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Securities Lending Exclusive Valuations and Auction Bids

Ravi Kashyap Kashyap
SolBridge International School of Business, South Korea
ravi.kashyap@stern.nyu.edu

Abstract

We derive valuations of a portfolio of financial instruments from a securities lending perspective. We show a weighting scheme to combine multiple valuations made under different assumptions. We illustrate conditions under which our alternative weighting scheme converges faster to the true valuation when compared to the minimum variance weighting. This weighting scheme is applicable in any situation where multiple forecasts are made and we need a methodology to combine them. Our valuations can be useful either to derive a bidding strategy for an exclusive auction or to design an appropriate auction mechanism, depending on which side of the fence a participant sits (whether the interest is to procure the rights to use a portfolio for making stock loans such as for a lending desk, or, to obtain additional revenue from a portfolio such as from the point of view of a long only asset management firm). Lastly, we run simulations to establish numerical examples for the set of valuations and for various bidding strategies corresponding to different auction settings.

Opening the Black Box in Private Equity: When Interests Conflict Between GPs and LPs

Hyeik Kim
Ohio State University, United States
kim.6577@osu.edu

Abstract

Private equity general partners can make investments that go against limited partners? interests. The way compensation contracts are structured encourages general partners to invest in value-destroying deals towards the end of the investment period while maximizing their fee profits. Using a comprehensive sample that is potentially free from selection bias, I find that funds investing more in later stages have lower Net IRR and Net multiples. Within each fund, deals made in later stages have lower earnings growth and sales growth than those made in earlier stages. The patterns are stronger among more established funds, suggesting that GPs with lower reputation costs are more likely to engage in such behavior. Moreover, I find that funds whose earlier deals are more profitable invest in later deals that have less-volatile cash flows, are older, and are less likely to be startups. The evidence is consistent when using the U.S.quarterly cash flow data from the Calpers.

How debt and crisis affect multinational firms´ tax planning, bankruptcy costs and value

Peter Vaz da Fonseca
Mackenzie Presbyterian University, Brazil
peter@ebpocontabil.com.br

Michele Jucá
Mackenzie Presbyterian University, Brazil
michele.juca@mackenzie.br

Eli Hadad
Mackenzie Presbyterian University, Brazil
eli.hadad@mackenzie.br

João Vieito
Polytechcnic Institute of Viana do Castelo, Portugal
joaovieito@esce.ipvc.pt

Abstract

This study stands out for analyzing the distinct impact of indebtedness on bankruptcy costs, interest rates, tax benefit and market value of multinational and domestic companies - in periods of crisis and financial stability. It considers a sample of 977 publicly traded companies, whose headquarters are located in the Organization for Economic Cooperation and Development´s key-partners emerging countries - Brazil, China, India, Indonesia and South Africa. Another differential refers to the use of tax proxies that capture short- and long-term financing decisions. The analyses are performed by means of structural equations for the pre- and post-crisis periods (2004-2011), as well as for non-crisis period (2004-2019). As a result, the existence of a positive impact of the multinatinal companies´ indebtedness and their bankruptcy costs and their value is confirmed. It is also verified that the greater the multinatinal companies´ leverage, the lower their nominal interest rates and tax benefit. Such relations occur in scenarios of crisis or not. For the period from 2004 to 2019, there is an increase in the multinatinal companies´ indebtedness level - in contrast to the reduction presented by domestic companies. It is worth noting that this distinction takes place at a moment when central banks apply countercyclical policies - reduction of interest rates, incentive to credit offer and reduction of official tax rates. Notwithstanding this fact, it appears that domestic companies face higher interest rates. Multinatinal companies, on the other hand, have greater financing capacity through intercompany loans, which reduces their debt cost.

Spillover effects between commodity and stock markets: A state-dependent sensitivity expected shortfall (SDSES) approach

Lidia Sanchis-Marco
UCLM, Spain
lidia.sanchis@uclm.es

Laura García-Jorcano
UCLM, Spain
laura.garcia@uclm.es

Abstract

In this paper, we developed a state-dependent sensitivity expected shortfall (SDSES) approach using expectiles in the spirit of the model proposed by Adams \textit{et al.} (2014) for value at risk. This model enabled us to quantify the direction, size, and persistence of risk spillovers among the US and emerging market stock indices and different individual commodities as a function of the state of financial markets (tranquil, normal, and volatile). For eight sets of major stock and commodity markets (SP500, emerging market stock index, US commodity market index, oil, copper, gold, wheat, and corn), we demonstrated that spillover effects are small during normal and tranquil states and those effects are of considerable size in the volatile state and are changeable over time. We obtained high and more significant spillovers and financialization process evidence in the volatile state after Lehman Brothers bankruptcy. Market stock indices appeared to play a major role in the transmission of shocks to other markets, especially from the SP500 to wheat in the post-Lehman Brothers bankruptcy period, whereas emerging market stock index was one of the highest sources of tail risk spillover to the oil market in the post-Draghi speech period.

Macro variables and the Prediction of Out-of-Sample Bank Financial Performance

Alan Sousa
University of São Paulo, Brazil
alan.sousa@usp.br

Renê Pimentel
University of São Paulo, Brazil
renecp@usp.br

Eduardo Flores
University of São Paulo, Brazil
eduardoflores@usp.br

Abstract

This paper will test whether the macroeconomic variables used in stress tests and that affect bank behavior can predict financial performance, measured by Net Interest Margin, Non-Interest Income, and Loan Loss Provision, and by the recently developed cash flow variables- Credit Cash Flow, and Liability Cash Flow, in comparison to a naïve random walk model. This will show how the cash flow variables, which were developed by Antunes et al. (2017) and De Moraes, Antunes e Rodrigues (2017) can be a tool for analyzing bank behavior and risk and see if the same macro variables are able to forecast the main Earning variables, which contains accruals. The measurement of forecast capability of macro variables are extremely important, as it will allow agents to build accurate scenario analysis that will underscore the correct risk of a given financial institution and it can serve of an early warning indicator of troubling behavior of a financial institution when certain economic conditions are met. We focus on aggregate forecast for Brazilian financial institutions that are in the banking segment. Therefore, this work will focus on the forecast capability of macro variables and not in explanatory bank-specific factors. ,

Relationship between Financial Market Freedom and Economic Growth: An Empirical Evidence from India.

Amlan Ghosh
National Institute of technology Durgapur, India, India
amlanpost@gmail.com

Abstract

The role of financial institutions and financial intermediaries in fostering economic growth by improving the efficiency of capital accumulation, encouraging savings, and ultimately improving the productivity of the economy has been well established by the researchers. The reforms in the financial sector worldwide during the 1980s and 1990s were aimed at ushering in greater efficiency and more competitiveness. The impact of financial market freedom on the overall development of the financial sector and thereby the growth in an economy is one of the most important considerations for policymakers over the years. This paper aims to examine the causal relationship between financial market freedom and economic growth in the Indian economy in the post-reform period.

Big Data Approach to Realised Volatility Forecasting Using HAR Model Augmented With Limit Order Book and News

Eghbal Rahimikia
Alliance Manchester Business School, United Kingdom
eghbal.rahimikia@manchester.ac.uk

Ser-Huang Poon
Alliance Manchester Business School, United Kingdom
ser-huang.poon@manchester.ac.uk

Abstract

The study determines if information extracted from a big data set that includes limit order book (LOB) and Dow Jones corporate news can help to improve realised volatility forecasting for 23 NASDAQ tickers over the sample from 28 June 2007 to 17 November 2016. The out-of-sample forecasting results indicate that CHAR model outperformed all other models in the HAR-family of models, and there is strong evidence that news and LOB data provide statistically significant improvement in RV forecasts. Specifically, the slope of the bid-side of LOB has better predictive power than the slope from the ask-side. For normal volatility day, the ?negative? sentiment derived from the news has a clear impact, while ?news count?, and to a lesser extent, ?weak modal?, and ?uncertainty? can help to forecast volatility jumps. The depth of the LOB also helps to forecast volatility jumps. Indeed, the findings also suggest normal volatility and volatility jumps should be separately analysed as variables improve the forecasting performance of normal days causes a degradation in the forecasting performance of volatility jumps and vice versa. On the other hand, increasing the estimation sample size causes statistically signi?cant degradation in the forecasting performance of volatility on normal days, especially if it includes extreme volatility period such as the 2008 financial crisis, but a longer sample improves the forecast of volatility jumps.

Stocks through a Looking Glass: Can Style Segment-Adjusted Mutual Fund Stock Holdings Predict Stock Returns?

Cao Fang
Walton College of Business, University of Arkansas, United States
caofang@uark.edu

Wayne Lee
Walton College of Business, University of Arkansas, United States
WLee@walton.uark.edu

Abstract

Using stock characteristics to classify fund holdings into style segments, and peer group holdings as benchmarks to define active fund holdings, we introduce a new measure, stock investment quality, to infer information about future stock returns from the active fund holdings by skilled managers. Stocks ranked high on investment quality generate significantly higher excess market returns that persist through the ensuing year. The positive investment quality?future return relationship is robust to fund quality proxied by GVA or management fees. Future returns are highest on stock holdings of skillful and patient fund managers who exploit long term market mispricing.

Industry Momentum in Latin America

Luis Berggrun
CESA Business School, Colombia
luis.berggrun@cesa.edu.co

Emilio Cardona
Universidad de los Andes, Colombia
e-cardon@uniandes.edu.co

Edmundo Lizarzaburu
ESAN University, Peru
elizarzaburu@esan.edu.pe

Abstract

We examine whether high return industries outperform low return industries in Latin America. Differences in performance between recent winner and loser industries are often indistinguishable from zero. Analyzing the segment of small and large industries points us to the same conclusion of a lack of return continuation across industries. Using idiosyncratic returns instead of total returns to distinguish between winner and loser industries further confirms that industry momentum does not hold in the region. In all, profiting from persistent return differences between industries would have been very difficult in our sample period.

Banks? Capital, Credit Ratings, and Asymmetric Information: International Evidence

Michal Wojewodzki
The Hang Seng University of Hong Kong, Hong Kong
michalwojewodzki@hsu.edu.hk

Agyenim Boateng
De Montfort University Leicester , United Kingdom
Agyenim.boateng@dmu.ac.uk

Abstract

This study considers whether the associations between credit ratings and banks? capital structure can be explained by the channels of asymmetric information, namely, countries? economic cycle, economic development, banking supervision and private monitoring. Using an international sample of 391 rated banks from 76 countries, the study reveals three interesting findings. First, the effects of negative rating signals, which encompass a downgrade, fallen angel, and minus sign on banks? capital ratios, vary significantly with economic cycles. The effects are significantly negative and pronounced when a country?s economy is in a poor state. However, as the economy?s health improves, the rating effects decrease to zero and eventually become positive. Second, we find that only the downgrade effect is sensitive to the three other channels of asymmetric information: Countries? economic development, banking supervision, and private monitoring. Third, we document that the fallen angel effect is the most important rating factor regarding banks? capital structure. Collectively, our evidence indicates that credit ratings partially explain capital structure decisions and that information asymmetry is an important factor.

Cash is king or trash? Reviewing political uncertainty and corporate behaviour

Kulnicha Meechaiyo
University of Glasgow, United Kingdom
2170424M@student.gla.ac.uk

Abstract

Using election and comprehensive corporate data in Asia emerging economies from 1990 to 2018, this paper examines that political uncertainty in the context of national elections affects the behaviour of corporate cash holdings and assets growth. Since different types of national elections affect corporate behaviour differently, the sample is divided into two groups: firms in a country with presidential or legislative elections (Indonesia, Korea, Malaysia, the Philippines, Singapore, Thailand and Taiwan (China)), and firms in a country with assembly-elected presidential elections (China). The cash flow sensitivity of cash during election periods can be estimated by panel regressions with fixed effects. In addition, this paper estimates the first-difference Generalized Method of Moments technique to consider the impact of the availability of internal finance on assets growth during election periods. The line of discussion builds upon the theory of cash holdings motivation of Keynes (1936) and the internal finance theory of growth. The findings show that the magnitude of cash holdings varies with different types of national elections and firm size. Based on these two sub-samples, findings suggest that firms residing in a country with presidential or legislative elections are more sensitive in political uncertainty than those residing in a country with assembly-elected presidential elections. During election periods, firms residing in a country with presidential or legislative elections hold more cash from their cash flow during election periods due to a precaution against uncertainty. While large firms residing in a country with assembly-elected presidential elections lessen a grabbing hand problem from politicians by reserving less cash from their cash flow. Moreover, they confirm that small firms in a country with presidential or legislative elections use internal funds to grow during election periods.

Is there economic model-analysis that predict the global outfall from Covid-19 panic and anxiety?

NAHLA DHIB
Laboratoire J.A dieudonnee, Parc Valrose, 28 Avenue Valrose, , France
nahla@unice.fr

Abstract

The spread of Covid-19, triggered in China by the end of 2019, exploded the seriously economic crisis which since 2018 leaders tried to avoid it. However, the health crisis takes out all trivial evidence to get rid from the recession. Unfortunately, the virus sustained rapid transmission around the world and involved a serious effects on financial market and growth economic. How may economic survived and financial market may resisted face the serious recession? What make the worst to the best way in worldwide tomorrow is the effective decision making by leaders to avoid an economic war. We illustrate with a Markov Chain the dynamic of their preferences depending on characteristic of their rational behavior to resist face perverse dynamics. The strategic choice predicts an economic policy model with international coordination to stopped global economic recession. Under some assumptions, we based on Markov Chain proprieties to estimate the outcome from their preferences. The simulations show us that an effective action involved positive shock and avoid sustainable recession only with bounded rational behavior. The existence of many issues generate some chaos in global economy indeed the efforts of leaders should emphasis to make the best decision despite its disadvantage's for their own account.

How can financial firms ?go green??

John Holland
University of Glasgow , United Kingdom
john.holland@glasgow.ac.uk

Abstract

The research question of the paper is How can financial firms go green? This is explored by discussing how non-financial change in the firm can drive financial change. This concerns how socio-technical context and everyday specialist financial activities of the firm can become green orientated. This involves sustainability-oriented change in purpose and function, as well as in intangibles such as; top team capabilities, organisation, culture, routines, product design, use of technology; and the capabilities of individual employees and their teams. The change narrative in the paper is based on a conceptual framework in the form of a Green ?Behavioural theory of the financial firm? (green BTTF). This provides an empirical and theoretical basis to explore how such contextual changes can play a role in changing behaviour and in driving authentic and credible financial decision actions in the firm to reflect sustainability aims. The analysis includes how contextual change influences interpretation of external events and stimuli, choice of measurement drivers such as targets and metrics, and hence action. The green oriented changes to context, interpretation, and ?measurement?, were expected to enable and change behaviour. They were expected to change financial decisions to save, lend, invest, or insure to reduce harm (of GHG emissions) and increase positive sustainability outcomes. Changes in these connected factors and activities together were the means to deliver the new green financial services and functions required by customers, employees, shareholders, citizens and other stakeholders. An interdisciplinary approach (Knights and Willmott, 1997; de Bakker et al, 2019) was adopted to interpret empirical narratives and develop an equivalent theoretical narrative and Green BTTF. This narrative approach has potential ?to make a difference? in; learning, thinking, and believing about desirable responses to climate change (Shiller, 2019; King and Kay, 2020).

A New Transmission Channel of Global Credit Market Shocks to Credit Cycles in Developing Economies: Can Macroprudential Regulation Attenuate the Virility of the Shocks?

Francois d'Assises BATIONO
Laval University, Canada
francois-dassises-babou.bationo.1@ulaval.ca

Victor MURINDE
SOAS University of London, United Kingdom
vm10@soas.ac.uk

Issouf SOUMARE
Laval University, Canada
issouf.soumare@fsa.ulaval.ca

Abstract

We propose a commodity price cycles channel through which credit market shocks from developed countries are transmitted to credit market cycles in developing economies. We specify plausible econometric models to investigate this new channel. We also test the effectiveness of macroprudential regulation in attenuating possible adverse effects of the shocks. We use panel data from 74 developing countries to estimate plausible econometric models. We uncover new evidence that cross-border bank capital flows impact significantly and positively on credit cycles in developing countries. We also identify commodity price cycles as one main transmission channel. We find that macroprudential regulation can help mitigate possible perverse impacts of cross-border bank capital flows on developing economies.

Distrust and Cryptocurrency

Bo Tang
London School of Economics, United Kingdom
b.tang3@lse.ac.uk

Yang You
Harvard University, United States
yangyou@g.harvard.edu

Abstract

This paper uses violations of the law of one price of Bitcoin to uncover sources of demand for cryptocurrency. In line with Hayek, we show that distrust breeds demand. We proxy Bitcoin demand with transitory price deviations---Bitcoin prices in a local currency, converted into dollars, relative to the average worldwide dollar Bitcoin prices. A simple portfolio choice model elucidates several predictions we find in the data. Price deviations rise when 1) perceptions of institutional failures grow, 2) crypto-trading frictions increase, and 3) cryptocurrency prices rally. These price responses are stronger in countries where people express more distrust in others.

Insider Trading and Anomalies

Hong Xiang
The University of Hong Kong, Hong Kong
hongxiang18@hku.hk

Abstract

I show that the aggregate insider trading at anomaly portfolio-level can forecast anomaly returns. Specifically, I use the fraction of anomaly long-leg (short-leg) stocks being bought (sold) by insiders as a signal that aggregates insiders' information on expected returns of the anomaly. Based on a composite anomaly measure that combines 11 prominent anomalies, I show that the insider trading signal significantly forecasts anomaly returns both in-sample and out-of-sample. These findings also help disentangle the risk-based and the mispricing-based explanation for anomaly returns.

Combined crises and their implications for firm profitability

Alexandre Siqueira
Brazilian Development Bank, Brazil
alexandresq@hotmail.com

Sylvia Gottschalk
Middlesex University, United Kingdom
S.Gottschalk@mdx.ac.uk

Abstract

This paper investigates how the interaction of distinct types of macroeconomic and financial crises impact on firm profitability. A new taxonomy of crises and combined crises is constructed, where up to four concomitant types of crisis are considered, viz., banking, currency, debt, and economic recession. There is ample evidence in the literature that the economic impact of ?twin? crises, combining a currency and a banking crisis, affect firm profitability differently from a currency crisis or a banking crisis separately. Moreover, these impacts were found to be deeper than the simple sum of those of single crises. We then estimate dynamic panel estimators of the main determinants of firm profitability by types of crisis combination, for emerging markets, and mature economies. Our results show that lagged profitability and gross margin have a positive impact on firm profitability, irrespective of the business environment conditions, or whether one or more crises are affecting the country. Leverage has a consistent negative impact on profitability, as well as external financial dependence. However, we found that the impact of other determinants, such as liquidity, ownership, age, and size vary with the type of crisis. Market share shows some positive influence on profitability, but not with the intensity shown in previous studies. Diversification performs very poorly, with no significance at all. It is also interesting to notice the change in strength of some variables in times of crises and in times of non-crisis. The impact of lagged ROE increases in times of crises, especially in emerging economies.

Profitability and Liquidity of Turkish Islamic Banks and the Global Financial Crisis

Asli Togan Egrican
Kadir Has University, Turkey
asli.togan@khas.edu.tr

Guleid Ali Ismail
Kadir Has University (Student), Turkey
guleidkhas@gmail.com

Abstract

We analyze the Turkish banking industry with a focus on the Islamic banks with respect to their profitability and liquidity. The Turkish banking system is well established; and Islamic banks have operated alongside conventional banks since the late 1980?s even though the majority of the market share is still served by conventional banks. We also consider whether, during and after the global financial crisis of 2008, these banks? behaviors with respect to profitability and liquidity was different. Overall, our findings suggest there is no difference with respect to performance of the two types of banks in steady state in terms of profitability, but in terms of liquidity, Islamic banks seem to perform better. Post financial crisis, even though the loan/deposit ratio of Islamic banks increased, they continued to perform better with respect to liquidity. However, the profitability of Islamic banks decreased after the financial crisis.

Unicorns and their IPO: Are they Overvalued?

José Correia
University of Évora, Portugal
jec@uevora.pt

Andreia Dionisio
University of Évora, Portugal
andreia@uevora.pt

Gonçalo Vidigal
University of Évora, Portugal
goncalovidigal8@gmail.com

Abstract

Unicorns are companies with a high level technology where their market value is more than 1 billion dollars and are not listed on the Stock Exchange. The study aims to measure the changes in market values of unicorns and identify which variables influence their market values in different moments of time. By comparing the market values, it was verified that unicorns before IPO are undervalued in relation to the subsequent periods. Furthermore, the linear regressions show that the level of undervaluation and sales volume appear to influence positively the unicorns market value, while the level of financial leverage seems to have a negative influence. The capital retention after IPO does not show evidence that it influences the unicorns market value.

Risk management practices of central counterparties: European vs third-country CCPs.

Randy Priem
Katholieke Universiteit Leuven, Belgium
randy.priem@fsma.be

Alexandre Girard
Université Saint-Louis Brussels, Belgium
alexandre.girard@usaintlouis.be

Abstract

As central counterparties can act as shock absorbers but may also lead to financial stability problems themselves, this paper explores the financial risk management practices of central counterparties around the world. Furthermore, we compare European with third-country CCPs to see whether different risk management practices are being applied. Our results indicate that CCPs in the EU require more money to be deposited at a central bank of issue as initial margin than non-EU CCPs. The former also demand a higher fraction of prefunded clearing member contributions. In addition, asset segregation is more common at EU CCPs. In terms of investment risk management, EU CCPs prefer to deposit cash at central banks, while non-EU CCPs tend to have cash deposits at commercial banks. European CCPs have almost three times as many liquid resources as non-EU CCPs.

Bloomberg Exercises for Derivative Classes

Robert Stafford Johnson
Xavier University, United States
johnsons@xavier.edu

Abstract

Today, Bloomberg terminals are becoming more common in universities where they are used by students and faculty for research, teaching, and managing student investment funds. Given the breadth and depth of information and analytics provided by Bloomberg, finance professors face the challenge of how best to incorporate Bloomberg into their classes. The Bloomberg system includes an extensive derivative data base and analytical functions that can be applied to hedging, portfolio insurance, range-forward contracts, changing the market exposure of bond and equity portfolios with derivatives, option pricing, the ?Greeks,? and swaps. For professors whose students have accessed to Bloomberg terminals, one way to include Bloomberg as part of the pedagogy is with exercises related to the subject matter. Many of these applications are delineated in Johnson?s Derivatives Markets and Analysis. The text provides a comprehensive guide to derivative securities and markets with exercises using the Bloomberg terminal. The purpose of this paper is to share a sample of equity and fixed-income portfolio hedging and portfolio enhancing exercises using Bloomberg that have been used by the author in his derivative class. This paper also presents a futures case for an equity portfolio constructed by students in my derivative class.

FinTech Platforms and Mutual Fund Distribution

Xiaomeng Lu
SAIF, Shanghai Jiao Tong University, China
xmlu@saif.sjtu.edu.cn

Claire Yurong Hong
SAIF, Shanghai Jiao Tong University, China
yrhong@saif.sjtu.edu.cn

Jun Pan
SAIF, Shanghai Jiao Tong University, China
junpan@saif.sjtu.edu.cn

Abstract

The emergence of online platforms in intermediating financial products has been a new and exciting development in FinTech. In China, the platforms are allowed to distribute mutual funds since 2012, and have quickly grown into a formidable presence. Examining the economic impact of this new distributional channel, we use the staggered entrance of mutual funds onto the platforms to identify the casual effect of online platforms on the behaviors of fund investors and fund managers. We find that, post-platform, fund flows become markedly more sensitive to fund performance. The net flow to the top 10% performing funds almost triples their pre-platform level, and this pattern of increased performance sensitivity is further confirmed using private data from Howbuy, a top-five platform in China. Consistent with the added incentive of becoming a top ranking performer in the era of large-scale platforms, we find that fund managers increase their risk taking to enhance the probability of getting into the top rank. Meanwhile, the organization structure of large fund families weakens as the introduction of platforms levels the playing field for all funds.

Loss Function-based Change-point Detection in Risk Measures

Xiaohan Xue
ICMA Centre, University of Reading, United Kingdom
x.xue@pgr.reading.ac.uk

Emese Lazar
ICMA Centre, University of Reading, United Kingdom
e.lazar@icmacentre.ac.uk

Shixuan Wang
University of Reading, United Kingdom
shixuan.wang@reading.ac.uk

Abstract

We propose a new test to detect change points in risk measures, based on the cumulative sum (CUSUM) procedure applied to the Wilcoxon statistic of the FZ loss function class of Fissler and Ziegel (2016). The proposed test efficiently captures change points jointly in two risk measure series: Value-at-Risk (VaR) and Expected Shortfall (ES). In particular, we derive the asymptotic distribution of the proposed statistic. We also adopt a stationary bootstrapping technique to obtain the p-values of the test statistic. Monte Carlo simulation results show that our proposed test has better size control and higher power than the alternative tests under various change-point scenarios. The alternatives considered include change point detection method based on self-normalized CUSUM statistics for the VaR series (Hoga, 2017) and the ES series (Fan et al., 2018) taken individually and a modifi cation of our proposed test using a statistic based on Renyi-type formulation. An empirical study of risk measures based on the S&P 500 index illustrates that our proposed test is able to detect change points which are consistent with well-known market events.

To what extent do sovereign rating actions affect global equity market sectors?

Irfan Sahibzada
NUST Business School, National University of Science & Technology, Pakistan
irfan.sahibzada@nbs.nust.edu.pk

Abstract

The aim of this paper is to investigate the global equity market sectors? reaction to sovereign rating news from the three largest CRAs (S&P, Moody?s and Fitch) during the period 10th August 1994 until 31st January 2015. Generally, equity market sectors? reaction across the globe is not uniform to both positive and negative rating signals from all CRAs. However, negative signals prove to be more informative than positive signals across most sectors. While considerable variations exist in the sectors? responses to sovereign credit news in both developed and developing countries, S&P?s actions induce the strongest and consistent market reaction in most sectors. Moody?s negative actions are relatively more informative in developing countries while Fitch?s both positive and negative actions are the least influential. In terms of the rating event types, S&P?s solo upgrade signals induce the strongest market reaction in most sectors while negative outlook/watch signals are more informative across most sectors by both S&P and Moody?s. Both positive/negative ratings news issued by all CRAs was the least influential in consumer services, health care and oil & gas sectors.

Does Sentiment impact Cryptocurrency?

Anamika .
Indian Institute of Management Lucknow, India
anamika@iiml.ac.in

Madhumita Chakraborty
Indian Institute of Management Lucknow, India
madhumita@iiml.ac.in

Sowmya Subramaniam
Indian Institute of Management Lucknow, India
sowmya@iiml.ac.in

Abstract

This study examines the impact of investor sentiment on cryptocurrency returns. We use a direct survey-based measure that captures the investors? sentiment on Bitcoins. This direct measure of Bitcoin investor sentiment is obtained from the Sentix database. The results of the study found Bitcoin prices experience appreciation when investors are optimistic about Bitcoin. Bitcoin sentiment has significant power in predicting the Bitcoin prices after controlling for the relevant factors. There is also evidence that the sentiment of the dominant cryptocurrency, i.e., Bitcoin, influences the price of other cryptocurrencies. Further, we extend our analysis by investigating the impact of equity market sentiment on cryptocurrency returns. We proxy equity market sentiment using two measures viz: Baker-Wurgler sentiment Index and the VIX Index. When the equity market investors are pessimistic, cryptocurrency prices rise, indicating cryptocurrency?s hedging characteristics against the stock markets. Our results remain unaffected after controlling for potential factors that could impact cryptocurrency prices.

The Case of Fleeting Orders and Flickering Quotes

Markus Ulze
University of Augsburg, Germany
markus.ulze@mrm.uni-augsburg.de

Johannes Stadler
University of Augsburg, Germany
johannes.stadler@mrm.uni-augsburg.de

Andreas Rathgeber
University of Augsburg, Germany
andreas.rathgeber@mrm.uni-augsburg.de

Abstract

The literature controversially discusses the ambiguous motives and driving forces behind fleeting orders and flickering quotes. In particular, manipulative and dysfunctional characteristics are feared. We show with an ultra-low latency derivative data set that none of these properties have to be dreaded. Fleeting orders are associated with liquid market environments. The prices of fast flickering order books improve by 3.90% before trades. The results of our Cox proportional hazard rate, logistic, and linear regressions reveal that flickering quotes are likely due to beneficial price discovery processes and inventories of HFTs offered at a discount to other participants.

Investing in virtue and frowning at vice? Lessons from the Global Economic and Financial Crisis

Lucia Morales
Technological University Dublin, Ireland
lucia.morales@tudublin.ie

Daniel Rajmil
Universitat Oberta de Catalunya, Spain
drajmil@uoc.edu

Abstract

Socially responsible mutual funds (SRMF) and the "antisocially conscious", Vitium Global Fund Barrier Fund (formerly known as the Vice Fund, the term used in this paper) returns, volatility patterns, and causal effects are examined in this article within the context of the lessons learned from the 2007/08 Global Economic and Financial Crisis (GEFC). In times of a new and unprecedented crisis due to the COVID-19 pandemic, a look back to our recent past reveals that volatility patterns on daily stock returns presented some level of predictability on prices for both types of funds. The research findings are significant as funds' potential predictability could help market players when designing their investment strategies. More specifically, an increase in volatility persistence is found after the GEFC, together with an increase in the Vice Fund's resilience to the market shock. Although all funds, without substantial differences, take time to absorb the shocks. A noteworthy outcome relates to SRMF that was able to achieve higher returns and exhibited lower volatility levels during the crisis period. Whereas, the Vice Fund revealed long-run sustainable performance offering fund managers and investors investment opportunities that are endorsed by the fund performance over the period. Furthermore, unidirectional causality was found running from the Vice Fund to the SRMF, exhibiting a clear dominance during the GEFC period. The research findings contribute to the debate on the future of socially responsible investment, indicating that SRMF appears to be driven by "antisocially conscious" funds signaling limited rewards for investors inclined to invest in funds that are considered socially responsible.

"A Beautiful China" and the Onus of Coal Consumption

Lucia Morales
Technological University Dublin, Ireland
lucia.morales@tudublin.ie

Daniel Rajmil
Universitat Oberta de Catalunya, Spain
drjamil@uoc.edu

Bernadette Andreosso
University of Limerick, Ireland
bernadette.andreosso@ul.ie

Abstract

China's need for rapid economic growth and its hunger for natural resources bring significant challenges to its economic vision of sustainability, social stability, and its global vision and aspirations. The country has faced an increase in social awareness with mounting concerns on controlling environmental pollution putting significant pressure on the Chinese authorities to transition towards a green economic model. The Chinese authorities are expected to reconsider traditional economic models to integrate environmental protection while ensuring that their economy keeps growing and developing fast. The shift from a traditional and heavy coal-dependent economy towards a greener energy and economic model brings additional challenges to China due to the historical importance of coal as the cheapest energy resource and its role in the Chinese economic miracle. However, is this goal feasible in the context of shrinking economic and natural resources and pressures to keep fast growth? To answer this question, this article seeks to identify any causality patterns between economic growth and fossil fuels energy consumption through the analysis of coal consumption and carbon dioxide emissions. Using an Autoregressive Distributed Lag Model, the results of this study confirm the existence of bidirectional short-run dynamics between the variables, albeit with a lack of causal effects between coal consumption and GDP; however, the results further suggest the potential existence of indirect effects on GDP growth arising from the energy sector, of which coal is an integral part. This renders the move towards a ?beautiful China? (i.e. less dependent on coal) even more so challenging.

Employee Diversity and Litigation Risk: Evidence from the Lilly Ledbetter Fair Pay Act

Adrian Tippit
University of Texas at El Paso, United States
atippit@miners.utep.edu

Erik Devos
University of Texas at El Paso, United States
hdevos@utep.edu

He Li
University of Wisconsin, Whitewater, United States
lih@uww.edu

Abstract

This article examines the valuation effects related to the passage of the Lilly Ledbetter Fair Pay Act. We find that firms that have relatively fewer women in their workforce exhibit a significant negative stock price reaction of 0.7% around the passage of the Act. In contrast, we find that firms with relatively more women in their workforce do not exhibit a significant stock price reaction. Additionally, firms with lower female representation exhibit more severe increases in their implied cost of capital and greater decreases in their expected cash flows compared to firms with high female representation. We do not find that there are differences in market reactions or analyst forecasts, based on differences in racial diversity in the workforce. We hypothesize that our results are related to potential increases in litigation risk.

Forecasting the equity risk premium with long swings in stock market behavior

Kuok Sin Un
University of Leicester, United Kingdom
ksu1@leicester.ac.uk

Marcel Ausloos
University of Leicester, United Kingdom
ma683@le.ac.uk

Abstract

This paper shows that substantial change in stock market behavior has a statistically and economically significant impact on equity risk premium predictability in out-of-sample analysis. The change in stock market behavior is measured by the local Hurst exponent using multifractal detrending moving average analysis (MFDMA) and stock market returns. Our findings suggest that a substantial change in stock market behavior is closely related to strong equity risk premium predictability with forecasts based on macroeconomic variables. In contrast, a negative shock is associated with strong equity risk premium predictability with forecasts based on technical indicators.

Liability-Driven Duration Targeting

Joel Barber
Florida International University, United States
prof.barber@yahoo.com

Abstract

Duration targeting strategies for multiple liabilities require that an additional cash flow dispersion condition is satisfied. The effectiveness of these strategies depends on simplifying assumptions about how yield curves change. Given that actual yield curve changes may violate these assumptions, the effectiveness of a duration targeting is an empirical question. Using historical weekly changes in the spot rate curve over a 32-year period applied to a large number of simulated portfolios, we tested the performance of duration-targeted portfolios. We find that for multiple-liability portfolios duration is a fairly robust measure of risk and that the cash flow dispersion condition does not matter.

MEDIA VISIBILITY AND BOARD GENDER DIVERSITY

Domingo J. Santana-Martin
University of Las Palmas de Gran Canaria, Spain
javier.santana@ulpgc.es

Devora Peña-Martel
University of Las Palmas de Gran Canaria, Spain
devora.pena@ulpgc.es

Jerónimo Pérez-Alemán
University of Las Palmas de Gran Canaria, Spain
jeronimo.perez@ulpgc.es

Abstract

Despite the efforts of governments and market regulators, the under-representation of women on corporate boards continues to be a global concern. In this context, this study extends prior literature by investigating the relationship between media visibility and gender diversity on boards of directors. We find that media visibility positively affects board gender diversity. This finding is robust to alternative measures of media visibility and different econometric specifications. This research contributes to the existing literature on the relationship between media and board composition by suggesting the role of the media as a driver of board gender diversity. Results support the notion that the media are able to discipline managers and dominant owners by inflicting reputational costs.

Innovation and the Cost of Equity

Bin Chang
Ontario Tech University, Canada
bin.chang@uoit.ca

Hui Zhu
Ontario Tech University, Canada
hui.zhu@uoit.ca

Abstract

This study investigates the relation between a firm?s cost of equity and its innovation. The literature has found that patents and citations, as measures of innovation output or success, are related to lower risk. In this study, we extend the literature by hypothesizing that firms with more patents and citations are related to lower cost of equity through a risk channel. Consistent with this prediction, we find that innovation is negatively related to the cost of equity after controlling for R&D and other firm characteristics. The findings are robust to using alternative measures of the cost of equity and innovation. To address endogeneity concerns, we conduct a propensity-score-matched approach and instrument variable analysis and find that our results are robust to accounting for endogeneity. We also find that the relation between innovation and the cost of equity is more prominent for firms with financial constraints. Overall, the results suggest that corporate innovation reduces a firm?s future risk, which, in turn, lowers its cost of equity.

Time-Consistent Credit Rating: Approach and Applications

Yimin Yang
Loyal Trust Bank, United States
Yang.Yimin@gmail.com

Abstract

This paper establishes a new theory for credit ratings. It provides a universal approach to develop all existing credit ratings including agencies ratings, bank?s ratings and structural model ratings. It identifies fundamental credit risk driving factors and reveals a triangular relationship between credit rating, credit behaviors and key regulatory requirements. Major applications include accurate rating conversions between different rating systems; as well as conversions from Point-In-Time ratings into Through-The-Cycle ratings; explicit interactions among credit rating, market risk and credit risk; and a stock price decomposition into credit component, market component and a non-credit, chapter 11 bankruptcy value

Bear Markets and Recessions versus Bull Markets and Expansions

Abdulnasser Hatemi-J
UAE University, United Arab Emirates
ahatemi@uaeu.ac.ae

Abstract

This paper examines the dynamic interaction between falling and rising markets for both the real and the financial sectors of the world?s largest economy using asymmetric causality tests developed by the author. These tests require that each underlying variable in the model be transformed into partial sums of the positive and negative components. The positive components represent the rising markets and the negative components embody the falling markets. The sample period covers some part of the COVID-19 pandemic. Since the data is non-normal and the volatility is time varying, the bootstrap simulations with leverage adjustments are used in order to create reliable critical values when causality tests are conducted. The results of the asymmetric causality tests disclose that the bear markets are causing the recessions as well as the bull markets are causing the economic expansions. The causal effect of bull markets on economic expansions is higher compared to the causal effect of bear markets on economic recessions. In addition, it is found that economic expansions cause bull markets but recessions do not cause bear markets. Thus, the policies that remedy the falling financial markets can also help the economy when it is in a recession.

Does board diversity really matter to shareholders?

Etienne REDOR
Audencia, France
eredor@audencia.com

Abstract

Does board diversity really matter to shareholders? To answer this question, we depart from the traditional approach of analysing board diversity?s impact on firm value to focus on shareholders? interest in board diversity as measured by shareholder voting outcomes in annual director elections. Exploiting a unique hand-collected data set, this study is the first to establish a link between board diversity and the excess in percentage of ?for? votes that a director gets. This result is valid for both female and minority directors, although the effect is more significant for minority directors. One reason for this is that minority directors receive significantly more ?for? votes from the first director sitting on the board, while female directors must reach a critical mass of at least three before significantly impacting the excess in percentage of ?for? votes.

The Geography of Sub-advisors and its Impact on International Equity Mutual Funds

Markus Broman
Syracuse University, United States
msbroman@syr.edu

Michael Densmore
York University, Schulich School of Business, Canada
md14@yorku.ca

Pauline Shum Nolan
York University, Schulich School of Business, Canada
pshum@schulich.yorku.ca

Abstract

We study the extent to which obtaining a foreign presence through sub-advisors affects fund performance and management behaviours for U.S. international equity mutual funds. We find that funds that hire outsourced international sub-advisors underperform on a risk-adjusted basis by up to 126 bps annually, and in-house international sub-advisors do not add value either. The underperformance of outsourced international sub-advisors is primarily evident in their local holdings and can be partly explained by lower activeness and greater risk shifting. These effects are alleviated in funds with multiple sub-advisors, however, because they are more likely to be terminated following poor performance.

The Regional Impact of the FED in the Era of Quantitative Easing

Edoardo Chiarotti
The Graduate Institute, Geneva, and the London School of Economics, United Kingdom
edoardo.chiarotti@graduateinstitute.ch

Abstract

This paper studies the impact of the policies of Quantitative Easing (QE) by the Federal Reserve (FED) on states? economies in the United States (U.S.). To do so, I estimate a restricted, state-by-state Structural Vector Auto-regression (SVAR) model with the goal to observe the same aggregate monetary policy shock across all states. I measure unconventional monetary policy with the Shadow Federal Funds Rate and I compare the model estimates over the periods 1983-2000 and 2001-2019. I find that, before 2000, a cut in the Federal Funds Rate (FFR) had an heterogeneous effect on real economic activity across states, with significantly milder effects in the states in the Central regions. Differently, I find that after 2000 also these states register a marked stimulus and are no longer ?left behind?. I explore unemployment as a potential channel behind this change of trend and I find mirroring results. In the next version of this working paper, these preliminary results will be tested with a Bayesian Global VAR and a high-frequency instrument for unconventional monetary policy.

The Distorting Effects of Corruption on Financial Stability and Economic Growth: Evidence from Russian Banks using a PVAR approach.

Konstantinos Pitsilkas
University of Thessaly, Greece
kpitsilkas@uth.gr

Stephanos Papadamou
University of Thessaly, Greece
stpapada@uth.gr

Papadopoulos Symeon
University of Macedonia, Greece
spapado@uom.edu.gr

Abstract

In this study by using a PVAR approach we investigate how financial stability, measured by NPLS, interacts with profitability, leverage, loan growth and economic growth in an either improving or worsening corruption framework. The results underline the effects of changes in corruption on banks? management quality and on time-persistence of NPLs. A shock on NPLs reduces profitability, loan growth and GDP. In a worsening corruption environment, these effects are stronger and more time persistent confirming the corruption?s distorting effects on financial stability and growth. On the contrary, the NPLs ratio declines due to a shock on profitability, leverage and GDP.

Merger-driven listing dynamics

Markus Lithell
Norwegian School of Economics (NHH), Norway
markus.lithell@nhh.no

B. Espen Eckbo
Tuck School of Business at Dartmouth, United States
B.Espen.Eckbo@tuck.dartmouth.edu

Abstract

We show that U.S. merger activity impacts stock exchange listing dynamics on a level rivaling IPOs and bankruptcies. Directly accounting for this impact eliminates the 1996 U.S. listing peak, the following rapid listing decline, and the subsequent U.S. listing gap relative to other countries. Moreover, over the past four decades, listing peaks followed by rapid declines are common internationally. However, while the U.S. post-peak decline largely refects mergers between public firms, which retain target firms' assets on the exchange, declines elsewhere tend to tunnel assets out of public markets - pointing to a little noticed U.S. listing advantage.

Ownership, wealth, and risk-taking: Evidence on private equity fund managers

Karin Thorburn
Norwegian School of Economics, Norway
karin.thorburn@nhh.no

Carsten Bienz
Norwegian School of Economics, Norway
carsten.bienz@nhh.no

Uwe Walz
Goethe University Frankfurt, Germany
uwalz@econ.uni-frankfurt.de

Abstract

We examine the incentive effects of private equity (PE) professionals' ownership in the funds they manage. In a simple model, we show that managers select less risky firms and use more debt the higher their ownership. We test these predictions for a sample of Norwegian PE funds and use the professionals' private wealth as a proxy for risk-aversion. Consistent with the model, portfolio company risk decreases, and leverage increases with the manager's ownership in the fund when scaled with her total wealth. Moreover, the higher the ownership, the smaller is each investment, increasing the fund's diversification.

Is there a value premium in cryptoasset markets?

Luca Liebi
University of St. Gallen, Switzerland
luca.liebi@unisg.ch

Abstract

This paper identifies active addresses-to-network value as an additional common risk factor in the returns on cryptoassets. Active addresses refer to the number of unique wallet addresses that conduct an on-chain transaction, whereas the network value of a cryptoasset corresponds to its market capitalization. Investigating 652 cryptoassets, I find that there are anomalous returns that increase with active addresses-to-network value ratio, a proxy for the value anomaly. Cryptoassets with a high active address to network value ratio yield on average 2.1 percentage points higher weekly returns compared to cryptoassets with low active addresses to network value ratio, and comparable size. A four-factor model directed at capturing the value pattern in average returns performs better than a three-factor model, including the market, size, and momentum factor. Importantly, the results suggest that cryptoasset prices are related to their fundamentals.

Crowdfunding Acceptance Behaviour of Undergraduates: Integrated Model of UTAUT and Entrepreneurial Intention

Deepika Dissanayake
University of Sri Jayewardanapura, Sri Lanka
ddissanayakedee@gmail.com

Kennady Gunawardana
University of Sri Jayewardanapura, Sri Lanka
kennedy@sjp.ac.lk

Y K Weerakoon Banda
University of Sri Jayewardanapura, Sri Lanka
weerakon@sjp.ac.lk

Abstract

The primary objective of this study is to investigate the factors that affect the intention to use crowdfunding. The research model of the study developed to represent technological factors, environmental factors and individual factors. An integrated model was developed using the Unified Theory of Acceptance and Use of Technology (UTAUT) model and entrepreneurial potential model. A pilot survey was carried out among technology undergraduates. Structural equation modelling was used for the analysis of the responses. The results show that entrepreneurial intention dimensions significantly affect fundraising intentions. Effort expectancy and performance expectancy showed a strong significant relationship with perceived feasibility. The overall findings of the study suggest that the integrated model is appropriate for explaining the crowdfunding fundraising intention.

Monetary Policy in the Intangible Economy

Suleyman Gozen
The University of Chicago, United States
sgozen@uchicago.edu

Abstract

I study how monetary policy affects the corporate investment channel in the environment where there has been a dramatic increase in corporate intangible assets. I first investigate whether the accumulation of intangible capital affects the firm capital structure and then explore how the capital structure driven by intangible capital influences the monetary policy transmission. I find that intangible-intensive firms hold lower leverage ratio and higher cash ratio, which makes them less reliant on the credit channel of monetary policy. However, when we analyze the response of total investment rate to monetary policy shocks, I document that intangible-intensive firms respond more strongly than tangible-intensive firms. How would we end up with this situation even if we find that the former group of firms are less responsive at the credit channel? The answer relies on another margin where intangible-intensive firms react aggressively, which is the stock market channel. The underlying mechanism is that since intangible-intensive firms have limited access to the credit market, they finance their investment projects by offering higher growth potential but riskier stocks to investors, which makes them more exposed and sensitive to the changes in risk premium through the stock market channel of monetary policy transmission. In order to rationalize the reduced-form empirical evidence, I build a heterogeneous firm model embedded into New Keynesian framework in which firms invest in tangible and intangible capital subject to financing frictions. The model is able to bring testable predictions on the role of asset intangibility on the investment and financing decisions in response to monetary policy shocks.

P2p Lending Platforms: A Rising Alternative to Bank Lending?

Miriam Krausz
Ashkelon Academic College, Israel
miriamkrs@gmail.com

Ruth Ben-Yashar
Bar Ilan University, Israel
benyasr@biu.ac.il

Abstract

Our study develops a novel approach to explaining the differences between peer-to-peer (p2p) lending and bank lending. While empirical results have been derived on the share of p2p lending in the credit market, we contribute a theoretical understanding of the various factors that drive the empirical results and suggest new insights into the relationships between them. In particular we analyze the likelihood of a risky borrower being able to obtain a loan from a p2p lending platform versus the likelihood of being able to obtain a loan from a bank. Our results can contribute to identifying the role of p2p lending platforms in the recovery from an economic crisis by supplying loans that may not be available from the banks.

Credit Environment and Small Business Dynamics: Evidence from Establishment-Level Data

Wensi Xie
Chinese University of Hong Kong, Hong Kong
wensixie@cuhk.edu.hk

Mingzhu Tai
University of Hong Kong, Hong Kong
taimzh@hku.hk

Chen Lin
University of Hong Kong, Hong Kong
chenlin1@hku.hk

Abstract

We evaluate how shocks that improve credit conditions of a county affect small business dynamics. We show that banks receiving positive liquidity shocks enhance lending to relatively larger firms, and not to the smallest firms. Such disproportionate credit allocation leads to a crowd-out effect on real business activities. While larger firms in a county receiving the positive shock grow faster and exit less, the expansion of these larger firms crowds out the smaller ones. To isolate the effects of credit conditions, we exploit technology-driven liquidity shocks and bank branch networks that generate cross-region and time-series variations in credit environments.

Examining Technology Acceptance Model in the Context of Reward Crowdfunding

Prince Baah-Peprah
University of Agder, Norway
prince.baah-peprah@uia.no

Rotem Shneor
University of Agder, Norway
rotem.shneor@uia.no

Munim Ziaul
University of South-Eastern Norway, Norway
ziaul.h.munim@usn.no

Abstract

Reward crowdfunding, the best-known crowdfunding model, mimics both mainstream e-commerce and alternative finance by representing a unique offering where no monetary reward but a product/service is offered for the risk taken for buying a product?s/service?s prototype on crowdfunding platforms. Drawing on studies on mainstream e-commerce, we argue that crowdfunders? financial contribution behavior of backers is anteceded by the platform?s perceived usefulness and ease of use, which are influenced by buyers? phycological components i.e., social influence processes and cognitive instrumental processes. To understand this, we theoretically anchored on, and empirically examined the Technology Acceptance Model (TAM) in reward crowdfunding to analyze contribution intentionality and behavior of the crowd. Based on data from 556 contributors of Finland's leading reward crowdfunding platform, Mesenaatti, our results support TAM propositions while revealing additional new insights. Our study expounds TAM regarding the uniqueness of reward crowdfunding and contributes to the positioning of TAM in alternative finance.

The Impact of Securities Regulation on the Information Environment around Stock-Financed Acquisitions

Gilberto Loureiro
University of Minho, Portugal
gilberto@eeg.uminho.pt

Sónia Silva
NIPE-University of Minho, Portugal
sonia@eeg.uminho.pt

Abstract

We investigate the effects of European Union (EU) Directives enacted to improve the quality of financial reporting and disclosure (namely, the Transparency Directive - TPD), on the information environment around stock-financed acquisition announcements. The main goal of the EU directives comprised in the Financial Services Action Plan is to improve the information quality that flows to investors, which helps reduce the adverse selection effect when stock is used as the method of payment in Mergers and Acquisitions (M&As). We use a difference-in-differences methodology with a treatment sample of stock-financed acquisitions from EU countries post adoption of the regulation and a control sample of stock-financed acquisitions from the rest of the world. We document a significant increase in abnormal returns of European acquirers after the change in regulation; however, this result accrues essentially to firms with higher quality of financial reporting (i.e., higher level of earnings quality) and firms domiciled in EU countries with better regulatory environments. Our results highlight how the impact of the same regulation may differ depending on the ex ante quality of the information environment.

Global political risk and international stock returns

Giovanni Pagliardi
BI Norwegian Business School, Oslo, Norway
giovanni.pagliardi@bi.no

Vito Gala
PIMCO, United States
vito.gala@gmail.com

Stavros Zenios
University of Cyprus, Cyprus
zenioss@ucy.ac.cy

Abstract

Using novel measures of politics-policy uncertainty we document predictable variation in stock market returns across countries. Country characteristics and existing global and local risk factors do not account for such predictability, leading to large abnormal returns, up to 15% per annum. We identify a global political risk factor (P-factor) commanding a risk premium of 11% per annum. Countries with high politics-policy uncertainty covary positively with the P-factor, thus earning higher average returns. Augmenting the global market portfolio with the P-factor signi ficantly reduces pricing errors and improves cross-sectional fi t. Politics-policy uncertainty affects returns through both cash-flow and discount rate channels.

Does diversity on gender and human capital decrease corporate fraud? Evidence from a socioemotional wealth perspective in Latin America

Dilrukshi Dimungu-Hewage
University of Liverpool, United Kingdom
dilrukshi.dimungu-hewage@liverpool.ac.uk

Jannine Poletti-Hughes
University of Liverpool, United Kingdom
J.Poletti-Lau@liverpool.ac.uk

Abstract

We contribute to the literature on board diversity and its impact on fraud from a socioemotional wealth (SEW) perspective. Our findings suggest that family firms in Latin America are more likely to commit fraud, possibly because of the aim to preserve SEW and the absence of regulatory systems. However, family firms can offset such frailties by diversifying gender and human capital on the board of directors. That is, family firms with a board of directors that is diverse in gender, education and independent director?s tenure have less likelihood of corporate fraud. Also, based on the SEW dimension of binding social ties within the board, long-tenured independent directors develop a close relationship with other family board members, lessening the role of monitoring and therefore increasing the likelihood of corporate fraud. Additionally, our findings suggest that the probability of fraud is lower in family firms with larger boards.

Gender quotas, board diversity and spillover effects. Evidence from Italian banks

Silvia Del Prete
Banca d'Italia - Firenze Branch, Italy
silvia.delprete@bancaditalia.it

Giulio Papini
Banca d'Italia - Firenze Branch, Italy
giulio.papini@bancaditalia.it

Marco Tonello
Banca d'Italia - Firenze Branch, Italy
marco.tonello@bancaditalia.it

Abstract

We study the consequences on bank board diversity of a law which in 2011 required all listed companies in Italy to increase the share of female representatives in their boards up to one third of the total seats. We look at listed banks (directly targeted by the law), but also test whether the law determined spillover effects on non-listed banks belonging to listed groups. Using administrative data on board composition from 2007 to 2017, we compare board diversity measures, before and after the introduction of the law, of listed banks and non-listed banks belonging to a listed group to those of banks belonging to a group not having a listed holding company. We find that the Italian Quota Law increased female representation only in the listed banks, with minor spillover effects in banks of listed groups, while economic performance of listed banks was not affected.

Corporate Misconduct, Media Coverage, and Firm Value

Hoje Jo
Santa Clara University, United States
hjo@scu.edu

Hee-eun Kim
Myongji University, South Korea
gracehekim@mju.ac.kr

Tae-Wook Ahn
DeepSearch Inc., South Korea
tahn@deepsearch.com

Junesuh Yi
Dongguk University, South Korea
juyi@dongguk.edu

Abstract

Drawing upon investor attention theory and insurance theory, this paper examines the impact of increased investor attention of corporate misconduct (CM) on stock returns and firm value. We show that media coverage provides an important channel through which social media influences investor attention regarding corporate wrongdoing. Using a unique research setting in Korea based on text analysis, we find that investors exhibit short-term negative reactions to CM events. In addition, the increased social awareness of CM issues through media coverage leads investors to penalize ?rms more severely. We also find that the negative reaction to CM events is larger for firms with greater negative media tone and greater surprise. The combined evidence is supportive of the investor attention theory. Furthermore, the negative effects of CM on stock returns are smaller for firms with a positive CSR reputation, consistent with the insurance theory.

Non-Financial ?Narrative? Data Analysis of Annual Reports

Zuzana Kubascikova
University of Economics in Bratislava, Slovakia
zuzana.kubascikova@euba.sk

Milo? Tumpach
University of Economics in Bratislava, Slovakia
milos.tumpach@euba.sk

Zuzana Juhaszova
University of Economics in Bratislava, Slovakia
zuzana.juhaszova@euba.sk

Abstract

Various information sources are available for analyzing a financial performance of a company. Annual report is one of the most important information sources, within which companies reveal their results, developments and activities. Annual report provides broader insight into a company´s business and performance because it contains alongside the financial data also contextual non-financial data source. In this paper we focus on the readability, positive or negative tone and structure of language applied in annual reports and examines how these characteristics change over time. Then we compare the results obtained in order to propose reliable recommendations. Based on our results we conclude that non-financial data are used as a tool that companies use to enhance important performance-related information and these non-financial data can be used for the assessment of the company?s financial performance, alongside quantitative information. Non-financial ?narrative? data can be used as a support tool for decision making process of annual report users in order to predict the future company?s financial performance.

Informational Role of Analyst and Investor Days

Kotaro Miwa
Kyushu University, Japan
ko3wa3wa@yahoo.co.jp

Abstract

We empirically clarify whether and how analyst and investor days (AI days), which provide more opportunities to interact with corporate insiders than other disclosure mediums, affect analysts? expectations of company performance. Further, we examine whether they provide incremental information not incorporated into stock prices or partially known supplemental information already reflected in stock prices. To this end, we analyze the information content of the linguistic tones of the question-and-answer (Q&A) session and management presentation, the two main parts of an AI day. The analyses reveal that the tone of the Q&A session, rather than that of the management presentation, is positively associated with the subsequent revisions of analysts' earnings forecasts, suggesting that such an interactive discussion during the Q&A session rather than a one-way management presentation plays a key role in affecting analysts? expectations of company performance. Further, abnormal returns around AI days are irrelevant to the tone of the Q&A session, supporting the view that AI days mainly provide a partially known supplemental explanation that could decrease information uncertainty rather than offering information new to investors and analysts.

Yield Curve Volatility and Macroeconomic Risk

Anne Lundgaard Hansen
University of Copenhagen, Denmark
alh@econ.ku.dk

Abstract

The share of macroeconomic risk to yield curve volatility fluctuates over time. To accommodate this empirical fact, I build a macro-finance term structure model in which variance decompositions are time-varying. My model establishes new results on the relationship between U.S. Treasury bonds and the real economy. First, I document an upward trend in the macroeconomic contribution to conditional volatility in short-term yields, short-rate expectations, and term premia since the 1970s. Second, macroeconomic shocks drive negative correlation between short-rate expectations and term premia that weaken monetary policy effectiveness. Finally, investors demand compensation for macroeconomic risk through a variance risk premium.

Listening to Financial Analysts in Shareholders' M&A Performance Assessment

Thomas Brunner-Kirchmair
Johannes Kepler University Linz, Austria
thomas.brunner-kirchmair@jku.at

Abstract

M&A performance has been discussed intensively in research using mainly short-term event study in order to measure shareholders? performance. Critics of this method complain that shareholders have too little information at the time of the announcement to make a reliable decision. In order to verify this assumption, 2,993 M&A transactions of European acquiring companies between January 1, 2010 and December 31, 2019 are examined. The short-term event study indicates an average positive reaction of the capital markets. The long-term study confirms this development, indicating that the assessment does not change significantly even if further information is taken into account. In addition to this, the expectations of financial analysts (target prices) are considered and are used in a short and a long-term event study. Financial analysts generally have greater expertise than individual capital market participants, they have better access to information and can therefore better assess operational decisions. The results also show a positive reaction of financial analysts to mergers and acquisitions. All methods mentioned correlate with each other supporting common event study method in order to measure shareholders? M&A performance.

Basel II/III Implementation in Africa and the Impact on the Resilience of its Banking Sectors: A Case Study of Nigeria

Agnes Martins
University Of Reading, United Kingdom
a.o.martins@pgr.reading.ac.uk

Abstract

The last twelve years have been characterised by a myriad of banking reforms in response to the 2007 to 2009 global financial crisis which propagated rapidly across the world. Nigeria, Africa?s largest country by population and gross domestic product, and a leading country for foreign direct investment, was not spared from the contagion effect. In line with best practice banking reforms all over the world, Nigeria adopted Basel II and some elements of the Basel III capital framework in 2014, after a banking sector crisis from 2009 to 2012. This study aims to investigate the impact of these reforms on the resilience of the Nigerian Banking Industry. Firstly, discussing the impact of reforms in Africa generally, it then focuses on Nigeria. It uses the Industry Bank Z-score as its primary measure of resilience. The study finds that a positive impact of the reforms is revealed after controlling for macroeconomic factors in only five African countries. In Nigeria, the success of the reforms is contingent on limiting leverage, incorporating sound corporate governance, and improving the business environment in terms of better regulation and the investment climate.

Black Scholes without probability

Kevin Dowd
Durham University Business School, United Kingdom
kevin.dowd@outlook.com

Dean Buckner
The Eumaeus Project, United Kingdom
d.e.buckner@eumaeus.org

Abstract

This article offers a new derivation of the Black Scholes Merton option pricing Formula that does not depend on probabilistic notions. Our derivation is more parsimonious than that of Black and Scholes and is logically preferable according to the Ockham Principle. Our derivation does not depend on assumptions of a lognormal stock price or the existence of a no-arbitrage equilibrium and does not invoke Itô?s Lemma or the Black Scholes Merton partial differential equation. We start with the familiar idea that an option can be replicated by a delta hedging trading strategy. Assuming a trading strategy in a forward underlying, with the former described by a Gaussian function, we obtain a formula for the value of the trading strategy by doubly integrating the Gaussian function. We show that the trading function has a ?self hedging? property that guarantees the same payout as a call in arrears option provided that the realised volatility from the trading strategy equals the predicted volatility fed into the formula. We can then interpret the formula as giving the value of the call in arrears and a simple transformation gives the Black Scholes Merton formula for the value of a standard European call. Our derivation has interesting implications for standard option pricing theory and how the subject might be taught.

Bankruptcy prediction using fuzzy convolutional neural networks

Vanessa serret
Université de Lorraine, France
vanessa.serret@univ-lorraine.fr

Sami Ben Jabeur
ESDES Business School of UCLyon, France
vanessa.sersbenjabeur@gmail.com

Abstract

Abstract: We propose a combined method for bankruptcy prediction based on fuzzy set qualitative comparative analysis (fsQCA) and convolutional neural networks (CNN). CNNs are being applied to various fields, and in some areas are providing higher performance than traditional models. In our proposed method, CNN uses calibrated variables from fuzzy sets to improve the performance accuracy. In addition, there are no published studies on the effect of feature selection at the input level of convolutional neural networks. Therefore, this study compares four well-known feature selection methods used in financial distress prediction, (t-test, stepdisc discriminant analysis, stepwise logistic regression and partial least square discriminant analysis) to investigate their effect on the classification performance. Eight evaluation metrics, including accuracy (ACC), area under the curve (AUC), F-score, sensitivity, specificity, geometric mean, Youden?s index and Matthews correlation coefficient, are used to measure the performance of machine learning models. The results show that fuzzy convolutional neural networks (FCNN) lead to better performances than those achieved with traditional methods.

Credit or not ? Access to finance for SMEs: evidence from West Balkan market.

Gazmend Nure
Free University, Germany
g.nure@unionscientist-alberteinstein.de

Abstract

This study aims to identifies firm level determinants of the possibility of perceiving bank financing for SMEs. The sample consists of 598 firms operating in five cities with the largest number of SMEs in Albania, Kosovo, Northern Macedonia. Research results show that factors such as age, duration of the relationship with the bank positively affect the perception of opportunity than two-owner firms. Firms with two owners are less likely to find it is difficult to access bank loans than firms with one owner, three or more owners. The gender factor is assessed and taken well by the banks during the decision-making process Financial performance is a essential for banks in the credit decision process, as research results show that firms that have made a profit and Break Even, are perceived as easier to access bank financing than firms that have had losses. SMEs operating in the services industry are more positive about entering into bank loans than in manufacturing firms and other industries

Do ETFs Have a Bright Side? Price Discovery and the Primary Market Activity of Authorized Participants

Cao Fang
Walton College of Business, University of Arkansas, United States
caofang@uark.edu

Wayne Lee
Walton College of Business, University of Arkansas, United States
WLee@walton.uark.edu

Craig Rennie
Walton College of Business, University of Arkansas, United States
crennie@walton.uark.edu

Abstract

Prevailing empirical evidence shows ETF ownership impairs price informativeness. The migration of individual investors from stock to ETF ownership, however, simply shifts the secondary market venue for noise trading. APs correct mispricing in ETF shares from noise trading in ETFs through arbitrage trading. Using the ratio of absolute ETF mispricing to dollar trading volume on stocks underlying ETFs as a liquidity proxy for arbitrage trading, we show APs propagate noise trading in ETF shares onto underlying stocks which creates space for acquiring and trading on private information. Future excess returns are higher on stocks where arbitrage trading is more significant.

Air pollution and Chinese ESG funds

Hee-Eun Kim
Myongji University, South Korea
gracehekim@mju.ac.kr

Myounghwa Sim
Myongji University, South Korea
mhsim@mju.ac.kr

Hoje Jo
Santa Clara University, United States
hjo@scu.edu

Abstract

This study investigates how air pollution affects investor behavior using Chinese environment, society, and governance (ESG) funds over 2014?2019. We find that an increase in air pollution measured by the Air Quality Index is accompanied by increases in ESG fund flows and turnover. However, we find that high inflows to ESG funds following the high air pollution period neither outperform nor underperform conventional funds. Combined evidence supports the proposition that ESG investors derive their utility primarily from non-financial considerations. We suggest that air pollution is a crucial determinant of Chinese ESG fund flows, an important finding for emerging economies globally.

THE IMPACT OF MICROFINANCE ON POVERTY ? A GLOBAL STUDY WITH SPECIAL EMPHASIS ON NIGERIA

Agnes Martins
University Of Reading, United Kingdom
a.o.martins@pgr.reading.ac.uk

Abstract

There are claims that Microfinance has the potential to improve conditions in low-income communities, but some claim it is not a remedy for the eradication of poverty. Nigeria introduced a microfinance regulatory and supervisory policy in 2005 after a baseline study of Bangladesh, India, Pakistan, Indonesia, Philippines, and Uganda. Like expectations across the world, Nigeria envisaged that the policy would improve financial inclusion and ignite economic development by boosting access to financial services by micro-enterprises and poor and low-income earners. This investigation seeks to ascertain the extent to which microfinance has been successful at a macro and micro level. By utilising a broader and more current dataset, it brings new knowledge on the impact of microfinance on poverty and its various dimensions at both levels and whether it is beneficial for policymakers to sustain efforts in this direction. The initial findings are that microfinance loans have positive effects on human development and life expectancy. Surprisingly, microfinance loans are negatively and positively associated with the employment to population ratio and youth unemployment. This research will explore these unexpected findings further.

ANALYSIS OF THE EFFECTIVENESS OF FINANCIAL HEALTH REGULATION IN SPANISH LOCAL GOVERNMENTS

Vicente Pina
University of Zaragoza, Spain
vpina@unizar.es

Patricia Bachiller
University of Zaragoza, Spain
pabachiller@unizar.es

Lara Ripoll
University of Zaragoza, Spain
lraripoll@unizar.es

Lourdes Torres
ltorres@unizar.es, Spain
ltorres@unizar.es

Abstract

The need to reduce public sector costs and debt has resulted in the implementation of requirements in many countries. Spain belongs to a group of countries which monitor the financial health of their local governments, using financial indicators enforced by law, and reporting this information periodically. The objective of this paper is to analyse whether the introduction of the 2012 Spanish legislation regarding fiscal stability and budgetary balance and Ministry of Finance Order 1781/2013, which brought in new indicators, have led to improvements in the financial health of local governments.The results of our analysis show that the introduction of legal requirements is effective and that the disclosure of indicators for benchmarking purposes has been beneficial and positive, although this is not so in all cases. We have established our hypothesis by focusing on the reason why some Local Governments (LGs) have improved more than others, which can be explained by the effect of the trend towards the average created by the disclosure of information. This effect could be justified as a consequence of the behaviour LGs decide to adopt: improving their financial situation in order to be good imitations of LGs with better financial positions (mimetic isomorphism) or exploiting indebtedness to the limit in order to gather maximum resources and provide better quality services to citizens (mimetic isomorphism and decoupling). The practical implication of this study is that the dual demands of evaluating the financial situations of local governments and disclosing this information reinforce their responsibility with respect to the general interest. This enables the comparative evolution of indicators, concluding that requirements are also needed to ensure that the goals are achieved, thereby helping o restore the reliability and transparency of their activities

OPTIMAL PORTFOLIO SELECTION IN MULTILAYER PERCEPTRONS AND SELF ORGANIZED FEATURES MAPS HYBRIDS

Nikolaos Loukeris Loukeris
University of Macedonia, Greece
nloukeris@uom.edu.gr

I. Eletheriadis
University of Macedonia, Greece
jordan@uom.edu.gr

G. Polychronopoulos
University of West Attica, Greece
gpoly@uniwa.gr

Abstract

We examine the optimal performance of 1 Voted Perceptron, 46 MLPs, and 60 Self Organized Feature Maps models of plain and hybrid form to define the optimal classifier in portfolio selection. We also apply it on a novel model of optimal portfolio selection in hedging aspects.

Accounting for Asset Pricing Factors

Stephen Penman
Columbia University, United States
shp38@columbia.edu

Xiao-Jun Zhand
University of California, Berkeley, United States
xzhang@haas.berkeley.edu

Abstract

This paper is a treatise on handling accounting numbers in building factor models, including book value, investment, return on equity (ROE), and other profitability measures that appear in standard models but without clear definition. These numbers are determined by accounting principles that connect them to risk and expected return, principles that not only give them definition but which also can be exploited in building factor models. The accounting numbers are co-determined in a double-entry system, prompting a packaging of them into a factor model that differs from standard models. Rather than entering into the construction of separate, additive factors added to the ?factor zoo,? they are combined parsimoniously into factors that capture the information that they jointly convey about risk and return.

Democratization, Inequality, and Risk Premia

Max Miller
The Wharton School, United States
maxmil@wharton.upenn.edu

Abstract

Periods of democratization exhibit economically large spikes in risk premia. In a panel data set covering 85 countries over 200 years, several proxies for risk premia are significantly elevated during periods of democratization, despite little to no effect on aggregate consumption and dividends. This result is explained in an asset pricing model in which wealthy asset market participants must redistribute their income if democracy consolidates. Finally, in a quasi-natural experiment emanating from a shift in Catholic church doctrine in support of democracy in 1963, average returns were significantly higher for majority Catholic autocracies relative to control countries in a triple difference-in-differences framework. These results are key to understanding how political institutions and the distribution of economic and political power influence asset returns.

The impact of risk governance on the performance of OECD banks

Muddassar Malik
University of Turku, Finland
muddassar.m.malik@utu.fi

Abstract

Risk governance in banks has evidenced to become growing important theme over the past two decades. The process of risk governance involves identifying, assessing, managing and communicating risk. Appropriate risk governance in place is an essential way to prevent the major and wide negative consequences caused by excessive risk-taking by banks. Risk governance, in turn, substantiate stable, more foreseeable, economic development to investigate the impact of risk governance on the financial performance and risk-taking behavior of public commercial banks of OECD (Organization for Economic Cooperation and Development) specifically during and around the Global Financial Crisis of 2007-08 (GFC). Financial performance indicates an overall financial health of the banks where risk-taking behavior is an attitude of banks towards uncertain future financial outcome. The study will cover the research gaps in the dearth of literature on risk governance, which is especially significant during financial turmoil. This research focuses on two major functions of risk governance that are (i) RC (Risk Committee) and (ii) CRO (Chief Risk Officer). The RC and CRO are critical functions central to risk governance but to date these two functions have not been analyzed jointly which provides insights to the internal strength of risk governance. The RC is essential for a bank to introduce, develop, and execute risk policies and diagnostics. Concurrently, the CRO exclusively steers the RC and risk related matters. In empirical research, several aspects of the CRO such as qualifications, experiences, age, and gender, and the size, independence and characteristics of the RC are considered. Initially, in this study four hypotheses will test the importance of these characteristics. All data has already been collected. Risk governance regulations vary accordingly from country to country; hence, to standardize the RG regulations across the OECD a reference framework of IRGC (International Risk Governance Council) will be utilized. The outcome of this research will contribute to the scant academic knowledge. Besides that, the outcome has the potential to contribute to regulators and managers especially in their risk-related tasks.

Inflation Expectations of Rationally Inattentive Consumers

Kerstin Westergren
Uppsala University, Sweden
kerstin.westergren@nek.uu.se

Abstract

Why do consumers expenditure patterns matter for their inflation expectations? I propose a model of rational inattention where the consumer trades of paying attention between goods bought more or less frequently. For each good purchased, the consumer observes the rate of price change with an error that depends on the frequency with which the good is purchased. Goods bought less frequently are observed with a greater level of error. I apply a simple version of the model where the inflation index is decomposed into two sub-index components; one sub-index contains goods bought often, and the other goods that are not bought often. My results indicate that the consumer pays more attention to the goods bought often. The model is able to match about 60% of the variation in the inflation expectations of the average Swedish household over the time period 2002-2017. A decomposition of the model shows that the consumer's attention allocation trade-off between these two sub-index components is an important factor in the model's ability to explain the variation in inflation expectations expressed by Swedish households.

Trust and corporate bond issuance in Asian emerging economies

Kulnicha Meechaiyo
University of Glasgow, United Kingdom
kulnicha.meechaiyo@glasgow.ac.uk

Abstract

Prior empirical studies have shown that social trust and country governance environments are substitutes but the literature has few pieces of evidence of the complementary effects of social trust and country governance environments. Using a rich source of bond-firm matched data across eight emerging economies in 20 years, this paper investigates whether social trust will affect corporate bond issuing decision when country governance environments are better. This paper finds that a higher level of social trust encourages firms to issue bonds. In addition, there are two interesting findings from the interaction effect between social trust and country governance environment: One is that firms locating at a high social trust level are more likely to issue bond when country governance environments are more effective. The other is that the effect of social trust on the probability of a firm that issues domestic currency-denominated bonds is more prominent when the country governance environment is weak. Therefore, social trust and country governance environments, except voice and accountability, could be a complement to facilitate a decision of bond issuance at firm-level but they could be a substitute to encourage a firm to issue domestic currency bond denominated. The government could improve social trust in policy-making by supporting effective engagement and good decision making in the country and investing in school education.

Does it pay to be bold? Financial analysts? career concerns and their tone during earnings conference calls

Chiara De Amicis
Cass Business School, United Kingdom
chiara.de-amicis@cass.city.ac.uk

Abstract

This paper examines the relationship between financial analyst career concerns and their tone during earnings conference calls. Using a large sample of earnings conference calls from the 2004?2019 period for US listed firms, I find that less experienced analysts are more likely to use a bold tone during question and answer sessions of earnings conference calls, and that bolder analysts are more likely to be subsequently hired by bigger brokerage houses. These findings suggest that analyst who seek more visibility during earnings can enhances career prospects.

Are (Real) Interest Rates Stationary in the Super-Long Run?

Maximilian Ambros
WHU - Otto Beisheim School of Management, Germany
maximilian.ambros@whu.edu

Michael Frenkel
WHU - Otto Beisheim School of Management, Germany
michael.frenkel@whu.edu

Abstract

The ongoing debate about a decline of real interest rates contradicts the Fisher effect, which postulates that the nominal interest rate moves one-to-one with the inflation rate. Yet, with numerous empirical papers published over the past decades, the evidence on the Fisher effect remains inconclusive. We use a novel dataset collected by Schmelzing (2020) to study the integration properties of the nominal interest rate and inflation rate in eight countries from 1310 to 2018. We find that the real interest rate has always been stationary, but for different reasons. While nominal interest rates and inflation rates were stationary before WWI, which implies stationarity for the real interest rate, both variables have been non-stationary since WWII but cointegrated in such way that the real interest rate has been stationary.

ESG and the mediated role of assurance for credit risks

Zelalem Abay
University of Gothenburg, Sweden
zelalem.berhane.abay@gu.se

Abstract

The purpose of this paper is to examine the mediated role of third party Environmental, Social, and Governance (ESG) assurance and its performance for credit risks measured by credit ratings. Considering the ordinal nature of the dependent variable, an ordered logit method is used in testing the effect of ESG performance on credit rating and the mediated effect of assurance on credit ratings. Specifically, the unique approach of decomposing effects when dependent variable is with ordinal scale proposed by Karlson, Holm, and Breen (2010) is applied. The current study has documented two major findings. First, in line with risk mitigation view of investment in ESG, the paper find that ESG performance is instrumental in reducing credit risks. Secondly, third party ESG assurance has a significant role in enhancing credit rating mediated through ESG performance, which confirms the monitoring theory. The mediated role of ESG assurance on credit rating and the contribution of this paper to the monitoring theory makes this paper unique but also original in its approach to the topic. In a time where discussion regarding ESG among academics, policymakers, and industries is tremendously increasing, the findings of this paper have important implications. The significant role of ESG in reducing credit risks is of interest not only to firms but also to credit rating agencies where they now have the possibility to seek ESG related risks and opportunities for creditworthiness assessments. Furthermore, policymakers in designing mechanisms to utilize the monitoring role of third-party ESG assurance can use the findings.

Common State Ownership and Banks? Governance Role: Evidence from CEO Turnovers in China

Dongxu Li
Xiamen University, China
lidongxu@xmu.edu.cn

Abstract

Common ownership may compromise creditors? governance role when their borrowers underperform. Using hand-collected datasets of bank loans and CEO turnovers in China, we show that underperforming CEOs are more likely to be forced out when the firm is more bank dependent, but this relation would be mitigated when the firm and the bank are ultimately owned by the same government. The mitigating effect of common state ownership is more pronounced among the firms with a board director appointed by the bank lender, with shares in the bank?s equity, and with political connections. Following forced CEO turnovers, local SOEs with common ownership enjoy less strict loan terms while those without common ownership encounter worsened loan terms. Overall, this paper sheds light on the bank relationships in emerging markets.

The Causality between Mortgage Credit and House Prices: The Turkish Case

Belgin Akcay
Ankara University, Turkey
akcay@law.ankara.edu.tr

Abstract

Since housing is one of the most expensive commodities in Turkey as many countries, credit and housing markets to be closely linked. However, based on the literature review there is no study on the relationship of credit with house price for Turkey. Thus, the study aims at examining whether there is a causal relationship between mortgage credit and house price in Turkey. For achieving this aim, we apply four causality tests for the period between 2010 and 2020 at monthly frequency: Granger causality tests, Toda-Yamamoto causality tests, Granger causality tests with Fourier approach, and Toda-Yamamoto causality tests with Fourier approach. The findings of the empirical analysis show that there is a strong one-way causality between house prices and mortgage credit and that the direction of the causality is from credit to house prices. The results of all the different causality tests reach to the identical results

How good is good? Probabilistic benchmarks and nanofinance+

Rolando Gonzales Martinez
Helmholtz-Zentrum Dresden-Rossendorf (HZDR), Germany
rolando.gonzales@hzdr.de

Abstract

Benchmarks are standards that allow to identify opportunities for improvement among comparable units. This study suggests a 2-step methodology for calculating probabilistic benchmarks in noisy data sets: (i) double-hyperbolic undersampling filters the noise of key performance indicators (KPIs), and (ii) a relevance vector machine estimates probabilistic benchmarks with denoised KPIs. The usefulness of the methods is illustrated with an application to a database of nano-finance+. The results indicate that---in the case of nano-finance groups---a higher discrimination power is obtained with variables that capture the macro-economic environment of the country where a group operates. Also, the estimates show that groups operating in rural regions have different probabilistic benchmarks, compared to groups in urban and peri-urban areas.

Signal-precision Uncertainty and Trading Volume

Irina Luneva
The Wharton School, University of Pennsylvania, United States
iluneva@wharton.upenn.edu

Mirko Heinle
The Wharton School, University of Pennsylvania, United States
miheinle@wharton.upenn.edu

Christopher Armstrong
The Wharton School, University of Pennsylvania, United States
carms@wharton.upenn.edu

Abstract

Traditional models of market reactions to signals about a firm's value predict that trading volume is a V-shaped function of the signal. These models also imply that investors' posterior beliefs converge after the signal is released. However, empirical and anecdotal evidence suggest that trading volume is not V-shaped and that investors' posterior beliefs seem to diverge following the release of certain types of information. We reconcile the conflicting theoretical predictions and empirical evidence by developing a generalized model in which investors have both heterogeneous beliefs about a firm's prospects and uncertainty about the signal-precision. In contrast to traditional models, we show that some signals cause investors' beliefs to diverge and trading volume, in turn, becomes an M-shaped function of the signal. We document empirical evidence that corroborates this prediction: we show that trading volume is indeed an M-shaped function. We also develop a measure of signal-precision uncertainty and show that trading volume's M-shaped pattern is more pronounced in an environment with high signal-precision uncertainty.

Resilience of Islamic and Conventional Equity Markets in Turbulent Times

Maria Jahromi
Australian National University, Australia
maria.jahromi@anu.edu.au

Abstract

How resilient are Islamic and conventional equity markets in turbulent times such as financial crises and periods of financial distress? Findings from a unique dataset of six countries suggest that the impact of a crisis on Islamic equity markets can be up to 79% lower during most financial crises and periods of financial distress due to lower leverage, a more conservative approach to risk management and an emphasis on ethics. Results are stronger during early stages of financial crises and for countries that are more directly affected by a crisis. These findings also hold during the early stages of a public health crisis such as the COVID-19 pandemic. Islamic equity markets are therefore relatively more stable during turbulent times related to financial crises and financial distress, although investors need to be cautious with Islamic assets during asset bubbles and apply appropriate risk management strategies.

Do IPOs price the risk of audit qualification?

Abhilash Nair
Indian Institute of Management Kozhikode, India
abhilash@iimk.ac.in

Abstract

This paper attempts to analyse the information content of a qualified audit opinion on the pricing of an IPO. To minimise the effect of selection bias, we match the sample of IPOs with an audit opinion and without, based on their propensity scores. Based on classical underpricing, firms with audit opinion were less underpriced as compared to others. As in prior literature, it is possible that the audit opinion helps investors assess and assume risk in a more informed manner. However, based on initial returns, these firms seem to be overpriced. This indicates that rather than signaling more information to the investor, the auditor?s report probably has little information owing to lack of effective and independent oversight by the auditor.

Language, Uncertainty, and Foreign Direct Investment

Le Zhao
Florida International University, United States
lzhao006@fiu.edu

Xiaomeng Lu
Florida International University, United States
xlu@fiu.edu

A. M. Parhizgari
Florida International University, United States
parhiz@fiu.edu

Marcos Velazquez
Florida International University, United States
mavelazq@fiu.edu

Abstract

This paper extends the literature by empirically substantiating the essential role of language in FDI decisions and the complexity that language engenders in the context of cultural uncertainty. We explore how language affects FDI by examining the disposition of the future time reference (FTR) in a language, in which strong-FTR (weak-FTR) languages are those that (do not) require future events to be grammatically marked. Our results suggest that countries with weak-FTR languages tend to attract more net FDI inflows. The magnitude of the effect is a conditional annual increase of $1.6B USD, or 7%, which amounts to approximately 2.5 standard deviations of the net FDI inflow scale. We attribute such a finding to the extent to which people who speak a weak-FTR language are more mindful of the future. As a result of collective future-oriented behaviors, institutions in those countries as well the markets therein have produced a business climate that is more favorable towards foreign investment. We validate our claim by showing how FTR is related to several measures of country-level uncertainty within our sample. More importantly, FTR subsumes the effect of uncertainty with respect to FDI.

AlphaPortfolio: Direct Construction Through Reinforcement Learning and Interpretable AI

Will Cong
Cornell University, United States
will.cong@cornell.edu

Ke Tang
Tsinghua University, China
ketang@tsinghua.edu.cn

Jingyuan Wang
Beihang University, China
jywang@buaa.edu.cn

Yang Zhang
Beihang University, China
zhangyang96@buaa.edu.cn

Abstract

We directly optimize the objectives of portfolio management via reinforcement learning---an alternative to conventional supervised-learning-based paradigms that entail first-step estimations of return distributions, pricing kernels, or risk premia. Building upon breakthroughs in AI, we develop multi-sequence neural network models tailored to distinguishing features of economic and financial data, while allowing training without labels and potential market interactions. The resulting AlphaPortfolio yields stellar out-of-sample performances (e.g., Sharpe ratio above two and over 13% risk-adjusted alpha with monthly re-balancing) that are robust under various economic restrictions and market conditions (e.g., exclusion of small stocks and short-selling). Moreover, we project AlphaPortfolio onto simpler modeling spaces (e.g., using polynomial-feature-sensitivity) to uncover key drivers of investment performance, including their rotation and nonlinearity. More generally, we highlight the utility of deep reinforcement learning in finance and invent ``economic distillation'' tools for interpreting AI and big data models.

Regulatory Constraint and Small Business Lending: Role of FinTech Alternative Lenders

Caglar Hamarat
University of Strathclyde, United Kingdom
caglar.hamarat@strath.ac.uk

Daniel Broby
University of Strathclyde, United Kingdom
daniel.broby@strath.ac.uk

Abstract

This paper investigates the differential impact of changes in banking regulation on the lending activities of traditional banks relative to their fintech competitor. The regulations imposed by the Dodd-Frank Act tightened of traditional bank credit standards on business loans, especially for small firms. However, the fintech alternative lender was not subject to the same burden as the regulated banks. We find that while the Dodd-Frank Act had made it difficult to provide funding from incumbents, small businesses' credit demand was supplied by the fintech alternative lender in less competitive counties.

Asymmetric Cross-side Network Effects on Financial Platforms?Theory and Evidence from Marketplace Lending

Danxia Xie
Tsinghua University, China
xiedanxia@tsinghua.edu.cn

Lin Cong
Cornell University, United States
will.cong@cornell.edu

Ke Tang
Tsinghua University, United States
ketang@tsinghua.edu.cn

Abstract

Using data on 988 peer-to-peer lending platforms in China, we examine cross-side network effects (CNEs)---arguably the most important factor for multi-sided marketplaces---throughout platforms? lifecycle in a dynamic industry characterized by entries, exits, and network externalities. We find that unlike borrowers? symmetric CNEs, lenders? CNEs are lower on declining, more established, or smaller platforms than on growing, new, or larger platforms. Borrowers? CNEs are also larger than lenders? CNEs, especially for declining or sub-scale platforms. We rationalize the asymmetries in a model of financial platforms incorporating endogenous failures and their empirically motivated distinguishing features: lenders? portfolio diversification, failures? differential impacts on agents, and borrowers? stickiness. The model further predicts that lenders? CNEs and platforms? ranks predict the platforms? survival likelihood, among others, which the data corroborate. Our findings provide novel economic insights on multi-sided platforms and inform FinTech practitioners and regulators.

A friend in need is a friend indeed: Employee Friendliness and Working Capital Management.

Hari Adhikari
Embry-Riddle Aeronautical University, United States
adhikarh@erau.edu

June Dung Pham
Shippensburg University, United States
dapham@ship.edu

Thanh Nguyen
University of South Carolina- Upstate, United States
tnguyen2@ucupstate.edu

Nilesh Sah
University of Tennessee at Chattanooga, United States
nilesh-sah@utc.edu

Abstract

We examine the effect of a firm's employee friendliness on short-term financing measured by the Cash Conversion Cycle (CCC) and on different CCC constituents. We find that employee-friendly firms have significantly shorter cash conversion cycles compared to other firms. We further establish that the shorter cash conversion cycle in employee-friendly firms is mainly due to the longer Days Payable Outstanding. These results are robust to the alternative measure of CCC. Using financial constraint as an exogenous shock, we provide evidence that the relationship of employee friendliness with shorter cash conversion cycle and longer DPO are strongly significant for firms with a lower probability of bankruptcy but not related to the firms with a higher probability of bankruptcy. This finding is consistent with the argument that the relationship of a firm with the supplier becomes more critical during the period of financial constraint.

Social Responsibility and Bank Resiliency

Thomas Gehrig
University of Vienna, Austria
thomas.gehrig@univie.ac.at

Maria Chiara Iannino
University of St. Andrews, United Kingdom
mci@st-andrews.ac.uk

Stephan Unger
Saint Anselm College, United States
sunger@anselm.edu

Abstract

We provide transatlantic evidence about the relation between social responsibility and resiliency in the banking industry. We analyse various measures of resiliency, an exposure measure (SRISK) and a contribution measure (Delta CoVaR) to systemic risk, as well as measures of systematic risk (beta) and insolvency risk (z-score). Social responsibility is measured by Thomson Reuters' ESG-scores and its pillars, both according to the older Asset 4 and the present TR ESG Refinitiv classification. We find that the social aggregate score significantly enhances resiliency in all dimensions and in both classifications. On the level of subcategories, we identify significant common resiliency enhancing factor proxies for long-term orientation, such as product responsibility and workforce training, while short-term objectives proxied by shareholder orientation tend to relate to lower levels of resiliency. Looking deeper into the components of each ESG pillar, we also discover significant transatlantic differences mainly related to the different organization of labour markets as well as the board structure.

Alliance of Interest or Conflicts of Interest Between Controlling Shareholders and Investment Banks?

Kyung Suh Park
Korea University, South Korea
kspark@korea.ac.kr

Sukbong Kim
Citi Corp., South Korea
sbchicago@empas.com

Chanshik Jung
Dong-A University, South Korea
michael@dau.ac.kr

Abstract

When investment banks enter into Seasoned Equity Offering(SEO) underwriting agreements, they consider not only underwriting risks, but also their business relationships with controlling shareholders. The economic interests of both controlling shareholders and investment banks are thus reflected in the choice of SEO flotation method and underwriting commitment. This choice ultimately influences the SEO price discount.

Investor attention and the use of leverage

Jarkko Peltomäki
Stockholm Business School, Stockholm University, Sweden
jarkko.peltomaki@sbs.su.se

Denis Davydov
School of Accounting and Finance, University of Vaasa, Finland
denis.davydov@uva.fi

Abstract

We investigate the effects of the use of different sources of investment leverage, i.e. securities with embedded leverage and traditional margin accounts, on portfolio performance of retail investors, recognizing that these effects may be conditional on investor attention. We find that investors who trade on margin underperform those who do not have margin accounts, but we also find that investors who trade securities with embedded leverage show even poorer performance than investors who trade on margin. However, our results indicate that the negative effect of leverage usage decreases with higher investor attention, measured by portfolio monitoring frequency. This finding suggests that investor attention may be associated with the level of investor sophistication and more attentive investors gain more from the use of investment leverage.

Coexistence of Physical and Crypto Assets in a Stochastic Endogenous Growth Model

Alexis Derviz
Czech National Bank, Czech Republic
alexis.derviz@cnb.cz

Abstract

We study a stochastic dynamic model with risky real investment and a positive long-term growth rate. With growing wealth, the economy gets clogged with increasing complexity costs (the classical "Leviathanian" inefficiencies in the form of implicit taxation and abuse of power, red tape, outlays on conflict resolution between special interest groups, etc.). To escape the Leviathan, agents can, in addition to the usual investment in physical capital, access the universe of crypto assets outside the reach of the mainstream state-supported economy. Crypto assets enjoy no legal protection, so converting them back into the real life consumption good is risky (due to digital criminality, hacking, regulatory crackdowns, etc.). A global ergodic solution is found for this model, demonstrating that crypto and conventional assets are capable of long-term coexistence, although the use of crypto assets, far from being universal, tends to be the choice of the wealthier part of the population.

On the tail risk of cyberattacks in the Bitcoin market

Klaus Grobys
University of Vaasa, Finland
kgrobys@uva.fi

Josephine Dufitinema
University of Vaasa, Finland
josephine.dufitinema@uwasa.fi

Niranjan Sapkota
University of Vaasa, Finland
niranjan.sapkota@uva.fi

Abstract

In the era of digitalization, cryptocurrencies have become an alternative asset for both retail and institutional investors. While the new emerging digital ecosystem based on blockchain technology has been praised for offering plenty of advantages such as decentralization, discretion or increased efficiency in terms of faster settlements among others, investors need to be aware of new types of risks such as hacking incidents. In the 2011-2018 period, about 1.7 million unit of Bitcoin have been stolen corresponding to losses accumulating more than $655 million highlighting the societal impact of this criminal activity. The novel aspect of our study is that it employs a recently proposed approach related to Extreme-Value-Theory to compute the quantity of the risk of cyberattacks. Our results show that employing naïve statistics in risk management dramatically underestimates this risk. We argue that our findings have important implications for policy makers as they call for an urgent need for cryptocurrency market regulations from governments and regulatory agencies to protect investors.

Market Efficiency in the Age of Machine Learning

Leonidas Barbopoulos
University of Edinburgh, United Kingdom
leonidas.barbopoulos@ed.ac.uk

Rui Dai
WRDS, United States
rdai@wharton.upenn.edu

Talis Putnins
University of Technology Sydney, Australia
Talis.Putnins@uts.edu.au

Anthony Saunders
NYU Stern, United States
asaunder@stern.nyu.edu

Abstract

As machines replace humans in financial markets, how is informational efficiency impacted? We shed light on this issue by exploiting unique data that allow us to identify when machines access company information (8-K filings) versus when humans access the same information. We find that increased access by machines, particularly from cloud computing services, significantly improves informational efficiency and reduces the price drift following information events. We address identification through a quasi-natural experiment, instrumental variables, and exogenous power outages. We show that machines are better able to handle linguistically complex filings and are less susceptible to bias from negative sentiment, whereas humans are better at combining incremental information.

Marginal Product of Capital and FDI under Financial Frictions

Margarita Lopez Forero
Paris Saclay University, France
margarita.lopezforero@gmail.com

Abstract

We examine how external financial needs- measured at the sector level- and financial development at the country level interact to shape the aggregate marginal product of capital of a country (MPK) and its foreign direct investment inflows (FDI). First, we use industry-level data to construct an annual country-level measure of external financial dependence for a panel of 60 developed and developing countries over 1995-2009 and assess its effects on aggregate MPK conditional on the level of financial development. Second, using bilateral FDI over 2001-2010 we analyze how external financial dependence and financial development determine FDI inflows in developing countries. Our findings imply that financial development is a necessary condition in order for production in financially dependent sectors to positively affect aggregate MPK and FDI in developing countries. These results taken altogether contribute to explaining the Lucas? Paradox of why aggregate capitals don?t flow from rich to poor countries.

Investment and monetary policy in the euro area: the role of intangibles

Annalisa Ferrando
European central Bank, Germany
annalisa.ferrando@ecb.int

Giulio Nicoletti
, Germany
giulio.nicoletti@ecb.int

Abstract

We provide new evidence on the impact of monetary policy on business investment focusing on the role played by intangible assets in monetary transmission. Our analysis covers the four largest euro area economies, with a total of 7 million observations using high frequency identified monetary policy shocks in the period 2004-2018. We find that intensive intangibles firms react to monetary policy in a different way across countries. First, we show that firms with higher share of intangibles react less to monetary policy in France and Spain, while Italian and German firms tend to reduce their investment even more when monetary policy conditions tighten. Second, we document that the heterogeneous responses depend on firms? financial position and, in particular, on balance sheet ratios that proxy financial frictions.

Links between culture, trust, privacy, data access and financial technology-based debt (fintech and bigtech credit)

Pawe? Pisany
Institute of Economics, Polish Academy of Sciences, Poland
ppisany@gmail.com

Oskar Kowalewski
IESEG School of Management & LEM-CNRS 9221, France
o.kowalewski@ieseg.fr

Emil ?l?zak
Warsaw School of Economics, Poland
eslaza@sgh.waw.pl

Abstract

This cross-country study investigates the determinants of technology-driven alternative credit, i.e. fintech and bigtech credit, development. Using the sample of 94 countries from 2013 to 2019 we confirm the relevance of credit data availability, both traditional as well as alternative data, so called digital footprint. Furthermore, we provide the evidence on the positive role of Internet privacy protection for the fintech credit market development, which may not necessarily be the case with bigtech credit. We also confirm that fintech and bigtech credit growth is preceded by rising paytech services market. Then we discuss positive impact of institutional quality on alternative technology-driven credit. Fintech credit is fostered by both principal institutions, like rule of law and credit-specific institutions, in particular insolvency framework effectiveness, while for bigtech credit the latter only matters. Interestingly, we show very different national cultures profiles that boost fintech credit and bigtech credit. Last, but not least, we show that fintech credit develops faster in countries characterized by high social distrust towards banks. The opposite seems to be the case with bigtech credit market. All in all, the study presents the picture of interlinkages between fintech and bigtech credit and set of institutional, social, psychological and cultural factors, confirming different nature of these two types of technology-driven credit.

Implied Volatility Spread and Stock Mispricing

Xuewu Wang
Quinnipiac University, United States
xuewu.wang@quinnipiac.edu

Osman Kilic
Quinnipiac University, United States
osman.kilic@quinnipiac.edu

Surya Chelikani
Quinnipiac University, United States
surya.chelikani@quinnipiac.edu

Abstract

This paper examines the impact of options trading on stock price informativeness. Availing ourselves of the stock mispricing measure proposed by Stambaugh et al. (2015), we show that informed trading in the options market, proxied by the implied volatility spread, can substantially mitigate stock mispricing. Higher implied volatility spread reliably predicts subsequently lower stock mispricing after controlling for an array of economic variables including firm size, illiquidity, idiosyncratic volatility, institutional ownership, and investor?s divergence of opinions. In addition, this effect is more pronounced when the options trading volume is higher, consistent with the notion that higher options trading volume provides better camouflage for informed trading in the spirit of Kyle (1985). We further show that a self-financing monthly portfolio that goes long on most underpriced stocks and short on most overpriced stocks when the implied volatility spread is the lowest yields statistically and economically significant abnormal returns.

Usury law, lending and competition: empirical study of the reversal of usury law in Arkansas

Jiaxuan Wang
University of Bristol, United Kingdom
nh18362@bristol.ac.uk

Abstract

This paper investigates the effect of the reversal of usury law on bank lending, bank soundness level and bank competition through the passage of Gramm-Leach-Bliley Act. I find that the deregulation of usury law in Arkansas leads to a reallocation of bank lending among different categories of loans for Arkansas-chartered banks. Additionally, bank soundness is adversely affected, implying the potential cost relating to the deregulation. This paper also revealed an unintended effect of the deregulation in increasing the marginal cost of Arkansas-chartered banks. The results of this paper provide an insight for the impacts of adjusting the usury ceiling.

Whisper Words of Wisdom: How Financial Counseling can Reduce Delinquency in Consumer Loans

Jaime Ruiz-Tagle
Department of Economics, University of Chile, Chile
jaimert@fen.uchile.cl

Roberto Álvarez
Department of Economics, University of Chile, Chile
robalvar@fen.uchile.cl

Álvaro Miranda
Budget Office, Ministry of Finance, Chilean Government, Chile
alvjmiranda@gmail.com

Abstract

We study the impact of a financial counseling service provided by SMS, that includes images and videos, to low-income clients of a public bank in Chile. Using a randomized experiment and administrative data, we show that individuals in a group randomly chosen to receive messages about how to prevent and face shocks, and how to face present bias and social comparison, are less likely to default to consumer loans in the short run. We also randomized the provision of an additional message about concrete and practical options offered by the bank that individuals could take when they are at risk of defaulting, resulting in a decrease in the probability of delinquency. The estimated effect for both treatment groups is a decrease in the loan delinquency probability between 20 and 32%. We also study heterogeneous impacts, finding larger effects for males, young and low-income individuals. The intervention proved to be highly cost-effective allowing for large bank savings.

China's Geopolitical Risk and International Financial Markets: Evidence from Canada

Vikkram Singh
Ryerson University, Canada
vik.singh@ryerson.ca

Eduardo Roca
Griffith University, Australia
e.roca@griffith.edu.au

Abstract

Given the high level of economic and financial globalization, geopolitical tensions can disrupt international trade and negatively influence financial markets. China, a global economic power, has been at the center stage of recent geopolitical tensions with widespread economic implications. We investigate the effect of China's geopolitical risk on Canada's equity markets. The results show a persistent impact on market returns and volatility, most prominently on the resources and energy sectors. Even though China plays a smaller role than the US as a trading partner, China's geopolitical risk significantly affects the Canadian stock market and its component sectors. Our results, therefore, confirm the need for a constructive approach towards alleviating global geopolitical tensions such as those with China.

A risk not worth taking - The corporate bond liquidity factor

Fabian Dienemann
University of New South Wales, Australia
f.dienemann@student.unsw.edu.au

Abstract

This study documents properties of market-wide corporate bond liquidity, proposes a new liquidity factor, and tests if liquidity risk is priced. The new factor incorporates an asymmetric liquidity component that captures increasing transaction costs for sellers and decreasing costs for buyers during market downturns. Aggregate liquidity measures are persistent, driven by common systematic components, and predict returns. Shocks to market liquidity are a strong driver of excess return variation in the time series. However, the liquidity risk premium, as measured over the full sample in the cross-section of corporate bond portfolios, is modestly negative and lacks significance.

The R&D impact on efficiency of M&A deals with ICT companies

Elena Ochirova
NRU Higher School of Economics, Russia
eochirova@hse.ru

Yury Dranev
NRU Higher School of Economics, Russia
ydranev@hse.ru

Abstract

The motives of merger and acquisitions (M&A) are often linked with the opportunities to obtain knowledge and technologies in order to enhance competitive advantages of companies. In particular, the acquisition of digital technologies through mergers and acquisitions with ICT companies is especially relevant. However, the efficiency of such deals are often low and questioning the implementation of digitalization strategies of companies. In this study, we employ an approach of assessing the efficiency of technology-driven M&A deals with ICT companies by using DEA method. Applying regression analysis, it was found that the high level of research and development expenses of acquirers can negatively affect the efficiency of the TM&A deals with ICT companies.

HOW TO RATE AND SCORE PRIVATE COMPANIES? EVIDENCE FROM THE USE OF THE INTEGRATED RATING METHODOLOGY IN NORTH EASTERN ITALIAN DISTRICTS.

Guido Max Mantovani
International University of Monaco & University of Venice Ca' Foscari, Italy
g.mantovani@unive.it

Abstract

This paper proposes the new Integrated Rating Methodology (IRM) to score the corporate return-to-risk. Being based on an integrated concept of corporate risk, IRM is particularly fruitful in applications for small, private and unlisted companies (including the entrepreneurial challenges). IRM is rooted into the seminal Lintner?s ?certainty equivalent? model but it is originally arranged by adopting a shortfall approach. This leads to use the ?confident equivalent?, a risk-aversion proxy which is compliant with the Fisher Black?s Zero-Beta model and Basel Agreements. The practical efficacy of IRM relates to the reduced bias from the esteem of the confident equivalents of corporate returns as compared to those arising from the traditional risk premia discovery for unlisted companies. Credit scoring procedures based on IRM are utmost fruitful in banking practices and credit allowances toward SMEs, for which neither bank specific nor standard ratings seems to succeed. In fact, the lack of market data and comparable risk premium estimations bias the perception of the corporate performance and generate misallocation of credit funding (both quantities and pricing). An empirical application of the new approach is proposed over a sample of 13,583 non-financial firms in the North-East regions of Italy, where SMEs claim for inefficient bank financing. Back testing on data available after the recent financial crisis (2007-2014), the results from risk-adjusted profitability depict a clear crowding-out effect when comparing standard and IRM-based allocations of credit allowances: in fact, 36% of companies are underfunded even with superior rating, while 27% of them are funded without merit. Indeed, potential NPLs as confirmed by the official Italian statistics since 2015.

Corporate Governance Progress and the Pay Premium of Owner CEOs

Beni Lauterbach
Bar Ilan University, Israel
beni.lauterbach@biu.ac.il

Revital Yosef
Bar Ilan University, Israel
revital.yosef@biu.ac.il

Abstract

Research Question/Issue: Can progress in corporate governance trim the pay premium of owner CEOs (CEOs that are members of the control group) over professional non-owner CEOs? Research Findings/Insights: We examine CEO pay in 202 concentrated-ownership companies traded on the Tel-Aviv Stock Exchange during 2008-2015, and compare it to earlier evidence from 1994-2001. We find that following the significant advance in Israeli corporate governance since the beginning of the 21st century the owner CEO pay premium dropped by about three-quarters, primarily in partnership-controlled firms (firms controlled by a coalition of business partners). Theoretical/Academic Implications: In some concentrated ownership firms controlling shareholders extract private benefits in the form of excessive owner CEO pay. This form of private benefits can be trimmed via corporate governance reforms and investor protection advance. Research should also distinguish between partnership-controlled and family-controlled firms. Practitioner/Policy Implications: Private benefits in the form of excessive pay to owner CEOs can be curtailed by corporate governance improvements. The excessive pay problem is most evident and persistent in family-controlled firms.

Investor Relations Firms and Shareholder Activism

Lin Ge
University of Mississippi, United States
lge@bus.olemiss.edu

Arup Ganguly
University of Mississippi, United States
aganguly@bus.olemiss.edu

Abhishek Ganguly
University of Oklahoma, United States
abhiganguly@ou.edu

Abstract

We study an unexplored role of Investor Relations (IR) firms: assisting public companies cope with shareholder activism. Using hand-collected data on IR firms and their publicly listed clients during 2003 to 2018 and shareholder activism campaign data for the sixteen-year period, we find that public companies that hire IR firms experience a significantly lower number of activism campaigns, have a higher probability of management winning against the activist, and have a higher likelihood of mutual funds voting with the management, compared to a matched sample. We also document two plausible channels through which IR firms help incumbent management cope with shareholder activism: (i) organizing key face-to-face meetings with institutional investors, and (ii) managing media.

Dark Dealing: Insider Trading and the Market Share of Dark Trading Venues

Abdul Alfarhoud
The University of Manchester, United Kingdom
abdulrahman.alfarhoud@manchester.ac.uk

Michael Bowe
The University of Manchester, United Kingdom
michael.bowe@manchester.ac.uk

Sarah Zhang
The University of Manchester, United Kingdom
sarah.zhang@manchester.ac.uk

Abstract

We investigate the impact of legal insider trading on different types of dark and lit trading venues. We find that the market share of dark pools increases during weeks when insider transactions take place. This effect is more pronounced for internalization pools which provide the highest level of opacity for traders, and for stocks with large market capitalization. We further find strong evidence of strategic insider trading in dark pools ahead of stock buyback announcements, with trading patterns dependent upon the competition among insiders and their rank within the organization.

Present Bias, Asset Allocation and the Yield Curve

Jorgo Goossens
Tilburg University, Netherlands
j.t.g.goossens@tilburguniversity.edu

Bas Werker
Tilburg University, Netherlands
B.J.M.Werker@tilburguniversity.edu

Abstract

This paper presents a present-biased general equilibrium model that explains many features of bond behavior. Present-biased investors increase (decrease) short-term (long-term) hedge demands compared to standard preferences. Hence, present bias drives up (down) short-term bond prices (yields) and drives down (up) long-term bond prices (yields), explaining the bond premium puzzle. The model produces realistic bond behavior with a present-bias factor of $\beta=0.35$ and a long-term annual discount factor of $\delta=0.97$, in line with the experimental literature. Bond behavior is best explained for a present-bias interval of at most 1 year, providing an estimate for the investor's duration of the present.

Do digitalization and ecosystem-based business model mitigate the principal-agent conflict?

Ilya Ivaninskiy
Higher School of Economics, Russia
ilya.ivaninskiy@gmail.com

Irina Ivashkovskaya
Higher School of Economics, Russia
iivashkovskaja@hse.ru

Abstract

In this paper, we explore the implications of recent changes in firms? operating and business models for the principal-agent conflict. On the operating model side, continuous digital transformation has become a must-have feature recently. Firms? busines models are evolving at comparable pace via growing adoption of ecosystem business models. In our analysis we use a sample of 2595 NYSE, Nasdaq and AMEX-traded firms for the years 2015-2019 which are marked with rapid growth of both trends. To analyze the degree of the conflict in a firm we use the management and shareholder-sponsored proposals at the annual meetings. We assess both the level of shareholder involvement in governance measured via number of shareholder-sponsored proposals received as well as shareholder support for management-sponsored proposals. As a proxy for the digitalization, we use blockchain technology. Analysis shows that business digitalization by itself has mitigating impact on the conflict ? shareholders become more active without becoming more hostile towards management. We find the strongest impact (in terms of model significance and standalone digitalization impact) in sectors as IT, Communications, Finance, and Healthcare where the ecosystems are the most widespread. Hence, we conclude that digitalization indeed has the strongest impact when paired with platform busines model.

ON VALUING HUMAN CAPITAL AND RELATING IT TO MACROECONOMIC CONDITIONS

Kuntara pukthuanthong
University of Missouri, United States
pukthuanthongk@missouri.edu

Dave Berger
Oregon State University, United States
dave.berger@bus.oregonstate.edu

Richard Roll
CalTech, United States
rroll@caltech.edu

Abstract

Human capital is the largest component of aggregate wealth, but its relation to other macroeconomic variables is murky due to the lack of market prices. Valuing human capital using historical costs or expected income is characterized by substantial measurement errors. We develop a human capital index using slave prices and relate its dynamics to that of other assets including equities and bonds. We present an extensive analysis of asset pricing, including portfolio optimization, SDF, and integration utilizing observed human capital returns. This analysis deepens our understanding of human capital dynamics, with applications to portfolio allocation, market integration, and diversification.

Testing Asset Pricing Model with Non-Traded Factors: A New Method to Resolve (Measurement/Econometric) Issues in Factor-Mimicking Portfolio

Kuntara pukthuanthong
University of Missouri, United States
pukthuanthongk@missouri.edu

Junbo Wang
Louisiana State University, United States
junbowang@lsu.edu

Richard Roll
CalTech, United States
rroll@caltech.edu

Tengfei Zhang
Louisiana State University, United States
tzhan23@lsu.edu

Abstract

We connect the factor mimicking portfolio (FMP) and both the risk and pricing effects associated with the underlying factor. In a beta-pricing model, by replacing underlying factors with FMPs, we choose a portfolio that jointly minimizes the mispricing component of stock returns, with respect to the risk exposure of the underlying factors. We propose a novel method for constructing FMPs and measure the risk premiums of nontraded factors. We ascertain that several of the macroeconomic factors of FMPs constructed by our method are related to the cross-sectional covariance of individual stock or bond returns. Consumption growth, inflation, and the unemployment rate command equity premiums; consumption growth and industrial production command bond premiums.

Global Corporate Stress Test: COVID-19 Impact and Medium-Term Implications

Thierry Tressel
International Monetary Fund, United States
ttressel@imf.org

Xiaodan Ding
International Monetary Fund, United States
XDing@imf.og

Abstract

Corporate sector vulnerabilities have been a central policy topic since the outset of the COVID-19 pandemic. In this paper, we analyze some 17,000 publicly listed firms in a sample of 24 countries, and assess their ability to withstand shocks induced by the pandemic to their liquidity, viability and solvency. For this purpose, we develop novel multi-factor sensitivity analysis and dynamic scenario-based stress test techniques to assess the impact of shocks on firm?s ability to service their debt, and on their liquidity and solvency positions. We find that a large share of publicly-listed firms become vulnerable as a result of the pandemic shock and additional borrowing needs to overcome cash shortfalls are large, while firm behavioral responses and policies substantially help overcome the impact of the shock in the near term. Looking forward, while interest coverage ratios tend to improve over time after the initial shock as earnings recover in line with projected macroeconomic conditions, liquidity needs remain substantial in many firms across countries and across industries, while insolvencies rise over time in specific industries. To inform policy debates, we offer an approach to a triage between viable and unviable firms, and find that the needs for liquidity support of viable firms remain important beyond 2020, and that medium-term debt restructuring needs and liquidations of firms may be substantial in the medium-term.

Global Expansion of State-Owned Enterprises: Evidence from Corporate Alliance

Chenchen Huang
University of Bristol, United Kingdom
ch17572@bristol.ac.uk

Neslihan Ozkan
University of Bristol, United Kingdom
n.ozkan@bristol.ac.uk

Fangming Xu
University of Bristol, United Kingdom
fangming.xu@bristol.ac.uk

Abstract

This study investigates the cross-border alliances that state-owned enterprises (SOEs) take part in over the period 1990-2018. We show the country-level political and economic factors (e.g., autocracy, institutional environment, foreign ownership restrictions, foreign currency reserve, and industry composition) influence SOEs? decisions on cross-border alliances. Moreover, we find international firms tend to collaborate with SOEs when there is high expropriation risk and state-dominated banking systems in the host country. Also, the SOEs involved cross-border alliances are more likely to be the projects which require more investments and stronger commitments, i.e., joint ventures, manufacturing partnerships and exploration agreements. Further, international firms, especially financially constrained firms, could experience higher announcement returns when collaborating with SOEs than with non-SOEs, implying that the exclusive benefits from SOEs are value-creating for the partner firms through alliance partnerships. Overall, we provide novel evidence on differences between SOEs and non-SOEs in terms of how they form global partnerships through cross-border alliances, as well as disclose the wealth implication on the SOEs? partner firms.

CEO compensation, Pay reciprocity, and Cronyism in India

Abhishek A
IIT Madras, India
ms17s015@smail.iitm.ac.in

Gopalaswamy Arun Kumar
IIT Madras, India
garun@iitm.ac.in

Abstract

Abstract Purpose- This study investigates Cronyism's evidence in Indian listed firms, i.e., whether excessive CEO and directors compensation reflect pay reciprocity, which subsequently reduces firm performance. It also examines the impact of CEOs' ties with the controlling owner on excess compensation, pay-reciprocity, and Cronyism. Design/methodology/approach- This study uses OLS fixed effects regression on NSE 500 firms during 2002-2020 for investigating the evidence of Cronyism and the impact of CEOs' ties with the controlling owner on Cronyism. Findings- This study does not consistent and robust evidence for cronyism in sample firms. This study finds empirical evidence that CEO compensation is strongly linked to CEO characteristics and corporate governance in addition to economic determinants. Consistent with reciprocity norms, we report a positive relationship between CEO compensation and director compensation for those firms where the CEO has ties to the controlling owner. This reciprocity does benefit shareholders by improving subsequent firm value. We report that excess CEO and director compensation increases subsequent firm value where the CEO has ties to the controlling owner, thereby suggesting efficient contracting. Originality/Value- To the best of our knowledge, this study is the first large-sample study determining excess compensation, pay-reciprocity, and Cronyism in the Indian context. This study sheds light on pay-reciprocity, Cronyism, rent extraction, and efficient contracting in Indian firms. Overall, this study's main contribution is that CEOs command excess compensation due to reciprocity, weak governance, and significant managerial control; however, this excess compensation does not reduce the subsequent firm value, thereby suggesting efficient contracting.

Why does Option Implied Volatility Forecast Realized Volatility?

Gang Li
The Hong Kong Polytechnic University, Hong Kong
garyli@polyu.edu.hk

Sipeng Chen
The Hong Kong Polytechnic University, Hong Kong
s1chen@polyu.edu.hk

Abstract

We examine the information content of volatility implied from the prices of stock options. Using a comprehensive database of news, we measure the arrival intensity and magnitude of scheduled and unscheduled news at the firm and aggregate market level. We find that these news measures are all positively associated with contemporaneous stock return volatility, and many of them can be predicted by implied volatility. About 30% of the predictive power of implied volatility on future realized volatility is due to its ability to predict these news measures, and most of the predictive power is from predicting the arrival intensities of both scheduled and unscheduled firm news. The results of the paper highlight the role of options market in discovering the volatility related information.

Evaluation of Two Models of Exchange Rate Determination Using a Machine Learning Technique

Rita Biswas
University at Albany, SUNY, United States
rbiswas@albany.edu

Xiao Li
University at Albany, SUNY, United States
xli43@albany.edu

Louis Piccotti
Oklahoma State University, United States
louis.r.piccotti@okstate.edu

Abstract

This paper evaluates the performance of two leading macro-fundamental-based exchange rate determination models (Sticky Price Monetary Model and its Augmented version) using machine learning estimation techniques. Using quarterly data spanning 1996 through 2019 for five developed and five less-developed countries, we use Elastic Net regression techniques versus Ordinary Least Squares regression techniques to validate these monetary models. Our preliminary results, using the reduction of the Mean Square Error (MSE) as the evaluation criterion, indicate that the Elastic Net regression methods have lower MSEs vis-à-vis the OLS methods and support the use of macro fundamentals in exchange rate determination for both developed and less-developed countries.

Intraday Trading in Order Driven Markets

Sudhanshu Pani
School of Business, NMIMS University, Mumbai, India
sudhanshu.pani@sbm.nmims.edu

Abstract

This paper investigates, in high resolution, the information content present in the orders and trades in an order driven market. A systems view of the market in high resolution is presented. A continuous time intraday trading model is described where trading is motivated by a need to change the state of the asset held. The model is characterised by a short time horizon of a single trading day, absence of market makers and trading in disequilibrium. Price emerges as a result of search of buyers by sellers (or vice versa). Traders with private information use the emerging asset price as the signal and traders without private information trade on the public signal. The system controls the trading intensity to control the wealth traded through the system. The proposed representation recognises the ability of participants in such markets to observe market events and calibrate their quoting activity. The public signal of the asset price formed after a general consensus among participants is seen to be a part of the price system. Information aggregates into the public signal with a low frequency

Financial Derivatives for SME Businesses: The Qualitative Study to Identify the Financial Determinants

Muhammad Nawaz
Universiti Utara Malaysia, Malaysia
amyazhar@uum.edu.my

Prof Mohd Amy Azhar Mohd Harif
Universiti Utara Malaysia, Malaysia
amyazhar@uum.edu.my

Abstract

Financial derivatives play key role in the financial performance of the firms by mitigating multiple types of risks. It was observed previously that financial derivatives were being used in larger firms but now financial derivatives are grasping SMEs in their domain to accelerate SMEs? financial performance. Sufficient studies had been piloted on larger firms but there was a scarcity of literature on the usage of financial derivatives within SMEs. This gap produced intensity for the current research in discovering the financial determinants of the financial derivatives? usage within SMEs. The research problem: ?how and why the financial determinants of the usage of the financial derivatives could be established within SMEs business?? Qualitative research approach was utilized to discover this research question. Snowballing sampling was used to identify respondents of this research. Data was collected by using convergent interviews technique to develop the literature and to approve the financial determinants of the financial derivatives? usage within SMEs. Data was analyzed by utilizing thematic analysis technique. The findings of this research identified total of five (5) financial determinants of the financial derivatives? usage, i.e. cash flow volatility, financial distress cost, reduction in taxes, firm value, agency cost. Moreover, this research provided theoretical, methodological, practical and policy implications. This research built a revised theoretical framework, which provided ground for future research.

The Impact of NFRA on Analyst Earnings Forecast

Abraham Mathews T
Indian Institute of Management Kozhikode, India
abrahammathewst@gmail.com

Abhilash Nair
Indian Institute of Management Kozhikode, India
abhilash@iimk.ac.in

Abstract

An independent external financial auditor serves the purpose of signalling trust to the company?s investors. To avoid governance lapse from auditors, India established the NFRA in 2018. This paper analyses the impact of NFRA on the analyst information environment. Accordingly, we did a panel-data analysis with 44 companies across 16 quarters (8 quarters pre- and post-NFRA). Contrary to expectation, we find that the errors in analyst forecasts have, in fact, increased post-NFRA. The mean dispersion in analyst earnings forecast also increased post-NFRA. Thus, indicating a deterioration in information symmetry. As a robustness check, we test if this outcome is due to the COVID-19 pandemic and found that to be the case.

Dollar Dominance in FX Trading

Fabricius Somogyi
University of St.Gallen, Switzerland
fabricius.somogyi@unisg.ch

Abstract

I show that the US dollar dominates global foreign exchange (FX) trading volume because of strategic avoidance of price impact. To demonstrate this, I exploit an institutional feature of the FX market: Many currency pairs that do not include the dollar are frequently exchanged by using the US dollar as an intermediate ``vehicle'' currency. I show theoretically that even a minor dominance of dollar--based currency pairs in initial transaction demands and fundamental risk can become overwhelming in terms of trading volume. Empirically, I provide compelling evidence that these conditions on initial transaction demands and fundamental risk are satisfied for at least 80% of non-dollar currency pairs. Finally, I uncover three novel exogenous drivers of dollar dominance: central bank swap lines, non-overlapping holidays, and monetary policy announcements.

Is Intraday Informed Trading Only Time-of-Day Effect? - An Examination of Order Size, Price Impact and Predictability in China

Yingying WU
Xi'an Jiaotong-Liverpool University, China
yingying.wu@xjtlu.edu.cn

Juan Tao
Xi'an Jiaotong-Liverpool University, China
Juan.tao@xjtlu.edu.cn

Abstract

We examine the presence of informed trading and informed traders' camouflage and order size strategies in China's market. We find the aggregate U-shaped informed trading is not only explained by the time-of-day effect but is also related to the order size strategy, which is illustrated by variations in the composition of small, medium, and large trades. The evidence of information predictability from early morning to market close and from late afternoon to the next day provides additional insights into the intraday informed trading pattern. We identify the non-negligible price impact (PI) of large trades and propose a modified model, VDPIN-PI.

Loan Sales and the Tyranny of Distance in U.S. Residential Mortgage Lending

Mark van der Plaat
University of Groningen, Netherlands
m.t.van.der.plaat@rug.nl

Abstract

The distance between lenders and borrowers in the U.S. has increased considerably since the 1970s. This paper analyzes whether the use of loan sales by lenders has caused this increase. Using data on U.S. residential mortgage lending, we find that loan sales on average increase the lending distance with approximately 47%, which corresponds to 206.9 km (128.6 miles). Loan sales are able to increase lending distances since they allow lenders to reduce their loan rates, which allows them to compete for loans in remote markets. We find that loan sales almost completely offset higher loan rates of remote lenders.

Cash-rich seasoned equity issuers

Mengqian Chen
University of Manchester, United Kingdom
mengqian.chen@postgrad.manchester.ac.uk

Marie Dutordoir
University of Manchester, United Kingdom
marie.dutordoir@manchester.ac.uk

Norman Strong
University of Manchester, United Kingdom
norman.strong@manchester.ac.uk

Abstract

We document the novel finding that a substantial fraction of seasoned equity issuers have large excess cash holdings and would be far from running out of cash had they not completed their seasoned equity offerings (SEOs). Cash-rich seasoned equity issuers are not easily reconcilable with prevailing corporate finance theory, nor with recent empirical findings suggesting immediate cash needs as a driver of seasoned equity issuers. They are therefore an interesting subject of study. To gain more insight into cash-rich seasoned equity issuers, we examine their stock price reactions, issuer characteristics, uses of proceeds, and long-term stock price performance. We find that cash-rich equity issuers do not have more negative stock price reactions to their SEO announcements, suggesting that investors do not perceive excess cash as indicating market timing motives. However, a comparison of cash-rich and non-cash-rich issuers shows that the former are more overvalued than the latter. Finally, cash-rich seasoned equity issuers, on average, display more opportunistic uses of SEO proceeds and worse long-term stock price performance than non-cash-rich issuers. Our results imply that investors should consider placing a negative value on issuers? excess cash when assessing the implications of an SEO announcement.

What Are the Key Drivers of Financial Constraints in the Former Communist Bloc Countries?

Tamara Teplova
National Research University Higher School of Economics, Russia
tv.sokolova@hse.ru

Tatiana Sokolova
National Research University Higher School of Economics, Russia
sokol-t@yandex.ru

Abstract

We first analyze the evolution of the impact of a wide spectrum of factors on financial constraints of companies. Our research is based on the survey opinions of top-managers of companies in transition economies. The unique feature of our research is the panel on 28 countries of the former communist bloc from 2002 to 2020. In these countries, an easy access to finance is a necessary condition for stable investment growth and economic development. We directly measure financial constraints based on the BEEPS survey dataset, while the vast majority of the previous papers use the data of financial statements and identify the financial constraints indirectly. We use advanced econometric methods that take into account the specifics of the data. We investigate non-linear and multiplicative effects of ownership structure, state support, the development of debt markets and institutional environment. We obtain a number of original conclusions. A high state share is considered as a negative aspect for attracting finance, but companies receiving state subsidies can mitigate this negative effect. If both the state and foreign investors participate in the ownership structure, the probability of financial constraints reduces. The role of debt markets significantly changed after the global financial crisis of 2008-2009. While the rule of law reduces the probability of financial constraints, the economic freedom has a nonlinear impact. The age of a company is one of the factors affecting the perception of financial constraints, and its impact is nonlinear.

The Influence of Private Equity and Venture Capital on the Post-IPO Performance of Newly-Public Acquirers

Natalia Matanova
Vlerick Business School, Belgium
nxm40@psu.edu

Tanja Steigner
Emporia State University, United States
tsteigne@emporia.edu

Ninon Sutton
University of South Florida, United States
nsutton@usf.edu

Linh Thompson
University of Texas at El Paso, United States
lnthompson@utep.edu

Natalia Matanova
Vlerick Business School, Belgium
natalia.matanova@vlerick.com

Abstract

This paper examines the influence of private equity (PE) and venture capital (VC) ownership on the post-initial public offering (IPO) performance of newly-public acquirers. Our results show that acquirers with private equity backing at the time of the IPO perform better long-term than acquirers without such backing. More importantly, while acquirers without financial backing experience negative long-run returns from first-year acquisitions, acquirers with continued PE- and VC-backing perform significantly better when making acquisitions within the first year after going public. Acquiring firms and investors should be aware, however, that continued VC ownership in the second and third year post-flotation has a detrimental long-term impact when mergers occur during those years, while there is no significant impact for continued PE ownership.

Economic system entanglement on intra-firm trade portfolios: the impact of counterparty credit ratings on business-to-business credit dynamics

Marco Desogus
Post Doc and Contract Lecturer of Mathematics, Dept. of Economics - University of Cagliari, Italy.
Practitioner: Economist and Credit Financial Advisor., Italy
marcodesogus@tiscali.it

Elisa Casu
Credit Financial Advisor ? Unifidi Sardegna Cagliari, Italy
elisacasu@tiscali.it

Abstract

In the last five years, Italy has seen a noticeable and steady increase in the supply of trade credit, granting of extensions, and general systemic business-to-business financial support. Focusing on system entanglement, this paper examines the impact in Italy of bank valuations of creditworthiness and credit intermediation on intra-firm trade portfolio dynamics. We further consider the impacts of exogenous shocks to the economy and other disruptive events on payment regularity and risks of insolvency in intra-firm transactions. Mapping portfolio dynamics to a quantum super-system with a Hamiltonian space of phases, we demonstrate that the performance of intra-firm portfolios depends concurrently on bank valuations and that system entanglement allows us to examine the extent to which economic disruptions shift portfolio dynamics from their state of equilibrium.

Lending relationships and microcredit interest rates: International evidence

Panunya Phatraphumpakdee
Monash University, Australia
panunya.phatraphumpakdee@monash.edu

Abu Zafar M. Shahriar
Monash University, Australia
shahriar.abuzafar@monash.edu

Barry Williams
Monash University, Australia
barry.williams@monash.edu

Abstract

Relationship lending has been identified as one of the critical tools to overcome information asymmetries and the challenges associated with lending to the poor. Recent theoretical studies have pointed out that repeated transactions between an MFI and its borrowers may play a critical role in determining microcredit interest rates. Using a comprehensive global panel dataset from 594 unique microfinance institutions (MFIs) in 62 countries throughout 2010-2018, we investigate whether the intensity of MFI-borrower relationship influences interest rates in microcredit. The results highlight the importance of relationship lending. In particular, MFIs with more relationship clients charge lower interest rates than their counterparts with fewer repeat borrowers. We further show that the benefits of relationship lending are more pronounced in non-profit MFIs as well as in more competitive microfinance markets. The findings have important implications which will assist policymakers in fostering the dual MFI missions of poverty alleviation while maintaining operational sustainability.

A Nonlinearity of Social Networks Influence on Stock Trade Characteristics: The Case of the Russian Market

Tamara Teplova
National Research University Higher School of Economics, Russia
tv.sokolova@hse.ru

Tatiana Sokolova
National Research University Higher School of Economics, Russia
sokol-t@yandex.ru

Alexander Tomtosov
National Research University Higher School of Economics, Russia
alexander.tomtosov@gmail.com

Abstract

In this paper, for the first time, we examine the influence of sentiment of private investors in social networks on the trade characteristics of stocks in the Russian market. By analyzing investor sentiment on social media, we investigate the monthly return and trading volumes under the control of financial indicators of issuers, the quality of corporate governance, as well as the changing external environment in the period from 2013 to 2020. The sample for various sentiment metrics is based on unique data: messages in the Telegram and mfd.ru Russian platforms. The tonality of the messages is diagnosed according to the authors? method using artificial intelligence (a neural network). The main conclusion is that sentiment can be seen as an explanatory factor in stock pricing and trading activity. The influence of sentiment is non-linear. We construct the authors? HYPE indicator of sentiment, which is compared in terms of its ability to explain the stock trade characteristics with a wide range of proxy variables. The explanatory ability to identify differences is realized through regression analysis on panel data. It is shown that trade characteristics are more sensitive to the growth of negative messages, which is consistent with the postulates of behavioural finance. An increase in the number of messages of both positive and negative sentiment contributes to the growth of trading activity. The original conclusion of our paper is the nonlinearity of the influence of sentiment. An important practical conclusion is that following the crowd in case of high activity in discussions of a company does not allow an investor to achieve high returns.

Business Resilience in the Face of the COVID-19 Pandemic: An International Investigation

Wissem AJILI BEN YOUSSEF
ESLSCA Paris Business School, France
wbenyoussef@eslsca.fr

Imen BEN SLIMENE
University of Upper Alsace Colmar, France
Imen.ben-slimene@uha.fr

Mourad KERTOUS
University of Brest- Bretagne, France
mourad.kertous@univ-brest.fr

Abdelhak NASSIRI
University of Brest- Bretagne, France
abdelhak.nassiri@univ-brest.fr

Samir MALIKI
University of Tlemcen, Algeria
maliki.samir@gmail.com

Mohammed ElAmine ABDELLI
University of Brest, France
abdelli.univ@gmail.com

Afef KHALIL
University of Carthage, Tunisia
afef.k@live.com

Abstract

The intent of the paper is to analyze how firms have so far coped with the COVID-19 pandemic. Based on a World Bank survey between May and October 2020, the study examines firm resilience factors in ten European and Mediterranean countries. Both macro-economic and firm-level considerations are analyzed to identify the attributes of firms' resilience to the COVID-19 crisis. Through a cross-sectional study of a sample of 3.722 firms in all industries, we analyze how firms cope with the current health and economic crisis. By constructing a multidimensional index identifying companies resilient to the COVID-19 pandemic, the paper contributes to the theoretical and empirical literature related to resilience in extreme events. Indeed, by adopting both reactive and proactive responses to mobilize existing capacities and develop new ones, firms increase their hopes of emerging more resilient from this crisis. The results of our study illustrate that firm resilience to the COVID-19 crisis is relatively low. More than 80% of the sample firms have a business resilience index equal to 2 on a scale of 8.

Mediterranean firms are less resilient than Eastern European firms. In terms of sector-specific resilience, manufacturing and retail companies are more resilient than those of the services sector. Our study has managerial implications by enlightening managers on facing uncertainty and global crises such as pandemics and natural disasters. By analyzing both microeconomic factors (internal factors) and macroeconomic factors (government support measures), the study helps governments implement more effective policies to respond to the crisis.

Exceptionally Low Interest Rate Policy, Risk-Taking Channel, and Bank Competition: Evidence from Loan-level Data

Masayo Shikimi
Nagasaki University, Japan
mshikimi@nagasaki-u.ac.jp

Abstract

This study investigates how bank competition affects the transmission of monetary policy through risk-taking channel. Using Japanese matched bank-firm loan data from the fiscal year 2005 to 2018, we test whether banks with weak balance-sheet lend to risky firms during low interest rate environment than banks with strong balance-sheet and their degree of risky lending is enhanced by bank competition. We find that transmission of monetary policy through risk taking channel vary according to bank competition. Risky lending by banks with poor capital during the low interest rate period is enhanced by bank competition. After the introduction of negative interest rate policy, the bank competition has a nonlinear effect on risk taking behavior of banks with abundant liquidity. Our findings remain mostly unchanged after conducting several robustness checks. Our results suggest that the effects of monetary policy through the risk-taking channel are asymmetrical and depend on bank competition in lending markets.

The right but not the obligation: Empirical analysis of share repurchases in Germany and Austria

Viktoria Steffen
University of Graz, Austria
viktoria.steffen@uni-graz.at

Roland Mestel
University of Graz, Austria
roland.mestel@uni-graz.at

Erik Theissen
University of Mannheim, Germany
theissen@uni-mannheim.de

Abstract

We examine the decision to announce a share repurchase and the market reactions following share repurchase announcements in Germany and Austria. The specific institutional characteristics of both countries require companies to obtain authorization by the Annual General Meeting before having the right, but not the obligation, to announce a share buyback. This two-step procedure enables us to apply a conditional estimation approach, which takes the repurchase decision and the potential selection bias associated with it into account. In line with previous literature we find negative abnormal returns prior to the repurchase announcement and positive and significant abnormal returns and volumes on the event day. Additionally we find initial repurchase announcements to result in a greater market reaction than subsequent announcements. Regarding liquidity we find the bid-ask spread to increase, and thus liquidity to decrease, around the event day.

Determinants of Household Wealth: A Machine Learning Approach

Robert Leigh
University of Durham, United Kingdom
robert.leigh80@gmail.com

Damian Damianov
University of Durham, United Kingdom
damian.damianov@durham.ac.uk

Dean Slack
University of Durham, United Kingdom
dean.l.slack@durham.ac.uk

Abstract

Using household-level data from the Panel Study of Income Dynamics, we show that machine learning techniques can predict household wealth with a median absolute percentage error (MdAPE) of 15.74%. This study utilises decision trees, decision forests, and artificial neural networks, common statistical pattern recognition tools used in machine learning to predict U.S. household net wealth and net wealth minus housing equity. The findings reported across the 1999-2017 period, suggest variables such as profit on stock, house value, and profit on business are the best features in predicting household wealth. Secondly, the results identify alternative variables such as dividends, years left on mortgage, and interest income are also important factors in determining a households wealth. Thirdly, we forecast cross-sectional household wealth and find machine learning algorithms have substantially higher predictive power compared to a weighted least squares regression model, and can forecast future wealth with a 61% MdAPE. We believe this novel application of machine learning algorithms provides new insights into their effectiveness and applicability to household-level data.

Economic Policy Uncertainty and Stock Markets Co-movements

Peter Albrecht
Mendel University in Brno, Slovakia
xalbrec3@mendelu.cz

Svatopluk Kapounek
Mendel University in Brno, Czech Republic
kapounek@mendelu.cz

Zuzana Kucerova
Mendel University in Brno, Czech Republic
zuzana.kucerova@mendelu.cz

Abstract

We empirically examine co-movements between the Economic Policy Uncertainty (EPU) index and selected stock market indices (S&P500, UK100, Nikkei225, and DAX30) at different investment horizons. We show significant but time-variant co-movements between EPU and stock markets. Moreover, we identify EPU as a leading indicator of stock market drops, especially in the US, Japan, and Germany. The lag between the changes of EPU and selected stock markets is from 2?6 months at long investment horizons exceeding 32 months.

The Academic World Facing Transitions

Wissem AJILI BEN YOUSSEF
ESLSCA Paris Business School, France
wbenyoussef@eslsca.fr

Yves RAKOTONDRATSIMBA
ECE Paris, INSEEC U, France
yves.rakotondratsimba@ece.fr

Abstract

The socio-economic world is affected by several changes, including companies' digital transformation, initiatives on environmental and energy transitions, health, economic crises, etc. Consequently, the academic world is also in a transition phase that needs to be analyzed Our purpose in this paper is to provide analysis and proposals for concrete actions, possibly enabling academics and those involved in education to face the disruption that afflicts research and education.

Bitcoin Price forecast using quantitative models

Daniele Bernardi
DIAMAN Partners Ltd, Italy
db@diaman.partners

Ruggero Bertelli
University of Siena, Italy
bertelli@exponential.it

Abstract

Bitcoin was designed to grow in value indefinitely. The smallest quantity, known as a Satoshi, is equal to 0.00000001 of a Bitcoin. It?s obvious that its creator imagined a deflationary system for his creation, one that could help it reach ever increasing values. In the moment that a Satoshi has grown to be worth a dollar, a Bitcoin will equal to $ 100,000,000 (one hundred million dollars!). This is the value that Mr. Satoshi Nakamoto had in mind for his own Bitcoin. Why is it possible for Bitcoin to reach this value? What is the ?fundamental value? of Bitcoin? In this paper we aim to build a framework that permits to answer this question. First step of our framework in based on ?The value of scarcity?. The concept of scarcity is well present and known in Commodities, such as with Gold, Silver, Palladium or Platinum. These precious materials are all the more precious the more scarce their production is. In fact, there is a mathematical model known as Stock to Flow, that estimates price based on the quantity already present in the world (Stock) with the quantity that is extracted every year (Flow). Second step is explaining the ?bubbles? (or the ?waves?, considering Shiller?s narrative environment) in a fundamental picture based on the ?halving rule?. Third step is the determinants of the Bitcoin demand and price. The ?rate of adoption? model. Fourth step is the ?cost and revenues of production? model based on mining process, and the hash rate. The supply chain of bitcoin model is built to create price growth.

Governance, Institutional Quality and Auditor Choice in Emerging Markets

Gordon Mwintome
University of Agder, Norway
gordon.mwintome@uia.no

Roy Mersland
University of Agder, Norway
roy.mersland@uia.no

Stephen Zamore
University of Agder, Norway
stephen.zamore@uia.no

Joseph Agana
University of Agder, Norway
joseph.agana@uia.no

Samuel Nyarko
University of Agder, Norway
s.nyarko@montpellier-bs.com

Abstract

We extend the recent international audit literature on the influence of firm-and country-level attributes on financial reporting. Previous studies indicate that companies with governance structures that induce agency problems and operate in developing countries demand high-quality auditors to facilitate their external reporting. Hypothesizing from the signaling theoretical lens, we find that companies that are shareholder and non-governmental owned unlike cooperatives/credit unions are more likely to hire perceived high-quality auditors to strongly signal their reporting credibility. Furthermore, we find that this association is reinforced in countries with relatively poor institutions, signifying that being associated with perceived high-quality auditors becomes more valuable for signaling in emerging markets.

Stock market reaction to announcements of changes in the board of directors of listed companies and the impact of national culture

Loïc DUBOIS
Université de Picardie Jules Verne (UPJV), France
loicdubois@etud.u-picardie.fr

Abstract

In this article, we will attempt to explain the financial market reaction to the announcement of a female board member?s appointment and, especially, the influence of national culture of countries around the world. To this end, we will use Hofstede's six cultural variables. We hypothesize that the market will react differently to a female appointment?s announcement versus a male board member depending on the different cultures. We will use an event study methodology over the period 2002 to 2019 (post-Sarbanes Oxley Act and pre-COVID 19 crisis period) and a multivariate regression analysis to test our hypothesis.

One-day-ahead cocoa futures return direction forecast with neural networks and adaptive windows

Laura Maria Schmid
Jacobs University Bremen, Germany
l.schmid@jacobs-university.de

Adalbert Wilhelm
Jacobs University Bremen, Germany
a.wilhelm@jacobs-university.de

Christoph Lattemann
Jacobs University Bremen, Germany
c.lattemann@jacobs-university.de

Abstract

Agricultural financial derivatives have gained increasing importance forfinancial investing in the last decade. For trader investment decisions one-day-ahead return direction forecast is crucial for risk reduction. Returndirections are predictable to some extent, however, forecasting is a com-plex task because agricultural futures time series are subject to dynamicalchanges due to cash crop related factors, world-economic conditions, in-vestors? preferences, and other financial market related changes which cannot be solely captured by neither traditional econometric nor newer machinelearning methods. The integration of the econometric approach within al-gorithms of machine learning models, particularly neural networks, has thepotential to identify dynamical changes and adapt algorithms for return di-rection forecast. In this work, combining an econometric approach and neu-ral networks in an adaptive window input length selection method showsthe ability to capture return time series characteristics for enhanced returndirection forecast. The proposed method is compared to benchmark fore-cast models, such as ARIMA, MLP and LSTM. The results show, that theproposed method increases forecast accuracy by 6%.

Hostile Activism: Hostile Tactics or Hostile Hedge Funds?

Hugo Benedetti Benedetti
ESE Business School, Universidad de los Andes, Chile
hugo.benedetti@bc.edu

Abstract

I examine reputation building by activist hedge funds and document two new findings regarding hostile activism. First, there is evidence of a permanent reputation effect to hostile activism. Activist hedge funds that have engaged in hostile tactics, receive on average a 3% higher CAR [-10,+10] on their subsequent non-hostile campaigns, compared to hedge funds that have never engaged in hostile tactics. This abnormal return is positively related to the level of hostile reputation of the activist hedge fund. Second, I find that activist hedge funds with higher hostile reputation modify their non-hostile activism style to engage ?hostile-like? targets and pursue ?hostile-like? objectives but withhold the use of explicitly hostile tactics. These findings imply that 1) hedge funds are able to build a hostile reputation using their past engagement tactics and that 2) market participants perceive and value such reputation as evidenced by the higher announcement return observed in the hedge fund?s targets.

THE DEBT CAPACITY ENHANCING BENEFITS OF COMMERCIAL REAL ESTATE HOLDINGS AND ITS EFFECT ON STOCK RETURNS.

Levon Goukasian
Pepperdine University, Business Administration Division, United States
levon.goukasian@pepperdine.edu

Luka Vdovic
NA, United States
lvidovic@comcast.net

Abstract

Our study seeks to analyze the performance of those firms that invest in commercial real estate. We confirm that, in general, firms that invest more in commercial real estate earn higher returns relative to their peers. However, this anomaly mainly applies to constrained firms. We define constrained firms based on their leverage, dividend payout, size, and absence of credit rating. Quintile portfolios of constrained firms and unconstrained firms were formed based on the firms? commercial real estate holdings (relative to their assets). Our findings suggest that firms that do invest in commercial real estate do achieve higher factor-adjusted stock returns and that this relationship is stronger for firms with high market leverage and larger firms with no credit rating. Also, our findings show that among credit-constrained firms, those that are in the top quantile (by their investment in real estate) significantly outperform the lowest quantile portfolio: the long-short portfolio?s Fama-French 5-factor adjusted abnormal return is statistically significantly positive: the regression alpha is 10.93 for value-weighted portfolios and it is statistically significant. Similar results were obtained for long-short portfolios of highly leveraged firms.

Are stock-market anomalies anomalous after all?

Kuntara pukthuanthong
University of Missouri, United States
pukthuanthongk@missouri.edu

George Chalamandaris
Athens University of Economics and Business, Greece
george.chalamandaris@gmail.com

Nikolas Topaloglou
Athens University of Economics and Business, Greece
nikolas@aueb.gr

Abstract

We propose a stochastic spanning to evaluate whether anomalies are genuine under factor-model framework. Our approach is nonparametric and does not rely on any assumption of return distribution and investor risk preferences. It depends on the whole distribution of returns, rather than only on the first two moments. Of the anomalies we consider, only a few expand the opportunity set of the risk- averter and have real economic content. Our approach is consistent in identifying genuine anomalies in and out of samples. This is in contrast to mean-variance (MV) spanning tests where anomalies identified in-sample, not out-of-sample.

Chasing the Beta, Losing the Alpha

Pierre Jaffard
MIT Sloan School of Management, United States
jaffard@mit.edu

Andrea Hamaui
Harvard Business School, United States
ahamaui@g.harvard.edu

Abstract

In this paper, we tackle the Beta anomaly, namely the fact that high-Beta assets tend to be associated with lower risk-adjusted returns than low-Beta assets, and connect it to mutual funds' expectations. We present a model with two types of investors, mutual funds and hedge funds, with heterogeneous market expectations and margin constraints. We show that the Beta anomaly is especially present for stocks purchased by over-optimistic mutual funds. On the empirical side, we first introduce a mutual fund-level measure of market expectations. Then, portfolio analyses and regressions confirm the model's prediction. The results are robust to alternative definitions of the mutual funds? market beliefs variable that correct for stock picking, and carry predictive power for mutual funds' returns.

Drivers of portfolio capital flows before and after the Global Financial Crisis: Have they changed?

Tjeerd Boonman
Monmouth University, United States
tjeerdboonman@hotmail.com

Abstract

There has been a long-running debate on whether capital inflows are influenced by global indicators (push factors) or domestic factors (pull factors). The choice of the individual indicators within these two categories themselves can disclose more information on the mechanisms that drive capital flows. These determinants of capital flows are likely to change over time, particularly after a high impact event such as the 2008?2009 Global Financial Crisis (GFC). Have the drivers of capital flows changed since the GFC, and if affirmative, how? Have international investors switched attention to more risk-oriented indicators in the aftermath of the GFC? This paper identifies and compares the determinants of portfolio capital inflows in the pre-GFC period (1996-2007) and in the post-GFC period (2011-2019) for 77 countries. I use the Bayesian Model Averaging (BMA) method, a data-driven process, to identify robust determinants of portfolio capital inflows, separately for advanced economies and for emerging market economies. I find that the determinants are indeed different in the two periods, with the exception of global risk aversion for EMEs that is robust in both periods. I also find that for both AEs and EMEs, there is a shift towards more risk-related indicators in the post-GFC period.

Information Processing Skills of Short Sellers: Empirical Evidence from the Covid-19 Pandemic

Jan-Oliver Strych
Karlsruhe Institute of Technology, Germany
strych@kit.edu

Levy Schattmann
Karlsruhe Institute of Technology, Germany
levy.schattmann@gmail.com

P. Joakim Westerholm
University of Sydney, Australia
joakim.westerholm@sydney.edu.au

Abstract

We aim to answer if superior performance by short sellers? is generated by processing public information rather than by exploiting private information. To achieve this, we analyze if short sellers with healthcare expertise outperform in short selling of non-healthcare stocks compared to those with no healthcare expertise. Since we expect that any short sellers? private information about healthcare stocks is unlikely to be material for non-healthcare stocks, we conclude that any observed outperformance in non-healthcare stocks is more likely caused by processing public information. As an identifi-cation strategy, we interpret the outbreak of the Covid-19 pandemic as a treatment to short sellers with healthcare expertise. Our measures of healthcare expertise are based on pre-Covid-19 performance related to either holding or covering a short position in healthcare stocks. Using a unique German sample of daily short selling data, we find that treated short positions identified by general shorting (covering) outperformance are associated with lower 10-day CARs for non-healthcare stocks by an economically significant magnitude of 4.3 percent (7.2 percent). Robustness test rule out that our results are also driven by the use of private information or non information-based trad-ing advantages such as better funding or lending ability of observed short sellers.

Time (needed) for the board of directors to protect the environment: Evidence from mergers

Ellie Luu
University of Bristol, United Kingdom
ellie.luu@bristol.ac.uk

Fangming Xu
University of Bristol, United Kingdom
fangming.xu@bristol.ac.uk

Kirak Kim
University of Bristol, United Kingdom
kirak.kim@bristol.ac.uk

Abstract

This paper examines the impact of the board of directors? workload on corporate environmental performance by exploiting the merger-induced termination of target board seats as an exogenous shock that allows the directors to allocate more time to environmental issues. We show that a reduction in the affected directors? workload leads to improvement in the environmental performance of their firms. The improvement is driven by the directors connected to environmentally conscious firms, female directors, and less-committed ones. Similarly, the effect is pronounced for independent directors and committee-serving ones. Moreover, the directors? capacity to improve firm environmental performance depends on firms? financial constraints, institutional ownership, and the local political orientation. Overall, our study highlights the importance of the board commitment in shaping corporate environmental responsibility.

Cryptocurrency Factor Portfolios: Performance, Decomposition and Pricing Models

Weihao Han
University of Bath, United Kingdom
wh587@bath.ac.uk

David Newton
University of Bath, United Kingdom
D.P.Newton@bath.ac.uk

Emmanouil Platanakis
University of Bath, United Kingdom
E.Platanakis@bath.ac.uk

Charles Sutcliffe
University of Reading, United Kingdom
c.m.s.sutcliffe@rdg.ac.uk

Xiaoxia Ye
University of Liverpool, United Kingdom
Xiaoxia.Ye@liverpool.ac.uk

Abstract

We employ a non-parametric technique, almost stochastic dominance, and find that portfolios of cryptocurrencies based on 13 factors dominate the S&P500, US 10-year T-bonds, US T-bills and a cryptocurrency index over longer investment horizons. After decomposing those 13 long-short factor portfolios, we notice that their dominance relative to the above four benchmarks and equity portfolios based on size, momentum and book-to-market, is mainly attributable to their long legs. A three-factor cryptocurrency model (market, size, and momentum) has significant alphas for all dominant cryptocurrency portfolios, indicating that their dominance is due to mispricing. We then add the combinations of mispricing factors to the three-factor model. The number of alphas drops significantly, indicating that a model of coin market, size, momentum and mispricing factors accommodates cryptocurrency portfolios.

The growth of passive indexing and smart-beta: Competitive effects on actively managed funds.

Michael Densmore
York University, Schulich School of Business, Canada
mdensmore@schulich.yorku.ca

Abstract

Using a sample of US equity funds, I investigate the extent to which competition from low-cost index funds affects fees, performance, and survival rates of actively managed funds. I measure the intensity of competition using the market value of holdings overlap between the portfolios of index entrants and active incumbents. Disentangling the competitive effects of traditional index funds (market index) from smart-beta index funds (factor index), I provide evidence that factor index fund entry is negatively related to changes in actively managed net fees but no significant impact of market index fund entry. Additionally, I find that both factor and market index entry are negatively related to active incumbent survival rates and that this effect is most pronounced for relatively expensive active incumbents. Importantly, I show that entry of index funds has had an attenuating effect on dispersion in fees across actively managed funds. Lastly, I find some evidence that factor index entry has had an attenuating effect on active incumbent future performance.

Feasibility of a potential currency union in Asia - Panel data analysis

Wei Song
Coventry University, United Kingdom
ab0149@coventry.ac.uk

Zhifu Xie
Coventry University, United Kingdom
stuarly@live.cn

Abstract

Since the Asian financial crisis in 1997, Asian countries have made great efforts towards regional economic and monetary integration and a future currency union. However, the Eurozone debt crisis makes some Asian policymakers to reconsider if a currency union in Asia should be established and what Asian countries can learn from European?s experience to make better preparations. This study aims to assess the feasibility of a currency union among Southeast Asian countries (i.e. ASEAN+3) by using panel data analysis over the last three decades and also investigate its membership. Key economic variables in the light of optimum currency area (OCA) theory are applied. Bayoumi and Eichengreen?s OCA index model is extended in this study, by including not only trade openness, production diversification, business cycles, but also FDI, inflation and government balance. The extended model has been confirmed that FDI in Asia plays a very important role supporting stable exchange rates among countries, and countries with large amount of FDI inflow will gain more benefits and less costs from joining a currency union. The study finds that the economic entities China, Japan, South Korea, Hong Kong, Singapore, Malaysia, Philippines, Thailand, Vietnam have fulfilled the OCA criteria towards a currency union and they are more likely to be the founding members of future Asian currency union.

Daily, unambiguous, heterogeneous mutual fund flows and their performance sensitivity

Andre Lot
NHH - Norwegian School of Economics, Norway
andre.lot@nhh.no

Abstract

This is the first paper to study unambiguous and disentangled mutual fund inflows and outflows, and their heterogeneous sensitivity to past fund performance. Using a comprehensive, 16-year long novel sample comprising all daily purchases, redemptions and returns of all investment funds from Brazil, this paper, first, characterizes some time-series properties of daily mutual fund flows. It then shows that daily inflows and outflows are subject to strong within-month daily seasonality -- one order of magnitude large than commonly documented monthly seasonality of net flows. Both (deseasonalized) inflows and outflows are highly predictable across seven different classes of mutual funds. Evaluating the daily flow-performance sensitivity, I show that inflows are more sensitive to one-year past fund performance than outflows, in consonance with extant asymmetric investor search-cost hypotheses that address such issues on longer-horizon flows. Finally, at market-wide aggregate level, very large daily high outflows contribute more to negative daily net flows, than very large daily inflows contribute to positive daily net flows.

The Impact of Tightly Contested Governance Proposals on Firms? Narrative Disclosures: Evidence from a Regression-Discontinuity Design (RDD)

Arup Ganguly
University of Mississippi, United States
aganguly@bus.olemiss.edu

Lin Ge
University of Mississippi, United States
lge@bus.olemiss.edu

Abhishek Ganguly
University of Oklahoma, United States
abhiganguly@ou.edu

Chad Zutter
University of Pittsburgh, United States
czutter@pitt.edu

Abstract

Corporate governance and firm disclosure are endogenously determined. We exploit locally exogenous variations in corporate governance created by ?close-call? governance-related shareholder proposals, using a fuzzy RDD and text analytics to examine whether better corporate governance causally affects the narratives in corporate disclosures. We find that although better corporate governance in firms leads to more disclosure in their 10-K filings, the passage of ?close-call? governance proposals also significantly increases the complexity and the boilerplate nature of such disclosures. These results are robust to several robustness tests, alternative RDD bandwidths, and different specifications, and amplified when the investors are undistracted.

Financing Innovation with Future Equity

Idan Hodor
Monash University, Australia
Idan.hodor@monash.edu

Abstract

This article studies future equity financing in a continuous-time principal-agent setup whereby career concerns generate moral hazard tension. Our framework admits precise closed-form expressions. The higher firm value leading up to conversion, the fewer equity investors attain and the less risk the entrepreneur takes. We implement the contract using a convertible note with a valuation-cap, that if set too high, developing innovation becomes suboptimal. Lastly, we introduce the implied probability of success: a novel measure allowing for risk comparison across different innovative technologies. We demonstrate its use to empirically estimate investors' skill and correct selection bias in realized returns. Future equity instruments have become very popular in financing early-stage firms. So much so that in recent years there has been a competition to standardize future equity agreements. In late 2013, startup accelerator Y Combinator unveiled its Simple Agreement for Future Equity (``SAFE'') investment instrument with the stated goal of standardizing the funding terms between early-stage firms and investors. In mid-2014, another accelerator, 500 Startups, introduced a competing document, dubbed the Keep It Simple Security (``KISS''). Since then, these documents have become increasingly popular in financing early-stage ventures. In a recent survey, Coyle and Green(2018) find that nearly all U.S. lawyers who specialize in startups signed at least one SAFE or KISS agreement. However, we know very little about the implications of future equity financing or the importance of its funding terms. This paper aims to bridge that gap. In future equity financing, investors agree to transfer funds today against an undetermined amount of equity that will be permanently allocated in the future when certain conditions are met. In this paper, we provide a theory that studies these types of deals, and we do so in a continuous-time principal-agent setup. The continuous-time methodology is instrumental for this study. It allows us to analyze the repeated tension between exploration and exploitation, the risk-sharing properties of future equity financing deals, and better understand the importance of its two most critical provisions: the valuation cap and discount provisions. All of which has yet to be addressed. The empirical implication section provides a novel tool to compare the risk of different innovative technologies and empirically analyze investors' skill and return performance. Specifically, investors want to invest in a high net present value innovative technology. The development of such innovative technology has a long-term and unknown maturity. The entrepreneur---the person with the skill to develop innovative technology---may avoid the developing time if she utilizes an already developed off-the-shelf technology instead. Despite the low rewards from utilizing off-the-shelf technology, shortening the development time is valuable because it expedites the entrepreneur's successful future career. It could be in better investment terms to finance her next idea. Alternatively, it could be in finding a high-paying corporate job. As a result, the entrepreneur finds off-the-shelf technology more attractive than innovative technology. We obtain an exact closed-form characterization for the optimal contract, which leads to transparent and clear economic intuitions, and present our results in terms of firm value---an

observable economic quantity. Unconditional conversion to equity is not an equilibrium outcome. The optimal contract illustrates how investors and the entrepreneur share risk efficiently while motivating the entrepreneur to develop innovative technology all the time. In doing so, it gives rise to three important outcomes. First, the optimal contract satisfies the main feature of convertible notes: the higher the firm value leading up to conversion, the fewer equity investors attain. Second, we observe that positive pay-performance sensitivity discourages innovation, in-line with Manso's central insight and empirical evidence. Third, the optimal contract increases the entrepreneur risk exposure as firm value deteriorates. We implement the optimal contract with a convertible note with the following features. The note does not carry interest payments and does not have a maturity date. It contains a ``valuation-cap'' provision that ensures investors' equity upon conversion cannot be too low and a time-varying ``discount'' provision, in which the discount increases with a lower investment. The note converts to equity under three verifiable conditions: (i) when technology reaches breakthrough, (ii) when investors' future equity reaches the valuation-cap, (iii) when the firm value falls to the residual value. Our implementation illustrates that both the SAFE and KISS instruments are in-line with our model prediction. Finally, we introduce the implied probability of success---a novel tool for empirical analysis. It is hard to determine which innovative technology is a riskier investment opportunity because innovative technologies are different in many aspects. The implied probability of success transforms different investment opportunities to the same zero-one scale. It allows for risk comparison across different innovative technologies. The implied probability of success measures the probability that technology reaches a breakthrough, as implied by the future equity contract and technology characteristics. We illustrate two testable implications for the implied probability of success. In the first testable implication, we illustrate how to estimate investors' skills. Investors are skilled when they pay a low price for a given ex-ante success rate---when they consistently beat their odds. For example, if investment sizes are relatively big, the probability of success approach one, and investors are unskilled if their realized success rate is below one. In contrast, when investment sizes are relatively small, the probability of success approaches zero, and investors are skilled if their realized success rate is above zero. The implied probability of success is the ex-ante success rate. Therefore, for a portfolio of investments, skilled investors are investors with a realized success rate that is significantly higher than the average of the implied probabilities of success associated with those investments. In the second testable implication, we illustrate how to correct investors' realized returns to account for selection bias. This bias arises because investors record successful investments more often than failed ones. If investors record only successful investments, the record occurs with probability given by the implied probability of success. Therefore, corrected returns can be calculated using the weighted average of realized returns with weights given by the implied probability of success.

Time Value of Money, Credit Risk and Bancassurance in the Banking sector of Europe: A theoretical and empirical Analysis

Silver Birungi
BUGEMA UNIVERSITY, Uganda
birungib38@gmail.com

Abstract

Financial system stability is a major concern in an economy where banks and insurance companies simultaneously operate in support of each other. Banking and insurance are two separate businesses that each contributes a unique role in the stability of a financial system (Trichet, 2005). The Banc assurance Model is a vehicle through which banks transfer risks that stem from their operations to insurance companies. The intention of this is to be indemnified at the time of loss. In banking, assets are long-term in nature while liabilities are short-term and repayable at par on a first come, first serve basis which makes banks vulnerable to depositor runs. On the contrary the average maturity of insurance liabilities is longer than that of their assets making them fit enough to manage risk through the Banc assurance Model. This in turn enhances mitigation of shocks propagated by the inter-bank market and payment system in the banking sector. The untimely or non-settlement of claims by insurance companies has traditionally kept them at lower systemic risk as compared to banks. Through the Banc assurance model on bank products, banks work in close contact with insurance companies, which ultimately is susceptible to: - A high degree of financial inter-connectedness - Risk concentration as supported by the size of a bank or insurance company - Untimely settlement or non-settlement of insurance claims on illegitimate losses - High loss ratios which trigger non-renewal of insurance cover on particular running bank products. This in turn could suggest a lack of insurance cover to those bank products characterized by high loss ratios. All the above characteristics are pointers that suggest systemic risk in the banking sector. Therefore an in-depth analysis of time value of money, credit risk and banc assurance variables, this study will seek to examine whether the Banc assurance model is prone to causing systemic risk in the banking sector of Europe. To derive answers to the above problem two regression models on Credit Risk and Time Value of Money are to be extracted and run with the aid of STATA where the dependent variables will be Credit Risk and Time Value of Money, while the independent variables are to be, Banc assurance Loss ratios, Bank size, Banc assurance concentration, Banc assurance diversification, Risk diversification, Risk concentration, Money velocity, Management efficiency ratio, liquidity ratio and Gross Domestic Product. It is postulated that the above variables will clearly show whether the Banc assurance model is susceptible to causing systemic risk in the banking sector of Europe where it has been longest in operation.

An American in Paris National Director?s Foreign Experience and Firm Internationalization

Niels Hermes
University of Groningen, Netherlands
c.l.m.hermes@rug.nl

Nassima Selmane
University of Groningen, Netherlands
n.selmane@rug.nl

Shibashish Mukherjee
University of Groningen, Netherlands
shibashish.mukherjee@rug.nl

Abstract

Despite considerable research on corporate boards, there is a lack of consensus on how directors? prior work experience affects the firms? corporate strategy. Using data from 3,068 US-listed firms between 2003 and 2015, we study how US directors? foreign board experience affects the degree of internationalization of the firm on which board they sit. We show that US directors? foreign board experience in countries with familiar legal institutions (i.e., common law countries) does not affect the degree of internationalization of the firm. Instead, US directors with board experience in countries with unfamiliar legal institutions (i.e., code law countries) is associated negatively with the firm?s degree of internationalization. This suggests that these directors provide negative advice regarding the firm?s internationalization strategy. We further show that higher levels of societal trust and prior executive experience in code law countries reduces the negative association between US directors? foreign experience and the degree of internationalization of the firm on which board they sit, suggesting that under these two circumstances, the impact of their foreign experience on the internationalization of the firm is less negative. We explain this latter outcome by pointing at institutional learning of these directors.

Relationship Lending and Financial Performance of Savings and Credit Co-operative Societies in Tanzania

Nathaniel Towo
Moshi Co-operative University, Tanzania
nathaniel.towo@mocu.ac.tz

Esther Ishengoma
University of Dar es Salaam Business School, Tanzania
esther.ishengoma@gmail.com

Neema Mori
University of Dar es Salaam Business School, Tanzania
neema.mori@gmail.com

Abstract

This paper examines the influence of relationship lending on financial performance of Savings and Credit Co-operative Societies (SACCOS) in Tanzania. The study used relationship lending theories. A panel data of 460 observations representing 115 SACCOS from Tanzania was used. The descriptive statistics and panel regression models were employed to analyse the data. The results show that the duration of relationship is negatively and significantly related to SACCOS financial performance substantiating the relationship lending theories. Also, the number of relationships has an insignificant effect on financial performance. This study positions relationship lending in the SACCOS context where the market for wholesale loan is less competitive.

The Impact of Corporate Social Responsibility on Firm Risk: Evidence from the CDS market

Wanzenried Gabrielle
University of Applied Sciences and Arts Western Switzerland HES-SO, Switzerland
gabrielle.wanzenried@heig-vd.ch

Hsin-Hui Chin
California State University Northridge, United States
hsinhui.chiu@csun.edu

Eva Wagner
Johannes Kepler University Linz, Austria
eva.wagner_1@jku.at

Abstract

This paper examines the impact of corporate social responsibility (CSR) performance on firms? credit risk, as measured by CDS spreads. Using a broad data set with 1,326 companies and 6,448 observations across industries in the U.S over the period from 2006 to 2018, we find that, besides the overall CSR (ESG, Environmental, Social and Governance) score, only 2 out of 10 individual CSR dimensions are relevant for firms? credit risk. In general, the individual dimensions workforce orientation and management efficiency are valued most by bondholders. When looking into different periods, we find that employee engagement and good management are associated with significant lower CDS spreads consistently in the pre-financial as well as in the post-financial crisis era. Our findings suggest that not all CSR investments pay off, but employee orientation and management efficiency are rewarded by debtholders and are associated with lower CDS spreads. Our results are consistent with the risk mitigation view, but show that only certain CSR policies serve as risk reducing and trust building mechanism, especially after periods when perceived firm risk is high. Firms with high engagement towards employees and with good corporate governance benefit from lower CDS spreads, especially in the post-crisis-era. This is empirical evidence for investors having learnt to incorporate those CSR activities as risk mitigating factor when assessing credit risk.

Dealer Networks and the Cost of Immediacy

Thomas Kjær Poulsen
BI Norwegian Business School, Norway
thomas.k.poulsen@bi.no

Jens Dick-Nielsen
Copenhagen Business School, Denmark
jdn.fi@cbs.dk

Obaidur Rehman
BI Norwegian Business School, Norway
obaidur.rehman@bi.no

Abstract

We show that uninformed corporate bond index trackers pay lower transaction costs when they request immediacy from dealers with central network positions. This centrality discount supports recent network models in which core dealers have a comparative advantage in carrying inventory. We show that core dealers provide more immediacy and revert deviations from their desired inventory faster. When dealers trade with other dealers, we find a centrality premium consistent with core dealers exploiting their comparative advantage to extract more surplus when bargaining with peripheral dealers. We rule out alternative explanations based on adverse selection and customer clienteles by using trades from uninformed index trackers.

BOARD DIVERSITY AND OUTWARD FDI: EVIDENCE FROM EUROPE

Valeria Gattai
Università degli Studi di Milano-Bicocca, Italy
valeria.gattai@unimib.it

Piergiovanna Natale
Università degli Studi di Milano-Bicocca, Italy
piergiovanna.natale@unimib.it

Francesca Rossi
Università degli Studi di Verona, Italy
francesca.rossi_02@univr.it

Abstract

We investigate the relationship between board diversity and outward foreign direct investment (OFDI). Previous studies suggest that best-performing firms self-select into internationalisation and that board diversity has a positive impact on performance. Employing firm-level panel data from 2011 to 2015, we estimate the effects of gender and nationality diversity on OFDI, measured as the probability of opening a foreign subsidiary, among firms headquartered in Europe. After controlling for endogeneity through instrumental variables and control function methods, we find that board diversity positively affects OFDI by increasing firm performance. However, when accounting for the performance effect, firms with more diverse boards are less likely to open foreign subsidiaries. The negative effect on OFDI is stronger for firms with gender-diverse boards and we provide possible interpretations of this finding. Our results highlight board diversity as determinant of firms? internationalisation and point to the direct and indirect channels through which it operates.

Post-crisis banking regulation and credit rating adjustments. How did the bail-in affect Eurozone banks' credit rating?

Lavinia Franco
Cass Business School - City, University of London, United Kingdom
lavinia.franco@cass.city.ac.uk

Abstract

This paper looks at the credit rating adjustments on Eurozone banks that followed the post-crisis regulation of bank resolution in Europe in 2014. The empirical assessment analyses within-bank variation using the credit ratings of the major Eurozone banks. The analysis shows that with the introduction of the bail-in: 1) the ratings of Eurozone banks, as expected, were subject to downward pressures; 2) however, credit rating agencies (CRAs) reacted in a variety of ways, moving to post bail-in ratings for Eurozone banks that were more homogenous across CRAs than pre bail-in ratings. While the credit rating adjustments are rightly justified by the rating methodologies used, the convergence among CRAs suggests some degree of discretion in assigning the rating. These results are consistent with herding behaviour among CRAs.

Performance of US and European Exchange Traded Funds: a base point - slack-based measure approach

Maria Neves
Polytechnic Institute of Coimbra-Coimbra Business School|ISCAC & University of Trás-os-Montes and Alto Douro|CETRAD , Portugal
mneves@iscac.pt

Carla Henriques
Polytechnic Institute of Coimbra -Coimbra Business School e INESC Coimbra, Portugal
chenriques@iscac.pt

Jeremias Amado
Polytechnic Institute of Coimbra, ISCAC, Portugal
jeremiasamado17@hotmail.com

Elisabete Vieira
Universidade de Aveiro-ISCAA, Portugal
elisabete.vieira@ua.pt

Abstract

This study assesses the performance of US and European Exchange Traded Funds (ETFs) using the non-oriented version of the base point - slack-based measure (BP-SBM) Data Envelopment Analysis (DEA) model, which allows handling negative data that can arise in some of the metrics traditionally employed in this sort of analysis. Our findings show that US efficient ETFs are considered as benchmarks more often than European efficient ETFs. Nevertheless, it was possible to conclude that European inefficient ETFs generally presented a smaller level of inefficiency than US ETFs. Besides, our results also suggest that the efficiency of ETFs (particularly US ETFs) in the short run depends more on risk factors than on profitability factors, i.e., as the time horizon expands, the importance of profitability factors for the financial performance of ETFs increases. Finally, when the two regions were analyzed separately, this trend has not been confirmed for European ETFs

Fear Sells: A Cross-Sectional Study on the Determinants of Success of the entire Population of Initial Coin Offerings in the 2014-2019 period

Niranjan Sapkota
University of Vaasa, Finland
niranjan.sapkota@uva.fi

Klaus Grobys
University of Vaasa, Finland
klaus.grobys@uva.fi

Abstract

This paper explores cross-sectionally the determinants of ICO success as measured by the amount of raised funding. Our study is the first that retrieves an intensive hand-collected data library covering the entire population of all 5,033 ICOs launched in the 2014 ? 2019 period. Another important novel aspect is that we address the question whether psychological sentiment cached in whitepapers have an impact on the success of ICOs. Employing various sentiment dictionaries to assess the sentiment in whitepapers, our results suggest that ICO investors are rather guided by their emotions when making investment decisions. Notably, higher assessed riskiness of ICO projects do not lower the predicted amount of raised funding. Unlike document in the earlier literature, a surprising finding is that we do not find much evidence for quality signals being associated with ICO success.

The Effect of Goal Clarity on the Relationship between Government Ownership and Financial Performance of the Listed Companies in Kenya and Tanzania

Musa Ngilisho
Institute of Accountancy Arusha, Tanzania
mngilisho@yahoo.co.uk

Neema Mori
University of Dar es Salaam Business School, Tanzania
neema.mori@gmail.com

Ernest Kitindi
University of Dar es Salaam Business School, Tanzania
egkitindi@gmail.com

Abstract

Abstract Purpose: This study investigates the moderating effect of company goal clarity on the relationship between government ownership and financial performance of the listed companies in Kenya and Tanzania. We use the agency and the goal-setting theories as the theoretical framework for the paper. Design/methodology/approach: This paper uses a deductive research approach to test two hypotheses, which are deduced from the reviewed theoretical framework. A survey strategy is also adopted on the listed companies at both Nairobi Securities Exchange (NSE) in Kenya and Dar es Salaam Stock Exchange (DSE) in Tanzania. From the population of the listed companies, a final sample of 48 listed companies is chosen using the Cochran?s formula, which is elaborated in Guwahat (2013). The paper uses some unbalanced secondary panel dataset from the sampled listed companies to measure the key variables used. Government ownership, financial performance and company goal clarity are used as the independent, dependent and the moderating variables for the paper respectively. We define financial performance by using the Tobin?s q measure. We thereafter use the moderated regression method (MRM) as guided by the hierarchical approach with robust standard errors to analyse our panel dataset, which ranges from the year 2011 to 2018, with a maximum of 384 observations. Findings: The descriptive statistics show that government ownership holds an average of 6% of the ownership stakes in the listed companies in Kenya and Tanzania. Furthermore, the statistics show that the listed companies that engage in the goal-setting process, pursue an average of five (5) operative goals at a time. Moreover, the study estimation results show that company goal clarity positively moderates the relationship between government ownership and financial performance of listed companies in Kenya and Tanzania. The company goal clarity is also found to be a pure moderator in the relationship. Originality/value: The current study advances new knowledge that company goal clarity moderates the relationship between government ownership and financial performance in a listed company. The goal clarity complements other corporate governance mechanisms to address the agency problem. Practical implications: The study recommends for the enforcement of the use of corporate strategic plans (CSPs) in the listed companies. The main aim of the proposed recommendation is to coerce listed

companies to formally participate in goal setting, and use the process to address the agency problem. Research Limitations: The current study faced some limitations in the course of collecting data. The limitations include; (i) outright denial to access the data related to the company goals for some of the sampled listed companies, and (ii) prolonged delays in getting a formal reply for the requested data access. Another limitation was the missing data items for some study variables for some few years, which led to the collection of an unbalanced panel dataset.

An Integrative Approach to Determine the Credit Constraints and Role of Social Networking in Farmers? Credit Access from Different Financial Institutions

Shiladitya Dey
Indian Institute of technology Kharagpur, India
aditya11d@iitkgp.ac.in

Piyush Kumar Singh
Indian Institute of technology Kharagpur, India
psingh@iitkgp.ac.in

Abstract

This study aims to evaluate the agricultural credit demand and determine heterogeneous constraints impacting credit access to smallholders across different financial institutions (institutional, semi-institutional, and non-institutional). The study also identifies the role of social network structures for effective information acquisition and decision-making across different borrowing linkage. The study adopted the Heckman two-stage approach along with the Tobit model to estimate the factors affecting the credit demand of 480 small farmers and used the social network approach to analyze their information pattern and subsequent decision-making. The results showed specific constraints like ?education?, ?family income?, ?crop failure?, ?the value of physical assets?, and ?distance to the formal financial institutions? affected the credit demand of the smallholder farmers, Determinants like ?income spends on investment? positively impacted the credit demand of farmers borrowing from the formal financial sector, while the same variable negatively influenced the credit demand of farmers borrowing from semi and non-institutional sectors. In contrast, the credit demand of farmers borrowing from semi and non-institutional sources positively influenced by variables like ?income spends on subsistence, and ?income spends on medical purposes?, while these variables negatively impacted the credit demand of farmers borrowing from institutional sources. Network analysis suggested that farmers not connected with the formal financial institutions were mostly dependent on strong tie relations for availing information and decision-making. Therefore, the study suggests that the Government should facilitate community-level institutions (Self-Help-Groups, Farm Producer Company, Farmers? Co-operative) to establish a strong social relationship among farmers which could subsequently help the farmers to get connected with formal financial institutions across the country.

Does Local Bias Exist at The Regional Investments? Evidence from Equity Crowdfunding

Wanxiang Cai
Utrecht University School of Economics, Netherlands
w.cai@uu.nl

Friedemann Polzin
Utrecht University School of Economics, Netherlands
f.h.j.polzin@uu.nl

Erik Stam
Utrecht University School of Economics, Netherlands
e.stam@uu.nl

Xing Li
Utrecht University School of Economics, Netherlands
x.li@uu.nl

Abstract

It is a longstanding finding in the finance literature that most investors have a strong preference for geographically close investments. Such local bias has also been found on the national level; however few studies have explored local bias at the regional level within a country. This severe regional local bias may result in financial constraints for SMEs that locate in peripheral regions, thereby increasing social inequality. This paper analyses whether local bias in investments exists at the regional level and whether regional characteristics have an effect on it. We test our hypotheses by data from a leading Dutch equity crowdfunding platform. The results indicate that crowdfunding flows between two regions decrease with their geographic distance, and the negative effect of distance is weaker if their regional social networks are strong and the investing region?s location quotient (a measure of the geographic concentration) of the finance industry is high.

Green Bond Issuing by Public Sector Entities: Exploring Motivations and Performance

Francesco Baldi
University of Turin, Italy
fbaldi@luiss.it

Giovanni Ferri
LUMSA University, Italy
g.ferri@lumsa.it

Cristina Maria Romano
LUISS Guido Carli University, Italy
cromano@luiss.it

Abstract

Green Bonds (GBs) are essential to accelerate the sustainable transition. A buoyant literature studies corporate GB issues, which now prevail. However, GBs were initially issued by public sector entities, who still cover almost one third of the market, and may exercise a stewardship in promoting the sustainable transition. To remedy their under-researched status, we focus on public sector GBs, issued by Supranational, Sovereign, and Local Government issuers. Besides describing the overall trends, we investigate whether motivations and performance differ across the three categories on a sample of GBs. We collect key financial data and classify the destination of GBs? proceeds across seven different purposes: 1. Renewable Energy; 2. Electricity and Gas; 3. Energy Efficiency; 4. Transport; 5. Manufacturing; 6. Water and Waste Management; 7. Construction. Next, we distinguish issuances between general- (1. and 2.) vs local-interest (from 3. to 7.) purposes, and calculate their focus through an Herfindahl-Hirschman index. Finally, we estimate Logit and OLS regressions on the determinants, respectively, of choosing a general-interest purpose, and of GBs? yield-to-maturity. We reach two main findings. First, more focused issuances more likely target general-interest purposes and require a lower yield-to-maturity. Second, Supranational issuances more likely target general-interest purposes, but imply higher yield-to-maturity.

The Impact of Gender Quota on the Foreign Direct Investment Decisions of Publicly Listed Firms

Koray Aktas
University of Milano-Bicocca, Italy
koray.aktas@unimib.it

Valeria Gattai
University of Milano-Bicocca, Italy
valeria.gattai@unimib.it

Piergiovanna Natale
University of Milano-Bicocca, Italy
piergiovanna.natale@unimib.it

Abstract

We study the effects of board gender quota in France---which passed the parliament in 2011---on publicly listed firms? outward foreign direct investments. We use a firm-level dataset from the archives of ORBIS over the years 2007?2015 and difference-in-differences approach. We select our comparison group from listed German firms by exact matching based on 4-digit sectoral classifications and by matching on the performance indicators over the baseline. We find that the exogenous increases in the share of women on non-executive boards decrease the share of foreign subsidiaries on average by 7 percentage points. The effects occur when the share of women directors on boards is at its highest in our data. We also find that the effects on share of foreign subsidiaries are mainly driven by the decrease in the probability of having a foreign subsidiary, indicating plant closures. Accordingly, the estimated effects on the number and cost of employees are negative, while we find no impact on the firms? performance indicators.

The Effect of ESG Scores on Stock Performance of Companies in the European Market

Michael Surguchev
Hydrogen Source AS, Norway
michael-sl@hotmail.com

Ruben Vaagen
Grieg Investor AS, Norway
ruben.v@online.no

Costas Xiouros
BI Norwegian Business School , Norway
costas.xiouros@bi.no

Abstract

With the growing demand and interest in ESG stocks and responsible investments, it is important to understand how this affects investors and their portfolios. This work presents an analysis of the relationship between companies? ESG performance and stock performance in Europe during 2005- 2019, specifically analyzing the companies included in the STOXX Europe 600. Using ESG scores, we create portfolios of high- and low-scoring ESG companies, and examine the risk-adjusted performance of these portfolios taking into consideration systematic risk factors. Our findings indicate inconsistent evidence of abnormal returns neither positive nor negative, when analyzing the period as a whole. However when investigating how the alpha has evolved over time we can see a clear trend across various screens and weighting schemes that the 5 year alpha has evolved from being negative up to neutral to positive in the past couple of years.

Macroeconomic fundamentals, real-time uncertainty and CDS index spreads

Alena Audzeyeva
Keele University, United Kingdom
a.audzeyeva@keele.ac.uk

Xu Wang
University of Northampton, United Kingdom
Xu.Wang@northampton.ac.uk

Abstract

This study investigates the role of macroeconomic fundamentals and real-time macroeconomic uncertainty for explaining and predicting CDX index spreads, thereby extending the analysis in extant studies beyond conventional theoretical determinants. We employ a novel dataset, the Bloomberg consensus survey of professional economists, for measuring real-time uncertainty. We find that, over the 2009 to 2018 period of economic recovery, measures of economic output, labor market conditions and inflation together with macroeconomic uncertainty provide additional significant explanatory power for the CDX spread variation, beyond that of the conventional determinants. The sensitivity to specific economic aspects differs for investment-grade and high-yield CDX, with the labor market conditions and associated uncertainty exerting a more pronounced impact on high-yield CDX and output variables impacting stronger investment-grade CDX. Our predictive analysis provides further evidence that fundamentals and real-time macroeconomic uncertainty contain significant predictive power for quarter-ahead CDX spreads out-of-sample, in contrast to the limited predictive content of the conventional determinants. This evidence calls for employing more accurate representation of important economic aspects for CDS modeling and forecasting, while arguing against either relying only on economic output variables or employing broad data aggregation across macroeconomic aspects to capture the macroeconomy.

Why does corporate social responsibility matter in cross-border M&A? Evidence from China

Xianmin Liu
Queen Mary University of London, United Kingdom
xianmin.liu@qmul.ac.uk

Gulnur Muradoglu
Queen Mary University of London, United Kingdom
y.g.muradoglu@qmul.ac.uk

Ni Peng
Queen Mary University of London, United Kingdom
n.peng@qmul.ac.uk

Abstract

This paper explores how corporate social responsibility (CSR) performance affects cross-border mergers and acquisitions (CBMAs) by Chinese bidders. Using a sample of CBMAs attempted by Chinese firms between 2010 and 2018, we show that bidders with higher CSR performance are more likely to complete cross-border deals successfully and quickly, and have better post-merger operating performance. Furthermore, Chinese bidders from underdeveloped regions enjoy enhanced benefits from CSR in their cross-border deals. However, Chinese SOE bidders destroy the long-term value of CSR in their cross-border deals. Overall, our findings support the stakeholder value maximization theory of CSR.

Debt Covenants, Investment, and Monetary Policy

Ozgen Ozturk
European University Insititute, Italy
ozgen.ozturk@eui.eu

Abstract

This paper studies the macroeconomic implications of firms? debt covenants. Traditional approach in the macro-finance analyses is to formulate firms? borrowing constraints based on the liquidation value of asset stocks. However, recent studies show that the type of debt covenant determines how firm debt limits are calculated, and further, prevalent form of debt covenants constrain firms' total debt by employing a measure of cash flow. To provide microfoundation for the coexistence of different forms of debt covenants and their implied borrowing constraints, I develop a heterogeneous firm, macro finance model with financial frictions featuring asset based and cash flow based debt covenants. In the model, debts are subject to limited enforceability, therefore lenders determine the terms of asset based and cash flow based debt contracts and restrict the borrowing amount. In line with the recent empirical literature, model predicts that ?most of the time? small, young, highly leveraged firms have asset based debt covenants; while older, larger and low leveraged firms mostly borrow with cash flow based debt covenants. This initial set of results about the coexistence of these different debt covenant forms suggest a novel channel on the monetary policy transmission. This channel implies that as the firm's borrowing capacity itself is heterogeneously affected by monetary policy shocks, firm heterogeneity in terms of debt covenants plays a strong role on the tightness of borrowing constraints, and thus shapes the monetary policy transmission.

Restrictions on Labor Mobility as Intellectual Property Protection: Effects on Innovation, Firm Value and Industry Structure

He Li
University of Wisconsin, Whitewater, United States
lih@uww.edu

Clas Wihlborg
Chapman University, United States
wihlborg@chapman.edu

Abstract

This paper examines the effects of the staggered state-level adoption of the Inevitable Disclosure Doctrine (IDD) on innovation, firm value and industry structure. IDD restricts the mobility of employees who possess knowledge of firms? intellectual property. Contrary to existing research, which documents either positive or negative effects of intellectual property protection on innovation, we find that IDD increases patent output in firms with strong market power and competitive advantage in innovation, relative to firms lacking such advantages but we do not find evidence that IDD encourages investments in innovation or that it increases firm value. Differential effects of IDD are further supported by the finding that adoption of IDD leads to significantly higher industry concentration of sales, innovation investment and patent output. These findings present the first evidence of the

Are all savings products in the microfinance world created equal?

Aleksandr Grigoryan
American University of Armenia, Armenia
aleksandr@aua.am

Knar Khachatryan
American University of Armenia, Armenia
kkhachatryan@aua.am

Roy Mersland
University of Agder, Norway
roy.mersland@uia.no

Valentina Hartarska
Auburn University, United States
hartavm@auburn.edu

Abstract

The accumulated empirical evidence constitutes a solid basis to argue that the ability to mobilize savings can contribute both to meeting the demands of the poor, and to enhancing the long-term sustainability of microfinance institutions by reducing their dependence on subsidies. However, there are certain undisclosed sides of saving types? contribution to the overall microfinance business model efficiency. Using SUR analysis on 854 firms worldwide in the period of 2000-2015, we estimate the impact of voluntary and mandatory savings (in different combinations) on the institution?s operational expenses, breadth of outreach and loan amount. Our main results contribute to the economies of scope literature by indicating that while voluntary savings help enhance operational efficiency, mandatory savings improve the outreach to the poor.

Familiarity breeds short-termism

Ellapulli Vasudevan
ESCP Business School, France
vellapulli@escp.eu

Abstract

Investors exhibit a robust and systematic pattern of shortening their holding period in a stock on which they execute multiple round trip trades. On average, the holding period shortens by 11% with each additional round trip. I show this tendency to be short-termed is associated with reinforcement learning. Investors are more likely to shorten the holding period after a round trip where they could have realized a better return had they sold earlier. Investors become short-termed as they become more familiar with trading a stock.

Which factors explain the efficiency and performance of Portuguese funds?

Maria Neves
Polytechnic Institute of Coimbra|Coimbra Business School|ISCAC & University of Trás-os-Montes and Alto Douro|CETRAD, Portugal
mneves@iscac.pt

Maria Gouveia
Polytechnic Institute of Coimbra|Coimbra Business School|ISCAC & INESC Coimbra, Portugal
mgouveia@iscac.pt

Konstantinos Vergos
University of Portsmouth, United Kingdom
konstantinos.vergos@port.ac.uk

Abstract

The purpose of this study is to use an alternative approach, Value-Based DEA, that combines Data Envelopment Analysis (DEA) with Multiple Criteria Decision Aiding (MCDA) for the assessment of efficiency of equity and bonds portfolios´ performance, considering the year 2019, which represents a year of economic expansion in Portugal. This study seeks to contribute to complete the existing literature, analyzing the characteristics that most influence the funds? performance, and also to help an investor in their investment choices. The sample comprises 50 funds registered in the Securities Market Commission, incorporating 31 equity funds and 19 bond funds. In general, the results show that fund´s performance depends on their size, turnover, and risk levels. Of the total sample, 44% of funds are classified as efficient, the most are bond funds. Besides, funds with less liquidity, less rotation, and older are those that show a better efficiency.

What drives the loan funding on the peer-to-peer platform Kiva?

Christopher Priberny
Deutsche Bundesbank University of Applied Sciences, Germany
christopher.priberny@bundesbank.de

Wibke Sommer
Deutsche Bundesbank, Germany
wibke.sommer@bundesbank.de

Abstract

Using a data sample comprised of more than 1,8 millions micro loans posted on the online peer-to-peer (P2P) platform Kiva in the time period 2009-2020, we identify the determinants of funding success and the funding time of micro loan proposals. Thus, we analyze whether the lending behavior of prosocial investors has changed compared to the situation in early years of Kiva before the financial crisis of 2009. Our findings show that financial characteristics influence the funding of micro loans on Kiva. Demographic and social characteristics also affect the prosocial lending behavior. We find evidence for a preference of female borrowers among socially-oriented lenders. Furthermore, we observe changes in the lending behavior regarding the loan purpose. Surprisingly, we find that loans for personal use seems to be funded faster and more likely than before 2009.

FRA Sustainable Financial Inclusion Approach Effectiveness in Overcoming the Impacts of COVID-19 Pandemic on Non-Banking Financial Sector

Merna Amer
Financial Regulatory Authority, Egypt
merna.khaled@fra.gov.eg

Abstract

Sustainable financial inclusion is a key element for social inclusion, combating poverty and income inequality through opening the blocked opportunities for marginalized groups and disadvantaged segments of the population. Financial inclusion has been considered as a dynamic tool for achieving macroeconomic stability, inclusive economic growth and creating job opportunities, reducing poverty, achieving sustainability of institutions and supporting Micro, Small and Medium Enterprises in addition to socially including informal majority to the formal economy. The study shows the contribution of Financial Regulatory Authority in enhancing sustainable financial inclusion as a part of its strategic goal and better regulatory and legal framework focus on serving and financially included underserved groups by providing tailored products to such marginalized sector of the economy. In addition to focusing on the Risk Based Supervision Approach adopted by Financial Regulatory Authority to maintain the financial sustainability of non-banking financial sectors under its supervision.

Less is more: Ranking Information, Estimation Errors and Optimal Portfolios

Lukas Salcher
University of Liechtenstein, Liechtenstein
lukas.salcher@uni.li

Sebastian Stöckl
University of Liechtenstein, Liechtenstein
sebastian.stoeckl@uni.li

Abstract

Despite its significance for Finance as an academic field, mean-variance optimization has yet to be broadly accepted as an investment opportunity in practice due to the crippling effects estimation errors have on the out-of-sample performance of such portfolios. In this paper we offer a novel approach that aims at resolving this issue. More precisely, we propose optimizing portfolios based on forecasted ranking information instead of historical data. The main idea behind this approach is that reducing the informational content of input parameters eliminates outliers caused by estimation errors which in turn means mean-variance optimization suggests less extreme weights resulting in an overall better diversified and less concentrated portfolio. Our results confirm that our approach has a higher risk-adjusted performance compared to the plug-in mean-variance approach and naively diversified portfolios. Furthermore, our approach is more effective when estimation errors are expected to be larger.

Internal Governance of Firms by Promotion-Based Incentives: Empirical Evidence from Mergers and Acquisitions

Gael Imad'Eddine
Universite de Lille, France
gael.imad-eddine@univ-lille.fr

Jan-Oliver Strych
Karlsruhe Institute of Technology, Germany
jan-oliver.strych@kit.edu

Antti Miihkinen
Aalto University , Finland
antti.miihkinen@utu.fi

Abstract

We test empirically the internal governance mechanism proposed by Acharya, Myers, and Rajan (2011) to a US firms? sample. We study the market reaction to M&A announcements of acquirers using a new variable to capture the internal governance: the interaction between the relative contribution of cash-flows from the CEO and the existence of an internal CEO succession plan. We find as predicted by Acharya et al. (2011) a hump-shaped relation supporting the hypothesis that a balanced power shared between the CEO and the successor is positively associated to value creation. Our findings are stronger for firms with weaker alternative corporate governance mechanisms and stronger promotion-based incentives.

Angels in the crowd

Philippe Gregoire
Université Laval, Canada
philippe.gregoire@fsa.ulaval.ca

Marie-Claude Beaulieu
Université Laval, Canada
marie-claude.beaulieu@fsa.ulaval.ca

Abstract

Crowdfunding platforms are often initiatives undertaken by members of the business community who benefit from a buoyant entrepreneurial activity in their region. In this paper, we study the platform La Ruche Qu\'ebec, which has been designed by a group of business owners in Quebec City to facilitate the launch of new ventures by local entrepreneurs. The individuals or enterprises listing their project on a crowdfunding platform keep searching for customers by themselves, but the platform brings two important advantages: extra visibility and, in some cases, help provided by founders and other associates of the platform, who may act like angel investors. These associates may offer to accompany and support project leaders to maximize their likelihood of success. As such, the La Ruche crowdfunding platform offers an unparalleled real-life experiment with a close view on the relationship between entrepreneurs and angels, an area of finance that has yet to be thoroughly investigated. We find that angels have a significant impact on the probability of success of a crowdfunding campaign.

Diversifying Estimation Errors with Unsupervised Machine Learning

Merlin Bartel
University of Liechtenstein, Liechtenstein
merlin.bartel@uni.li

Sebastian Stöckl
University of Liechtenstein, Liechtenstein
sebastian.stoeckl@uni.li

Abstract

Regarding the disastrous impact of estimation errors on portfolio optimization, this paper investigates the trade-off between optimization and estimation errors using unsupervised machine learning. Our model uses unsupervised machine learning to reduce estimation errors by clustering stocks into equally weighted portfolios which in turn are plugged into the classical minimum variance optimization. In contrast to previously documented results, the clustered optimization does beat the equally weighted portfolio considerably in all setups. Varying the number of clusters Optimization is especially functional in closer range to the equally weighted portfolio, rather than to the minimum variance portfolio. The optimal number of clusters accounts to approximately 1/4 , increasing with the number of Assets N.

Local Gambling Attitude, Corporate R&D Investment and Long-term Financial Performance

Feng Zhan
University of Western Ontario, Canada
fengzhan.uwo@gmail.com

Hong Fan
Saint Mary's Unviersity, Canada
hfan08@gmail.com

Li-fang Gao
Anhui University of Finance and Economics, China
hfan08@gmail.com

Abstract

This paper examines the influence of local gambling attitudes on a firm's long-term financial performance. Firms located in the prone-gambling region may be more willing to take risks, thus spending more on innovative projects. However, firms in these regions may also be likely to choose projects impulsively and locate resources inefficiently. By studying the Chinese public listed firm from 2010 to 2017, we find that firms in a more prone-gambling region invest more in R&D. Both local gambling attitude and firm's R&D spending are positively associated with the firm's long-term financial performance. More importantly, our study reveals that the positive impact of R&D spending on firm long-term financial performance is weakened by prone-gambling attitudes, probably because firms in prone-gambling regions are more likely to over-invest in risk projects. This effect is stronger for larger firms, state-owned enterprises (SOE), firms with more government subsidies, and weaker internal control firms.

Generation of equity prices scenarios for a long time maturity

Yves RAKOTONDRATSIMBA
ECE-Paris, INSEEC Research Center, France
yves.rakotondratsimba@ece.fr

Abstract

At the time-being, as with the alignment of traditional firms with the climatic and environmental considerations or with the longevity or retirement issues, there is the need to deal with scenarios for a long time maturity. Many classical tools, econometric and stochastic processes, have been introduced and used to perform this requirement, whenever the time-horizon is of moderated size. Each of these standard approaches is based on a choice of a specific model. To overcome the inconvenience with a posited (very often parametric) model, recent various Machine Learning and Data-Driven approaches of scenario generation have arisen. As these recent approaches are mainly based on the training (historical) data, their ability to deal with the long-time horizon remains compromise. We provide here a solution to the generation of equity prices scenarios for a long-time horizon, by tuning the historical approach, well-established in Finance. As a consequence, the well-known limitation of a number of scenarios can be overstepped. Moreover we propose distributions of equity price paths, using various ad hoc view assumptions about the future evolution. An ad hoc view assumption is popular among practitioners, though it may be theoretically questionable. The historical data with a length (generally) shorter than the targeted time-horizon are a first part of the inputs of our approach. A second part of the inputs is made by scenario realizations of a suitable uniform random variables. Then, we provide closed formula leading to the targeted scenario of equity prices, which consequently can be seen as a function of these two kinds of inputs. Actually, our results remains to be true for any arbitrary univariate time series.

Information Environments, Accounting Information Comparability, and the Risk of Stock Price Crash: Evidence from China

Feng Zhan
University of Western Ontario, Canada
fengzhan.uwo@gmail.com

Kaiyuan Yang
Southwest University of Political Science & Law, China
gchzhy@ctbu.edu.cn

Tingyong Zhong
Chongqing Technology and Business University, China
zhongty@ctbu.edu.cn

Xiaoyan Huo
Chongqing Technology and Business University, China
2017025@ctbu.edu.cn

Abstract

This paper empirically investigates the relationship between accounting information comparability, firm?s information environments, and stock price crash risk for Chinese public listed companies. We find a significant negative relationship between accounting information comparability and the risk of a future crash. This relationship is stronger when the market is a bear market, and for firms with lower information transparency. Furthermore, our study shows that firm-level accounting information comparability could reduce the level of information asymmetry between firm and investors. This improvement in firm-level information environment reduces the risk of a future stock price crash. Our results are robust with consideration of alternative measures for both accounting information comparability and the risk stock price crash. Our research has an important theoretical and practical implementation, especially for the market with high information asymmetry.

Hedge Fund Win versus Management Win: Activism Outcome, Governance Impact and Shareholder Value Gains

Valeriya Vitkova
City, University of London, United Kingdom
valeriya.vitkova.2@city.ac.uk

Abstract

Using an international sample of 1,750 hedge fund activist engagements from 2000 to 2014, we examine whether these engagements cause improvements in long-term firm performance and shareholder value. Endogeneity is a critical issue in this context since factors that make companies attractive targets for activism may also be the primary drivers of any performance improvement. Once endogeneity is accounted for, we find no evidence to support the view that hedge fund activism leads to long-term shareholder wealth creation. In fact, companies targeted by hedge funds might have experienced even better performance were it not for the activists? engagements. Further analysis suggests that target firms underperform significantly more when the hedge funds fail in their campaign and incumbent managers prevail. In these cases, the target shareholders experience significantly higher agency costs associated with managerial entrenchment but these costs are alleviated to some extent by increased board independence or CEO. Overall, while HF activism is not great news for target shareholders, what is worse news is that incumbent managers defeat the HF campaign.

The effects of background risk on capital budgeting under uncertainty

IVAN JULIO
Boston University, United States
julio@bu.edu

ALEX BECKER
Boston University, United States
apbecker@bu.edu

Abstract

A classic rule for making capital budgeting decisions is ?take projects with positive Net Present Value (NPV). In other words, an investor should undertake the project if the discounted value of all future cash flows net of the initial investment is positive. A key input to properly discount future cash flows is to have a measure of the cost of capital, given by the standard CAPM, which by assumption considers the market movement as the only source of systematic risk. In practice, however, when investors and firms are considering whether or not to undertake a risky project, they should take into account not only uncertainties related to the return from that project, but also uncertainties associated with other ongoing projects and with exogenous factors that can impact final wealth The presence of these exogenous factors or ?background risks? can change the optimal capital budgeting rule applied to a project, and ignoring such risk might lead to a poor decision and ultimately to a decrease in shareholder's wealth. This paper contributes to the theoretical understanding of the effect of (dependent) background risks on decision rules for capital budgeting under uncertainty.

EVALUATION OF THE FUTURE PRICE OF BRAZILIAN COMMODITIES AS A PREDICTOR OF THE PRICE OF THE SPOT MARKET

Alexandre Lima
Brazilian Institute of Education, Development and Research - IDP, Brazil
alexvlima83@gmail.com

Rogério Miranda
Brazilian Institute of Education, Development and Research - IDP, Brazil
rogerio.miranda@idp.edu.br

Mathias Tessmann
Brazilian Institute of Education, Development and Research - IDP, Brazil
mathias.tessmann@idp.edu.br

Abstract

The present work seeks to bring empirical evidence about the efficiency of future prices as predictors of spot market prices. For this, future and spot prices of live cattle, coffee, corn, soybeans, ethanol, gold and dollars traded in Brazil are considered. In order to compare the probability of occurrence with the event that actually happened, the score proposed by Brier (1950) is used. It was observed that the price curves, in cash and in the future, have the same trajectory and, considering the same date, present similar values. Despite this behavior, when calculating the scores, we found that the lowest was found for fattened cattle, of 0.47, the highest for the dollar, with a value close to 1, and the other assets varied between 0.6 and 0.8. As scores closer to 1 denote worse predictive powers, it was noted that future prices are not good predictors for the assets considered.

Appointments of Directors and CEOs in Preparation for a Successful IPO

Peter Frii
Umeå University, Sweden
peter.frii@umu.se

Amin Sofla
KU Leuven, Belgium
amin.sofla@kuleuven.be

Oscar Stålnacke
Umeå University, Sweden
oscar.stalnacke@umu.se

Abstract

We investigate the appointments of directors and CEOs of 439 private Swedish firms during a five-year period before they successfully completed an IPO. We utilize detailed Swedish data to explore how a firm?s governance appointments evolve in the period prior to a successful IPO. Our data contains complete information about all individual decision-makers of all Swedish private limited firms, making it possible for us to track all governance appointments among IPO firms, and use matched non-IPO firms to discern what can uniquely be attributed to the IPO process. We document that 70% of the incumbent IPO directors were appointed during the five-year period prior to the IPO, and more than half were appointed one year before the IPO date. We further find that IPO firms are more likely to appoint new directors compared to matched firms during the period leading up to the IPO. Focusing on the IPO firms, we find that firms aiming for the main market appoint directors earlier in the process compared to firms aiming for lower-tier markets. Finally, we find that firms that appoint a larger proportion of directors are more likely to appoint a new CEO before completing an IPO. This result holds regardless of what market the firms successfully completed the IPO.

Blockchain and Trust in For-Profit vs Pro-Social Peer-to-Peer Lending

Laura Gonzalez
California State University Long Beach, United States
laura.gonzalezalana@csulb.edu

Abstract

The gradual implementation of blockchain technology in P2P lending platforms facilitates safer transparent quick access to funds without having to deal with the complex, slower and more costly loan processes of banks. However, other uses of blockchain may be needed, given the limited information lenders have about borrowers. This study is the first behavioral experiment to compare pro-social and for-profit heuristics when lenders examine standard bidding information. Specifically, it compares over 1,200 pro-social and for-profit lending decisions by finance students on a mock P2P site in which either male or female loan applicants are reported to be highly trusted by other lenders. Overall, herding effect appears less pronounced in the pro-social than for-profit investors. Those that have experienced trauma empathize more with borrowers, and males tend to lend more to females and to over-rely on cryptocurrency assets offered as collateral. In conclusion, blockchain can arguably support much needed financial inclusion in Pro-Social P2P lending by using technology not only to facilitate transactions, but also to assist in monitoring and bad loan recovery.

The Reallocation Effects of COVID-19: Evidence from Venture Capital Investments around the World

Alexander Borisov
University of Cincinnati, United States
alexander.borisov@uc.edu

Andrea Bellucci
European Commission, Joint Research Centre (JRC), Italy
andrea.bellucci@ec.europa.eu

Gianluca Gucciardi
European Commission, Joint Research Centre (JRC), Italy
gianluca.gucciardi@ec.europa.eu

Alberto Zazzaro
University of Naples Federico II, Italy
alberto.zazzaro@unina.it

Abstract

We examine possible reallocation effects on venture capital (VC) investment due to the spread of COVID-19 virus around the globe. Exploiting the staggered nature of the spread and transaction-level data, we document a shift in VC investment towards deals in pandemic-related categories. A difference-in-differences analysis estimates significant increases in invested amount, number of deals, and proportion of funded deals in such categories. We show heterogenous effects related to experience of VC investor, organizational form, and country of origin. Our results underscore the link between the spread of the pandemic and the functioning of the VC market around the world.

LINKAGES BETWEEN FINANCIAL INDICATORS AND ECONOMIC GROWTH IN LOWER INCOME COUNTRIES

Rita Biswas
University at Albany, SUNY, United States
rbiswas@albany.edu

Prakash Loungani
International Monetary Fund, United States
ploungani@imf.org

Michael Michaelides
Allegheny College, United States
mmichaelides@allegheny.edu

Abstract

This paper provides further empirical evidence on the finance-growth nexus literature with the main contribution being our focus on previously unexplored low income (LICs) and middle-income countries (MICs). Using panel regressions for 50 LICs and MICs, spanning the period 1990 through 2019, we examine the forecasting reliability of GDP growth rates by national stock market index returns for 1-year, 2-year and 3-year horizons (annual frequency) as well as 1-quarter, 3 quarter and 12-quarter ahead horizons. The key findings support the notion that national stock market index returns are statistically significant determinants of GDP growth rates for LICs and MICs. Further, stock index returns are also significant predictors of employment rates over 1-year, 2-yaer and 3-year horizons for these countries. The results are useful for policy-makers, academics as well as practitioners as reliable, timely data on real indicators are hard to come by in LICs and MICs whereas financial indicators are readily available.

Institutional Settings and Dividend Policy in Emerging Markets

nahid rahman
Australian National Institute of Management and Commerce (IMC), Australia
nahid.rahman@top.edu.au

Walayet Khan
University of Evansville , United States
wk3@evansville.edu

Abstract

In this paper, we plan to investigate the effect of shareholder protection, creditor protection and other country-level governance institutions (e.g., control of corruption and rule of law) on the dividend policies of firms using a comprehensive time series and cross sectional sample covering 25 emerging markets countries over the period 2001-2017. In the spirit of Mitton (2004), in addition to estimating the direct of effect of each individual governance measure, we would like to explore how the quality of investor protection (e.g., shareholder or creditor protection) is moderated by the quality of the more general governance quality (e.g., corruption and rule of law) of the country. For a sample covering 47 countries, Tran (2020) finds that country level corruption in positively related to dividends and this relation is stronger when creditor protection is higher. Given the much higher levels of corruption in the emerging market countries, it is of interest to investigate if these result holds for a sample of emerging market countries. Further, by using multiple measures of shareholder protection, and the quality of governance quality of a country we will be providing more detailed evidence on both the individual and the interactive effects of different types of governance institutions on firms? dividend policies in the emerging markets.

Best Predictors: Mutual Fund Specialization and the Formation of Herds

Pedro Belisario
ISE Business School, Brazil
pedro.belisario@ise.org.br

Abstract

This paper develops an empirical measure for a portfolio manager?s informational edge towards an individual stock. Such a metric allows for the identification of each public company?s Best Predictors: the decile of equity mutual funds with the strongest informational advantage over its stock. Out-of-sample tests show that the aggregate behavior of a firm?s Best Predictors is a robust predictor of future abnormal returns on the stock. At the fund level, averaging a fund?s informational edge across the companies whose stock the fund holds yields a robust predictor for future fund performance and flow. These findings suggest a relevant degree of specialization amongst institutional investors: portfolio managers tend specialize in (and become particularly good at) trading a small set of stocks. Finally, such specialization contributes to the formation of institutional herds, as changes in the percentage of a firm?s shares held by its own Best Predictors positively predict subsequent changes in the overall level of institutional ownership of the stock.

EFFECT OF DIVERSIFICATION AND TRADING INCOME ON PROFITABILITY: AN ANALYSIS FOR FINANCING COMPANIES IN COLOMBIA

Alina Gomez-Mejia
Pontificia Universidad Javeriana Cali, Colombia
aligomez@javerianacali.edu.co

Nelson David Beltrán
Pontificia Universidad Javeriana Cali, Colombia
nedabe@gmail.com

Henry Mauricio Martínez
Pontificia Universidad Javeriana Cali, Colombia
mmartinez_1975@yahoo.com

Abstract

The search for profitability has led credit institutions to diversify their income and thereby authorize the execution of speculative activities, not only in their own position, but also by leveraging the savings of the public. Given the above, the need arises to corroborate whether the Financing Companies (FC) are developing their corporate purpose by intermediating between savers and debtors or if, on the contrary, the diversification of income of FC in the capital market puts their solvency and exposes the deposit of savers to risks. Using data from the financial statements of eight FC between 2015 and 2019, it is estimated how income diversification affects FC profitability and solvency, emphasizing the effect of trading income on profitability. The results suggest that the diversification of income and, specifically, trading income is relevant to determine the profitability of these companies. Finally, far from affecting solvency, diversification increases financial stability.

Religious Beliefs and US Public Pension Funds

Afak Nazim
Florida international University, United States
anazi008@fiu.edu

Edward Lawerence
Florida International University, United States
elawerenc@fiu.edu

Robinson Reyes
Florida International University, United States
rreye090@fiu.edu

Abstract

We examine the influence of religiosity on the investment behavior of US Public Defined Benefit Pensions plans. We find that pension funds located in states with a higher proportion of religious individuals tend to be more risk averse in their investments than funds in states with lower proportion of religious individuals. Funds located in higher-religiosity states allocate a higher share of their portfolios in traditional asset classes such as equities and fixed income, as opposed to private equity, real estate and hedge funds, which are more likely held by plans located in less religious states.

Crowdfunding and the Promise of Gender Democracy: A Systematic Review

Priscilla Serwaah
University of Agder, Norway
priscilla.serwaah@uia.no

Abstract

The study reviews the literature on crowdfunding and gender to examine the extent to which crowdfunding has increased female participation in the field. It also explores how motivation, ability and opportunity affect underrepresentation (especially female underrepresentation) in each phase of the crowdfunding process?funding decision, campaign performance and post-campaign performance. Most of the reviewed papers suggest that external factors (opportunity) have a significant effect on female?s funding access such that the likelihood of success or failure depends on factors external to the female fundraiser. The conclusion from the study points to higher chances of success for females regardless of the crowdfunding type. Given the ?crowdfunding promise? of equal access to all, we highlight the need for gender to remain insignificant but not only significant in favour of female fundraiser while being aware of gender conceptualisation in future research works. Overall, the study proposes an integrated framework that offers actionable strategies for research and practice to help mitigate gender inequalities in crowdfunding.

A new macro-financial condition index for the euro area

Claudio Morana Morana
University of Milan-Bicocca, Italy
claudio.morana@unimib.it

Abstract

In this paper, we introduce a new time-domain decomposition for weakly stationary or trend stationary processes, based on trigonometric polynomial modelling of the underlying component of an economic time series. The method is explicitly devised to disentangle medium to long-term and short-term fluctuations in macroeconomic and financial series, in order to accurately measure the financial cycle and the concurrent long swings in economic activity. The implementation of this decomposition is straightforward and relies on standard regression analysis and general to specific model reduction. Full support to the proposed method is provided by Monte Carlo simulation. In the paper, we also provide a multivariate extension, involving sequential univariate decompositions and Principal Components Analysis. Based on this multivariate approach, we introduce a set of new composite indexes of macro-financial conditions for the euro area and assess their information content. In particular, with reference to the current pandemics, the indicators suggest that most of the GDP contraction has been of short-term, cyclical nature. This is likely due to the prompt monetary and fiscal policy responses. Yet our evidence suggests that the financial cycle might have currently achieved a peak area. Hence, the risk of further, deeper disruptions is high, particularly in so far as a new sovereign/corporate debt crisis were not eventually avoided.

Basel III and Central Banks With Multiple Objectives: Convergences between Targets

Marcelo Zeuli
Banco Central do Brasil, Brazil
marcelo.zeuli@bcb.gov.br

Abstract

This text evaluates the convergence between the main targets of a Central Bank, like the Brazilian Central Bank, with that deals with objectives such as inflation targeting, bank regulation, and financial inclusion, when it operates subject to the Bank for International Settlements (BIS) recommendations gathered in the recent Basel III agreement. A Brazilian conjuncture analysis starts with the economic stabilization plan know as Plano Real (July, 1994) and takes account that, from 2007 onwards, the world economy is going through troubled times unchained by the international financial crisis that motivated the recent Basel Agreement (Basel III). There are two lines of analysis: macroeconomic and marketing. From the macroeconomic approach, there are plenty models to predict money supply and monetary aggregates. From a marketing perspective, it can be inferred that technologies potentially innovatives may alter the current scenario. The financial time series chosen are: daily money supply, banking reserves, and annual inflation (monthly announced). The first statistical and empirical evidences from the period (July, 1994 to December, 2011) show that the management of banking reserves does not interfere with the continuous growth of the monetary base plus demand deposits (M1) and cash in circulation, which possibly indicates an increasing financial inclusion. Moreover, there is no evidence that it creates inflationary pressures. The future works may require competencies pertinent to prospective finance and consumer behavior (marketing).

FINANCIAL ARCHITECTURE OF COMPANIES-PARTICIPANTS OF PUBLIC-PRIVATE PARTNERSHIPS IN THE RUSSIAN FEDERATION

Alexey Kharlamov
National Research University Higher School of Economics, Russia
alexei.kharlamov@gmail.com

Abstract

The components of Financial Architecture (financial leverage, ownership and corporate governance structure) define mechanisms and procedures of making strategic decisions, thus influencing efficiency of the corporate performance. Public-private partnership projects (PPP) are long-term investment contracts which imply reconstruction or development of government property followed by its operation. The aim of the present research is to reveal successful financial architecture patterns in the companies which implement PPP deals using the example of infrastructure projects executed within 2008-2019 in the Russian Federation. The main research issue is revealing efficient financial architecture patterns in PPP projects based on Russian practice and using own efficiency criteria. Results of this research and the tools for analysis of financial architecture patterns? efficiency may be used in new research dedicated to analysis and assessment of economic efficiency of PPP projects in the coming period of development of the infrastructure project market (2020-2024). Within this period increase in the number of PPP deals is expected, consequently, the findings of the present research may be tested applying a larger sample. The results of this research and the tools developed by the author may be used for analysis of other emerging markets.

Market Making and Proprietary Trading in the US Corporate Bond Market

Hugues Dastarac
Banque de France, France
hugues.dastarac@banque-france.fr

Abstract

I study dealers' trading activity in the US corporate bond market. Dealers are market makers half of the time, on days when customers both buy and sell a bond: prices go down (up) as customers sell (buy), implying dealer inventory costs or adverse selection. Otherwise, dealers do proprietary trading: prices go up (down) when customers sell (buy), and dealers buy (sell) relatively cheap (expensive) bonds. Proprietary trading decreases after 2008. Relatedly, before the crisis, dealers sold short Treasury bonds, mirroring their corporate bond holdings, but not after. Data suggest a severe margin constraint tightening as early as July 2007.