shumi Akhtar's model (2005) [22] and Shumi Akhtar, Barry Oliver's (2005) [23] and using data of 302 enterprises, including 63 in fisheries industry, across 5 years from 2004 to 2008. Total observations were 772, including 284 and 488 for models applied to seafood processing enterprises and others respectively. The results show that capital structure differs between SEAs and DIFs. Accordingly, size and collateral value of assets were found to be significant determinants of capital structure for both SEAs and DIFs. For SEAs, profitability, growth, agency costs and interest expense affect the capital structure and play a crucial role. Meanwhile, bankruptcy risks and age of enterprises are essential determinants for DIFs. In relation to interaction effects, size and collateral value of assets are significant in explaining the differences in the capital structure of SEAs relative to that of DIFs. Finally, determinants of capital structure rarely varied over the sample period for both SEAs and DIFs. The findings suggest implications for Vietnam's seafood processing enterprises (SEAs) on flexible usage of financial leverage. Specifically, to increase or decrease the level of financial leverage, SEAs need to take into account size, collateral assets, profitability and growth rate of enterprises as well as recommend measures to cope with shocks in variations of bank interest rates.

HEDGING

Session Chair: Alexander Peter Groh - EM-LYON Business School, France

"Hedging Inflation Risk in a Developing Economy"

Marie Briere - Amundi, France

Ombretta Signori - Amundi Asset Management, France

Discussant: Nathan Liu - Feng Chia University, Taiwan

Inflation shocks are one of the pitfalls of developing economies and are usually difficult to hedge. Using a vector-autoregressive model, this paper examines the optimal strategic asset allocation for a Brazilian investor seeking to hedge inflation risk at different horizons, ranging from one to 30 years. Our results show that foreign currencies complement traditional assets very efficiently when hedging a portfolio against inflation: around 70% of the portfolio should be dedicated to domestic assets (equities, Inflation-Linked (IL) bonds and nominal bonds), whereas 30% should be invested in foreign currencies, especially US dollar and Euro.

"How Much Would You Like to Pay for Dynamic Hedging Strategies?"

Nathan Liu - Feng Chia University, Taiwan

Discussant: Constantin Mellios - University of Paris 1, France

In recent years, there has been growing importance placed on research in hedging performance for static and dynamic strategies. Most literature compares the statistical efficiency of different hedging strategies to decide the best strategy. However, it is still difficult to differentiate their performance for the further applications. This study tries to discuss the economic values among the various hedging strategies on the investors' side. Under the setting of constant relative risk aversion (CRRA), the realized utility function is used to compare the hedging performance. In consideration of economic value of hedging strategies, this study can get more practical inference for the investors with different levels of risk aversion. There are ten commodities used to estimate the economic values of dynamic hedging strategies. The hedging strategies compared in this study include original least squares (OLS), constant conditional correlation (CCC) and dynamic conditional correlation (DCC) models. It helps investors decide the optimal hedging strategy.

"The Traditional Hedging Model Revisited With A Non Observable Convenience Yield"

Constantin Mellios - University of Paris 1, France

Pierre Six - Rouen Business School, France

Discussant: Ryan Williams - Georgia State University, USA

This article addresses the issue of hedging a constrained position in the spot (storable) commodity with futures contracts when, in particular, the convenience yield is not observable and is estimated by using the continuous-time Kalman-Bucy method. We extend the relevant literature when the investors operate under incomplete information and study its impact on optimal demands. The latter depend crucially on the investor's initial beliefs. The speculative and mean-variance positions in the futures contract are the unique positions capturing the effect of the incomplete information and are strongly affected by the initial value of the estimation error. We achieve a decomposition allowing investors to assess the impact of both the state variables and the initial estimation error on optimal demands. Finally, a higher initial value of the estimation error exacerbates the Samuelson effect.

"How do Firms Hedge Input Prices?"

Ryan Williams - Georgia State University, USA

Discussant: Ombretta Signori - Amundi Asset Management, France

empirically examine how firms hedge input prices. First, I find that a firm's decision to use commodity derivatives is shaped by its opportunity to use them. Specifically, the percentage of a firm's input traded on futures markets significantly affects the decision to use commodity derivatives. I then classify commodity derivative users as "hedgers" and "speculators" based on the percentage of their input traded on futures markets. I find evidence that hedging has a positive effect on firm value, while speculating has a negative effect. Finally, consistent with a hypothesis in Guay and Kothari (2003), I find that the amount of input directly hedgeable with commodity derivatives for most U.S. public companies is small. Thus, previous studies focusing only on derivatives usage miss a large portion of corporate hedging activity. Firms wishing to hedge input prices when their inputs are not traded on futures markets must use alternative methods. I find evidence that one potential method, directly entering into forward contracts with suppliers, is used as a substitute for commodity derivatives.

ASSET PRICING

Session Chair: Bharat Kolluri - University of Hartford, USA

"Is There a Speculative Bubble in the Price of Gold?"

Jedrzej P. Bialkowski - University of Canterbury, New Zealand

Martin T. Bohl - University of Muenster, Germany

Patrick M. Stephan - University of Muenster, Germany

Tomasz P. Wisniewski - University of Leicester, UK

Discussant: Kashif Saleem - Lappeenranta University of Technology, Finland

Motivated by the current gold price boom, we investigate whether the rapidly growing investment activities have triggered a new asset price bubble. We draw on the convenience yield model and use commodity dividends to derive gold's fundamental value. Based on the deviations of the actual gold price from its fundamental value, we apply a Markov regime-switching Augmented Dickey-Fuller test to detect ex post and identify ex ante speculative gold price bubbles. The empirical evidence is favorable for a fundamentally justified price level even during the current period of a drastically rising gold price.

"Oil Risk and Asset Returns: Evidence from Oil Producing Countries"

Jussi Nikkinen - University of Vaasa, Finland

Kashif Saleem - Lappeenranta University of Technology, Finland

Minna Martikainen - Lappeenranta University of Technology, Finland

Mohammed Omran - Arab Academy for Science & Technology, Egypt

Discussant: Harminder Singh - Deakin University, Australia

In this paper we investigate whether oil risk is priced in the Saudi Arab, Oman, Qatar, UAE, Bahrain, Jordan and Egypt stock market using conditional international asset pricing models, and taking the view of US investors. The estimation is conducted using a modified version of the multivariate GARCH framework of De Santis and Gérard (1998). The results show that the world market risk and oil risk is priced on all the markets under investigation.

"Short-Run and Long-Run Oil Price Sensitivity of Chinese Stocks"

Mohan Nandha - Deakin University, Australia

Harminder Singh - Deakin University, Australia

Discussant: Sofia B. Ramos - Lisbon University Institute, Portugal

Using a GMM approach and five different return measurement intervals, this study examines the oil price sensitivity of 29 Chinese stock market sectors. Results show that over the sample period May 1994 to October 2009, the Chinese stock market returns exhibited a positive sensitivity to oil price. This appears to contradict the economic logic that hikes in oil prices would usually have a negative impact on the profitability of corporations and hence their share prices. Perhaps this could be an implication of the increased energy demand induced by high economic growth in China whereby oil prices and economic growth move side by side. Further, half yearly return measures appear to capture the oil price sensitivity of Chinese stock returns much better than the weekly or monthly return measurements. Consequently, Chinese stocks could be an attractive destination for hedging against the oil price hikes.

"The Puzzle of Asymmetric Effects of Oil: New Results from International Stock Market"

Sofia B. Ramos - Lisbon University Institute, Portugal

Helena Veiga - Universidad Carlos III de Madrid, Spain

Discussant: Patrick M. Stephan - University of Muenster, Germany

Previous work has documented that oil price changes have nonlinear effects in the economy and in stock market returns. We show that the nonlinear effects are different depending on whether countries are energy dependent or not. While price soars seem to have a negative effect on the stock markets of oil energy dependent countries, they have a positive effect on the stock markets of oil exporting countries. Stock market returns are negatively affected by oil price volatility in energy dependent countries and positively in oil exporting countries. Moreover, we find bi-directional effects between oil price increases and some oil volatility measures that can be reinforced with volatility feedback. The asymmetric effects found in oil dependent and oil exporting countries seem to fit into the offset mechanism proposed in the literature where oil price shocks interact both with oil price volatility and the economy. The results are also consistent with the finding that oil exporting countries benefit economically from oil price hikes.

SESSION 53

Room 104

FINANCIAL CRISIS

Session Chair: Edgar Ortiz - Universidad Nacional Autonoma de Mexico, Mexico

"International Propagation of the Credit Crisis"

Richard A. Brealey - London Business School, UK

Ian A. Cooper - London Business School, UK

Evi Kaplanis - London Business School, UK

Discussant: A. Yasemin Yalta - Hacettepe University, Turkey

Recent studies using general measures of crisis impact and propagation fail to find strong links between the ex-post cross-country impact of the crisis and ex ante variables. In contrast, this study examines one important element of the international propagation mechanism of the crisis in detail. It measures the transmission to the banking systems of other countries from the US banking system, the country of origin of the crisis. We develop a simple model and find a parsimonious specification which can explain over 60% of the cross-country impact of the crisis on bank stock indices using a single compound measure. The key components of this measure are: (1) links to the US measured by share price correlation, (2) leverage of the banking system, (3) fragility of the banking system measured by the liability structure, (4) internationalism of the banking system, and (5) the size of the banking system relative to the economy. In particular, we find that a simple measure of bank capital is a better predictor of the crisis impact than the risk-weighted measure of Basel II.

"The Interrelationship Between LIBOR and Treasury Bill Yields During the Global Financial Crisis"

A. Yasemin Yalta - Hacettepe University, Turkey

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

Discussant: Lynn A. Stout - UCLA, USA

We employ a time series oriented advanced bootstrap data generation process to investigate the causal relationship between monthly yields on 90-day maturities for London Interbank Borrowing Rate (LIBOR) and the U.S. Treasury Bill (T-bill) yields over the period between April 2004 and November 2010. In addition to examining whether the integration between two markets has changed over time, we also assess if the crisis altered the market integration by undertaking a comparative analysis of pre-crisis and post-crisis periods. Our maximum entropy bootstrap framework, which avoids pre-test biases while also being less affected from the size distortion problem, shows no evidence of increased integration between LIBOR and T-Bill yields over time. We also find that the global financial crisis did not affect the causal linkage between the two yields.

"The Legal Origin of the 2008 Credit Crisis"

Lynn A. Stout - UCLA, USA

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

Experts still debate what caused the credit crisis of 2008. This article argues that dubious honor belongs to a little-known statute called the Commodities Futures Modernization Act of 2000 (CFMA). Put simply, the credit crisis was not due to changes in the markets, it was due to changes in the law. The crisis was the direct and foreseeable (and in fact foreseen by the author and others) consequence of the CFMA's sudden and wholesale removal of centuries-old legal constraints on speculative trading in over-the-counter (OTC) derivatives. Derivative contracts are probabilistic bets on future events. They can be used to hedge, which reduces risk, but they also provide attractive vehicles for disagreement-based speculation that increases risk. Thus the social welfare consequences of derivatives trading depend as an empirical matter on whether the market is dominated by hedging or speculative transactions. The common law recognized the differing welfare consequences of hedging and speculation through a doctrine called "the rule against difference contracts" that treated derivative contracts that did not serve a hedging purpose as unenforceable wagers. Speculators responded by shifting their derivatives trading onto organized exchanges that provided private enforcement through clearinghouses in which exchange members guaranteed contract performance. The clearinghouses effectively cabined and limited the social cost of derivatives risk. In the twentieth century, the common law was replaced by the Commodity Exchange Act (CEA). Like the common law, the CEA confined speculative derivatives trading to the organized (and now-regulated) exchanges. This regulatory system also for many decades kept derivatives speculation from posing significant problems for the larger economy. These traditional legal restraints on OTC speculation were systematically dismantled during the 1980s and 1990s, culminating in the 2000 enactment of the CFMA. That legislation set the stage for the 2008 crises by legalizing, for the first time in U.S. history, speculative OTC trading in derivatives. The result was an exponential increase in the size of the OTC market, culminating in 2008 with the spectacular failures of several systematically important financial institutions and the near-failures of several others. In the wake of the crisis, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Title VII of the Act is devoted to turning back the regulatory clock by restoring legal limits on speculative derivatives trading outside a clearinghouse. However, Title VII is subject to a number of possible exemptions that may limit its effectiveness, leading to continuing concern over whether we will see more derivatives-fueled institutional collapses in the future.

SESSION 54

Room 105

CREDIT RISK

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

"Credit Derivatives and Loan Pricing"

Nimita Azam - University of Saskatchewan, Canada

Abdullah Mamun - University of Saskatchewan, Canada

George F. Tannous - University of Saskatchewan, Canada

Discussant: Jonatan Groba - University Carlos III, Spain

This study considers the relation between the prices of loans, defined as interest plus fee income from loans divided by total loans, and the use of credit derivatives (CDs). We find that the loan prices of users of CDs are significantly less than the loan prices of nonusers. Among the users group, we observe that as the volume of CDs increases the prices of loans also increase. When we separate the observations related to the users group between the years when these banks use CDs and the years when they do not use CDs, we find that the loan prices are marginally lower for the years when CDs are used. In particular, we find a significant decrease in prices during the years when these banks are sellers of CDs. Our analysis also suggests that the impact of the use of derivatives varies depending on whether the loans are real estate, consumer, commercial and industrial, agricultural, or foreign loans.

"What Drives Corporate Default Risk Premia? Evidence from the CDS Market"

Antonio Diaz - University of Castilla La-Mancha, Spain

Jonatan Groba - University Carlos III, Spain

Pedro Jose Serrano - University Carlos III, Spain

Discussant: Stefano Lugo - DIG - Politecnico di Milano, Italy

This paper studies the evolution of the default risk premia for European firms during the years surrounding the recent credit crisis. We employ the information embedded in Credit Default Swaps (CDS) and Moody's KMV EDF default probabilities to analyze the common factors driving this risk premia. The risk premium is characterized in several directions: Firstly, we perform a panel data analysis to capture the relationship between CDS spreads and actual default probabilities. Secondly, we employ the intensity framework of Jarrow et al. (2005) in order to measure the theoretical effect of risk premium on expected bond returns. Thirdly, we carry out a dynamic panel data to identify the macroeconomic sources of risk premium. Finally, a vector autoregressive model analyzes which proportion of the co-movement is attributable to financial or macro variables. Our estimations report coefficients for risk premium substantially higher than previously referred for US firms and a time varying behavior. A dominant factor explains around 60% of the common movements in risk premia. Additionally, empirical evidence suggests a public-to-private risk transfer between the sovereign CDS spreads and corporate risk premia.

"Sovereign Wealth Fund Investments: A Credit Risk Perspective"

Fabio Bertoni - DIG - Politecnico di Milano, Italy

Stefano Lugo - DIG - Politecnico di Milano, Italy

Discussant: George Chalamandaris - Athens University of Economics and Business, Greece

In this paper we analyze the impact of Sovereign Wealth Fund (SWF) investments on credit risk. We compute an adjusted measure of Credit Default Swap (CDS) spread decrease (ADS) for 1 year and 5 year CDSs, on a sample of 308 SWF investments between 2003 and 2010 identified using the SWF Transaction Database. Our findings point out that, after a SWF investment, target company's credit risk decreases significantly, especially for the 1 year maturity CDS. The decrease is stable and 1 year CDS spread does not exhibit any trend towards reverting to its pre-investment value. Results on 5 year maturity are smaller in magnitude and weaker in statistical significance. ADS is higher for companies which have a higher pre-investment credit risk and are invested by large SWFs. Moreover, ADS is smaller in periods of high market volatility. These findings confirm the certification hypothesis, according to which SWFs may play a stabilizing role for companies facing high credit risk, especially for short-term liabilities.

"The Impact of the Financial Crisis on the Joint Dynamics of CDS and Bond Markets: Evidence from the US Corporate Credit Market"

George Chalamandaris - Athens University of Economics and Business, Greece

Discussant: George F. Tannous - University of Saskatchewan, Canada

This paper explores the impact of the recent financial crisis on the joint dynamics of bond and CDS spreads. Using Libor/OIS spread as a liquidity indicator, we establish its importance for the joint dynamics of the two markets. We test the stability of the cointegrating vector that links the two markets within a framework of linear VECM models, only to confirm the occurrence of significant structural breaks in the aftermath of the subprime crisis. By extending our analysis to more general nonlinear specifications, we investigate the nature of the structural shift in the context of threshold cointegration models.

SESSION 55

Room 107

PAYOUT POLICY

Session Chair: Lucas Ayres B. de C. Barro - University of Sao Paulo, Brazil

"Dividends and Stockholder Conflicts: A Comprehensive Test for Private Firms"

Janis Berzins - Norwegian School of Management, Norway

Oyvind Bohren - Norwegian School of Management, Norway

Bogdan Stacescu - Norwegian School of Management, Norway

Discussant: Cal Muckley - University College Dublin, Ireland

This paper examines how conflicts of interest between majority and minority owners interact with the firm's dividend policy. We analyze a large sample of private firms with controlling stockholders and detailed ownership data. Our evidence shows that the stronger the potential conflict between the stockholders as reflected in the firm's ownership structure, the more of the earnings are paid out as dividends. This tendency to reduce stockholder conflicts by dividend payout is independent of the minority structure and is stronger when the majority block of a family is held by single individual. These findings are consistent with the notion that potential agency costs of ownership are reduced by dividend policy because the majority stockholder benefits from not exploiting the minority.

"Corporate Payout Policy in Japan"

Abhinav Goyal - University College Dublin, Ireland
Cal Muckley - University College Dublin, Ireland

Discussant: Michael D. McKenzie - The University of Sydney, Australia

This paper examines cash dividends and share repurchases in Japan - discerning between keiretsu and non-keiretsu groupings of firms - during the period 1990 to 2008, a period of extensive Japanese corporate governance reform. As in the United States, share repurchases in Japan have grown strikingly across firm groupings even relative to cash dividends which have also increased. Unlike in the United States, cash dividends remain the dominant form of payout across the groupings of firms in Japan. Despite extensive corporate governance reform, the keiretsu grouping of firms exhibits a comparative reticence to alter its corporate payout policy. In particular, it remains the case that keiretsu firms disburse relatively large amounts of cash, they rely relatively heavily on cash dividends rather than share repurchases, they exhibit a greater tendency to discontinue cash dividend payouts, their payouts are relatively sensitive to earnings and these payouts respond relatively rapidly with respect to earnings. In addition, the cash dividend payouts in keiretsu firms have been relatively concentrated, while these payouts from non-keiretsu firms concentrate increasingly over time. The findings also suggest that larger firms in Japan are more likely to payout and if they decide to do so they tend to payout more. As the level of concentration of ownership in Japanese firms increases the amount of cash dividends disbursed decreases. Privatized firms are more likely to pay cash dividends and if they decide to do so and they are not keiretsu affiliated they tend to payout more.

"Selectivity and Sample Bias in Dividend Drop-Off Studies"

Michael D. McKenzie - The University of Sydney, Australia
Graham Partington - The University of Sydney, Australia

Discussant: Bogdan Stacescu - Norwegian School of Management, Norway

A large literature exists which focuses on estimating the dividend drop off ratio around company ex-dates. This paper focuses on issues relating to sample selection and how this impacts on the drop off estimate. Specifically issues around the impact of the market adjustment, thin trading, the size of the spread and tick relative to the dividend and dividend event day clustering are considered. Our results highlight that the drop off ratio is extremely sensitive to small changes in sample such that rather than focus on deriving a point estimate of the drop off ratio, it may be more sensible to talk in terms of a feasible range.

SESSION 56

Room 108

BANKRUPTCY/FINANCIAL DISTRESS

Session Chair: Alain Chevalier - ESCP-Europe, France

"The Determinants of Bankruptcy Protection Duration for Canadian Firms"

Mohamed Ayadi - Brock University, Canada
Skander Lazrak - Brock University, Canada
Dan Xing - Brock University, Canada

Discussant: Randi Naes - University of Stavanger, Norway

This paper finds that older firms with more complicated structures and issues to settle tend to stay longer under protection from creditors. We also find that the fate of relatively successful companies is determined faster. Moreover, we report that it takes less time to achieve a final solution for firms under bankruptcy when the default spread is low or when the appetite for risk is high. Conversely, during periods of high default spreads and flight for quality, it takes longer time to resolve the bankruptcy issue. High default spreads may cause and incidentally reflect higher bankruptcy rates in the economy. Indeed, we find that bankruptcy protection is longer during economic downturns. We explain this relation by the natural increase in the default rate among firms (and individuals) during economically troubled times. Default spreads are usually larger during these harsh periods as investors become more risk averse since their wealth shrinks. Firms that file under the Companies' Creditors Arrangement Act protection spend a longer time restructuring than firms that filed under the Bankruptcy and Insolvency Act (BIA). As the BIA is more statutory and less flexible, solutions can be reached faster by court orders.

"The Relationship between Bankruptcy Risk and Growth for Non-listed Firms"

Kjell Bjo rn Nordal - Norges Bank, Norway
Randi Naes - University of Stavanger, Norway

Discussant: Pornchai Chunchachinda - Thammasat University, Thailand

We investigate the relationship between bankruptcy risk and expected future sales growth for Norwegian non-listed firms for the period 1988-2007. We find that firms with high bankruptcy risk also have high expected future growth. Financial ratios characterizing firms with high bankruptcy risk also characterize firms with high future expected growth. Small firms, firms with low levels of equity and retained earnings, firms with low profitability and low levels of sales per unit of capital, have all higher expected future growth rates than other firms. These findings suggest a tradeoff between the upside potential of high growth and the downside risk of bankruptcy.

"Bankruptcy Prediction of Real Estate Firms in Thailand"

Suporn Treewichayapong - Thammasat University, Thailand
Pornchai Chunchachinda - Thammasat University, Thailand
Chaiyuth Padungsaksawasdi - Florida International University, USA

Discussant: Andrea Pescatori - International Monetary Fund, USA

With unique and complete database of listed and non-listed real estate firms in Thailand over the period 2001-2009, the results of bankruptcy prediction using binary logistic regression and Cox proportional hazard models show that financial ratios, as leading indicators of corporate bankruptcy, play more significant roles than company specific and corporate governance variables. Moreover, binary logistic regression model is superior than Cox proportional hazard model in that the prediction accuracy and type I error for binary logistic model are 96% and 6% whereas those for Cox proportional hazard model are 84% and 34%, respectively.

"Debt Overhang in a Business Cycle Model"

Filippo Occhino - Federal Reserve Bank of Cleveland, USA
Andrea Pescatori - International Monetary Fund, USA

Discussant: Skander Lazrak - Brock University, Canada

We study the macroeconomic implications of the debt overhang distortion. In our model, the distortion arises because investment is non-contractible when a firm borrows funds, the debt contract cannot specify or depend on the firm's future level of investment. After the debt contract is signed, the probability that the firm will default on its debt obligation acts like a tax that discourages its new investment, because the marginal benefit of that investment will be reaped by the creditors in the event of default. We show that the distortion moves counter-cyclically: it increases during recessions, when the risk of default is high. Its dynamics amplify and propagate the effects of shocks to productivity, government spending, volatility and funding costs. Both the size and the persistence of these effects are quantitatively important. The model replicates important features of the joint dynamics of macro variables and credit risk variables, like default rates, recovery rates and credit spreads.

SESSION 57

Room 110

M&AS

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

"The Microstructure of Australian Takeover Announcements"

Martin Bugeja - University of Technology, Australia
Vinay Patel - University of Technology, Australia
Terry Walter - University of Technology, Australia

Discussant: Chee-Meng Yap - National University of Singapore, Singapore

This study examines the behaviour of returns, trading volume, volatility, liquidity and a unique informed trading metric around takeover announcements for both target and acquiring firms, to determine whether informed trading is prevalent within the Australia market. Using intraday data, we find direct and indirect evidence of informed trading. For target firms abnormal returns and volume, widened spreads and increased purchases of target firm shares are observed during the period prior to the takeover announcement. In addition regression analysis finds a statistically significant relationship between abnormal returns and our cumulative informed trading metric. Informed trading is strongly evident within 10-15% of sample target firms. Limited evidence of informed trading is also observed for acquiring firms through negative returns, abnormal volume, widened spreads and selling of the acquiring firm shares prior to the takeover announcement.

"Are Mergers and Acquisitions Good for R&D? Answers from the Holding Period Returns Perspective"

Chee-Meng Yap - National University of Singapore, Singapore
Yew-Kee Ho - National University of Singapore, Singapore

Discussant: Bart Frijns - Auckland University of Technology, New Zealand

This study postulates that M&A will normally enhance the appropriability conditions for the acquirer to capture value from her R&D investment. Resulting from this, we wish to test whether the value of R&D is actually increased by examining the conditional impact that M&A has on the marginal contribution of R&D investment on the holding period returns of a firm. Our analysis show that M&A interacts with R&D investment to contribute conditionally to the three- and five-year holding period returns of a firm. In addition, this conditional effect is, in some cases, more than three times the direct marginal contributions of R&D investment. Furthermore, when we consider the types of

acquisition, namely, horizontal, vertical, and conglomerate, plus all the possible combinations of these three types, we find that only certain combinations the types of M&A have significant conditional effect on R&D investments marginal contribution to the three- and five-year holding period returns. These combinations are horizontal and vertical M&A, horizontal and conglomerate M&A, and vertical and conglomerate M&A. Thus, the results are indicative of the necessity of combining resources from different types of M&A to enhance the appropriability of R&D investments.

"Cultural Values, CEO Risk Aversion and Corporate Takeovers"

Bart Frijns - Auckland University of Technology, New Zealand
Aaron Gilbert - Auckland University of Technology, New Zealand
Thorsten Lehnert - University of Luxembourg, Luxembourg
Alireza Tourani-Rad - Auckland University of Technology, New Zealand

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

We explicitly examine the role of culture in corporate takeover decisions. Prior research suggests that the risk aversion of CEOs affects their takeover decisions. In this paper, we argue that managerial risk aversion at a national level is a cultural trait and affects the net synergies. CEOs of firms located in countries with higher level of risk aversion, measured by Hofstede's (2001) uncertainty avoidance score, show less takeover activity, engage more in diversifying takeovers and require higher premiums on takeovers. Required net synergies are higher for smaller firms, relatively larger deals, and for firms that engage in more takeover activity.

"Crossing Takeover Premiums and Mix of Payment: Empirical Test of Contractual Setting in M&A Transactions"

Hubert de La Bruslerie - University Paris-Dauphine, France

Discussant: Vinay Patel - University of Technology, Australia

The analysis of the offer premiums and means of payment should not be done separately. In the empirical literature these two variables are often considered separately and independently although they may have endogenous relation. Using a sample of European M&As over the 2000-2010 decade, we show that these two variables are jointly set up in a contractual approach. The relationship of the percentage of cash with the offer premium is positive: higher premiums will yield payments with more cash. We highlight that the payment choice is not a continuum between full cash and full share payment. The existence of two regimes of payment in M&A transactions is the first conclusion we draw. We analyze the major determinants of M&A terms when the offer premium and the means of payment are jointly set. The underlying rationale of asymmetry of information and risk sharing calculus is found significant in the setting of the agreement.

SESSION 58

Room 208

EXCHANGE RATES

Session Chair: William J. Bertin - Bond University, Australia

"Macroeconomic News Surprises and Volatility Spillover in the Foreign Exchange Markets"

Walid Ben Omrane - Brock University, Canada
Christian Hafner - University of Louvain, Belgium

Discussant: Gautam Goswami - Fordham University, USA

We analyze and decompose the simultaneous impact of a more refined and extended set of macroeconomic news surprises on the three major currency volatilities. We find that scheduled US news surprises have the most significant effect on currency volatilities, and most importantly on the Euro/Dollar. In the case of the Pound and the Yen, more than 50% of the total accumulated news effects are induced by volatility spillover from the two major currencies and mainly from the Euro. We implement a multivariate volatility model and an impulse response analysis. Our model allows for volatility spillover from one currency to another.

"Non-Monotonic Relation Between Real Exchange Rates and Economic Fundamentals: Theory and Evidence"

Gautam Goswami - Fordham University, USA
Milind Shrikhande - Georgia State University, USA
Liuren Wu - City University of New York, USA

Discussant: Raul DeJesus-Gutierrez - Universidad Autonoma del Estado de Mexico, Mexico

This paper proposes a general equilibrium model of real exchange rates that incorporates a general cost structure for goods transportation between economies. The model generates a non-monotonic relation between the real exchange rate in equilibrium and economic fundamentals as captured by capital stock imbalance. When calibrating the model to over one hundred years of dollar-sterling real exchange rates and different capital stock proxies for the two economies, the paper identifies a proportional cost of 1.91%-3.6% of the shipping quantity and a fixed cost of 2.33%-3.36% of the receiving country's capital stock. Consistent with the model's implication, the real exchange rate persistence, volatility, and its response to economic shocks all vary strongly with the degree of the capital stock imbalance. Deviations of the observed real exchange rate from its model value predict future real exchange rate movements.

"The Impact of Exchange Rate Variability on the Returns and Risk in Mexican Stock Market"

Raul DeJesus-Gutierrez - Universidad Autonoma del Estado de Mexico, Mexico

Discussant: Stefano Mazzotta - Kennesaw State University, USA

The effect of heavy tails due to rare events and different levels of asymmetry associated with high volatility clustering in the emerging financial markets require sophisticated models for statistical modelling of such stylized facts. This paper applies extreme value theory (EVT) to quantify tail risk to the daily returns of Mexican stock market under aggregation of foreign exchange rate risk between 1971 and 2010. This study focuses on the block maxima method and generalized extreme value distribution (GEVD) to model the asymptotic behaviour of extreme returns in US dollars. The empirical results show that EVT-Based VaR measure at high confidence levels has better performance on capturing fat-tails in the returns of highly volatile stock markets than simulation historical and delta-normal VaR models. Besides international investors with long positions in Mexican stock market is more prone to experience largest losses than investors with short positions during depreciation of local currency and financial crisis periods.

"The Unconditional and Conditional Exchange Rate Exposure of U.S. Firms"

Ines Chaieb - University of Geneva, Switzerland

Stefano Mazzotta - Kennesaw State University, USA

Discussant: Walid Ben Omrane - Brock University, Canada

We re-examine the relationship between exchange rate movements and firm value. We estimate the exchange rate exposure of publicly listed U.S. firms clustered into eleven industries. Using a panel approach, we uncover statistically significant and sizable unconditional exposure. We also examine the dynamics of exchange rate exposure modeled as a function of business cycle indicators and firm characteristics. We find that exposure varies over time with macroeconomic and financial variables and increases during economic contractions. Deviations from the unconditional measure of exposure driven by the macroeconomic variables are economically meaningful.

SESSION 59

Room 209

PORTFOLIO MANAGEMENT

Session Chair: Laurie Prather - Bond University, Australia

"Performance of Private Equity Investments: Are Management Companies' Shareholders Relevant?"

Stefano Caselli - Bocconi University, Italy

Stefano Gatti - Bocconi University, Italy

Francesca Querci - University of Genova, Italy

Discussant: Rosanne Vanpee - Hogeschool-Universiteit Brussel, Belgium

This study demonstrates that the ownership of private equity (PE) funds influences investment performance. The analysis focuses on the universe of PE investments made by Italian closed-end funds from 1999 to 2005. We find that bank-owned funds generally engage in weaker monitoring of the firms in which they invest, because their representatives hold a plurality of offices on boards of directors of such firms, whether PE-backed or not. This leads to lower revenue growth for portfolio firms, and consequently to lower IRR. On the contrary, corporate-owned funds are able to enforce closer supervision of their investments, leading to better performance.

"The Value of Clean Hands: Public Policy and International Asset Allocation"

Piet Sercu - Katholieke Universiteit Leuven, Belgium

Rosanne Vanpee - Hogeschool-Universiteit Brussel, Belgium

Discussant: Massimo Scotti - University of Technology Sydney, Australia

Despite of the intuitive idea that corporate governance and transparency are crucial for a country's international appeal, foreign portfolio investors appear to care first and foremost about transparency, predictability and honesty in governments. This is, at least, what our analysis of international portfolio holdings implies. Our estimates further indicate that (i) a feasible improvement of government corruption and especially institutional quality can trigger an economically substantial rise in foreign interest for the stocks of that country; and (ii) an amelioration in country-level governance variables creates significantly higher effects on foreign equity demand than an improvement in traditional macroeconomic policy indicators.

"Delegated Portfolio Management with Career Concerns"

Massimo Scotti - University of Technology Sydney, Australia

Discussant: Thi Hong Van Hoang - GSCM-Montpellier Business School, France

The paper proposes a model of delegated portfolio management in which career concerns lead to unprofitable trade by uninformed managers, and in turn, to an increase in the aggregate volume of trade, as well as in the level of noise. This allows informed managers to generate higher returns which more than compensate the losses from uninformed managers. We find that higher volatility of fundamentals leads uninformed managers to trade more aggressively. This has positive effect on the volume of trade and a negative effect on the expected return on delegation. The model

predicts that increasing levels of institutional ownership in financial markets should lead to higher trading volumes that are positively correlated with asset riskiness.

"Gold Quoted at Paris and the Diversification of France Portfolios from 2004 to 2009"

Thi Hong Van Hoang - GSCM-Montpellier Business School, France

Discussant: Francesca Querci - University of Genova, Italy

This paper aims to study the role of gold quoted at Paris (physic and paper) in the diversification of French portfolios on the period from 2004 to 2009 including the financial crisis period 2007-2009. The results show that the correlation of gold with stocks and with bonds is very weak. At the same time, the inclusion of gold quoted at Paris in French portfolios reduces their risk and increases their return. Consequently, gold improves significantly efficient frontiers and performance of these portfolios. The proportion of gold introduced in order to minimize portfolio risk is between 2% and 5%. We note also that physical gold (ingot and napoleon coin) is more efficient than paper gold (gold mutual funds) in portfolio diversification. At the same time, gold (both physic and paper) is more efficient in stock portfolios than in bond portfolios.

SESSION 60

Room 210

VALUATION

Session Chair: Edward Nelling - Drexel University, USA

"Diminishing Marginal Returns from R&D Investment: Evidence from Manufacturing Firms"

Robert Faff - University of Queensland, Australia

Yew-Kee Ho - National University of Singapore, Singapore

Wei-Lin Lin - National University of Singapore, Singapore

Chee-Meng Yap - National University of Singapore, Singapore

Discussant: Samuel H. Szewczyk - Drexel University, USA

Growth opportunities is an ex-ante measure of a firm's ability to generate future cash flow from its R&D investment. We analyze the association between R&D investment and growth opportunities and show that there exists diminishing marginal returns in manufacturing firms. Extant literature has found that besides R&D investment, systematic risk, financial leverage and complementary asset investment are also associated with growth opportunities. Accordingly, we employ structural equation modeling to simultaneously estimate both a direct influence of R&D investment as well as indirect influences of R&D investment on growth opportunities via these three mediating effects. We find that the direct effect of incremental R&D investment on growth opportunities is independent of R&D intensity. Instead, the heterogeneous effects of R&D investment on systematic risk, financial leverage and complementary asset investment across firms with different R&D intensity level accounts for the diminishing marginal returns to R&D investment. We specifically observe that the greatest indirect effect is via the financial leverage of the firm. This study shows the importance of accounting for the interdependencies in R&D investment.

"Impact of EVA Adoption on Long-Term Shareholder Value: An Empirical Investigation"

WaQar I. Ghani - Saint Joseph's University, USA

Samuel H. Szewczyk - Drexel University, USA

Discussant: Andreas Andrikopoulos - University of the Aegean, Greece

Our study examines Economic Value Added metric's link to superior long term shareholder value creation. We assume that EVA adoption brings about a positive change in managerial behavior that in turn leads to long-term value creation. Unlike most prior research that uses only one sample, we employ two samples. The first sample is based on 57 U.S. firms that Stern Stewart & Company has posted on its website and where they claim that these firms have achieved superior financial performance as a consequence of the adoption of EVA for the 1994-98 periods. The second sample is based on 178 U.S. firms' proxy statements for the 1994-1999 periods in which these firms have described EVA use as a part of their performance evaluation and compensation metric. Our study's results, using both long-term abnormal holding period returns and analyst forecast based on five-year growth of earnings per share show that EVA adoption has no impact on a firm's long-run performance when compared to a control sample matched on industry, size and past performance. Our results suggest that firms should view claims about the long-term value of EVA metric with serious skepticism.

"Finance: A Critical-Realist Account of a Changing Discipline"

Andreas Andrikopoulos - University of the Aegean, Greece

Discussant: Yi Liu - University of North Texas, USA

This paper outlines the assumptions on the nature of financial markets and investments which condition the mainstream theory of finance. Explanatory problems of financial economics are associated with the assumptions on financial reality and the respective method of inquiry, one routed in the practices of (some branches of) natural sciences. In an alternative conception of finance, financial markets are socially structured and are knowable to investors and theorists through fallible and transitive perceptions and theories.

"Is There Value in Growth?"

Yi Liu - University of North Texas, USA

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

This paper explores whether economic "Moat" can predict growth stocks with superior returns. Moat is defined as the long term sustainable competitive advantage. By distinguishing sustainable growth with non-sustainable growth, this research will help to understand why growth stocks underperform and partially solve "Value Premium" puzzle.

SESSION 61

Room 118

CORPORATE ISSUES

Session Chair: Robin K. Chou - National Chengchi University, Taiwan

"Fiat Privatization: The Non-Tradable Share Reform and Stock Market Fundamentals in China"

Andrea Beltratti - Bocconi University, Italy

Bernardo Bortolotti - University of Torino, Italy

Marianna Caccavaio - Luiss Guido Carli University, Italy

Discussant: Hakan Jankensgard - Lund University, Sweden

During 2005-2006, the Chinese government implemented a reform aimed at eliminating the so-called non-tradable shares (NTS), shares held by the State or by politically connected institutional investors, that were issued at the early stage of financial market development. The announcement of this reform provides an ideal environment to test without endogeneity bias the value relevance of potential large scale privatization. Our analysis confirms that the NTS reform affected positively the fundamentals of the Chinese stock market due to expectations of future privatization and to the interest associated with historically neglected stocks.

"Asset Illiquidity and Corporate Hedging"

Hakan Jankensgard - Lund University, Sweden

Bjorn Hagstromer - Stockholm University, Sweden

Discussant: Angelo Aspris - University of Sydney, Australia

Distressed firms that are forced to liquidate assets in inefficient markets often have to accept prices that are substantially lower than the fair asset value. This asset illiquidity discount aggravates the financial situation of such firms and should be accounted for in risk management. This paper is the first to analyze financial hedging as a tool for avoiding exposure to the asset illiquidity discount. In our model the firm trades off the benefit of lowering the probability of asset fire sales against the cost of underinvestment resulting from the drain on cash when the firm buys insurance. We use the case of Saga Petroleum ASA, a Norwegian oil exploration company, to illustrate this tradeoff.

"The Relationship between Board Independence and Stock Liquidity"

Angelo Aspris - University of Sydney, Australia

Alex Frino - University of Sydney, Australia

Discussant: Samuel B. Bulmash - University of South Florida, USA

This study examines how board independence affects market liquidity. We show that firms with majority independent boards have narrower spreads, lower price impact, and smaller adverse selection costs. Our measure of independence is captured by an index which resolves some rendering issues in independent board function that are not captured by a single board characteristic. This relationship is consistent across time. Following delineations by O'Hara (2004) that information risk can affect asset pricing, this finding has significant implications for firm management and their shareholders.

"Further Revisiting the Impacts of Factors like CEO Experience or Age or Compensation have on Corporate Performance."

Samuel B. Bulmash - University of South Florida, USA

Discussant: Marianna Caccavaio - Luiss Guido Carli University, Italy

The empirical results of this paper show that there is only mild positive relationship between improvement in firm performance and the compensation package, with some mild added benefit from some experience but mixed results for other factors. The results also support the findings from earlier studies that it is desirable to have an incentive scheme contingent on future returns, not only on the short time horizon. The findings presented here also confirm that CEOs who have passed the "early probation" test of time and skills and gained time to develop experience to lead the firm and its business have a stronger relationship between compensation and firm performance. However, the relatively low statistical relationships between compensation and firm performance for the whole sample overall leave room for concerns about the limited extent of their effectiveness. This paper also raises indirectly also concerns that the theoretical motivations of some compensation packages and the actual practices in the real world were not well aligned despite the large number of studies and efforts aimed at improving the relationship between CEO compensation and firm performance.

ASSET PRICING

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

"Contrarian and Momentum Strategies: The Impact of the Business Cycle"

Greg Filbeck - Pennsylvania State University, USA
 Mingsheng Li - Bowling Green State University, USA
 Xin Zhao - Pennsylvania State University, USA

Discussant: Tassos Malliaris - Loyola University of Chicago, USA

In this paper, we revisit and extend previous work regarding the success of momentum and contrarian strategies by controlling for economic cycles, analyst coverage, and firm size. We confirm previous research that contrarian and momentum strategies yield significant returns, but most of the contrarian profits are realized in January, while most of the momentum profits are realized in non-January months. We find that investors can earn higher excess returns by utilizing a contrarian strategy during contractionary periods and a momentum strategy during expansionary periods. The effects of these trading strategies are more prominent for small capitalization stocks for the contrarian strategy and large capitalization stocks for the momentum strategy. Firm size dominates analyst coverage as a driver of excess returns for medium and large stocks, with stocks with high analyst coverage yield higher payoffs for both contrarian and momentum strategies. The contrarian strategy proves to be more successful after extreme market movements, regardless of the location in the business cycle. The results still hold after controlling for the impact of transition costs and multiple systematic factors.

"Dividends, Momentum and Macroeconomic Variables as Determinants of the U.S. Equity Premium Across Economic"

Ramaprasad Bhar - The University of New South Wales, Australia
 Tassos Malliaris - Loyola University of Chicago, USA

Discussant: Panagiotis G. Artakis - University of Piraeus, Greece

The equity premium of the S&P 500 Index is explained in this paper by several variables that can be grouped into fundamental, behavioral and macroeconomic factors. We hypothesize that the statistical significance of these variables changes across economic regimes. The three regimes we consider are the low, medium and high volatility regimes in contrast to previous studies that do not differentiate across economic regimes. Using the three-state Markov switching regime econometric methodology we confirm that the statistical significance of the independent variables representing fundamentals, macroeconomic conditions and a behavioral variable changes across economic regimes. Our findings offer an improved understanding of what moves the equity premium across economic regimes than what we can learn from single-equation estimation. Our results also confirm the significance of momentum as a behavioral variable across all economic regimes.

"Foreign Exchange Risk, Equity Risk Factors and Macroeconomic Growth"

Nicholas Apergis - University of Piraeus, Greece
 Panagiotis G. Artakis - University of Piraeus, Greece

Discussant: Byoung-Kyu Min - University of Neuchatel, Switzerland

The Fama & French (1993) three-factor asset-pricing model (3FM) along with its extended version the four-factor model proposed by Carhart (1997) states that asset returns can be attributed to four risk factors, namely the market premium, the value factor, the size factor and the momentum factor. In a seminal work in the area of asset pricing, Liew and Vasalou (2000) showed that the four risk factors can be linked to future Gross Domestic Product (GDP) growth. The goal of this research work is to provide further evidence in the relationship between macroeconomic growth and equity risk factors that have proved capable of explaining the cross variation of stock returns. The novelties of the present study are: a) the addition of a new risk factor that captures the effect of foreign exchange risk on stock returns, b) a data set that makes use of daily observations for the measurement of the five risk factors, and c) data from a Eurozone country, i.e. Germany from 1999:12 to 2009:6. The methodology employed involved: a) univariate regressions of GDP growth on the lagged return to each of the individual risk factors (market premium, size, value, momentum and foreign exchange risk), b) two factor regressions in order to compare each of the risk factors relative to the market risk premium, c) a multi-factor regression that includes the three risk factors of the Fama & French (1993) model, d) a multi-factor regression that includes the four risk factors of the Carhart (1997) model and e) a multi-factor regression that includes the four risk factors of the Carhart (1997) model along with the foreign exchange risk factor. The empirical results displayed that the foreign exchange risk factor contains incremental information concerning future macroeconomic growth. Firms that are sensitive to the foreign exchange risk will thrive when an economic upturn is anticipated and firms that are insensitive to the foreign exchange risk will have larger returns when an economic downturn is anticipated. Furthermore, the market risk premium and the size risk factor had a robust positive relationship with future economic growth, while the value and momentum risk factor showed a negative and

statistically significant relationship with future economic growth.

"Long-Run Consumption Risk and Momentum Profits"

Byoung-Kyu Min - University of Neuchatel, Switzerland

Tong Suk Kim - KAIST Business School, South Korea

Discussant: Xin Zhao - Pennsylvania State University, USA

We study the profitability of momentum trading using a consumption-based intertemporal asset pricing model where the risk factors are news about future long-run consumption growth as well as current consumption growth. We show that long-run consumption risk goes in the right direction in explaining the momentum profit: (i) winners have higher loadings than losers on the long-run consumption growth factor; (ii) long-run consumption growth factor is significantly priced in momentum portfolios; and (iii) our two-factor model explains more than half of momentum profits in standard factor regression model. Thus, our results lend support a view that momentum profits are at least partially derived from macroeconomic risk.

SESSION 63

Room 103

BANKS

Session Chair: Jason Wei - University of Toronto, Canada

"Bank Market Power and Revenue Diversification: Evidence from Selected ASEAN Countries"

My Nguyen - Monash University, Australia

Michael Skully - Monash University, Australia

Shrimal Perera - Monash University, Australia

Discussant: Andreja Bandelj - Bocconi University, Italy

This paper investigates the association between bank market power and income from non-traditional activities in five selected Association of Southeast Asian Nations (ASEAN) banking markets (Indonesia, Malaysia, the Philippines, Thailand and Vietnam) during 1998-2008. It contributes to the literature by introducing into the modeling of bank non-interest income the influence of bank market power. Due to the complexity of bank operations and products, it also explores the possible non-linearity in the association between market power and revenue diversification. The methodology employed is panel least squares with fixed effects and controls for financial crises and cross-country differences. The results indicate that banks with market power in both loan and deposit markets earn higher income from non-traditional activities. The association between market power and revenue diversification is non-linear, suggesting that at lower degree of market power, managers focus more on revenue diversification strategies. Furthermore, the association between market power and revenue diversification has declined over time (specifically in deposit markets). Consistent with relative banking market regulation, compared to Vietnam, banks in Malaysia, Indonesia and the Philippines earn more income from non-traditional activities. The findings offer several implications for ASEAN banks, shareholders, regulators and policy makers.

"Should Banks be Diversified Geographically? Evidence from Cross-Country Diversification of European Banks"

Andreja Bandelj - Bocconi University, Italy

Discussant: Stephanos Papadamou - University of Thessaly, Greece

In the past decade we have witnessed a trend of accelerated globalization of financial institutions, with European banks being the most active players in this process. This observation raises the intuitive question of whether banks benefit from cross-border diversification or not. So, in this study I try to find an answer to this question by examining the relationship between banks' geographic diversification and their cost of equity capital. I try to find some further evidence for answering the question of whether banks should diversify or stay focused to achieve lower cost of equity capital. Another reason why this paper is a matter of present interest is because of the fact that the European Commission requested that banks that have received substantial state aid after the crisis, restructure and divest a large part of non-core activities, which includes also subsidiaries abroad. The sample consists of large public banks from sixteen European countries over the period between 2000 and 2010. Study uses data on each individual bank exposure to different geographic regions and four commonly used models of the implied cost of equity capital. In the empirical analysis I use various estimation techniques (panel data, dynamic panel data, Heckman twostage estimation procedure). The main finding of the analysis is that more diversified banks have higher cost of equity capital. This finding is consistent with the agency theory, internal capital market and investors' negative reaction to this banks' business strategy.

"Interest Rate Risk and Bank of England Operational Independence: Evidence from Bank and Life Insurance Companies"

Stephanos Papadamou - University of Thessaly, Greece

Costas Siriopoulos - University of Patras, Greece

Discussant: Mohamed Belkhir - UAE University, UAE

This study investigates whether bank and life insurance equity returns' sensitivity to long-term unanticipated interest

rate changes has changed since the Bank of England was granted operational independence in May 1997. By using rolling regression techniques and GARCH in mean models we find evidence that there may well have been changes in the way banks and life insurance companies manage interest rate risk. In particular, we document that since more transparent monetary policy actions were adopted by the Bank of England the magnitude of interest rate risk exposure has changed and its significance reduced. These results should be of much banking and policy interest, especially concerning financial stability issues. It seems that a monetary policy regime such as inflation targeting is not enough to reduce interest rate risk. Additional institutional reforms toward more monetary transparency are needed.

"Market Discipline of Bank Risk and the Too-Big-To-Fail Protection: Evidence from Risk Management Decisions"

Mohamed Belkhir - UAE University, UAE

Discussant: Shrimal Perera - Monash University, Australia

I test the market discipline of bank risk hypothesis by examining whether banks choose risk management policies that account for the risk preferences of subordinated debtholders. Using around 500,000 quarterly observations on the population of U.S. insured commercial banks over the 1995-2009 period, I document that the ratio of subordinated debt affects bank risk management decisions consistent with the market discipline hypothesis only when subordinated debt is held by the parent holding company. In particular, the subordinated debt ratio increases the likelihood and the extent of interest rate derivatives use for risk management purposes at BHC-affiliated banks, where subordinated debtholders have a better access to information needed for monitoring and control rights provided by equity ownership. At non-affiliated banks, a higher subordinated debt ratio leads to risk management decisions consistent with moral hazard behavior. The analysis also shows that the too-big-to-fail protection prevents market discipline even at BHC-affiliated banks.

SESSION 64

Room 104

BONDS

Session Chair: Mehmet Baha Karan - Hacettepe University, Turkey

"Term Structure Information and Bond Investment Strategies"

Maria de la O Gonzalez - Universidad de Castilla-La Mancha, Spain

Frank S. Skinner - University of Surrey, UK

Samuel Agyei-Ampomah - University of Surrey, UK

Discussant: Khalid El Badraoui - ESC Rennes School of Business, France

We examine whether recent discoveries of information contained in the term structure and forward curve can form the basis of an active bond investment strategy. Unlike other studies we use recently developed performance measures that adjust for skewness and kurtosis as well as mean variance because over long holding periods compound interest could impose positive skewness. The main result is that information in the forward curve can indeed but information in the underlying term structure does not form the basis of a superior investment strategy when compared to a buy and hold strategy.

"The Long-Run Operating Performance of Canadian Convertible Debt Issuers: Trends and Explanatory Factors"

Khalid El Badraoui - ESC Rennes School of Business, France

Jean Jacques Lilti - IGR – IAE de Rennes, France

Discussant: Ming Dong - York University, Canada

Similar to previously documented evidence for equity offerings, this paper shows, using accounting-based performance measures, that Canadian firms exhibit a poor operating performance following convertible bond offers. These results confirm those obtained in the US context and contribute to explain the puzzling post-issue stock price underperformance of convertible bond issuers. Our findings also illustrate that the decline in operating performance experienced by issuing firms seems to be partly due to industry specific factors. In addition, using PLS regressions, we find that some issuer and issue features have a significant impact on the issuers' performance. Nevertheless, the signs of the regression coefficients are not always congruent with those predicted by convertible bond financing theories. Lastly, our empirical findings support the capital rationing hypothesis of Lewis et al. (2001) according to which firms rely on convertible bonds because they are rationed out of the equity market due to adverse selection and agency costs considerations.

"Why Do Firms Really Issue Convertible Bonds: Evidence from the Field"

Ming Dong - York University, Canada

Marie Dutordoir - University of Manchester, UK

Chris Veld - University of Glasgow, UK

Discussant: Zvika Afik - Ben-Gurion University, Israel

We conduct interviews with financial managers in Australia, Canada, the U.K., and the U.S. to study the question why companies issue convertible bonds. For the vast majority of the firms, convertible bonds are chosen because of the

lower cost of financing compared to straight debt, and convertible bonds are preferred to equity because of managers' perceived equity undervaluation and share dilution. Our results suggest that managers time the issuance of convertible bonds based on the demand of the investors and the misvaluation of the firms' debt and equity. The evidence lends considerable support to the theory of management-investor differences in opinion about firm's risk, but yields very little support to either the textbook practitioner's view that convertibles are a firm of cheap debt or cheap equity, or the other academic theories examined in the interviews including risk shifting, sequential financing, or backdoor equity.

"The Term Structure of Expected Bond Returns"

Zvika Afik - Ben-Gurion University, Israel

Simon Benninga - Tel Aviv University, Israel

Discussant: Maria de la O Gonzalez - Universidad de Castilla-La Mancha, Spain

We present a discrete time model of expected bond returns (EBR). The model can be used to estimate the rating-adjusted EBR, its risk premium components, and a certainty equivalence premium which is related to the systematic risk of the CAPM. We implement the model using corporate bond transaction data from the United States and a rating agency transition matrix to extract the zero-coupon term structure of EBR and its components and the term structure of risk-neutral default probabilities. We illustrate the use of the model to estimate CDS premium term structure.

SESSION 65

Room 105

ECONOMETRICS

Session Chair: Sonia Falconieri - Cass Business School, UK

"Realized Spill-over Effect Within-Between Stock and Foreign Exchange Markets"

Hung Do - Monash University, Australia

Robert Brooks - Monash University, Australia

Sirimon Treepongkaruna - University of Western Australia, Australia

Discussant: Mary Malliaris - Loyola University of Chicago, USA

Extending the idea of realized volatility, we construct realized skewness and realized kurtosis non-parametrically from intraday returns following the suggestion of Dacorogna et al. (2001). The realized measures are then modelled directly in a Vector Autoregressive (VAR) system to investigate the spill-over effect within-between stock and foreign exchange markets. For statistical inference, we construct the 95% Bias-Corrected Bootstrap Confidence Interval for the VAR's Generalized Impulse response proposed by Efron and Tibshirani (1993). Our empirical results support the presence of a spill-over effect in all three contexts (i.e realized volatility, realized skewness and realized kurtosis). However, these effects are different in nature and their existence is affected by the markets' properties. The realized volatility spill-over effect often remains for nearly 20 days analyzed; whereas, the spill-over effect of realized skewness and kurtosis is significant initially but dies out quickly. Further, we generally observe more evidence of realized volatility and kurtosis spill-over effect in developed markets than in emerging markets. Conversely, more evidence of realized skewness can be found in emerging markets rather than developed markets.

"Using Data Mining Technologies to Find Currency Trading Rules"

Tassos Malliaris - Loyola University of Chicago, USA

Mary Malliaris - Loyola University of Chicago, USA

Discussant: Barry O'Grady - Curtin University, Australia

Neural networks remain one of the most popular data mining techniques because of their superior ability to discover nonlinear relationships among variables and to use those relationships to build forecasting engines. There are simpler data mining techniques, however, which can be used to forecast in more limited areas with non-numeric data. One of these techniques is association analysis. Association analysis, also called market basket analysis, was designed to answer the question "what occurs together?" and has been used by marketing specialists to discover which products are likely to be purchased by the same customer. It was developed as a technique that would discover interesting rules on large sparse data sets. The data typically used for association analysis is dichotomous and non-numeric. It does not focus on the amount of product purchases, only whether or not some of that product appears in the shopping basket. Using a slight twist on this question, we can ask which major currency directional movements occur together, relative to the dollar, on the same day. That is, when the price of 1 US Dollar in some foreign currency goes down or up, does the price of this dollar in other currencies move up or down on the same day? This question does not look at the amount of change, only the directions in two or more markets. To answer this question, we look at the rules generated by association analysis on the directional change of the price of 1 US Dollar in each of eight major currencies. We then trained a neural network to forecast currency direction on this same data set and compared the association analysis and neural network results. Knowledge of co-movement in currency markets can be useful to a trader because, in a diversified portfolio, the trader wants to have various products that move independently. Thus, when one drops in value, not all will necessarily drop. Also, if it is known that a pair of assets often moves in opposite ways, the trader can use an increase in one to offset a decrease in the other.

"A Study on the Application of Technical Analysis to the Malaysian and Thai Stock Markets"

Barry O'Grady - Curtin University, Australia
David Allen - Edith Cowan University, Australia
Darren O'Connell - Curtin University, Australia

Discussant: Muhammad Surajo Sanusi - Robert Gordon University, UK

This research examines the ability of technical trading rules to predict stock price movements on selected Malaysian and Thai stocks over the period 1989-2008. The moving average rule, involving a variable moving average (VMA) and fixed moving average (FMA) and the trading range break rule (TRB), as sighted in Brock et al. (1992), are applied in this research. Stocks under observation act as a proxy for the underlying stock markets. The best performing trading rule for both markets is the TRB (sell) rule and the poorest performing rule is the VMA (buy) rule. In both markets the daily unconditional mean performs poorly when compared to the conditional mean results generated by the technical trading rules. The Thai and Malaysian buy-and-hold strategy generates an average daily return of 0.05% and 0.21% respectively. In contrast the Thai TRB buy-sell spread generates a daily average return of 2.09%. The Malaysian FMA average daily buy-sell spread generates an impressive 6.64%. Results find in favour of the usefulness of technical trading rules in both the Malaysian and Thai stock markets.

"Analyzing the Effectiveness of Fundamental and Technical Analysis in Firm Valuation: A Case Study of Oil and Gas Sector in Nigeria"

Muhammad Surajo Sanusi - Robert Gordon University, UK

Discussant: Sirimon Treepongkaruna - University of Western Australia, Australia

This research is aimed at testing the effectiveness of commonly used models of fundamental and technical analysis of equity valuation in the Nigerian oil and gas sector. More importantly, a hybrid model where fundamental and technical variables are considered as compliments will be developed and tested for significance. Data will mainly be collected from daily closing prices from Nigerian stock exchange, administration of questionnaires and interviews, as well as various publications. Various data analysis techniques such as moving averages, regression analysis, standard t-tests, Analysis of Variance (ANOVA) f-test, and chi squared independence tests will be employed to test the data collected for significance and a relationship that will better explain the behaviour of share prices in the Nigerian oil and gas sector. The findings of the research will no doubt add to the existing knowledge of equity valuation in Nigeria, and also be of benefit to the management, shareholders, security analysts, financial analysts, and academic researchers of the Nigerian oil and gas sector.

SESSION 66

Room 107

COST OF EQUITY CAPITAL

Session Chair: Anna Zalewska - University of Bath, UK

"Determinants of Capital Budgeting Methods and Hurdle Rates in Nordic Firms"

Tor Brunzell - Stockholm University, Sweden

Eva Liljeblom - Hanken School of Economics, Finland

Mika Vaihekoski - University of Turku, Finland

Discussant: Kartick Gupta - Auckland University of Technology, New Zealand

Using survey data for 157 Nordic firms, we study the determinants for the choice of capital budgeting methods and the setting of hurdle rates (WACCs) in five Nordic countries. We combine survey data with a rich set of determinants, including ownership data, CFO characteristics, and financial data (firm characteristics). We find that the use of the NPV method as a primary method and the sophistication of the capital budgeting is related to firm characteristics, variables proxying for real option features in investments, and CFO characteristics (age and education). We also find support for a significant positive hurdle rate premium (i.e., a hurdle rate higher than that motivated by economic theory). The premium is weakly related to managerial short-term pressure and strongly negatively related to the sophistication level of the firm's capital budgeting. This relationship is in line with the predictions from real options and agency theory, as explanations from both categories combine the use of higher hurdle rates with a higher use of multiple methods and "rules of thumb."

"Financial Development, Corporate Governance and Cost of Equity Capital"

Kartick Gupta - Auckland University of Technology, New Zealand

Chandrasekhar Krishnamurti - University of Southern Queensland, Australia

Alireza Tourani-Rad - Auckland University of Technology, New Zealand

Discussant: John H. Hall - University of Pretoria, South Africa

This paper explicitly examines the interactive impact of country level legal and financial development, and firm level governance attributes on the cost of equity capital. Using a comprehensive sample of 7380 firm years drawn from 22 developed countries, we show that firm level governance attributes affect the cost of equity capital only in the Common Law countries with high level of financial development. Our study is the first to highlight the complementary effects of legal origin, financial development and firm level governance attributes in influencing the cost of equity capital.

"Capital Budgeting Methods and the Cost of Capital: A Multivariate Analysis of Listed South African Firms"

John H. Hall - University of Pretoria, South Africa

Hendrik P. Wolmarans - University of Pretoria, South Africa

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

The goal of any firm, its managers and their actions is undoubtedly to create shareholder value. Whilst the most efficient capital budgeting and cost of capital methods and practices will help to attain this goal, it is of the utmost importance to investigate the profile of those who apply and practice those methods and techniques. The purpose of this article was to determine who in the company is the decision makers that utilize these methods and to link their time employed as well as their academic qualifications with their choice of capital budgeting methods and cost of capital techniques. The results show that the net present value (NPV) as capital budgeting technique is more popular than the internal rate of return (IRR) and the capital asset pricing model (CAPM) is the most popular technique to calculate the cost of equity. It was further found that, irrespective of time employed by the company, employees all use a discount rate, but there is a significant tendency for respondents with post-graduate qualifications to prefer the NPV as capital budgeting technique.

"The Term Structure of Implied Costs of Equity Capital"

Jeffrey L. Callen - University of Toronto, Canada

Matt Lyle - University of Toronto, Canada

Discussant: Eva Liljelblom - Hanken School of Economics, Finland

We estimate the term structure of implied costs of equity capital and implied risk premia at the firm-level for the years 1996-2009. We are able to reject the ubiquitous assumption that implied firm-level costs of equity capital are constant over time. Instead, we find that the term structure of implied costs of equity capital and of implied risk premia are upward sloping and concave for most years and industries. Interestingly, we also find that the term structure of implied costs of equity capital and risk premia are downward sloping for the crisis year of 2008. We further validate the term structure cost of capital estimates by reference to future stock returns. Cross-sectional and time-series asset pricing tests indicate that time varying implied costs of equity capital are positively and significantly associated with future stock returns. In contradistinction, Easton's PEG and the "street" based earnings per share ratio (EPR) implied cost of capital estimates are either not associated with future stock returns or the associations are far less robust than for the term structure estimates. In addition to bridging the gap between the empirical accounting valuation literature that assume a flat term structure for implied costs of equity and the overwhelming empirical evidence that costs of equity capital are time varying, we also contribute to the literature by linking accounting-based valuation and option pricing.

SESSION 67

Room 108

EARNINGS QUALITY

Session Chair: Tony Naughton - RMIT University, Australia

"The Aggregate Earnings-Return Relationship: A Global Perspective"

Xiaoquan Jiang - Florida International University, USA

Andrew Vivian - Loughborough University, UK

Discussant: Mukesh Garg - Monash University, Australia

This article re-examines the relationship between stock returns and earnings in a global context. We examine a broad international sample of countries which encompass markets with different levels of stock market development, shareholder protection and legal origin. Recent literature finds a puzzlingly negative relationship between aggregate earnings and aggregate returns in the US (Kothari, Lewellen and Warner, 2006; Sadka and Sadka, 2009). Our first main finding is that this puzzlingly negative relationship is not universal; in many countries the aggregate earnings-return relation is positive. This paper builds on prior literature that decomposes returns into i) cashflow news, ii) discount rate news and iii) expected returns. We examine the relationship between Aggregate Earnings and each component of returns. The results suggest each of these three components play a role in explaining the overall. In particular we find that cashflow news and discount rate news are both individually important determinants of the earnings-return relationship but they largely offset each other. The expected earnings-return relation also contributes to the aggregate earningsreturn coefficient; this effect varies substantially across countries.

"Earnings Management and Political Intervention: Evidence from the Pharmaceutical Industry"

Jerry Bowman - University of Queensland, Australia

Mukesh Garg - Monash University, Australia

Farshid Navissi - Monash University, Australia

Vic Naiker - University of Auckland, New Zealand

Discussant: Panayiotis Tahinakis - University of Macedonia, Greece

Prior studies focus primarily on aggregate accrual management as it is difficult to identify which accrual item management uses to manage earnings. During the 1992 presidential election pharmaceutical industry in the U.S. was subject to political and regulatory threats, by the then U.S. presidential candidate Bill Clinton. Producers of

prescription drugs were accused of making excessive profits, spending too much on advertising and neglecting R&D. We examine whether prescription-drug firms responded to the regulatory threats and political exposure by managing earnings. We use R&D and advertising to examine accrual earnings management, for which the pharmaceutical industry provides an appropriate setting. We find that abnormal accruals in the event year are significantly more income decreasing than in other years and are related to politically sensitive issues. Results show that the firms' ability to manage earnings can lower the effectiveness of regulatory and political intervention.

"R & D Expenditures and Earnings Management: Results after the Implementation of IFRS in Greece"

Panayiotis Tahinakis - University of Macedonia, Greece

Discussant: Andrianos E. Tsekrekos - Athens University of Economics & Business, Greece

The aim of the present paper is to examine the relation between R&D expenditures and earnings management. The recent implementation of IFRS in Greece provides fertile ground for expanding research on the financial statements of Greek firms listed in the Athens Stock Exchange. In order to examine the relation between earnings management and the recording of R&D expenditures we apply the methodologies of Baber et al. (1991) and Burgstahler and Dichev (1997), by using a dataset of Greek firms listed in the Athens Stock Exchange for the period 2005-2009. The results are somewhat contradictory. Specifically, while the methodology of Burgstahler and Dichev indicates the presence of earnings management to avoid profits, the methodology of Baber et al. (1991) does not confirm the findings. Therefore, more research is needed in order to reach a safe conclusion.

"Earnings Management in Firms Seeking to Be Acquired"

Seraina C. Anagnostopoulou - Athens University of Economics & Business, Greece

Andrianos E. Tsekrekos - Athens University of Economics & Business, Greece

Discussant: Andrew Vivian - Loughborough University, UK

Empirical evidence regarding the accrual-based earnings management around mergers and acquisitions is mixed as far as target firms are concerned. This might be due to the fact that target firms cannot anticipate an acquisition proposal, thus they lack the motive and the time necessary to manage their earnings in order to facilitate or impede the deal. In this paper we provide clear evidence of downwards earnings management by a sample of target firms that have both time and motive to engage in such actions. These are firms that publicly announce their intention to be acquired. We find that these firms engage in downwards earnings management in order to facilitate a potential deal up to two fiscal years before their "seeking buyer" announcements, and the findings are robust to a number of methods employed for discretionary accruals estimation. Furthermore, we show that the results are driven primarily by the firms that are not actually acquired after their "seeking buyer" announcement, implying that bidding firms can distinguish between targets that do and do not manage their earnings, and only acquire firms with higher earnings quality.

SESSION 68

Room 110

DERIVATIVE MARKETS

Session Chair: Nabil Houry - University of Quebec, Canada

"Analyzing the Impact of Futures Trading on Spot Price Volatility: Evidence from the Spot Electricity Market in France and Germany"

Fotis G. Kalantzis - University of Athens, Greece

Nikolaos T. Milonas - University of Athens, Greece

Discussant: Chun-Chou Wu - National Kaohsiung First University of Science and Technology, Taiwan

This paper examines the impact of the introduction of electricity futures markets in the electricity spot-price volatility of the French market, during the period 2002-2009. The analysis takes into account the volatility clustering, as one of the special features of the temporal evolution of electricity prices. To test our working hypothesis, a bivariate error correction model is employed, where the conditional variance-covariance matrix follows a GARCH process. The results reveal that the introduction of electricity futures in France helped to reduce price volatility in the respective underlying spot market. Our empirical evidence also suggests that as a result of demand evolution, both the mean and the volatility of the log price changes in the French and German market exhibit a seasonal pattern, during the year, day and holidays. Furthermore, testing the long-run relationship between French and Germany we found that the latter market is leading the price evolution.

"Option Listing, Trading Activity and the Informational Efficiency of the Underlying Stocks"

Khelifa Mazouz - Bradford University, UK

Shuxing Yin - University of Surrey, UK

Sam Agyei-Ampomah - University of Surrey, UK

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

This paper examines the impact of option listing on the informational efficiency of the underlying stocks. We show that option listing improves the speed at which information is incorporated into the stock price and reduces the pricing inefficiency of the underlying stocks. We attribute the efficiency gain to the arrival of better informed traders to the stock market. We also show the informational efficiency gain from option listing is negatively associated with the

pre-existing market quality of the underlying stocks. This result reflects the fact that there is more potential to uncover private information in otherwise less efficient stocks. Our analysis also indicates that stock traders are better informed than option traders. This evidence is consistent with the migration of uninformed traders (i.e. uninformed hedgers and/or speculators with ill-founded but strong beliefs) from the stock to the option market.

"The Effect for Investor's Trading Volume Behavior on Futures and Stock Market Volatilities in Taiwan"

Chun-Chou Wu - National Kaohsiung First University of Science and Technology, Taiwan

Yi-Kai Su - National Kaohsiung First University of Science and Technology, Taiwan

Discussant: Javier Estrada - IESE Business School, Spain

This study uses different volatility models to describe the conditional volatility pattern and incorporates powerful sentiment indicators into the models for the dynamic structure of returns. This research tries to design different grades for tailed trading volume as a proxy for powerful investor sentiment to detect the relationships between powerful investor sentiment and market returns. Meanwhile, the direct and indirect effects of these sentimental factors on market returns are examined. The empirical results clearly indicate that the bright and dark sentiment indicator have various effects on market returns. Additionally, we also discuss the impacts of the Financial Tsunami on returns and volatility structure. We can infer that the powerful sentiment indicator still plays a critical role in exploring changes in market returns. Finally, incorporating the specific sentiment indicators in the short and long volatility structures would have an indirect influence on market returns.

"Black Swans, Beta, Risk, and Return"

Javier Estrada - IESE Business School, Spain

Maria Vargas - University of Zaragoza, Spain

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

Beta has been a controversial measure of risk ever since it was proposed almost half a century ago, and we do not pretend to settle with this article what decades of research has not. We do, however, take advantage of the recent trend of investing in countries and industries through index funds and ETFs, as well as a renewed interest on the impact of black swans, and explore the merits of beta in that context. Ultimately, we ask two questions: 1) Is beta a good measure of risk? And, 2) is beta a valuable tool for portfolio selection? Our evidence, spanning over 47 countries, 57 industries, and four decades finds beta to be useful in both dimensions. When negative black swans hit the market, high-beta portfolios fall substantially more than low-beta portfolios. Furthermore, a strategy that reacts to black swans by selecting portfolios on the basis of beta outperforms a passive strategy in terms of both returns and risk-adjusted returns.

SESSION 69

Room 208

HEDGE FUNDS

Session Chair: Marko Savor - University of Quebec, Canada

"Systemic Risk and Cross-Sectional Hedge Fund Returns"

Stephen Brown - New York University, USA

Inchang Hwang - Korea Advanced Institute of Science and Technology, Korea

Francis In - Monash University, Australia

Tong Suk Kim - Korea Advanced Institute of Science and Technology, Korea

Discussant: Olfa Hamza - UQAM, Canada

This paper examines the cross-sectional relation between the systemic risk contribution of hedge fund and hedge fund returns. Measuring the systemic risk of an individual hedge fund by using the marginal expected shortfall (MES) proposed by Acharya et al. (2010), we find evidence for a positive and statistically significant relation between systemic risk and hedge fund returns. Hedge fund portfolios with a high systemic risk contribution outperform those with a low systemic risk contribution by 1.38% per month (or 16.61% per year), over the period 1999-2009, while negative performance is observed during crisis periods. The relation between systemic risk and hedge fund returns holds not only for live funds but also for defunct funds. Moreover, the relation holds even after controlling for fund characteristics related to fund risk, such as age, asset size, and liquidity. Finally, the systemic risk contribution of a hedge fund as measured by MES is one of the most important factors in explaining the cross-sectional variation in hedge fund returns.

"Do "Hot Hands" Exist in Fund of Hedge Funds?"

Olfa Hamza - UQAM, Canada

Maher Kooli - UQAM, Canada

Discussant: Efthymios Roumpis - University of the Aegean, Greece

We examine the performance persistence of Fund of Hedge Funds (FoHFs) over the January 1994 to November 2010 period. We consider four FoHF categories and confirm that overall FoHFs who show performance persistence over a short time horizon are more likely to be persistent over a longer one. We also find that in the short-run, most extreme performers tend to subsequently remain best performers and worst losers tend to remain worst losers. Further, we find

that there is significant performance persistence for overlapping three consecutive periods despite the performance status of funds in the second period. Our results are robust across the bull, bear and financial crisis sub-periods. Finally, we find that “hot hands” are among FoHFs with high-water mark provision or with incentive fees less than the average and offshore funds. However, the existence of a hurdle rate or a lock-up period, and the use of leverage are not critical for FoHF performance persistence.

"Evaluating Risk and Return Performance in Core Dynamic Hedge Fund Strategies"

Efthymios Roumpis - University of the Aegean, Greece
Theodore Syriopoulos - University of the Aegean, Greece

Discussant: Deniz K. Kebabci - San Francisco State University, USA

This article presents a framework for designing optimal hedge fund portfolios using dynamic factor models and multivariate volatility parametrisation models. Initially, we estimate and evaluate a series of standard and hedge fund-oriented factor models that are able to measure the risk-adjusted performance of hedge fund strategies. We find a significant improvement in the prediction of hedge fund returns as we move from the simplest one factor model to the most sophisticated multifactor models. Since, the dynamics in hedge fund returns and correlations have been recognized as critical inputs in hedge fund portfolios construction, we attempt to elaborate on the fundamental structure of the multifactor models with a special focus on the risk and correlation between hedge fund returns and the systematic factors. For this reason, different multivariate GARCH models are employed to capture the dynamics in variances and covariances of the multifactor models. Our results suggest that the proposed models enhance the out-of-sample of optimal hedge fund portfolios. We find that the different model specification consisting of the hedge fund-oriented factor models and the multivariate volatility models have an actual effect on optimal portfolios.

"The Absolute Returns of Hedge Funds"

Deniz K. Kebabci - San Francisco State University, USA
Bolong Cao - Ohio University, USA

Discussant: Inchang Hwang - Korea Advanced Institute of Science and Technology, Korea

In this paper, we examine the ability of hedge funds and funds of hedge funds to generate absolute returns using fund level data. Based on the comparison of the empirical distributions of the holding period returns of hedge funds, a U.S. stock index and a U.S. bond index, we classify hedge funds into four categories according to their return status: absolute, symmetric, snail, and sinking. We then apply Bayesian multinomial probit and frequentist multinomial logit regressions to examine how fund strategies, fund characteristics, and past return status influence the probability that a fund can achieve the absolute return status. We find that hedge funds with strategies in Option Arbitrage, Fixed Income – MBS, Global Macro, Emerging Markets, and Event Driven have a significantly better chance to generate absolute returns. The use of high water mark provision for hedge funds and hurdle rate provision for fund of funds also enhance the probability for a fund to generate absolute returns. Whether a fund calls itself an “absolute return” fund is another significant and robust contributing factor to generating absolute returns. Finally, we find no evidence for performance persistence in absolute return status once fund strategies and fund characteristics have been accounted for.

SESSION 70

Room 209

FUNDS

Session Chair: Andrew Worthington - Griffith University, Australia

"On the Precision of Public Information and Mutual Fund Performance"

Gerald Abdesaken - Bocconi University, Italy

Discussant: Andrew Mason - University of Surrey, UK

Mutual fund managers who adjust their portfolio holdings based on the variation of analyst forecasts achieve significantly lower abnormal returns. Theoretically, I show that an uninformed (hence, unskilled) investor places more weight on the public signal compared to an informed investor given an increase in the precision of public information. Following Kacperczyk and Seru (2007), I then formulate a new measure of managerial skill based on the standard deviation of analyst recommendations. This measure, RPI, captures the sensitivity of changes in mutual fund managers' portfolio holdings due to changes in the standard deviation of analyst forecasts. Statistical evidence shows that abnormal returns significantly decrease in RPI. The results are robust to other conventional performance measures and alternative formulations of RPI using analyst price targets, EPS forecasts and coefficients of variation.

"Revealed Preferences and Investment Outcomes: Characteristic Based Style Analysis and Market Phases"

Andrew Mason - University of Surrey, UK

Discussant: Shafir Offer - Ben-Gurion University, Israel

We systematically assign mutual funds to a range of style groups on the basis of portfolio characteristics using their revealed preferences for different combinations of growth, income and valuation support. We extend the work of Brown and Goetzmann (1997) et al by extending the differentiated range of fund styles. Membership of our style groups explains a significant proportion of ex post cross sectional variation in returns. When tested over time using

Fama French (1993) factors these style groups exhibited different properties with respect to market beta which was consistent with intuitive expectations for a spectrum of diverse investment funds. When we considered the properties of these style groups during bull market, bear market and recovery phases of the U.S. equity market we found that not only did style groups continue to exhibit different characteristics from each other their behaviour was also consistent with qualitative knowledge of market conditions during those phases. The identification of such style groups may aid the selection of investment styles under varying market conditions.

"Commercial vs. Classical Mutual Fund Performance Measures: Empirical Evidence from Israel"

Shafir Offer - Ben-Gurion University, Israel
Uri Ben-Zion - Ben-Gurion University, Israel
Koresh Galil - Ben-Gurion University, Israel

Discussant: Alexandra Niessen-Ruenzi - University of Mannheim, Germany

The mutual fund market in Israel experienced significant changes over the past few years. The transfer of ownership from banks to other entities and the success of the ETF market created new incentives for fund managers to improve their performance.¹ In this work we examined the Israeli mutual fund's performance in the period of December 2003 until April 2007 in two layers. First, we examined whether the funds continued to underperform their benchmark indices. Secondly, we tested the ability of several performance measures in picking of mutual funds. This is the first research that examines alongside conventional measures (expected return, Sharpe and Jensen) the quality of commercial measures such as MAALOT² and simulated-Morningstar rating³. We found that funds realized average positive gross (before fees and commissions) adjusted returns of approx. 1% and negative net adjusted returns of approx. -2%. We also found that MAALOT and Morningstar ratings performed better than the conventional measures.

"Sex Matters: Gender and Prejudice in the Mutual Fund Industry"

Alexandra Niessen-Ruenzi - University of Mannheim, Germany
Stefan Ruenzi - University of Mannheim, Germany

Discussant: Gerald Abdesaken - Bocconi University, Italy

We suggest that mutual fund investors' gender prejudice is one potential explanation for the low fraction of only about 10% female equity fund managers. Consistent with investors stereotyping female fund managers as less skilled, we find that female managed funds experience significantly lower inflows. This result is obtained using market data as well as experimental data. While we document some behavioral differences between male and female fund managers, performance is virtually identical. This suggests that there is no rational explanation for lower inflows into female managed funds. Evidence based on an implicit association test conducted in a laboratory setting supports the notion that there is prejudice against females in finance.

SESSION 71

Room 210

CORPORATE GOVERNANCE

Session Chair: Dennis Y. Chung - Simon Fraser University, Canada

"Corporate Governance and Survival of Listed Companies: Evidence from Korean Backdoor Listing"

SeungHun Han - Korea Advanced Institute of Science and Technology, Korea
Yonghyun Kwon - Korea Advanced Institute of Science and Technology, Korea

Discussant: Ifigenia Georgiou - Aston University, UK

This paper examines the impact of corporate governance on the survival of listed companies that had gone public using backdoor listing in Korea. Using sample of 131 backdoor listing firms between 2006 and 2010, we find that firms with low ownership concentration show a lower survival rate in the market, after controlling for firm characteristics. This result suggests that even though there is excess return from the announcement of backdoor listing in the short run, this does not guarantee the long run performance of the firm. Therefore, corporate governance such as ownership structure affects the post-performance of backdoor listing companies. This study contribute to the literature on corporate governance by showing that firms with low ownership concentration, generally expropriate their corporate resources.

"Board Composition and Value: The Case of Quality Excellence"

Andreas Charitou - University of Cyprus, Cyprus
Ifigenia Georgiou - Aston University, UK
Andreas C. Soteriou - University of Cyprus, Cyprus

Discussant: Yu Cao - Citigroup Inc, USA

We empirically investigate the relationship between board composition and the likelihood of attaining quality excellence. Since the composition of the board is a reflection of the firm's strategy, and strategy plays a pivotal role in attaining quality excellence, we propose and test whether board composition and the likelihood of attaining quality excellence are related. We focus on board composition with respect to directors' expertise. Specifically, we examine the role of i) inside directors, ii) directors - experts on the main object of business operations, and iii) directors with management expertise. We use a conditional logistic model to assess the relationship between board composition and the likelihood of achieving quality excellence. To proxy for quality excellence we use the winning of a Malcolm

Baldrige Quality Award as criterion. The dataset consists of a unique, hand-collected sample comprising of 63 first time award winners during the time period 1996-2006 and a matching sample of 63 firms that never won a quality award. Empirical results show that the number of directors with expertise on the main object of business operations of the firm is positively related to the likelihood of being awarded. This study contributes to the literature by shedding light on the corporate governance of firms that take the leap to go beyond survival and pursue excellence; furthermore, it highlights the strategic role of the board by demonstrating that board composition and quality excellence are related through these roles.

"Shareholder Interests vs. Board of Director Members' Interests and the Operating Performance of Firms"

Lorne N. Switzer - Concordia University, Canada

Yu Cao - Citigroup Inc, USA

Discussant: Yoon K. Choi - University of Central Florida, USA

This study empirically tests the hypothesis that the closer alignment of board of director members' interests with shareholder interests improves the operating performance of firms. The hypothesis is tested by examining the relationship between operating earnings in excess of the cost of capital (ER) and a new "shareholder confidence" index that captures board of director alignment with shareholder interests for a sample of large publicly traded Canadian firms from 2002–2006. High shareholder confidence index values are generally associated with higher ER, although the relationship is not monotonic for higher graded boards. The performance gap between firms with high vs. low expected agency costs as reflected in terms of higher differentials between board members' interests alignments with those of shareholders amounts to almost 30%.

"CEO Involvement and Effectiveness of Audit Committees in Emerging Market: Evidence from Korea"

Yoon K. Choi - University of Central Florida, USA

Seung Hun Han - Korea Advanced Institute of Science and Technology, Korea

Sangwon Lee - Korea Advanced Institute of Science and Technology, Korea

Discussant: Yonghyun Kwon - Korea Advanced Institute of Science and Technology, Korea

This paper examines the effect of audit committee appointments on shareholder wealth in Korea. We show that stock prices generally increase with audit committee appointments; however, chaebol (business group) affiliates and firms switching audit committee membership are associated with significantly lower stock returns. We suggest that this may be due to management's opportunistic behavior that influences the selection of committee members to their advantage. Audit committee independence and financial literacy of audit committee members appear to help alleviate this opportunistic behavior. In sum, the regulatory governance mechanism established in Korea following the Asian financial crisis seems to be partly effective.

Tuesday 4:15-6:00

SESSION 72

Room 102

ASSET PRICING

Session Chair: Tassos Malliaris - Loyola University of Chicago, USA

"What Causes Momentum Profits? Evidence from Optioned and Non-Optioned Stocks"

Sina Badreddine - Middlesex University, UK

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

Phil Holmes - University of Leeds, UK

Discussant: Nader Shahzad Virk - Hanken School of Economics, Finland

Considerable evidence from many countries suggests momentum strategies generate profits. These have been difficult to rationalise and evidence on the sources of such profitability is inconclusive. We utilise a sample of optioned stocks, characterised by high liquidity, high market capitalisation and fewer short sales constraints and compare results with control samples chosen on the basis of market value, turnover and bid-ask spread. The sample characteristics, and the fact that derivatives improve the impounding of information into prices, enable us to conclude that short sales constraints are not the major driver of profitability. Furthermore, using two measures of the bid-ask spread, one not previously used shows that transactions costs are the main determinant of apparent profitability. Once these are taken into account, momentum profits disappear.

"Canonical Asset pricing Models with Risk Separability and Habit Formation: Empirical Evidence from Finland"

Nader Shahzad Virk - Hanken School of Economics, Finland

Discussant: Jason Wei - University of Toronto, Canada

The investigation for the performance of alternative specifications developed to the standard power utility based consumption asset pricing model (CCAPM) is carried out for Finnish representative agent. The specification mispricing of the four tested alternative modifications is evaluated with Hansen and Jagannathan (1997) distance measure. The findings report the inability of Constantinides (1990) internal habit and Abel (1990) "Catching up with the Joneses" specifications to capture key features for agents temporal and risk choices respectively. The Epstein and Zin (1991) estimations with recursive preferences report variations for resolution of uncertainty across different samples; same is documented with external habit model of Campbell and Cochrane (1999) for risk premia. The counter-cyclical time variation in risk premia is observed same as the Campbell and Cochrane (1999). The agent with prior exposure to recessions behaves less risk averse for the ongoing global turmoil than the one with no prior exposure to bad times. All models face larger difficulty in the fitting the levels for specifications with bonds returns or when taken together with stock returns. The external habit model produces smallest pricing errors for mentioned specifications in the full sample period among tested models.

"Do Momentum and Reversals Coexist?"

Jason Wei - University of Toronto, Canada

Discussant: Johan Knif - Hanken School of Economics, Finland

The answer to the title question is "Yes." Examining stocks traded on the NYSE, AMEX and NASDAQ for the period of 1964 to 2009, this study discovers that, while momentum prevails among small stocks, momentum and reversals coexist among large stocks for a holding period of up to six months. The momentum/reversal divide is along the volatility dimension: Large-cap/low-volatility stocks exhibit reversals while large-cap/high-volatility stocks experience momentum. This new discovery cannot be fully rationalized with either risk-based or behavioral-based explanations.

"The Role of Multifactors in Asset Pricing Models"

Johan Knif - Hanken School of Economics, Finland

James W. Kolari - Texas A&M University, USA

Gregory Koutmos - Fairfield University, USA

Seppo Pynnonen - University of Vaasa, Finland

Discussant: Sina Badreddine - Middlesex University, UK

This study revisits the issue of the role of multifactors in traditional asset pricing models from three different empirical perspectives. First, a new measure of the absolute return contribution of risk factors is presented. The importance of market, size, value, momentum, investment, and return on asset risk factors is documented for 49 US industry portfolios over January 1972 to June 2009. Second, the robustness of the factor loading, both sign and level, over different portfolio outcomes is studied. Third, the significance and stability over time of conditional factor loadings are analyzed. The results indicate that the return contribution mainly comes from the market factor and mispricing. The absolute return contribution of individual multifactors is less than the contribution of the mispricing (alpha), and the effect on mispricing is minimal. Instead, multifactors partly overlap with the return contribution of the market factor. The results also indicate that the loading on the market factor is very robust over different return outcomes of the asset portfolio. The multifactors, on the other hand, exhibit variation in loading, with the sign and level dependent on the realized outcome. Furthermore, while reduction of mispricing variance using multifactors is minimal, multifactors improve statistical significance and time stability of the conditional loading on the market factor. Conditional loadings on multifactors are often dynamic over time with only occasional statistically significant months.

SESSION 73

Room 103

BANKS

Session Chair: Christos I. Negakis - University of Macedonia, Greece

"Short Term Market Effects of the Second Stress Test Disclosure on European Banks"

Anouk G.P. Claes - Facultes Universitaires Saint-Louis, Belgium

Marc J.K. De Ceuster - University of Antwerp, Belgium

Fan Wu - Facultes Universitaires Saint-Louis, Belgium

Hairui Zhang - University of Antwerp, Belgium

Discussant: Van Son Lai - Laval University, Canada

The disclosure of the second stress tests on EU banks has brought a higher degree of transparency to the market regarding the risk exposures of major financial institutions. It rewarded the shareholders with an average abnormal return of 4.68% on July 26, 2010. The cumulative abnormal return over the week after the announcement was 5.31%. The aim of stabilizing the financial system seems to be only modestly achieved. Although cross-sectional volatility significantly decreased, the decline in the time series volatilities is less profound. To a large extent, the cumulative abnormal returns can be explained by the data disclosed by the CEBS. It is, however, clear that the market held a much more pessimistic view on the risk sensitivity of the EU financial industry.

"Performance, Risk and Capital Buffer Under Business Cycles and Banking Regulations: Evidence from the Canadian Banking Sector"

Alaa Guidara - Laval University, Canada

Van Son Lai - Laval University, Canada

Discussant: Kyriaki Kosmidou - Aristotle University of Thessaloniki, Greece

Using quarterly financial statements and stock market data of the six Canadian big chartered banks from 1982 to 2010, this paper documents the countercyclical behaviour of Canadian banks capital buffer, with this feature being less pronounced over subsequent rounds of amendments to the Basle I Accords and the Basle II period. Thus, the introduction of Basle Accords and the balance sheet leverage cap imposed by the Canadian banking regulator were somewhat effective in rendering Canadian banks' capital countercyclical to business cycles. We find that Canadian banks are well capitalized, and hold bigger regulatory capital buffer in recession than in expansion, which explains in part why they weather well the recent financial crisis. All these are evidence that Canadian banks ride the business and regulation cycles, which underscore the appropriateness of both a micro and macro-prudential "through-the-cycle" approach to capital adequacy advocated in recent Basel III proposal to strengthen the banking sector resilience.

"The Effect of Basel Accord on the Banking System"

Kyriaki Kosmidou - Aristotle University of Thessaloniki, Greece
Olga Vafeidou - Aristotle University of Thessaloniki, Greece

Discussant: Peter Grundke - University of Osnabruck, Germany

The purpose of this paper is to study how Greek financial institutions adopted the Basel Accord in order to protect themselves from credit risk. Disclosures of Greek banks and some European institutions were collected for period 2008-2009, a comparison was made and banks were categorized as large and small/medium. Results were distributed into two groups. The first group depicts a general image of the institutions' capital adequacy and their minimum capital requirements of risks but mainly of credit risk, as defined by Pillar I. The second group is about credit risk management, as suggested by Pillar II. The results from the research show that Greek institutions implemented the Accord swiftly. But they only use the standardized approach to assess credit risk which is an indication of conservative behavior and makes them less competitive than the European institutions. Another issue which is raised is that of the potential merging of institutions, as their number is disproportionate to the country's population.

"Reverse Stress Tests with Bottom-Up Approaches"

Peter Grundke - University of Osnabruck, Germany

Discussant: Fan Wu - Facultes Universitaires Saint-Louis, Belgium

This paper contributes to the sparse literature on reverse stress testing whose necessity is stressed by banks' supervisory authorities. While for regular stress test scenarios are chosen based on historical experience or expert knowledge and their influence on the bank's survivability is tested, reverse stress tests aim to find exactly those scenarios that cause the bank to cross the frontier between survival and default. Afterwards, the most likely of these scenarios has to be found. We argue that bottom-up approaches as specific integrated risk management technique are ideal candidates for carrying out quantitative reverse stress tests because they model interactions between different risk types already on the level of the individual financial instruments and risk factors. This is exemplified with an extended CreditMetrics model that exhibits correlated interest rate and rating-specific credit spread risk.

SESSION 74

Room 104

OPTION MODELS

Session Chair: Mary Malliaris - Loyola University of Chicago, USA

"Derivatives Pricing under a New Macro-financial Square-Root Process for the Term Structure of Interest Rates"

Manuel Moreno - Universidad de Castilla-La Mancha, Spain
Federico Platania - Universidad de Castilla-La Mancha, Spain

Discussant: Jia-Hau Guo - National Chiao Tung University, Taiwan

This paper presents a new macro-financial continuous-time model for the term structure of interest rates assuming that the spot rate converges to a certain long-term level that depends on the business cycle. In addition, we consider that the interest rate volatility depends on the interest rate level. In short, both the mean reversion level and the interest rate volatility are modeled by using an harmonic oscillator. Under these assumptions, we compute closed-form expressions for the prices of different fixed income and interest rate derivatives and for relevant risk management measures.

"Closed-Form Solution for Options with Daily Price Limits"

Jia-Hau Guo - National Chiao Tung University, Taiwan
Wei-Lun Huang - National Chiao Tung University, Taiwan

Discussant: Hsiang-Tai Lee - National Chi Nan University, Taiwan

This paper proposes a closed-form solution for pricing options on stocks with daily price limits. Numerical results indicate that using the Black-Scholes formula to price options in price-limit markets often incurs the overvalued problem. However, the proposed closed-form solution always yields consistent results. Practitioners trading options

in price-limit markets may resort to numerical methods such as a recursive use of the finite difference method. However, the cost of applying these numerical methods to price options could be prohibitively expensive, thereby further illustrating the importance of the closed-form solution.

"Optimal Futures Hedging under Multi-chain Markov Regime Switching"

Hsiang-Tai Lee - National Chi Nan University, Taiwan

Discussant: Nabil Tahani - York University, Canada

A variety of Markov regime switching GARCH models have been proposed for optimal futures hedging. All of these works, however, restrict spot and futures returns to be subject to the same switching dynamic. In this article, we relax this assumption and propose a multi-chain Markov regime switching GARCH (MCMS-GARCH) model for estimating the state-dependent time-varying minimum variance hedge ratios. The switching dynamics of spot and futures returns in MCMS-GARCH are governed by different state variables following a multi-chain Markov process. Empirical results indicate that MCMS-GARCH provides hedging gains compared to single-state-variable Markov switching GARCH model.

"Path-Dependent Options Pricing under Stochastic Volatility"

Nabil Tahani - York University, Canada

Discussant: Manuel Moreno - Universidad de Castilla-La Mancha, Spain

This paper proposes an analytical approximation to price some path-dependent options within the Heston (1993) stochastic volatility framework. We derive an analytical approximation for option prices using a Taylor expansion around the average value of the stochastic variance. The moments of the average variance are computed analytically at any order. The approximation is found to be very efficient and convergent (even at low Taylor expansion order) when pricing barrier options. The methodology proposed can be extended to other path-dependent options.

SESSION 75

Room 105

M&AS

Session Chair: Eva Liljeblom - Hanken School of Economics, Finland

"Competition and Dynamics of Takeover Contests"

Riccardo Calcagno - EM Lyon Business School, France

Sonia Falconieri - Cass Business School, UK

Discussant: Abdullah Mamun - University of Saskatchewan, Canada

The paper investigates the impact of competition on the outcome of takeover contests characterized by a) bidders with different attitudes toward the target, i.e. friendly versus hostile bidders; and b) different modes of completing the deal, namely through private negotiations, auctions or tender offers. This environment is modeled as a bargaining game with an alternating offers where calling an auction represents an outside option for each bidder at each stage of the game. The model aims then to answer three main questions: who wins the takeover? when? and how? Additionally, the richness of the model enables us to derive predictions on the resulting takeover premia as well as to draw conclusions on how other dimensions of the takeover process, such as termination fee and tender offer costs, affect its dynamics and outcome.

"Industry Merger Intensity and Cost of Capital"

Abdullah Mamun - University of Saskatchewan, Canada

Dev Mishra - University of Saskatchewan, Canada

Discussant: Mehdi Sadeghi - Macquarie University, Australia

Using a panel of industry average implied cost of equity capital and the value of prior year aggregate industry mergers, we find strong evidence that the industry cost of equity capital is negatively associated with industry merger activity. This evidence applies to both focused (related) mergers and unfocused (unrelated) mergers, such that both types of mergers are associated with a decrease in the aggregate industry cost of capital (acquirers' industry in case of unfocused mergers). Our evidence is consistent with the findings in the literature that mergers have positive value implications, as we show that a higher level of merger activity reduces the average required rate of return in an industry.

"Misvaluation on Mergers Waves: Evidence from Australia"

Mehdi Sadeghi - Macquarie University, Australia

Joseph Ngyuen -

Discussant: Anna McAdam - University of Sydney, Australia

This paper attempts to investigate whether stock market misvaluation has been a driver force in merger and acquisition activities during 2000-2007 in Australia. We employed price-to-book (P/B), and the ratio of price to residual income valuation (P/RIV) in order to find out whether the relationship between market valuations and takeover characteristics

is due to mispricing or other deriving forces. Our findings indicate that, more overvalued firm use stocks to buy less overvalued firm, overvalued firms pay cash to buy undervalued firms, and higher bidder overvaluation relative to target overvaluation decreases the combativeness of the deals. Our findings provide a behavioral explanation of the Australian takeover activities that has been traditionally viewed from the neoclassical perspectives premised upon the efficient market hypothesis.

"The Apportionment of Takeover Wealth Gains over Investor Groups"

Anna McAdam - University of Sydney, Australia

Discussant: Sonia Falconieri - Cass Business School, UK

This paper identifies and apportions the wealth gain realisation from a takeover event for four investor groups, which are the domestic domiciled investor categories superannuation funds, nominees, incorporated companies, and individuals. For this analysis, it employs a trading profit performance. In addition, for robustness, a marked-to-market return is also determined for a small, medium, and large order size proxy. In regards to the MTM analysis, it was distinguished between passive and aggressive trades. This study finds that the investors/proxies identified as informed traders realise a higher performance from the takeover occasion. The present study results thus qualify the extant takeover research conclusion that target firm shareholders are the 'winners' from a takeover occasion. This research concludes that it is the informed investor who 'wins' and furthermore, that they do so at the expense of the less informed trader. This paper consequently provides a more complete description and understanding of the wealth gains from takeovers, which was the research goal.

SESSION 76

Room 107

CAPITAL STRUCTURE

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

"Debt Maturity Structure in Chinese Firms: Do Ownership Controller and Bank Monitor Matter?"

Wenjuan Ruan - University of Wollongong, Australia

Gary Tian - University of Wollongong, Australia

Shiguang Ma - University of Wollongong, Australia

Discussant: Georgia Nifora - University of Piraeus, Greece

This paper examines how the Chinese listed companies raise debt in the situation of underdeveloped bond market and majority of commercial banks owned by the State. We find that ownership control type influences debt maturity structure. Compared with civilian-run companies, State-controlled companies have larger access to long-term debt and use less short-term debt in the sample period from 2001 to 2008. The empirical results also show that companies' profitability is an important concern for the banks to allocate loans to companies. Banks are willing to offer long term loans to the companies with higher profitability, which indicates that banks are certified as potential monitors to the listed companies in China's transition process. However, although the financial reform enhances the banks' motivation to consider companies' profitability in their lending decision, the effect of profitability on debt maturity structure is weakened when ownership control type is taken into consideration.

"The Leverage Effect on Stock Returns. An Interesting Comparison Between Greece and Italy."

Panayiotis G. Artikis - University of Piraeus, Greece

Georgia Nifora - University of Piraeus, Greece

Discussant: Larry Li - RMIT University, Australia

This paper aims to investigate the leverage effect on stock returns in two countries of Euro zone, Greece and Italy. The analysis is performed both on a full sample basis and on an industry basis. Industry class is generally considered as an important risk factor. Certainly, debt requirements for each risk class differ. Debt is also regarded in academic community as one of the principle sources of financial risk. The sample used consisted of Greek and Italian listed no financial companies over the period 1998/12-2009/3 and 2000/12-2010/3 respectively. Following Fama and French (1993), we test if leverage is priced as a risk factor by constructing a leverage factor. We form portfolios to mimic the underlying risk factor related to the leverage of firms and regress their returns against the returns of mimicking portfolios that capture the five risk factors, i.e. market premium, size, value, momentum and leverage. The main contribution of our work is that we enhance the capital structure studies by broadening the limited work that has been accomplished on the base of leverage as an explanatory variable of returns. Thus, our paper builds on the growing literature that attempts to link corporate decisions to the behaviour of asset returns. Furthermore, we made a comparison between Greek and Italian investors' behaviour regarding capital matters issues and we spot some interesting differences. Finally, by focusing on the role of leverage as a strategic investment instrument or a separate risk factor, we cast light on a notion that has been ignored by the vast majority of European CEOs.

"Robust and Fragile Firm-Specific Determinants of the Capital Structure of Chinese Firms"

Imad Moosa - RMIT University, Australia

Larry Li - RMIT University, Australia

Tony Naughton - RMIT University, Australia

Discussant: Manfred Fruhwirth - WU Wien, Austria

We demonstrate, by using extreme bounds analysis, that some of the firm-specific determinants of the capital structure of Chinese firms reported as important in previous studies may be fragile, in the sense that the sign and/or significance of the coefficients on these variables change depending on model specification (the variables included in or excluded from the model). For this purpose, data on 344 publicly listed shareholding companies is used, covering nine potential firm-specific determinants of capital structure. The robust variables, whose coefficients remain significant and of the same sign irrespective of model specification, turn out to be size, liquidity, profitability and growth opportunities. Although conventional cross-sectional analysis would lend support to the importance of tangibility and stock price performance, these two variables are indeed fragile. Other variables turn out to be totally insignificant.

"Do Equity Tax Shields Reduce Leverage? The Austrian Case"

Manfred Fruhwirth - WU Wien, Austria

Marek Kobialka - WU Wien, Austria

Discussant: Shiguang Ma - University of Wollongong, Australia

The goal of this article is to analyze the impact of equity tax shield provisions, that prevailed in Austria from 2000 to 2004, on the capital structure of firms, both at book values and at market values. Although the Austrian system granted only a rather small dose of equity tax shields (equity tax shields only on the increase of equity, equity tax shields were not tax-free but had to be taxed at a reduced rate), we find that, the tax regime achieved its goal to increase the equity ratio. Interestingly, even though it is the book value capital structure that determines the size of equity tax shields, this effect was far more significant for the capital structure at market values than for the capital structure at book values. We find that the level of the equity interest rate had no significant impact on the capital structure. Finally, we investigate if the firms followed the incentive immanent in such a tax system based on increments to increase the capital structure volatility. Neither for the book value nor for the market value capital structure we find convincing evidence supporting this hypothesis. Thus firms adapt the level but not the volatility of the capital structure in response to equity tax shields granted on the incremental equity. In addition, we find some support of the debt substitution hypothesis of De Angelo/Masulis (1980) as an increase in non-debt tax shields reduces the market value leverage. In addition, we analyze the impact of the effective corporate tax rate, profitability, market-to-book ratio, tangibility, size and growth of the firm, the stock market growth and the GDP growth. We also find strong and highly significant positive autocorrelation of the capital structure both at book and at market values showing that the capital structure is not adjusted to a target level but rather the consequence of historical decisions. Based on these findings, we try to evaluate several capital structure theories for the Austrian market. We get unclear results for the tradeoff theory and the agency theory, we have to reject the pecking order theory and we observe some confirmation of the market timing hypothesis.

SESSION 77

Room 108

CORPORATE ISSUES

Session Chair: Inchang Hwang - Korea Advanced Institute of Science and Technology, Korea

"Corporate Culture and the Tournament Hypothesis"

Neslihan Ozkan - University of Bristol, UK

Oleksandr Talavera - University of East Anglia, UK

Anna Zalewska - University of Bath, UK

Discussant: Otgontsetseg Erhemjamts - Bentley University, USA

The empirical literature on the effect of dispersion of executive remuneration (i.e., the intensity of a tournament structure) on the comparative performance of companies finds strong positive effects using U.S. data but non-U.S. studies fail to find an effect. This suggests that tournaments are likely to be more effective in some situations than others. Using U.K. data we exploit differences between companies as they become more 'Americanised'. We test whether tournaments are more likely to be effective if companies call their top executives a CEO rather than a Managing Director (MD, traditional U.K. nomenclature), Americans sit on boards, and run companies. We find that increasing the dispersion of remuneration is no more effective for companies with CEOs than with MDs, whether Americans are board members or not. However, the situation is different when companies are run by U.S. CEOs: here an increase in dispersion is associated with better company performance.

"Determinants of Corporate Social Responsibility and its Implications on Firms' Investment Policy, Organizational Strategy, and Performance"

Otgontsetseg Erhemjamts - Bentley University, USA

Qian Li - Midwestern State University, USA

Anand Venkateswaran - Northeastern University, USA

Discussant: Wenfeng Wu - Shanghai Jiao Tong University, China

We examine several firm-, industry- and executive- level characteristics that affect the propensity of firms to engage in socially responsible activities – measured using several aggregated and disaggregated measures of corporate social responsibility (CSR). First, we find that R&D intensive, high growth, financially solvent firms, and firms in new economy industries are more likely to engage in activities considered socially responsible, while riskier firms generally are less likely to do so. Next, we examine the impact of corporate social responsibility (CSR) on three crucial firm attributes; investment policy, organizational strategy, and performance. Factors associated with CSR strengths relate

favorably with all three attributes whereas CSR concerns and firm attributes are by and large negatively related. Using a 2SLS procedure, we also verify that the CSR-performance relation is robust to corrections for endogeneity through reverse causation and/or biases introduced by time varying omitted variables. Finally, we use managerial incentives and experience to isolate scenarios where CSR effects on firm attributes are either amplified or attenuated.

"Interjurisdictional Competition, Ownership, and Firm Taxation"

Wenfeng Wu - Shanghai Jiao Tong University, China
Chongfeng Wu - Shanghai Jiao Tong University, China
Oliver M. Rui - Chinese University of Hong Kong, China

Discussant: William L. Megginson - University of Oklahoma, USA

The literature documents that informal institutions such as governance mechanisms based on reputation and relationships have helped China's fast-growing private sector to overcome institutional difficulties. This study provides evidence that interjurisdictional competition can serve as another such mechanism. Using a sample of Chinese listed firms from 1999 to 2006, we find that private firms enjoy a lower effective tax rate than local state-owned enterprises. We also find that this preferential tax treatment is mainly driven by private firms located in regions with a relatively lower level of private sector development. Our results show that interjurisdictional competition in regions with a developing private sector leads local governments to devise preferential taxation policy to support the private sector.

"Employment Protection Laws and Privatization"

Krishnamurthy Subramanian - Indian School of Business, India
William L. Megginson - University of Oklahoma, USA

Discussant: Anna Zalewska - University of Bath, UK

Do employment protection laws hinder privatization? Using privatization deals in fourteen European countries from 1977-2003 and within-country variation in employment protection laws, we find that stringent employment protection laws significantly deter privatization. The fear of job cuts apparently leads organized labor in the state-owned enterprises to vehemently oppose privatization. We find that stringent employment protection laws inhibit privatization disproportionately more in industries that are less productive and require lower level of job skill, consistent with the fear of retrenchment being greater in the less-productive and low-skilled sectors. We also find that stringent employment protection laws inhibit privatization disproportionately more in unionized industries, consistent with the fact that workers in these industries exert considerable political pressure. To obtain these results exploiting inter-industry differences, we use industry-level measures for the United States as an instrument to alleviate potential endogeneity concerns. We employ panel regressions that include fixed effects to control for unobserved factors at the country, industry and year levels. We also examine specifications including country-specific and industry-specific trends to account for spurious correlations stemming from such trends in privatization and in enacting employment protection laws. Our results are also robust to controlling for endogenous changes in employment protection laws due to: (i) changes in a country's government, specifically adopting or rejecting a left-of-center political stance; (ii) trade liberalization; and (iii) country-level economic growth.

SESSION 78

Room 110

CROSS LISTING

Session Chair: John H. Hall - University of Pretoria, South Africa

"Cross-Listing, Corporate Governance, and Firm Valuation: An Empirical Test of the Bonding Hypothesis"

Lixian Liu - RMIT University, Australia
Vikash Ramiah - RMIT University, Australia
Tony Naughton - RMIT University, Australia

Discussant: Nabil Khoury - University of Quebec, Canada

Applying the principle of the bonding theory, this study examined the relationship between corporate governance practice and performance of Chinese firms that are listed in the major international stock exchanges, including NASDAQ, New York, HK, Singapore and London AIM markets. Hypotheses are tested using panel data analysis. The results reveal that the non-cross-listed Chinese firms demonstrate better firm performance than those listed in US, London, Singapore, and Hong Kong, and the supposed effective corporate governance practices have fewer effects on firm's performance, borrowing a corporate governance mechanism and cross-listing do not guarantee the improvement of firm performance.

"One Security, Four Markets: Canada-US Cross-Listed Options and Underlying Equities"

Michal Czerwonko - McGill University, Canada
Nabil Khoury - University of Quebec, Canada
Stylianos Perrakis - Concordia University, Canada
Marko Savor - University of Quebec, Canada

Discussant: Walid Busaba - University of Western Ontario, Canada

In this paper we examine the relative contributions of US and Canadian markets to price discovery for Canadian

cross-listed options and their cross-listed underlying stocks. We use two different econometric approaches in assessing the contributions of each market to price discovery, the information shares approach and the common factor approach. Our empirical results are consistent in both approaches. We show that on average price discovery for cross listed Canadian stocks and options takes place overwhelmingly in the underlying asset markets, where Canadian equity markets dominate the discovery process. The results show that option markets information shares remain comparable, although slightly higher in the US, which contrasts with the fact that its relative volume is almost ten times greater than that of Canadian options markets. The results also indicate a high degree of integration between Canadian and US markets for the underlying stocks of cross-listed options and show that the foreign exchange market does not contribute to the co integration between these markets to any significant extent. An analysis of the determinants of the relative information shares between firms with all markets analyzed simultaneously shows that the most important factor explaining the information shares is the volatility of underlying returns.

"Why Do Firms Dual-List Their Stocks? Insights from the Chinese Financial Markets"

Walid Busaba - University of Western Ontario, Canada

Lin Guo - Suffolk University, USA

Zhenzhen Sun - University of Rhode Island, USA

Tong Yu - University of Rhode Island, USA

Discussant: Cecilia Caglio - Securities Exchange Commission, USA

An interesting phenomenon for Chinese companies that list their stocks on both the domestic and overseas stock exchanges is that most of them chose to have an IPO on the overseas stock exchange first, and then had another IPO in the home market at a later time. One explanation is the bonding and improved corporate governance hypothesis which states that Chinese companies first list their shares on the overseas markets in order to achieve better corporate governance. Under this hypothesis, when overseas-listed firms come back to the domestic market for an IPO, they should experience superior post-IPO operating performance relative to the domestic counterparts. The alternative explanation is the managerial opportunism hypothesis, under which managers of dual-listed firms take advantage of the high visibility of being first listed in the overseas markets. When these companies come back to the domestic market and, in comparison to their domestic-only counterparts, they should raise greater amounts of equity capital relative to their needs, and experience poorer post-IPO stock and operating performance as they have insufficient growth opportunities. Our empirical evidence is inconsistent with the bonding and improved corporate governance hypothesis and lends support to the managerial opportunism hypothesis. We find that dual-listed firms underperform significantly both in operating performance and stock return performance relative to non-cross-listed companies, and the performance gap between the two groups is larger over time. Dual-listed companies are able to achieve greater proceeds to sales ratios, lower issue underpricing, and lower issue expense ratio than do non-cross-listed companies.

"Going Public Abroad: The Role of International Markets for IPOs"

Cecilia Caglio - Securities Exchange Commission, USA

Kathleen Weiss Hanley - Federal Reserve Board of Governors, USA

Jennifer Marietta-Westberg - Securities Exchange Commission, USA

Discussant: Tony Naughton - RMIT University, Australia

The issuance and listing of initial public offerings of firms outside their home country is important to understanding global capital flows and competitiveness among exchanges and economic markets. In terms of number of issues, 6IPOs list abroad but raise more than a fifth of all IPO proceeds. We document that the time series and firm characteristics of IPOs and cross-listings are not highly correlated indicating that the factors underlying the decision to list outside the country of origin may differ between the two types of offerings. Companies conducting an IPO outside their home market are larger, more mature and have a greater percentage of foreign sales than domestic IPOs. Our results are consistent with Stulz (2009) on the decision of an IPO to list outside its home country. Compared to domestic IPOs, IPOs going public abroad originate in countries with significantly lower measures of market development and financial reform as well as worse disclosure standards. Finally, we show that although the US has lost market share in the number of IPOs and cross-lists over time, it continues to attract significantly larger companies.

SESSION 79

Room 208

EMERGING MARKETS

Session Chair: Kashif Saleem - Lappeenranta University of Technology, Finland

"Modelling and Forecasting the Volatility of Thin Emerging Stock Markets: The Case of Bulgaria"

Plamen Patev - Tsenov Academy of Economics, Bulgaria

Nigokhos Kanaryan - Standard Asset Management, Bulgaria

Katerina Lyroudi - University of Macedonia, Greece

Discussant: Aleksandr V. Gevorkyan - New York University, USA

Modern Portfolio Theory associates the stock market risk with the return's volatility. Volatility is measured by the variance of the returns' distribution. However, the investment community does not accept this measure, since it weights equally the deviations of the average return, while most investors determine the risk on the basis of small or negative returns. In the last few years the measure Value at Risk (VaR) has been established and adopted widely by the practitioners. The issue about modelling and forecasting thin emerging stock markets' risk is still open. The subject

of the present paper is the risk of the Bulgarian stock market. The aim of this research is to give the investment community a model for assessing and forecasting the Bulgarian stock market risk. The results of the research show that the SOFIX index has basic characteristics that are observed in most of the emerging stock markets, namely: high risk, significant autocorrelation, non-normality and volatility clustering. Three models have been applied to assess and estimate the Bulgarian stock market risk: RiskMetrics, EWMA with t-distributed innovations and EWMA with GED distributed innovations. The results revealed that the EWMA with t-distributed innovations and the EWMA with GED distributed innovations evaluate the risk of the Bulgarian stock market adequately.

"Fundamental Uncertainty, Fiscal Policy Rules, and Scenarios for Emerging Financial Markets"

Aleksandr V. Gevorkyan - New York University, USA

Arkady V. Gevorkyan - T3 Alpha, USA

Discussant: Rochdi Keffala - University Claude Bernard Lyon 1, France

In the wake of the recent global economic crisis emerging financial markets, mainly the group of BRIC(S), have fared well compared to potential peers in North America and Western Europe. This economic performance is due to a number of factors, including relative exclusion from the volatile financial centers of the world but also a use of proactive fiscal (as in "done by the state") policy measures. This offers some intellectual foundation to discuss normalcy in the emerging economies development. Yet the fundamental uncertainty, characterizing modern financial markets, must be brought into discussion with all urgency. For an emerging market model this refers to unclear medium run outcomes, as the decoupling of the financial from the real sector in the economy has deep negative implications, despite some promise of growth. This paper is conceptual and builds on authors' earlier analysis of blended monetary and fiscal rules in a currency crisis-like situation. For concreteness the paper analyzes the case of Russia, where such proactive blended policy is in place. The paper also models adaptable fiscal policy decision process within economic uncertainty and with multiple alternative revenue sources and set development projects' funding. A tight balance between the market and fiscal involvement backed by pragmatic accumulation and distribution of available revenue is necessary. In this light the study briefly discusses three hypothetical economic scenarios relevant to emerging markets. Macro stability may be achieved under fiscal net framework described in this paper.

"Barriers to the Adoption and the Usage of Internet Banking by Tunisian Consumers"

Rochdi Keffala - University Claude Bernard Lyon 1, France

Discussant: Murad Harsheh - Birzeit University, Palestine

The objective of the paper is to identify the barriers to the adoption and the usage of Internet Banking by Tunisian consumers. The results show that, on one hand, perceived ease of use, perceived usefulness, trust and security are motivators' factors, and on the other hand, perceived costs and personal features are inhibitors' factors to the adoption and the usage of Internet Banking by Tunisian consumers. Finally, I deduce that Internet costs and ATM usage are the main barriers to the adoption and the usage of Internet Banking by Tunisian consumers.

"Efficient Market Hypothesis in Palestine Securities Exchange (PEX)"

Akram Alkhatib - Birzeit University, Palestine

Murad Harsheh - Birzeit University, Palestine

Discussant: Katerina Lyroudi - University of Macedonia, Greece

The study aims at empirically testing the efficiency of the PEX, by using the random walk theory in analyzing past stock return, as an emerging stock market to find if investors are equal in terms of the return they achieve with respect to the level of information they hold. Observations of daily stock returns were the key input of the empirical testing for data sets such as regression analysis, time series and random walk theory. The study examined the weak-form market efficiency of the Palestine security exchange for stocks included in the PSE market indices. Although the study is limited only to PSE, we can count on it for further future studies about the Palestinian economy and its financial sector. The study points out to the inefficiency of the PSE due to the illiquid market, thin trading and large presence of institutional investors who capture the lion share of outstanding company's stocks. The study finally suggests some recommendations for improving the efficiency of the PSE.

SESSION 80

Room 209

PENSION FUNDS

Session Chair: Skander Lazrak - Brock University, Canada

"Multicurrency ALM for Pension Funds"

Angela Gallo - University of Salerno, Italy

Discussant: Maria Teresa Medeiros Garcia - Technical University of Lisbon, Portugal

Multinational companies are typically sponsors of pension funds having liabilities denominated in a currency different from the assets. Pension funds based in countries where the domestic financial market is not developed enough to stand the huge amount of assets under management are also forced to invest in foreign markets. Apart from these cases, pension funds show an increasing interest in globally invested portfolio to gain diversification benefits. In all

these cases the pension funds face currency risk and have to evaluate the implementation of hedging strategy. We develop an ALM model based on scenario analysis to construct simulated global portfolios assuming different hedging positions in currency forwards. These portfolios are then compared by means of ALM measures as the funding ratio return, standard deviation, probability of underfunding and Value at Risk. The comparison is set at different investment horizons. Pension funds typically have a long-term investment horizon due to the long maturity of the liabilities, but they also have to comply with short-term regulatory solvency constraints. The paper investigates the effects of the hedging strategy both in long term and in the short term. The model is applied to a Swiss-based pension funds investing in US and Euro markets.

"Pension Funds Management: The Case of Portugal"

Maria Teresa Medeiros Garcia - Technical University of Lisbon, Portugal

Discussant: Ghulame Rubbaniy - Erasmus University Rotterdam, The Netherlands

The concern with the long term viability of most of the existing government-operated pension systems due to demographic changes have led to various proposals concerning pensions reforms, many of which have already been put in action. However, the pension reform remains a highly controversial issue due to its complexity. Our attention goes to the management issue concerning a funded system. We discuss the management results of the public reserve fund of the social security system and those of the private sector pension funds in Portugal. The former is a defined benefit system, the later are associated either with defined benefit plans either with defined contribution plans.

"Herd Behaviour and Trading of Dutch Pension Funds"

Ghulame Rubbaniy - Erasmus University Rotterdam, The Netherlands

I.P.P. van Lelyveld - De Nederlandsche Bank, The Netherlands

W.F.C. Verschoor - Erasmus University Rotterdam, The Netherlands

Discussant: Andrew Worthington - Griffith University, Australia

In this paper we provide evidence that repudiates the popular belief that Dutch pension funds are long-term passive institutional traders; rather like active traders they trade about eight and half percent of their portfolio on monthly basis. Using a unique data sample, our results affirm significant feedback trading strategies, both momentum and contrarian, and robust herding behaviour in investments of Dutch pension funds. Our findings contradict previous evidence and suggest that both the institutional lagged performance and demand for a stock triggers contrarian investments in Dutch pension funds. Trading behaviour also varies substantially across asset classes. Furthermore, the recent financial turmoil has a positive impact on both turnover and herding while it negatively affects feedback trading.

"Economies of Scale and Scope in Australian Superannuation Funds"

Helen Higgs - Griffith University, Australia

Andrew Worthington - Griffith University, Australia

Discussant: Angela Gallo - University of Salerno, Italy

This paper estimates economies of scale and scope for 200 large Australian superannuation (pension) funds in 2009 using a multiple-output cost function. This is the first and currently only year that certain fund-level information provided in the superannuation annual returns to the Australian Prudential Regulation Authority (APRA) has been deemed non-confidential and made publicly available. Costs are separately defined in terms of investment expenses—including investment, custodian and asset management fees—and operating expenses—comprising management, administration, actuarial, director and trustee fees and charges. Four outputs are specified for each cost: namely, cash flow adjusted net assets, the number of investment options, the proportion of total assets in the default strategy and the five-year rate of return for investment costs, and cash flow adjusted net assets, the number of members, net contribution flows and net rollovers for operating costs. The findings indicate that ray economies of scale hold up to at least 300 percent of current mean output in both investment and operating costs, though product-specific economies of scale hold primarily for assets under management and the number of investment options at relatively high levels of output for investment costs and for rollovers at low levels of output for operating costs. In contrast, there is little evidence that global and product-specific economies of scope prevail in the sector, and this is reflected in the proclivity of many superannuation funds to contract out many aspects of their investments and operations.

SESSION 81

Room 210

MARKET EFFICIENCY

Session Chair: Randi Naes - University of Stavanger, Norway

"The Relationship between Uncertainty and the Market Reaction to Information: How is it influenced by Market and Stock-Specific Characteristics?"

Ron Bird - University of Technology Sydney, Australia

Krishna Reddy - University of Waikato, New Zealand

Danny Yeung - University of Technology Sydney, Australia

Discussant: Suk-Joong Kim - The University of Sydney, Australia

Numerous empirical studies dating back to Ball and Brown (1968) have investigated how markets react to the receipt of new information. However, it is only recently that authors have focused on differentiating between, and learning from, how investors react to good and bad news. In this paper we find that investors swing between being optimistic and being pessimistic in their interpretation of the information driven by the prevailing market uncertainty and sentiment and a significant number of firm-specific characteristics. Pessimism prevails when uncertainty is high, sentiment is weak and the information is being disseminated by companies that are lowly-valued, high risk, thinly traded and/or small cap stocks. However, investors swing to being optimistic when one reverses some or all of these factors. The conclusion that we draw is that risk, uncertainty and the attitude of investors combine to determine how the market reacts to information and this flows through to asset valuations.

"The Impact of Informational Arrival on the Australian Dollar"

Suk-Joong Kim - The University of Sydney, Australia

Michael D. McKenzie - The University of Sydney, Australia

Amy Shi - Deutsche Bank AG, Australia

Discussant: Dennis Y. Chung - Simon Fraser University, Canada

This study investigates the impact of scheduled and unscheduled information arrival on realized volatility and volume in the USD/AUD exchange rate for the period April to September 2009. We find that the trading activities outside of the Australian business hours dominate those during the local trading and this is mostly due to the higher frequency of information arrivals during the offshore hours. We find some evidence of abnormal trading activity prior to the release of Reuters news headlines. During the local trading hours the scheduled Australian macroeconomic announcements are found to be most news worthy. We find that quote volume increases before the announcements but volatility hike is observed during the time periods surrounding the announcements. The findings of this study have important implications for market traders and government.

"Speed of Convergence to Market Efficiency: The Role of ECNs"

Dennis Y. Chung - Simon Fraser University, Canada

Karel Hrazdil - Simon Fraser University, Canada

Discussant: Richard A. Ajayi - University of Central Florida, USA

Chordia, Roll and Subrahmanyam (2005, CRS) estimate the speed of convergence to market efficiency based on short-horizon return predictability of the 150 largest NYSE firms. We extend CRS to a broad panel of NYSE stocks and first examine the relation between electronic communication networks and the corresponding informational efficiency of prices. Overall, we confirm CRS's result that price adjustments to new information occur on average within five to fifteen minutes for large NYSE stocks. We further show that it takes about twenty minutes longer for smaller firms to incorporate information into prices. Most importantly, we demonstrate that the speed of convergence to market efficiency is significantly related to the type of trading platform where orders are executed, even after controlling for trading costs, volatility, informational effects, institutional trading activity, and firm characteristics. Our findings provide direct answers and insights for addressing issues raised in a recent Securities and Exchange Commission (2010) concept release document. We demonstrate that the speed of convergence is a feasible measure to assess how efficiently prices respond to new information. Our results also show that the ECN platform can play a significant role and contribute positively in the price discovery process by further enhancing the speed of adjustment to new information for both large and small firms.

"Investors Reaction to Market Surprises on the Indian Stock Exchange and Currency Markets"

Richard A. Ajayi - University of Central Florida, USA

Yaman O. Erzurumlu - Dogus University, Turkey

Discussant: Krishna Reddy - University of Waikato, New Zealand

This paper examines the reaction of investors to the arrival of unexpected information on the Indian equity and foreign exchange markets. Market surprises are identified using a strictly quantitative approach, and cumulative abnormal returns are calculated and tracked for a period of 30 days after each favorable or unfavorable event. The empirical results provide evidence that the reactions of investors following unexpected good or bad news on the Mumbai Stock Exchange (MSE) are consistent with Uncertain Information Hypothesis (UIH) while the reactions of investors in the rupee/dollar exchange market is consistent with Overreaction Hypothesis (OH). A possible implication of this study for investors is that employing an investment strategy of buying losers in MSE following a sharp decline and holding on to winners after a sharp increase may generate superior returns. In the currency market a strategy of taking a short position in the rupee following sharp increase and a long position following sharp decrease will generate superior returns.

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