DGF Deutsche Gesellschaft für Finanzwirtschaft
German Finance Association

ulm university universität ulm

24th Annual Meeting of the German Finance Association (DGF)

Ulm University
October 6 and 7, 2017

L-BANK Staatsbank für Baden-Württemberg

Finanzgruppe Wissenschaftsförderung

Sparkasse Ulm

Time Table, DGF 2017

Thursday, October 05

09:00 - 17:30 Doctoral Seminar, Villa Eberhardt, Heidenheimer Straße 80, Ulm

Chair: Prof. Dr. Erik Theissen (University of Mannheim)

20:00 - 23:00 Reception at the Studio of Sparkasse Ulm, Hans-und-Sophie-Scholl-Platz 2 (Registration is open)

Friday, October 06

08:00 - 09:00 Registration

09:00 - 09:30 Opening Speeches – „Hörsaal Innere Medizin“

09:30 - 11:00 **Panel A** (six parallel sessions)

A1: Asset Pricing Empirical I	A2: Behavioral Finance Empirical I	A3: Insurance I	A4: Financial Econometrics	A5: Corporate Finance Empirical I	A6: Banking I
Location: H13	Location: H12	Location: 251	Location: 252	Location: 226	Location: H11

11:00 - 11:30 Coffee Break

11:30 - 13:00 **Panel B** (six parallel sessions)

B1: Asset Pricing Empirical II	B2: Behavioral Finance Empirical II	B3: Insurance II	B4: Volatility	B5: Corporate Finance Empirical II	B6: Banking II
Location: H13	Location: H12	Location: 251	Location: 252	Location: 226	Location: H11

13:00 - 14:30 Lunch, **Poster Session**

Time						
14:30 - 16:00	**Panel C** (six parallel sessions)					
	C1: Bond Markets Location: H13	C2: Behavioral Finance Theoretical Location: H12	C3: Market Mi-crostructure I Location: 251	C4: Forwards, Futures and Derivatives Location: 252	C5: Corporate Finance Theoretical Location: 226	C6: Financial Intermediation Theoretical Location: H11
16:00 - 16:30	Coffee Break					
16:30 - 17:30	**Keynote Speech**: Prof. Lasse H. Pedersen – „Hörsaal Innere Medizin“					
17:45 - 18:45	General Meeting of the DGF – „Hörsaal Innere Medizin“					
18:30 - 20:00	Museum Visit at the „Kunsthalle Weishaupt“, Hans-und-Sophie-Scholl-Platz 1					
20:00 - 23:00	Dinner at the Stadthaus Ulm, Münsterplatz 50, Distribution of the Best Paper Award					

Saturday, October 07

Time						
09:00 - 10:30	**Panel D** (six parallel sessions)					
	D1: Portfolio Choice and Performance Measurement Location: H13	D2: Trading and Hedging Location: H12	D3: Market Microstructure II Location: 251	D4: Asset Pricing Theoretical I Location: 252	D5: Corporate Finance Empirical III Location: 226	D6: Financial Intermediation Empirical Location: H11
10:30 - 11:00	Coffee Break					
11:00 - 12:30	**Panel E** (six parallel sessions)					
	E1: Asset Pricing Empirical III Location: H13	E2: Behavioral Finance Empirical III Location: H12	E3: Interna-tional Finance Location: 251	E4: Asset Pricing Theoretical II Location: 252	E5: Corporate Governance Location: 226	E6: Central Banking and Regulation Location: H11
12:30 - 13:30	Lunch (Brownbags), Departure					

Dear friends and members of the DGF,

We would like to welcome you to the 24th Annual Meeting of the German Finance Association (DGF) in Ulm.

The aim of the conference is to bring together researchers and practitioners to discuss research from all areas of banking, finance, and insurance. We are particularly delighted to welcome our academic keynote speaker, Lasse H. Pedersen, Professor of Finance at the Copenhagen Business School and Principal at AQR Capital Management.

The paper submissions were carefully reviewed by 122 reviewers. We thank these colleagues for their extremely valuable contribution to the conference.

We are very grateful for generous financial support from L-BANK, the German Savings Banks Association (Wissenschaftsförderung), from Sparkasse Ulm and from the German Finance Association (DGF), which have made this conference possible.

We wish you a pleasant stay in Ulm as well as many new insights and fruitful discussions. Enjoy the conference!

Sincerely,

An Chen | Andre Guettler | Gunter Löffler

Information

General Information

Conference Venue:	Ulm University, Campus East, buildings N24 and O23 (see the conference venue figure below)
Reception:	Thursday, October 05, from 20:00 at the Studio of Sparkasse Ulm, Hans-und-Sophie-Scholl-Platz 2 [see map No. 1]
Museum Visit:	Friday, October 06, from 18:30 to 20:00 at the „Kunsthalle Weishaupt“, Hans-und-Sophie-Scholl-Platz 1 [see map No. 3]
Conference Dinner:	Friday, October 06, from 20:00 to 23:00 at the Stadthaus Ulm, Münsterplatz 50 [see map No. 2]
Wi-Fi Access	There are two options: (i) As an eduroam user, you can get internet access through the eduroam network. (ii) In the building in which the parallel sessions are held as well as in the building adjacent to the mensa, you can get access through a special guest account. Username and password are provided to you with the conference package. Please note that this guest access is not available in the foyer where the coffee breaks are held, nor in the large lecture hall where the opening and keynote speeches are held.
Contact:	Ulm University, Institute of Finance, Helmholtzstrasse 18, 89081 Ulm Phone: +49 731 5023598; E-Mail: dgf2017@uni-ulm.de; www.uni-ulm.de/mawi/dgf-2017
Taxi Phone Number:	Taxi-Zentrale Ulm: +49 731 66066
Coffee Breaks:	We offer free snacks and drinks during breaks in the foyer in front of the „Hörsaal Innere Medizin“.

Lunch: We offer free lunch on Friday (use the provided voucher) in the dining hall ("Mensa"), see location at the conference venue figure below.

Parking: Parking is available in "Parkhaus Mitte", a multi-story car park in Albert-Einstein-Allee 16 [see map No. 8]. The cost per hour is 1€, with a maximum of 5€ per day.

Directions

Getting to the conference venues:

I. *Shuttle service* for conference participants (free):

Friday, Oct 06, 08:30: Two buses from "ZOB Ost" to "Universität Süd", i.e., from the main train station to the main conference venue. Note that there are two different bus stations at the main train station: "ZOB Ost" [see map No. 6] and "Hauptbahnhof" [see map No. 5].

Friday, Oct 06, 17:45: Two buses from "Universität Süd" to "Rathaus" [see map No. 4], i.e., from the main conference venue to the city center (museum visit and conference dinner).

Friday, Oct 06, 18:45: Another bus from "Universität Süd" to "Rathaus".

Saturday, Oct 07, 13:00: One bus from "Universität Süd" to "ZOB Ost", i.e., from the main conference venue to the main train station.

Saturday, Oct 07, 13:10: Another bus from "Universität Süd" to "ZOB Ost", i.e., from the main conference venue to the main train station.

Please note: Due to capacity constraints of the bus companies, we cannot guarantee that all participants wishing to use a shuttle service will get a seat. In this case, we kindly ask you to make use of public transport. We will provide directions and free tickets at the bus stops (see comments below).

II. Public transport / taxi:

a) Getting to the main conference venue and back:

From main train station, bus stop “Hauptbahnhof”, take bus number 3 in direction "Wissenschaftsstadt” or “Science Park II”, and get off at the stop “Universität Süd”. Travel time is 19 minutes.

For some conference participants, it may be more convenient to board the bus at the stop “Ehinger Tor” [see map No. 7].

It takes around 10 minutes by taxi from the main train station to the conference venue (+49 731 66066).

To go back to the city center, take bus number 3 from bus stop “Universität Süd” in direction “Wiblingen”.

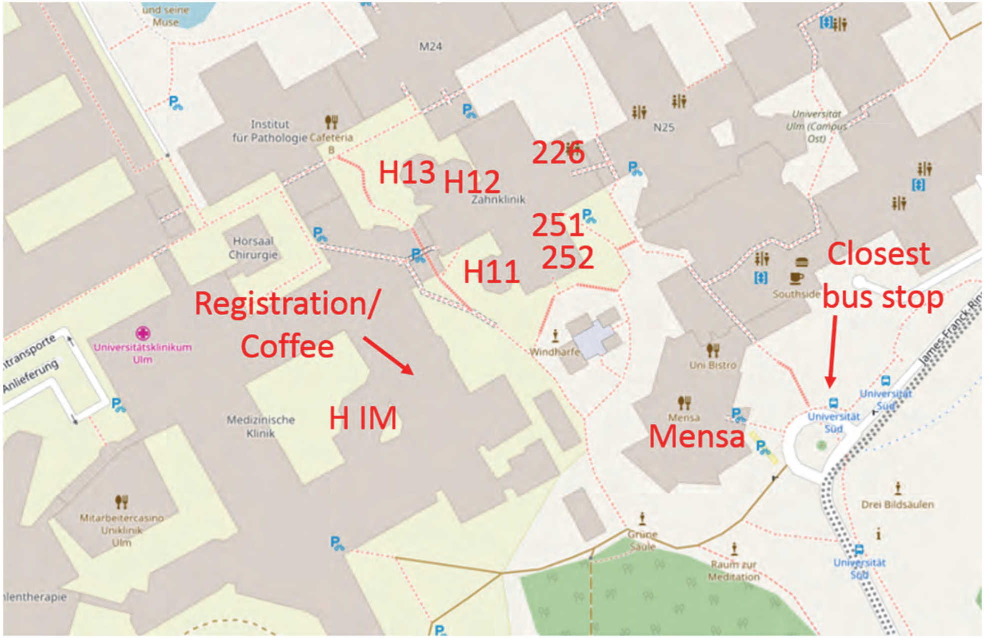
b) Getting to the venue of the get-together, the museum visit, and the conference dinner:

From the main train station, this is a ten-minute walk.

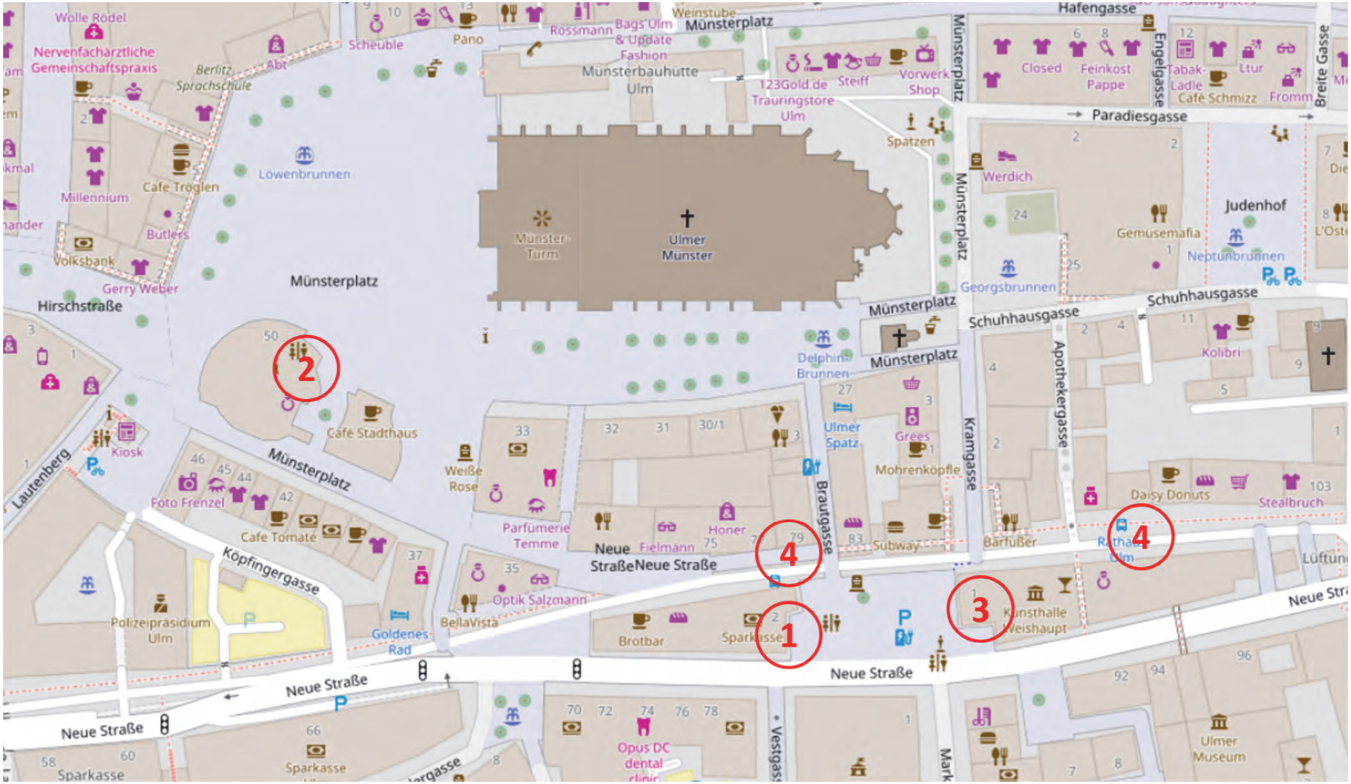
The closest bus stop is “Rathaus”. There is no direct public bus from the university to “Rathaus”. However, you can first take the bus number 3 in direction “Wiblingen” from bus stop “Universität Süd”. Then get off at the stop “Ehinger Tor”, where you change to bus number 4 in direction “Böfingen Süd”. Get off at “Rathaus”.

Conference Venue

The six parallel sessions all take place in various rooms (H11, H12, H13, 226, 251, and 252) in building number N24. The opening speeches, the keynote speech, and the general meeting of the DGF take place in “Hörsaal Innere Medizin” (Abbreviated “H IM” on the map below) in building O23. Registration is situated and coffee breaks are served in the foyer in front of the “Hörsaal Innere Medizin”. The closest bus stop “Universität Süd” and the dining hall (“Mensa”) are also shown. Source: © OpenStreetMap-Mitwirkende

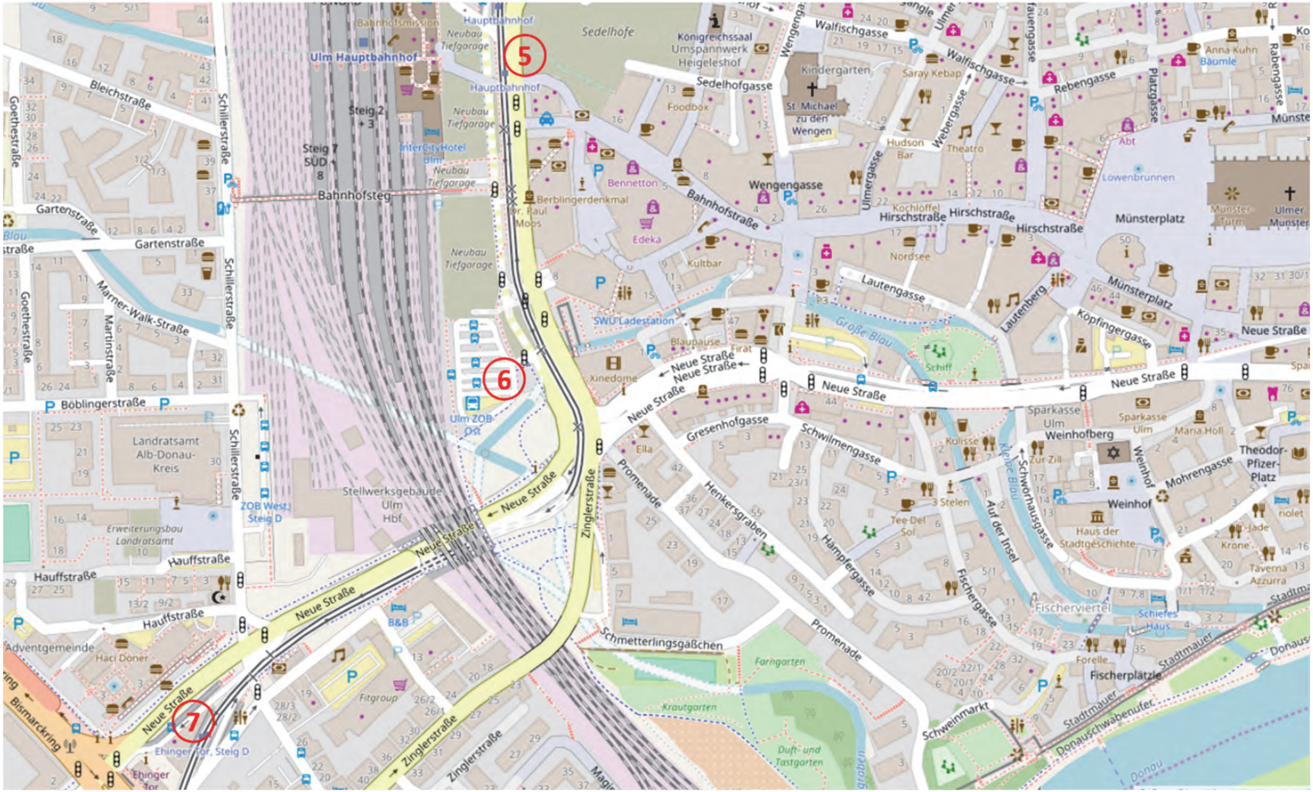


Maps - City center



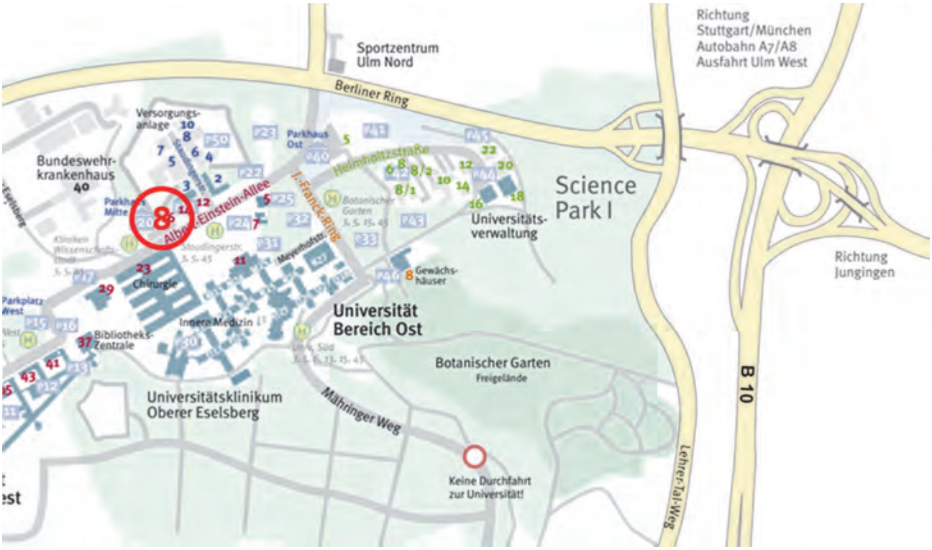
① Get-together ② Conference Dinner ③ Museum visit ④ Bus Stops “Rathaus” (both directions); Source: © OpenStreetMap-Mitwirkende

Maps - Further Bus Stops



⑤ Bus Stop “Hauptbahnhof” ⑥ Bus Stop “ZOB Ost” ⑦ Bus Stop “Ehinger Tor”; Source: © OpenStreetMap-Mitwirkende

Parking



Source: Ulm University

Session A1: Asset Pricing Empirical I

Location: H13, Start Friday 09:30, Chair: Wilkens, Marco

Surprise in Short Interest

Authors: Lesnevski, Pavel; Smajlbegovic, Esad

Institution: University of Mannheim

This paper documents a significant price drift after announcements of unexpected short-selling activity. In particular, we find that stocks with a positive surprise in short interest significantly underperform stocks with a negative surprise in short interest. The resulting return spread originates from both positive and negative surprises and it is not explained by standard stock characteristics, the level of short selling or short-sale constraints. Consistent with the notion of short sellers' informed trading on mispricing, the surprise in short interest also predicts future surprises in company fundamentals. Lastly, in line with Shleifer and Vishny's (1997) limits-to-arbitrage argument, the return predictability is stronger among illiquid and volatile stocks. Overall, our results suggest that the market does not efficiently price the information from short sale reports.

Discussant: Berndt, Antje (Australian National University)

Carbon Risk

Authors: Görgen, Maximilian; Jacob, Andrea; Nerlinger, Martin; Rohleder, Martin; Wilkens, Marco

Institution: University of Augsburg

Using comprehensive information on CO2 emissions and environmental agenda of over 2,100 global firms we introduce a common capital market-based carbon risk factor. This factor is important as it captures firms' sensitivity to the worldwide transformation to a green, low-carbon economy. We find a significant "green premium" for firms which are prepared for the transformation, respectively a "carbon penalty" for those who are not. Our factor significantly enhances the explanatory power of common factor models out-of-sample for global, US, European and Asian firms. It thus allows firms, investors and regulators to measure carbon risk without environmental information.

Discussant: Kraft, Marcus S. (Centauris Investment Solutions Ltd.)

Firm Fundamentals and Realized Factor Betas

Authors: Ibert, Markus; Halling, Michael; Lenz, Martin

Institution: University of Mannheim

Firm fundamentals, in particular firm size, help explain variation in factor loadings (betas) for the market, size and value factor. Surprisingly, however, they are dominated in terms of explanatory power by an unobserved time-invariant component. This leads to surprisingly stable factor loadings: stocks with high (low) factor loadings tend to remain as such for over a decade. Our models work best in explaining market betas (r-squares up to 64%) and worst in explaining value betas (r-squares up to 35%). These results are robust to different estimation techniques of factor betas and also hold up when we limit the sample to firms with statistically significant betas.

Discussant: Hollstein, Fabian (Leibniz Universität Hannover)

Session A2: Behavioral Finance Empirical I

Location: H12, Start Friday 09:30, Chair: Meyer, Steffen

The Perception of Dependence, Investment Decisions, and Stock Prices

Authors: Weber, Martin; Ungeheuer, Michael

Institution: University of Mannheim

How do investors perceive dependence between stock returns? And how does their perception of dependence affect investments and stock prices? We show experimentally that investors understand differences in dependence, but not in terms of correlation. Subjects rather assess the frequency of comovement by applying a simple counting heuristic. Consequently, they diversify more when the frequency of comovement is lower even if correlation is higher. Building on our experimental findings, we conduct an empirical analysis of 1963-2015 US stock returns revealing a robust return premium for stocks with high frequencies of comovement with the market return.

Discussant: Mohrschladt, Hannes (University of Muenster)

Client Involvement in Expert Advice - Antibiotics in Finance?

Authors: Hackethal, Andreas; Laudenbach, Christine; Meyer, Steffen; Weber, Annika

Institution: Goethe University Frankfurt

We use minutes from 19,000 financial advisory sessions at a large German bank to measure how client-advisor interaction, and especially the degree of active client involvement, affects portfolio outcomes. Nearly forty percent of sample clients trade not only through their advisor but also in- dependently, and it is especially them who introduce own investment ideas to their advisor and also otherwise intervene in the standardized advisory process. We find that client involvement increases the likelihood that bank advisors recommend single stocks instead of equity mutual funds and that advisor recommendations carry a home bias. We show that both effects reduce portfolio diversification without improving after-cost portfolio performance. Our findings parallel the phenomenon of doctors prescribing antibiotics catering to client requests, even if inappropriate.

Discussant: Ghufran, Bushra (RWTH Aachen University)

Maturity Choice and Reference Points

Authors: Lukas, Moritz; Nöth, Markus

Institution: University of Hamburg

This paper shows how retail borrowers' focus on recent interest rates as reference points leads to maturity choices which are inconsistent with normative predictions. A laboratory experiment reveals that borrowers prefer longer maturities when interest rates have fallen and shorter maturities when interest rates have risen. Normative drivers of maturity choice related to borrower characteristics, loan attributes, and pricing variables cannot explain these patterns of maturity choice. Market data from a mortgage broker confirms our findings. Borrowers incur welfare losses when focusing on previous interest rates too narrowly, thereby increasing lenders' profits.

Discussant: Grohmann, Antonia (DIW Berlin)

Session A3: Insurance I

Location: 251, Start Friday 09:30, Chair: Mahayni, Antje

Transparency Aversion and Insurance Market Equilibria

Authors: Gemmo, Irina; Browne, Mark; Gründl, Helmut

Institution: Goethe Universität Frankfurt

Telemonitoring devices can be used to screen consumers' characteristics and mitigate information asymmetries in insurance markets. However, consumers might dislike sharing private information. In a Wilsonian framework, we allow for consumers to reveal their risk type for a subjective cost and show analytically how this affects insurance market equilibria and social welfare. We show that the availability of such a contract does not break up an existing separating equilibrium and can lead to a Pareto improvement of social welfare. Given the prior existence of a pooling equilibrium, the equilibrium resulting from the introduction of this contract depends on the fraction of transparency averse low risks. Utility is shifted from individuals who don't reveal their private information to those who do.

Discussant: Schraeder, Stefanie (University of New South Wales)

Optimal Saving and Insurance under Generalized Mean-Variance Preferences

Authors: Branger, Nicole; Mahayni, Antje; Schweizer, Nikolaus; Sende, Cathleen

Institution: University Duisburg-Essen

We analyze the optimal insurance demand in a dynamic setup with two periods. In addition to the possibility to insure against losses, the investor is allowed to transfer wealth between the two periods, i.e. she can save. To economically interpret the optimal savings and insurance decisions, we rely on a generalized mean-variance setup. This dynamic setup allows us to disentangle time and risk preferences by means of a variance decomposition. While the variance within the period where a loss can occur determines the optimal insurance level, the aversion against the variance of the expected wealth levels over time gives the optimal savings decision. The results are tractable and easy to interpret.

Discussant: Gürtler, Marc (TU Braunschweig)

The Fair Surrender Value of a Tontine

Author: Weinert, Jan-Hendrik

Institution: Goethe University Frankfurt

Tontines provide a mortality driven, age-increasing payout structure through the pooling of mortality. Because tontines do not entail guarantees, their payout structure is determined by the pooling of individual characteristics. Therefore, surrender directly affects the tontinists' payout. Nevertheless, the opportunity to surrender is crucial to the success of tontines from a regulatory as well as a policyholder perspective. Therefore, we derive the fair surrender value (FSV) of a tontine, first on the basis of expected values, and then incorporate the increasing volatility to determine an equitable surrender value. Results show that the surrender decision requires a discount on the FSV to secure the remaining members. The discount intensifies in decreasing tontine size and increasing risk aversion. However, tontinists are less willing to surrender for decreasing tontine size and increasing risk aversion creating a natural protection against tontine-runs stemming from short-term liquidity shocks. Furthermore, we argue that surrender based on private information requires a discount on the FSV as well.

Discussant: Schlütter, Sebastian (University of Applied Sciences Mainz)

Session A4: Financial Econometrics

Location: 252, Start Friday 09:30, Chair: Trueck, Stefan

Forward-Looking Tail Risk Measures

Authors: Huggenberger, Markus; Zhang, Chu; Zhou, Ti

Institution: University of Mannheim

We study forward-looking tail risk measures that are derived from option prices instead of historical return data. In particular, we propose a flexible analytical framework to extract option-implied Value-at-Risk and Expected Shortfall under the physical measure. We implement our method for a large cross section of S&P 500 index options and provide evidence on the accuracy of the resulting tail risk estimates with statistical backtesting techniques. Comparing option-implied measures to conditional risk measures estimated from historical data, we find that the former are higher than the latter during expansions and lower during recessions. The option-implied approach is thus less procyclical than dynamic benchmark methods that are driven by recent return realizations; nevertheless, it reacts quickly to changing market conditions.

Discussant: Rother, Simon (University of Bonn)

The Taming of the Two: Simulation-Based Asset Pricing with Multi-Period Disasters and Two Consumption Goods

Author: Soenksen, Jantje

Institution: University of Tuebingen

This study proposes a novel approach to facilitate the estimation of the preference parameters of a two consumption good C-CAPM that accounts for multi-period disasters, partial government defaults, and the possible destruction of the stock of the durable good. The maximum likelihood estimation of the disaster process parameters requires a cross-country panel of historical consumption data and international business cycle dates. The estimation of the risk aversion coefficient and the intertemporal elasticity of substitution (IES) is facilitated by the simulated method of moments. The results show that the empirical equity premium can be explained with economically plausible and quite precise risk aversion and IES estimates. This conclusion withstands a battery of robustness checks.

Discussant: Adam-Müller, Axel (Universität Trier)

Long Memory and Stock Returns: A Cross-Sectional Analysis

Authors: Nguyen, Duc Binh Benno; Prokopczuk, Marcel; Sibbertsen, Philipp

Institution: Leibniz University Hannover

This paper examines long memory volatility in the cross-section of stock returns. We show that long memory volatility is widespread in the U.S. and that the degree of memory can be related to firm characteristics such as market capitalization, book-to-market ratio, prior performance and price jumps. Long memory volatility is negatively priced in the cross-section. Buying stocks with shorter memory and selling stocks with longer memory in volatility generates significant excess returns of 1.71% per annum. Consistent with theory, we find that the volatility of stocks with longer memory is more predictable than stocks with shorter memory. This makes the latter more uncertain which is compensated for with higher average returns.

Discussant: Middelhoff, Frederik (University of Münster)

Session A5: Corporate Finance Empirical I

Location: 226, Start Friday 09:30, Chair: Röder, Klaus

The real costs of CEO compensation - the effect of behindness aversion of employees

Authors: Dittmann, Ingolf; Schneider, Christoph; Zhu, Yuhao

Institution: Tilburg University

Do employees who compare themselves to the CEO matter for executive compensation? Using German establishment-level wage data, we show that employee wages are increasing in CEO compensation. When CEO compensation increases 1%, the median employee's wage increases by about 0.04%. Higher CEO compensation also increases the probability for the existence of employee stock ownership plans. We use a difference-in-difference setting to provide causal evidence for the relationship. Our findings suggest that behindness aversion of employees is an important driver of wages and increases the costs of executive compensation significantly. We structurally estimate a principal-agent model with two agents (CEO, representative employee) to identify the behindness aversion parameters.

Discussant: Colonnello, Stefano (Halle Institute for Economic Research (IWH) and OvGU Magdeburg)

Perks or Peanuts? The Dollar Profits to Insider Trading

Authors: Peter, Cziraki; Gider, Jasmin

Institution: University of Bonn

While prior research has documented large percentage returns to insider trading, it is less clear whether insiders make large dollar profits. This is the first paper to present large-sample, comprehensive evidence on the dollar profits from legal insider trading. We show that dollar profits are economically insignificant for a typical insider, the median insider in our sample earning annual abnormal profits of $464. Insiders with high abnormal returns do not make large dollar profits. We estimate that a median amount of $3,000 is redistributed each firm-year from outsiders to corporate insiders. Finally, we use variation in SEC budgets over time and the implementation of SOX to assess whether governance can reduce insider trading profits. While returns decrease, dollar profits may actually increase with higher enforcement intensity or stricter reporting requirements. Overall, while insider trades may predict future returns as prior research has shown, our results indicate that the typical insider benefits little from this information in dollar terms.

Discussant: Derrien, Francois (HEC Paris)

The Effects of Acquisitions on the Value of Rivals in a “Winner-Take-Most” Economy

Authors: Derrien, Francois; Fresard, Laurent; Slabik, Victoria; Valta, Philip

Institution: HEC Paris

The returns for rivals of targets in horizontal M&A transactions around deal announcements is robustly negative. The existing literature finds the opposite, mostly because it focuses on M&As with public targets and acquirers, which represent a relatively small fraction of our sample. The rivals that suffer the most from the acquisition of their peers are those with the largest growth options, in particular when they operate in growing industries. This finding is consistent with the view that the rivals are vulnerable to extra competition coming from the targets obtaining better access to financing or product markets following their acquisition.

Discussant: Röder, Klaus (University of Regensburg)

Session A6: Banking I

Location: H11, Start Friday 09:30, Chair: Kick, Thomas

Flooded through the backdoor: Firm-level effects of banks' capital shifts

Author: Rehbein, Oliver

Institution: Halle Institute for Economic Research (IWH)

This paper investigates the effects of a truly random and unexpected bank-level funding shock on firms real outcomes in terms of investment, employment and business activity. Using the 2013 flooding of German regions in a difference-in-difference setting, I identify banks exposed to the disaster and connect them to firms located outside of the disaster regions. These indirectly exposed firms experience a truly random funding shock from their banks, leading to a significant differential reduction in investment by about 8 percentage points. Firms connected to banks with low capital ratios perform significantly worse, reducing employment by 9%, highlighting that bank capital plays an important role in preventing transmission of real shocks via the banking system.

Discussant: Goedde-Menke, Michael (University of Münster)

Shock transmission through shared directors: Evidence from bank enforcement actions

Authors: Pugachev, Leonid; Schertler, Andrea

Institution: University of Lüneburg

Using hand-collected data on U.S. bank enforcement actions (EAs) between 1996 and 2014, we document that corporate governance shocks in banking spill over to the real sector through shared directors. Non-banks who share a director with EA recipient banks experience significantly negative announcement returns around EA issuance. Stock prices fall more when director’s resources are likely constrained and when bank shareholders react worse. Tests of director compensation and attendance suggest interlocked directors participate less on corporate boards following enforcement. An impaired credit relationship between bank and corporate is unlikely to drive our results as is director reputational damage. Though more work remains, our findings suggest shared directors could diffuse financial sector shocks into the real sector.

Discussant: Noth, Felix (Halle Institute for Economic Research, IWH)

Changes in the Cost of Bank Equity and the Supply of Bank Credit

Authors: Celerier, Claire; Kick, Thomas; Ongena, Steven

Institution: Deutsche Bundesbank

We explore the effect of tax reforms that decrease the cost of equity on bank lending. In 2000 and 2006, Italy and Belgium, respectively, introduced an allowance for corporate equity so that both firms and banks could deduct a notional interest on their equity from their taxable income. Because local firms were also affected by these reforms, we employ loan level data from a credit register in a third-country, i.e., Germany, to better identify the differential impact on lending by banks that were 'treated' by these tax reforms versus a control group of banks that were not. We find that the decrease in the cost of equity leads banks to raise their equity ratio, and to concurrently expand their balance sheet by increasing the amount of credit supplied in Germany. Conversely, the reversal of these reforms leads to a decrease in lending.

Discussant: Dinger, Valeriya (University of Osnabrueck)

Session B1: Asset Pricing Empirical II

Location: H13, Start Friday 11:30, Chair: Mueller, Sebastian

Idiosyncratic Volatility, its Expected Variation, and the Cross-Section of Stock Returns

Authors: Branger, Nicole; Hülsbusch, Hendrik; Middelhoff, Frederik

Institution: University of Münster

We offer a novel perspective on the negative relation between idiosyncratic volatility (IVOL) and expected returns. We show that the IVOL puzzle is largely driven by a mean-reversion behavior of the stocks' volatilities. In doing so, we make use of option implied information to extract the expected mean-reversion speed of IVOL in an almost model-free fashion. Together with the current level of IVOL this method allows us to identify stocks' expected IVOL innovations. Under the assumption of IVOL carrying a positive price of risk (Merton (1987)) we resolve the puzzle. In a horse race we show that the mean-reversion speed is superior to the most prominent competing explanations. All our findings are robust to different measures of IVOL and various stock characteristics.

Discussant: Ungeheuer, Michael (Aalto University)

Stock Returns and the Cross-Section of Investor Attention

Author: Ungeheuer, Michael

Institution: Aalto University

I analyze the effect of stock returns on investor attention and document a new stylized fact: Stocks ranked as daily winners and losers experience large spikes in investor attention, while non-ranked stocks with extreme returns do not experience any change in attention. Using hourly Wikipedia firm page views to measure investor attention, I show that this relation is not explained by reverse causality, contemporaneous or extreme news, or reporting of news specifically for ranked stocks. The effect of daily stock returns on investor attention seems to be driven by winner and loser rankings themselves. Attention directed to the small set of ranked stocks is a novel driver of information dissemination, trading, and prices.

Discussant: Klos, Alexander (Kiel University)

Dense Betas

Authors: Kurz, Michael; Quaedvlieg, Rogier; Rodrigues, Paulo

Institution: University Maastricht

Betas are difficult to estimate precisely. We argue that the most common estimation techniques for beta are flawed, as the resulting estimates are impacted by three sources of error: price measurement error, sampling error and time-series variation. We show that the low-beta anomaly is a result of this statistical bias, rather than behavioral bias. We demonstrate that by adapting the estimation technique to these three sources of error, we obtain a significant positive market risk premium of almost 7% per annum. The solution is simple: minimize sampling error through more frequent sampling, minimize the error due to time-series variation by estimating betas over a small window, and minimize price error measurement by maintaining a sample of liquid stocks.

Discussant: Nguyen, Duc Binh Benno (Leibniz University Hannover)

Session B2: Behavioral Finance Empirical II

Location: H12, Start Friday 11:30, Chair: Laudenbach, Christine

Google Search Volume and Individual Investor Trading

Authors: Kostopoulos, Dimitrios; Meyer, Steffen

Institution: Leibniz Universitaet Hannover

We relate Google search volumes, proxying for negative economic expectations or concerns of households (FEARS), to individual investor trading to deepen the understanding of how, when and who is affected by sentiment. The trading data comes from a large German discount brokerage covering more than 100’000 investors over ten years. We find FEARS to significantly affect individual investor trading, particularly during low sentiment periods. When expectations are bad, investors trade more and rather sell securities. In the long run, trading on FEARS drives investors out of security markets. We find the effects to be particularly pronounced for less sophisticated investors.

Discussant: Östberg, Per (University of Zurich)

The Impact of Internet Postings on Individual Investors

Authors: Schaub, Nic; Ammann, Manuel

Institution: University of St. Gallen

Many people share investment ideas online. This study investigates how investment-related Internet postings influence the behavior of those who read them. We use unique data from a social trading platform that allow us to observe the trading behavior of those who post comments – the traders – as well as the trading behavior of those who potentially act on comments – the followers. There is strong evidence that comments encourage followers to replicate investment decisions of traders. However, postings do not contain value-relevant information, suggesting that personal sentiment and biases drive followers’ reactions to the postings. Comments by traders who appear financially sophisticated are most influential, while followers that tend to be financially unsophisticated are most likely to trade on comments.

Discussant: Laudenbach, Christine (Goethe University Frankfurt)

Recent Experiences and Risk Taking: Trading Responses to Changes in the Local Environment

Authors: Laudenbach, Christine; Loos, Benjamin; Pirschel, Jenny

Institution: Goethe University Frankfurt

Factors determining individual investors’ (over)trading and risk-taking behavior are difficult to establish. Using panel data, we compare the behavior of individual investors with different exposures to non-informative shocks within their local environment. We use ZIP codes to match investors with nearby bankruptcies of mostly small firms. Results show that investors increase turnover and decrease risk taking, and that trading responses are strongly related to the proximity and recency of local bankruptcies. Results are similar when we limit the analysis to investors least likely to be personally affected by bankruptcies.

Discussant: Schaub, Nic (University of St. Gallen)

Session B3: Insurance II

Location: 251, Start Friday 11:30, Chair: Schneider, Judith Christiane

Minimum Return Rate Guarantees under Default Risk - Optimal Design of Quantile Guarantees

Authors: Mahayni, Antje; Lubos, Oliver; Offermann, Sascha

Institution: Universität Duisburg-Essen

The paper analyzes the design of participating life insurance contracts with minimum return rate guarantees. Without default risk, the insured receives the maximum of a guaranteed rate and a participation in the investment returns. With default risk, the payoff is modified by a default put implying a compound option. We represent the yearly returns of the liabilities by a portfolio of plain vanilla options. In a BS model, the optimal payoff constrained by a maximal shortfall probability can be stated in closed form. Due to the completeness of the market, it can be implemented for any equity to debt ratio.

Discussant: Nguyen, Thai (Ulm University)

Scenario-based Capital Requirements for the Interest Rate Risk of Insurance Companies

Author: Schlütter, Sebastian

Institution: University of Applied Sciences Mainz

The Solvency II standard formula measures interest rate risk based on two stress scenarios which are supposed to reflect the 1-in-200 year event over a 12-month time horizon. The calibration of these scenarios appears much too optimistic when comparing them against historical yield curve movements. This article demonstrates that interest rate risk is measured more accurately when using a (vector) autoregressive process together with a GARCH process for the residuals. In line with the concept of a pragmatic standard formula, the calculation of the Value-at-Risk can be boiled down to 4 scenarios, which are elicited with a Principal Component Analysis (PCA), at the cost of a relatively small measurement error.

Discussant: Hieber, Peter (Ulm University)

How price path characteristics shape investment behavior

Authors: Nolte, Sven; Schneider, Judith Christiane

Institution: Universität Münster

Price paths are relevant for investors being oftentimes the only graphical representation of financial products. We argue that price paths serve as graphical frames, influencing the perceived attractiveness of an asset, highlighting specific asset characteristics. In a controlled experiment we find that price paths have an impact on investment decisions, even if risk-and-return characteristics of an asset are identical. Employing a regression model we relate the perception of price paths shape to several heuristics. These heuristics are: focusing on more recent outcomes, deriving implicit reference prices from focal prices, focusing on losses, estimating risk from the amplitude of the path. We conclude that investment decisions are systematically biased due to the shape of an asset's price path.

Discussant: Lenz, Martin (Union Investment)

Session B4: Volatility

Location: 252, Start Friday 11:30, Chair: Rieger, Marc Oliver

Variance Risk: A Bird's Eye View

Authors: Hollstein, Fabian; Wese Simen, Chardin

Institution: Leibniz Universität Hannover

Prior research documents a significant variance risk premium (VRP) for the S&P 500 index but only for few equities. Using high-frequency data, we show that these results are affected by measurement errors in the realized variance estimates. We decompose the index VRP into factors related to the VRP of equities and the correlation risk premium. The former mostly drives the variations in the index VRP while the latter mainly captures the level of the index VRP. The two factors predict excess stock returns in the time-series and cross-section, but at different horizons. Together, they improve the return predictability.

Discussant: Branger, Nicole (University of Muenster)

The Volatility-of-Volatility Term Structure

Authors: Branger, Nicole; Hülsbusch, Hendrik; Kraftschik, Alexander

Institution: University of Muenster

This paper investigates the volatility-of-volatility (VVIX) term structure. Using daily data, we show that the term structure is in nearly all cases downward sloping. We find that the second principal component (SlopeVVIX) of the VVIX predicts returns of S&P500 and VIX straddles. Its informational content is incremental to the VIX term structure and the variance risk premium. SlopeVVIX is a significant risk-factor, not its level, because the latter is too sticky. To disentangle the main drivers, we develop an affine approximation for the VVIX in context of a VIX option pricing model. We identify three factors that describe 95% of the term structure: Continuous vol-of-vol, jump expectations and a deterministic component. Their contribution to the term structure vary systematically with states of the economy. When the latest major crises hit, continuous vol-of-vol took the lion's share, showing that investors could not judge how long the crisis would take.

Discussant: Rieger, Marc Oliver (University of Trier)

The information content of corridor implied variances and their economic difference in the DJX options market

Author: Lu, Shan

Institution: University of Aberdeen

This paper investigates the ability of corridor implied variances (CIV) with different corridors to forecast conditional volatility of DJIA index returns, and compares their performance with a CBOE volatility index, VXD, by employing several GARCH models in a model-based out-of-sample context. Besides, it explores the reasons behind the differences in the forecasting ability of CIVs and VXD through a decomposition of the model-free implied volatility. In addition, it addresses the economic difference among aforementioned implied volatility measures in a simulated options market. We find that narrow-corridor CIVs outperform wide-corridor CIVs and VXD in terms of the forecasting ability, as wide-corridor CIVs and VXD impound information from deep out-of-the-money options whose prices contain large volatility risk premiums and may not reflect a fair market expectation of volatility.

Discussant: Hülsbusch, Hendrik (University of Münster)

Session B5: Corporate Finance Empirical II

Location: 226, Start Friday 11:30, Chair: Schmid, Markus

Peer Pressure in Corporate Earnings Management

Authors: Schmid, Markus; Charles, Constantin; von Meyerinck, Felix

Institution: University of St. Gallen

We show that peer firms play an important role in shaping corporate earnings management decisions. To overcome identification issues in isolating peer effects, we use fund flow-induced selling pressure by passive open-end equity mutual funds as exogenous shocks to firms' stock prices. Managers respond to such exogenous price shocks by adjusting earnings management policies. We then measure individual firms' reactions to changes in earnings management at peer firms as a result of such exogenous price shocks. The documented peer effect in earnings management is not only statistically, but also economically significant. Our results are robust to multiple measures of earnings management and fund flow-induced selling pressure as well as different peer group definitions. In an alternative setting, we exploit random variation in peer firms' earnings management from a regulatory experiment and continue to find strong peer effects. Finally, we show that firms respond most to the actions of large, profitable, and geographically close peers.

Discussant: Hillert, Alexander (Goethe University Frankfurt)

Why Do Managers Misrepresent Financial Statements?

Authors: Zborshchyk, Iana; Kind, Axel

Institution: University of Konstanz

We study the relation between managerial ability and financial fraud. In a principal-agent model, accounting manipulation arises endogenously as a manager's response to incentives provided by (i) equity-based compensation, (ii) the risk of violating debt covenants, and (iii) the pressure to perform due to high expectations. The model suggests that more skillful managers are less likely to engage in illegal accounting manipulation. The results of an empirical analysis conducted on a matched sample of 128 manipulating and 302 control firms indicate that an increase in managerial ability from its lower to its upper quartile reduces financial fraud in a range between −19% and −32%, depending on the model specification. However, we do not find empirical support for the often-discussed link between equity-based compensation and financial fraud.

Discussant: Schmid, Markus (University of St. Gallen)

Firms with benefits: Does partnering with government affect a company's bottom line?

Authors: Schertler, Andrea; DeLong, Gayle

Institution: University of Lueneburg

One form of corporate social responsibility (CSR) involves a firm collaborating with a nonprofit agency such as in a public-private partnership (PPP), which brings together government and private companies to work toward a common goal. The relationship established between the public agency and the private firm, however, could create an advantage for the firm vis-à-vis non-PPP competitors. This study analyzes whether firms the government chooses to be members of PPPs enjoy more value from agency rulings or legislation than non-PPP firms. Using event study methodology, we look at important dates in the passage of laws that relate to the industry as well as dates relating to agency decisions. We determine whether the market value of PPP firms is higher, on average, than non-PPP firms in the same industry.

Discussant: Meier, Kristina (University of Mannheim)

Session B6: Banking II

Location: H11, Start Friday 11:30, Chair: Imbierowicz, Björn

Systemic Effects of Bank Equity Issues: Competition, Stabilization and Contagion

Authors: Dinger, Valeriya; Marincas, Vlad; Vallascas, Francesco

Institution: University of Osnabrueck

We evaluate the abnormal returns of issuing and non-issuing banks around the announcement of Seasoned Equity Offerings (SEOs) and explore how the market reaction is influenced by aggregate systemic conditions and by the systemic risk contribution and exposure of banks. While we find evidence of negative abnormal returns for issuers, non-issuing banks benefit from positive abnormal returns around the SEO announcement. We show that these positive returns are not entirely explained by the competition channel, which has been well documented for non-financial firms. In contrast, we demonstrate that they also depend on a so far undocumented system-stabilizing channel. Furthermore, under certain circumstances, the system-stabilizing channel contributes to mitigating the negative reaction to SEO announcements for the issuing banks.

Discussant: Schempp, Paul (University of Cologne)

The Structure of Credit Markets

Author: Müller, Karsten

Institution: University of Warwick

There is considerable interest in the role of credit markets in macroeconomic fluctuations. Yet, there is a noticeable lack of reliable cross-country data. This paper presents a novel dataset on outstanding credit by detailed sectors for around 100 countries, in many cases since 1940. The data show that over the last 70 years, the lending business of financial institutions in both advanced and emerging economies has seen a dramatic transformation, driven by the relentless rise of credit to households and non-tradable industries. Higher credit market shares of these sectors are negatively correlated with economic growth, both within and across countries, suggesting that financial structure matters for real outcomes. Financial deregulation and political factors are important determinants of sectoral lending patterns.

Discussant: Rehbein, Oliver (Halle Institute for Economic Research, IWH)

Do corporate depositors risk everything for nothing? The importance of deposit relationships, interest rates and bank risk

Authors: Friedmann, Daniel; Imbierowicz, Björn; Saunders, Anthony; Steffen, Sascha

Institution: Copenhagen Business School

We analyze auctions in which banks bid for firm deposits. We observe that a bank's risk is irrelevant to firms in their decision. In many cases, firms simply select the highest bidding bank. Firms only diversify extraordinarily large deposit amounts but also in this case do not account for the individual banks' risk. We further observe that also in rather impersonal electronic markets, relationships are an important decision criterion for firms. They increase a bank's access to more unsecured deposits from the firm in future periods, including severe crises. This has important implications for banks' access to unsecured corporate funding.

Discussant: Eidam, Frederik (University of Mannheim, ZEW)

Session C1: Bond Markets

Location: H13, Start Friday 14:30, Chair: Berndt, Antje

The Sovereign Debt Crisis: Rebalancing or Freezes?

Authors: Östberg, Per; Richter, Thomas

Institution: University of Zurich

Using high-frequency data we document that episodes of market turmoil in the European sovereign bond market are on average associated with large decreases in trading volume. The response in trading volume to market stress is conditional on transaction costs. Low transaction cost turmoil episodes are associated with volume increases (investors rebalance), while high transaction cost turmoil periods are associated with abnormally low volume (market freezes). We find suggestive evidence of investors rebalancing as a result of wealth shocks while the market freezes in response to shocks to the risk bearing capacity of market makers. Overall, our results show that the recent sovereign debt crisis was not associated with large-scale investor rebalancing.

Discussant: Bellia, Mario (Goethe University Frankfurt)

Corporate Bond Portfolios and Macroeconomic Conditions

Authors: Ottonello, Giorgio; Bredendiek, Maximilian; Valkanov, Rossen

Institution: Vienna Graduate School of Finance

We propose an approach to optimally select corporate bond portfolios based on bond-specific characteristics and macroeconomic conditions. The approach relies on a parametric specification of the portfolio weights and allows us to consider a large cross-section of corporate bonds. During economic expansions, the optimal corporate bond portfolio is tilted toward bonds with longer maturity and worse credit rating (high ex-ante default risk), relative to the benchmark. By contrast, in periods of macroeconomic downturns and high uncertainty, the optimal strategy exhibits a flight-to-safety aspect and favors short maturity and relatively better rated bonds. In all regimes, corporate bonds with high coupons, high past performance, and small size of issuance lead to higher certainty equivalent returns.

Discussant: Uhrig-Homburg, Marliese (Karlsruhe Institute of Technology)

Two Tales of Corporate Bond Borrowing

Authors: Berndt, Antje; Zhu, Yichao

Institution: Australian National University

We describe the market for corporate bond borrowing during and after the Great Financial Crisis (GFC). While investment-grade borrowing collapsed during the second half of 2008 and stayed at historically low levels between 2009 and 2016, high-yield bond borrowing more than doubled in size to reach a historical high during that period. The low post-GFC investment-grade loan volume is consistent with low rebate rates on cash collateral, and the increase in demand for high-yield borrowing is matched by an increase in supply of lendable debt. The remaining variation in the demand for investment-grade borrowing, after controlling for interest rates and supply, can be explained by variation in expected future rates (forecast effect), and that for high-yield borrowing by past changes in credit market premia (momentum effect).

Discussant: Ruzza, Alessio (UC Berkeley and Università della Svizzera Italiana)

Session C2: Behavioral Finance Theoretical

Location: H12, Start Friday 14:30, Chair: Schlag, Christian

Confirming signals are hard to resist: Blessing and curse of information under confirmation bias

Authors: Nunes, Tamara; Schraeder, Stefanie

Institution: University of New South Wales

According to empirical evidence, individuals pay more attention to confirming than to contradicting information. In the context of this confirmation bias, we study the effects of additional information on perception correctness - contrasting the competing effects of total signal precision and the possibility to search for the most suitable signal. We provide the testable hypothesis that managers report bad news in a more diffuse signal compared to good news. This, in turn, provides a rationale for the dispersion anomaly: dispersed analysts' earnings forecasts are followed by stock under-performance. Then, we include the confirmation bias in an overlapping generations model with a continuous signal distribution. Several results of more simplified models do not hold any longer. For instance, confirmation bias leads to underreaction instead of overreaction. A momentum effect is accompanied by various time-varying market participation, volatility, trading volume, and market depth effects.

Discussant: Schneemeier, Jan (Indiana University)

Hedging with Regret

Authors: Korn, Olaf; Rieger, Marc Oliver

Institution: University of Trier

This paper investigates corporate hedging under regret aversion. Regret-averse firms try to avoid deviations of their hedging policy from the ex post best policy, an intuitive consideration if one has to justify one's decisions afterward. The study presents a model of a firm that faces uncertain prices and seeks to hedge both profit risk and regret risk with derivatives. It characterizes optimal hedge positions and shows that regret aversion leads to stronger incentives to hedge downside price risk than standard expected utility theory. In the profit region of the price distribution, however, regret aversion reduces the hedging of price risk to avoid large regret in the case of increasing prices. The results show that regret aversion has a strong effect on the choice of the hedging instrument and provides a preference-based explanation for the use of options in corporate risk management.

Discussant: Schlag, Christian (Goethe University Frankfurt)

Overreaction versus Underreaction: A Question of Information Weight

Authors: Mohrschladt, Hannes; Langer, Thomas

Institution: University of Muenster

Research on investor over- and underreaction often makes arbitrary assumptions about which of the two biases is prevalent in a specific situation although psychological research offers more explicit insights: people overreact towards information of low weight and underreact if the information has high weight (high reliability). We propose a model that transfers these experimental findings to financial markets and yields testable implications for the development of stock prices. Our empirical analysis of daily S&P 500 index returns supports the hypothesis that investors misperceive information weight, which leads to short-term predictability in market returns.

Discussant: Kreidl, Felix (Friedrich-Alexander-Universität Erlangen-Nürnberg)

Session C3: Market Microstructure I

Location: 251, Start Friday 14:30, Chair: Boehmer, Ekkehart

The Best in Town: A Comparative Analysis of Low-Frequency Liquidity Estimators

Authors: Johann, Thomas; Theissen, Erik

Institution: University of Mannheim

In this paper we conduct the most comprehensive comparative analysis of low-frequency liquidity measures so far. We review a large number of estimators and use a broad range of procedures to evaluate them. We find that the performance of the estimators is highly dependent on the particular application, and that no single best estimator exists. Against this background, we further analyze which firm characteristics determine the accuracy of the low-frequency estimators, we analyze whether a composite low-frequency estimator can outperform the best individual measures, and we analyze whether changes in the trading protocol (such as a reduction of the minimum tick size or the introduction of NYSE Open Book and NYSE Hybrid) affect the performance of the low-frequency estimators. Our ultimate objective is to guide researchers in their search for the right measure for a particular application.

Discussant: Ruf, Daniel (University of St.Gallen)

A Tale of One Exchange and Two Order Books: Effects of Fragmentation in the Absence of Competition

Authors: Bernales, Alejandro; Riarte, Italo; Sagade, Satchit; Valenzuela, Marcela; Westheide, Christian

Institution: Goethe University Frankfurt

We study the effects of market fragmentation on market performance when competition between exchanges remains unchanged. By considering a dynamic model of multiple limit order markets, we show that fragmented markets offer higher welfare to speculators at the expense of investors with intrinsic reasons to trade, and lower liquidity than consolidated markets. We also empirically corroborate the main predictions of our model on market quality. Our results suggest that competition in market design, not market fragmentation, drives previous findings of market quality improvements when new trading venues emerge, and that a degree of market fragmentation exceeding that of competition may have detrimental results.

Discussant: Lausen, Jens Oliver (Goethe University Frankfurt)

Liquidity Provider Incentives in Fragmented Securities Markets

Authors: Clapham, Benjamin; Gomber, Peter; Lausen, Jens Oliver; Panz, Sven

Institution: Goethe University Frankfurt

We study the introduction of single-market liquidity provider incentives in fragmented securities markets. Specifically, we analyze the Xetra Liquidity Provider Program at Deutsche Boerse from two perspectives: First, we investigate whether fee-rebates for liquidity providers enhance liquidity on the specific venue thereby increasing its competitiveness and market share. Second, we analyze whether single-market liquidity provider incentives increase overall market liquidity available for market participants in a fragmented market. For this purpose, we consolidate high-frequency order book information of the most relevant lit venues and measure the specific liquidity contribution of individual markets to the aggregate liquidity in the fragmented market environment. While liquidity and market share of the venue introducing incentives increase, we find no effect for turnover and liquidity of the fragmented market as a whole. Thus, any gains of the single market are rather the result of a redistribution of liquidity and turnover than a gain in welfare.

Discussant: Keiber, Karl Ludwig (European University Viadrina)

Session C4: Forwards, Futures and Derivatives

Location: 252, Start Friday 14:30, Chair: Hanke, Michael

Markets' Notion on Implied Volatility Risks: Insights from Model-Free VIX Futures Pricing

Authors: Hülsbusch, Hendrik; Kraftschik, Alexander

Institution: University of Münster

This paper studies the interdependencies between the VIX futures market and the S&P500 and VIX options markets using a model-free pricing method for VIX futures. We show that the replication strategy for the VIX futures deviates strongly from observed prices. Limited strike ranges do not suffice to reason these deviations, whereas liquidity risks can explain most of it. After controlling for liquidity by constructing higher and lower bounds for the VIX futures price, we find a lead-lag structure between markets segmented by product, not by its underlying. Our model-free analysis shows that if option markets imply higher volatility risks relative to VIX futures, option prices in both markets adjust and vice versa.

Discussant: Sichert, Tobias (Goethe University Frankfurt)

Structural Breaks in the Variance Process and the Pricing Kernel Puzzle

Author: Sichert, Tobias

Institution: Goethe University Frankfurt

This paper addresses the empirical puzzle whether the pricing kernel derived from option prices is U-shaped or S-shaped. I argue that the latter result stems from a structural break in the data generating process. In the sample period from 1992-2015 I identify five periods with different variance regimes, that have either high or low variance. Conditioning on the regime, the U-shaped pricing kernel is always obtained. The results are robust to numerous changes in the methodology. Furthermore, I show that the variance-dependent pricing kernel proposed by Christoffersen et al. (2013) matches the empirical findings well.

Discussant: Huggenberger, Markus (University of Mannheim)

Event-related Exchange Rate Forecasts Combining Information from Betting Quotes and Option Prices

Authors: Hanke, Michael; Poulsen, Rolf; Weissensteiner, Alex

Institution: University of Liechtenstein

Betting quotes provide valuable information on market-implied probabilities for outcomes of events like elections or popular referendums, which may have an impact on exchange rates. We generate exchange rate forecasts around such events based on a model that combines risk-neutral event probabilities implied from betting quotes with risk-neutral exchange rate densities extracted from currency option prices. Its application to predict exchange rates around the UK Brexit referendum and the US presidential elections shows that these forecasts -- conditional on the respective outcomes -- were accurate, and markets were able to separate their views on the likelihood and the impact of these events.

Discussant: Lu, Shan (University of Aberdeen)

Session C5: Corporate Finance Theoretical

Location: 226, Start Friday 14:30, Chair: Flor, Christian Riis

The debt tax shield in general equilibrium

Authors: Fischer, Marcel; Jensen, Bjarne Astrup

Institution: Copenhagen Business School and University of Konstanz

We study the general-equilibrium effects of the corporate debt tax shield in an endowment economy with a redistributive tax system that taxes firm profits and household income and redistributes tax revenues in an attempt to harmonize households' lifetime consumption opportunities. In general equilibrium, the debt tax shield not only affects corporate capital structure and valuation but also causes poorer households to consume more and save less at a younger age. Without the debt tax shield, the same welfare improvements for poorer households are achievable with significantly lower tax rates.

Discussant: Ruckes, Martin (Karlsruhe Institute of Technology)

Fundamental risk and capital structure

Author: Hajda, Jakub

Institution: Université de Lausanne

I develop a dynamic capital structure model to examine how the nature of risk affects firm's debt policy. In the model, firm's fundamental risk, captured by its cash flow process, consists of transitory and persistent parts with markedly different dynamics. The model explains the observed dispersion in the risk-leverage relationship. Firms with similar total volatility adopt distinctive debt policies when the composition of their risk differs and issue less debt when their cash flows are more persistent to preserve debt capacity needed to fund investment. The model also provides rationale why the observable dispersion in cash flow persistence is low, which is at odds with the large degree of heterogeneity in other firm characteristics, as well as why persistence and leverage are weakly related in the data.

Discussant: Flor, Christian Riis (University of Southern Denmark)

Detecting Determinants of Capital Structure

Authors: Flor, Christian Riis; Petersen, Kirstine Boye

Institution: University of Southern Denmark

The classical trade-off theory suggests that the level of earnings in a firm affects the firm's optimal amount of leverage. However, recent empirical capital structure literature rejects this hypothesis. Based on a simple theoretical model, we suggest that failing to account for firm fundamentals and refinancing decisions are the main driver of the empirical results. In a simulation study, we show that accounting for these features implies that we are no longer able to reject the hypothesis. Our results support the trade-off theory and suggest that earnings are an important leverage determinant.

Discussant: Hajda, Jakub (Université de Lausanne)

Session C6: Financial Intermediation Theoretical

Location: H11, Start Friday 14:30, Chair: Schempp, Paul

History Matters: Rating under Asymmetric Information

Authors: Hilpert, Christian; Hirth, Stefan; Szimayer, Alexander

Institution: University of Southern Denmark

We analyze how a firm's reputation and track record affect its rating. In a continuous time game the rating agency learns the firm's imperfectly observed cash flow. The rating agency optimally rates the same observed cash flow higher, if the historical minimum is sufficiently low. Thus, the rating is not only driven by the most recent information, but history matters. The rating agency refines it's unbiased cash flow estimate by ruling out the most overestimated types, leading to an overestimation at default. In response, the firm delays default and lower asset values are available to creditors upon default.

Discussant: Eisl, Alexander (WU Vienna)

Liquidity Creation, Capital Requirements, and Regulatory Arbitrage

Authors: Luck, Stephan; Schempp, Paul

Institution: University of Cologne

We present a model in which banks can create liquid claims by issuing equity and by relying on sales of risky assets in downturns. In the constrained-efficient allocation, liquidity creation relies on both. However, the inability of banks to contract future financing terms gives rise to a pecuniary externality, and there is a tendency for leverage to be excessive. In equilibrium, each single bank relies too much on market-based liquidity creation and fire sale effects are too strong. A natural way to address the pecuniary externality is to impose a uniform capital requirement, which acts like a tax on safe debt claims. However, if regulatory arbitrage is possible, the inefficiency re-emerges: while regulated banks are not excessively leveraged, a shadow banking sector emerges and grows too large, inducing excessively high costs of fire sales. We argue that if regulatory arbitrage cannot be addressed directly, capital requirements need to be complemented by a Pigouvian subsidy for bank equity.

Discussant: Memmel, Christoph (Deutsche Bundesbank)

Safe but Fragile: Information Acquisition and the Collapse of Shadow Banks

Authors: König, Philipp; Pothier, David

Institution: DIW Berlin

This paper proposes a theory of (shadow) bank runs based on banks' ability to acquire private information about their assets. We show that private liquidity lines designed to mitigate roll-over risk can be destabilizing by incentivizing banks to acquire private information about their assets. This can lead to market liquidity dry-ups spurred by self-fulfilling fears of adverse selection. By lowering asset prices, information acquisition also increases banks' default risk, amplifying funding withdrawals. We compare different policies that can be used to boost market and funding liquidity. While debt purchases prevent inefficient dry-ups, liquidity injections may backfire by exacerbating adverse selection.

Discussant: Hirth, Stefan (University of Southern Denmark)

Session D1: Portfolio Choice and Performance Measurement

Location: H13, Start Saturday 09:00, Chair: Randl, Otto

Duration-adjusted bond fund performance

Authors: Natter, Markus; Rohleder, Martin; Wilkens, Marco

Institution: University of Augsburg

We uncover a previously neglected mechanical bias in bond fund performance due to the use of benchmarks with non-matching durations. We show that the duration bias is caused by the non-linear reaction of bonds with different durations to interest rate changes. We find empirically that the general use of a broad bond index in previous research leads to a significant overestimation of average bond fund performance and spurious findings of performance persistence. The key takeaway of our research is thus that bond fund performance should be duration-adjusted by choosing for each fund the benchmark index which best matches its duration.

Discussant: Dergunov, Ilya (Goethe University Frankfurt)

Optimal Granularity for Portfolio Choice

Authors: Branger, Nicole; Lucivjanska, Katarina; Weissensteiner, Alex

Institution: University of Muenster

Many optimization-based portfolio rules fail to beat the simple 1/N rule out-of-sample because of parameter uncertainty. In this paper we suggest a grouping strategy in which we first form groups of equally weighted stocks and then optimize over the resulting groups only. In a simplified setting we show analytically how to optimize the trade-off between drawbacks from parameter uncertainty and drawbacks from deviating from the overall optimal asset allocation. We illustrate that the ptimal group size depends on the volatility of the assets, on the number of observations and on how much the optimal asset allocation differs from 1/N. Out of sample back-tests confirm the validity of our grouping strategy empirically.

Discussant: Hanke, Michael (University of Liechtenstein)

Fake Alpha

Authors: Müller, Marcel; Rosenberger, Tobias; Uhrig-Homburg, Marliese

Institution: Karlsruhe Institute of Technology

Why do investors entrust active mutual fund managers with large sums of money while receiving negative excess returns on average? Our explanation is that investors have a coarser information set than fund managers which leads them to systematically misinterpret managers' skill. When investors are unable to correctly quantify risk because they have no knowledge of factor investing on beyond-market-risk factors, Fake Alpha strategies based on factor investing look like skill from the investors' perspective. As running such strategies is relatively cheap for the managers, the investors' coarser information set misleads them to invest beyond the point of zero excess returns in equilibrium. We confirm our theory by analyzing the sample of US equity active managed mutual funds and find significant evidence of decreasing returns to scale at the fund level as well as negative excess returns to investors in equilibrium states.

Discussant: Rohleder, Martin (Universität Augsburg)

Session D2: Trading and Hedging

Location: H12, Start Saturday 09:00, Chair: Theissen, Erik

Empty Creditors and Strong Shareholders: The Real Effects of Credit Risk Trading

Authors: Colonnello, Stefano; Efing, Matthias; Zucchi, Francesca

Institution: Halle Institute for Economic Research (IWH) and OvGU Magdeburg

Credit derivatives give creditors the possibility to transfer debt cash flow rights to other market participants while retaining control rights. We use the market for credit default swaps (CDSs) as a laboratory to show that the real effects of this transfer crucially hinge on the relative bargaining power of shareholders and creditors. We find that creditors buy more CDS protection when facing strong shareholders to secure themselves a valuable outside option in distressed renegotiation. After the start of CDS trading, the distance-to-default, investment, and market value of firms with powerful shareholders decline substantially relative to other firms.

Discussant: Gündüz, Yalin (Deutsche Bundesbank)

Stock Market Behavior on Ex-Dividend Dates: The Case of Cum-Ex Transactions in Germany

Authors: Büttner, Thiess; Holzmann, Carolin; Kreidl, Felix; Scholz, Hendrik

Institution: Friedrich-Alexander-Universität Erlangen-Nürnberg

This paper explores whether stock-market arbitrage exploits profit opportunities arising from tax fraud. We focus on so-called cum-ex trades. These trades rest on the issuance of withholding-tax certificates that can be used for a tax-credit or refund without previous withholding-tax payment. We provide a theoretical analysis showing that without false tax certificates cum-ex trades would be unprofitable. In addition, we show that if profit opportunities associated with the false tax certificates are exploited, cum-ex trading alters the price-drop ratio at the ex-dividend day. The empirical analysis provides evidence using data on daily stock prices and trading volumes for German stocks for the years 2009 to 2015. Our identification strategy exploits variation in the withholding-tax liability of dividends as well as differences in the withholding-tax procedure over time. The results indicate that price-drop ratios at ex-dividend days can be explained by cum-ex trades. Consistent with cum-ex trading, the data also shows large increases in trading volumes around ex-dividend dates.

Discussant: Theissen, Erik (University of Mannheim)

Bank Use of Sovereign CDS in the Eurozone Crisis: Hedging and Risk Incentives

Authors: Acharya, Viral; Gündüz, Yalin; Johnson, Timothy C.

Institution: Deutsche Bundesbank

Using a comprehensive data set from German banks, we document the usage of sovereign credit default swaps (CDS) during 2008-2013. Banks used the sovereign CDS market to extend, rather than hedge, their long exposures to government default risk during the crisis period: Less loan exposure to sovereign risk is associated with more protection selling in CDS, the effect being weaker when sovereign risk is high. Somewhat surprisingly, bank risk variables are not associated with protection selling. The findings are driven by the actions of a few non-dealer banks, which sold aggressively at the onset of the crisis and started covering their positions at its height. The results suggest that the increasing shift by bank loan books towards sovereign bonds and loans over the course of the crisis caused reductions to their sovereign CDS exposure.

Discussant: Hauptmann, Clarissa (Maastricht University)

Session D3: Market Microstructure II

Location: 251, Start Saturday 09:00, Chair: Sagade, Satchit

Agency Issues in Corporate Bond Trading

Author: Ruzza, Alessio

Institution: UC Berkeley and Università della Svizzera Italiana

In an O.T.C. market like the one for corporate bonds in the US, dealer intermediation is essential to execute a trade. Moreover, the incentives of the dealers and those of their customers are likely to be non-aligned. This paper analyzes the nature of dealer-customer relationship and investigates how adverse selection leads to agency issues. Results show that dealers set the execution price to shift the risk of informed trading to their clients. Shortages of funding liquidity exacerbate this behavior. During the great financial crisis, dealers "leaned their clients against the wind" without compensating them for liquidity provision. Despite the increasing transparency brought by electronic trading, these agency issues are likely to remain present on the speculative segment of the market, where adverse selection is the most harmful to traders. This paper proposes policy measures to overcome these agency issues.

Discussant: Bulusu, Narayan (Bank of Canada)

Coordination of Circuit Breakers? Volume Migration and Volatility Spillover in Fragmented Markets

Authors: Clapham, Benjamin; Gomber, Peter; Panz, Sven

Institution: Goethe University Frankfurt

We study circuit breakers in a fragmented, multi-market environment and investigate whether a coordination of circuit breakers is necessary to ensure their effectiveness. In doing so, we analyze 2,337 volatility interruptions on Deutsche Boerse and research whether a volume migration and an accompanying volatility spillover to alternative venues that continue trading can be observed. Different to prevailing theoretical rationale, trading volume on alternative venues significantly decreases during circuit breakers on the main market and we do not find any evidence for volatility spillover. Moreover, we show that the market share of the main market increases sharply during a circuit breaker. Surprisingly, this is amplified with increasing levels of fragmentation. We identify high-frequency trading as a major reason for the vanishing trading activity on the alternative venues and give empirical evidence that a coordination of circuit breakers is not essential for their effectiveness as long as market participants shift to the dominant venue during market stress.

Discussant: Sagade, Satchit (Goethe University Frankfurt)

Coming Early to the Party: High Frequency Traders in the Pre-Opening Phase and the Opening Auction of Euronext Paris

Authors: Bellia, Mario; Pelizzon, Loriana; Subrahmanyam, Marti G.; Uno, Jun; Yuferova, Darya

Institution: Goethe University Frankfurt

This paper examines the role of di erent types of High Frequency Traders (HFTs): those who trade (i) on their own account, (ii) for their clients and (iii) as designated market makers (MM), during the pre-opening phase and the opening auction of the Euronext Paris exchange. Using data provided by the Base Européenne de Données Financières à Haute Fréquence (BEDOFIH), we find that only HFTs trading on their own account (HFT-OWN) participate in the pre-opening phase. HFT-MM do not participate at all in the pre-opening phase and the opening auction while other market makers do so. Furthermore, HFT-OWN traders are able to successfully extract information from the pre-opening order flow, as manifested by the profits they make on the position they take in the opening auction. Our analysis highlights that HFTs who “come early to the party” do well but also provide something of value (price discovery and liquidity) to the other market participants during the opening call auction.

Discussant: Johann, Thomas (University of Mannheim)

Session D4: Asset Pricing Theoretical I

Location: 252, Start Saturday 09:00, Chair: Isaenko, Sergey

Implied Volatility Duration and the Early Resolution Premium

Authors: Schlag, Christian; Thimme, Julian; Weber, Rüdiger

Institution: Goethe University Frankfurt

We introduce _Implied Volatility Duration_ (IVD) as a new measure for the timing of the resolution of uncertainty about future stock returns. A short IVD implies an early resolution of uncertainty in expectation. Portfolio sorts indicate that investors demand about seven percent return per year in exchange for a late resolution of uncertainty, and this premium cannot be explained by standard factor models. We find that the premium is higher in times of increased economic uncertainty and low market returns. In a general equilibrium model, we show that the expected excess returns on long IVD stocks only exceed those of short IVD stocks if the investor's relative risk aversion exceeds the inverse of her elasticity of intertemporal substitution, i.e., if she exhibits a `preference for early resolution of uncertainty' in the spirit of Epstein and Zin (1989). Our empirical analysis thus provides a purely market-based assessment of the relation between two preference parameters, which are notoriously hard to estimate.

Discussant: Kraftschik, Alexander (University of Muenster)

Asset Pricing with Heterogeneous Agents and Long-Run Risk

Authors: Wilms, Ole; Schmedders, Karl; Pohl, Walter

Institution: Tilburg University

This paper examines the effect of agent belief heterogeneity on long-run risk models. We find that for the long-run risk explanation to adequately explain the equity premium, it is not sufficient for long-run risk to merely exist: agents must all agree that it exists. Agents who believe in a lower persistence level come to dominate the economy rather quickly, even if their belief is wrong. This drives the equity premium down below the level observed in the data.

Discussant: Isaenko, Sergey (Concordia University)

Equilibrium Asset Pricing in Directed Networks

Authors: Branger, Nicole; Konermann, Patrick; Meinerding, Christoph; Schlag, Christian

Institution: Deutsche Bundesbank

The direction of links in cash flow networks affects the cross-section of return volatilities, market prices of risk, and Sharpe ratios. We propose a flexible and tractable general equilibrium asset pricing model featuring directed networks. The model is based on mutually exciting jump processes in cash flows, and we suggest the shock propagation capacity (spc) of an asset implied by these dynamics as a measure for directedness. In our model, the higher spc, the lower the return volatility, and the higher the market price of jump risk. As an illustration we estimate an empirical network from industry cash flow data and find support for these predictions.

Discussant: Lubos, Oliver (Universität Duisburg-Essen)

Session D5: Corporate Finance Empirical III

Location: 226, Start Saturday 09:00, Chair: Schneider, Christoph

National Culture and Takeover Performance

Authors: Breuer, Wolfgang; Ghufran, Bushra; Salzmann, Astrid J.

Institution: RWTH Aachen University

We investigate the influence of managerial preferences proxied by national culture on takeover performance in a cross-disciplinary international study. Cultural values are measured based on dimensions from Hofstede et al. (2010). Some managerial preferences are related to certain cultural values that may destroy firm value in the long run. Using data on a cross-section of 53 countries and 32,856 M&A deals, we find that national culture is statistically significant in explaining different levels of takeover performance. Countries with high individualism and uncertainty avoidance scores appear to exhibit lower post-acquisition risk and stock price performance supporting the managerial entrenchment hypothesis. Masculinity, however, has a positive effect on relative deal size and the takeover outcomes implying that empire building is not observed to cast a negative impact on post-acquisition performance.

Discussant: Yilmaz, Umit (Universita della Svizzera italiana)

Foreign Acquisition and Credit Risk: Evidence from the U.S. CDS Market

Author: Yilmaz, Umit

Institution: Universita della Svizzera italiana

This paper empirically analyses the effect of foreign block acquisitions on the U.S. target firms' credit risk as captured by their CDS. The involvement of foreign investors triggers a major increase, about 42 basis points, in the target firm's CDS. This effect is mostly pronounced for firms with majority control transactions, with acquirers from developed markets, and for diversifying deals. The findings are consistent with an asymmetric information hypothesis. Indeed, foreign block purchases are significantly associated with an increase in the target exposure to idiosyncratic stock volatility.

Discussant: Schneider, Christoph (Tilburg University)

M & A(dvertising)

Authors: Hillert, Alexander; Kunzmann, Anja; Ruenzi, Stefan

Institution: University of Mannheim

We investigate the advertising strategies of firms in mergers and acquisitions. Target firms increase their advertising expenses, on average, by 50% in the quarter before the announcement of a stock deal. Higher offer prices for high-advertising target firms suggest product advertising being a tool to attract investors' attention, which may result in temporarily increased stock prices. For acquiring firms, we observe no increase in advertising before but a significant increase in the week after the announcement of a stock deal. The positive relation between acquirer advertising and the probability of deal completion indicates that advertising can positively influence target shareholders' attitude towards the deal. Overall, our findings support the role of product market advertising as a strategic tool to affect the outcomes of M&As.

Discussant: Ulrich, Lennart R. F. (WHU)

Session D6: Financial Intermediation Empirical

Location: H11, Start Saturday 09:00, Chair: König, Philipp

Cultural traits and the choice between formal and informal financing

Authors: Garcia-Appendini, Emilia; Bedendo, Mascia; Siming, Linus

Institution: University of St Gallen

This paper documents that firm managers with different cultural backgrounds who live side-by-side to each other can display large and important differences in corporate financing decisions. We exploit cultural differences within a geographical area that shares a common regulatory, institutional, and macroeconomic framework: The autonomous province of South Tyrol in Northern Italy, which is mainly comprised of individuals from either an Italian or a Germanic cultural background. Firms with managers from the Italian group are less capitalized than firms run by managers from the Germanic group. This difference in capitalization translates into a more intense use of informal sources of financing: Italian-run firms resort significantly more to trade credit as a source of financing, and are willing to lend more credit to their customers. The differences we document can be explained by a culturally embedded preference for interacting within informal networks rather than within formal institutions.

Discussant: Müller, Karsten (University of Warwick)

Financial Debt Contracting and Managerial Agency - Evidence from a Natural Experiment

Authors: Imbierowicz, Björn; Streitz, Daniel

Institution: Copenhagen Business School

This paper analyzes the implementation of sweep covenants in loan contracts. Sweep covenants require a (partial) prepayment of a loan when triggered and are included in every second contract. We use exogenous reductions in analyst coverage due to brokerage house mergers as experiment and find that a decline in coverage increases sweep usage in loan contracts. The effect is more pronounced for more opaque borrowers and borrowers with a higher level of managerial entrenchment. In contrast, the use of financial covenants remains unchanged. Overall, our results suggest that sweep covenants and financial covenants serve differing purposes. Lenders implement sweep covenants to mitigate managerial agency problems by limiting contingencies of wealth expropriation.

Discussant: Garcia-Appendini, Emilia (University of St Gallen)

Asset Price Bubbles and Systemic Risk

Authors: Brunnermeier, Markus; Rother, Simon; Schnabel, Isabel

Institution: University of Bonn; GSEFM

This paper empirically analyzes the effects of asset price bubbles on systemic risk. Based on a broad sample of banks from 17 OECD countries between 1987 and 2015, we show that asset price bubbles in stock and real estate markets raise systemic risk at the bank level. The strength of the effect depends strongly on bank characteristics (bank size, loan growth, leverage, and maturity mismatch) as well as bubble characteristics (length and size). These findings suggest that the adverse effects of bubbles can be mitigated substantially by strengthening the resilience of financial institutions.

Discussant: König, Philipp (DIW Berlin)

Session E1: Asset Pricing Empirical III

Location: H13, Start Saturday 11:00, Chair: Ruenzi, Stefan

Daily Winners and Losers

Authors: Ruenzi, Stefan; Kumar, Alok; Ungeheuer, Michael

Institution: University of Mannheim

The probably most salient feature of the cross-section of stock returns is a stock's status as daily top winner or loser: these stocks are tabulated in many newspapers and on popular webpages, making them highly visible and subject to attention-driven buying pressure. We find that stocks ranked as daily winners and losers last month underperform those that did not make the rankings by 1.60% next month, and 15%-20% during the subsequent three years. The stocks that did not make the rankings exhibit an insignificant relation between idiosyncratic volatility and returns, suggesting that the idiosyncratic volatility puzzle only exists among ranked stocks.

Discussant: Bredendiek, Maximilian (Vienna Graduate School of Finance)

Anomalies across the globe: Once public, no longer existent?

Authors: Jacobs, Heiko; Müller, Sebastian

Institution: German Graduate School of Management and Law

Motivated by McLean and Pontiff (2016), we study the pre- and post-publication return predictability of 231 cross-sectional anomalies in 39 stock markets. Based on more than two million anomaly country-months, we find that the United States is the only country with a reliable post-publication decline in long/short returns. Collectively, our insights have implications for the recent literature on arbitrage trading, anomaly data mining, market segmentation, and the meta-analysis of return predictors.

Discussant: Kurz, Michael W. D. (University Maastricht)

Dividend Risk Premia

Authors: Cejnek, Georg; Randl, Otto

Institution: WU Vienna University of Economics and Business

This paper studies time variation in the expected excess returns of traded claims on dividends, bonds, and stock indices for international markets. We introduce a novel dividend risk factor that complements the well-known bond risk factor of Cochrane and Piazzesi (2005). When the dividend risk factor and the bond risk factor are employed jointly, our model fits well to variations in subsequent one-year excess returns of dividend swaps and stock indices of the U.S., the U.K., the Eurozone and Japan. By aggregating over the factors of these four core regions, we create global dividend and bond risk factors that capture the excess returns of most developed market MSCI country indices, as well as a variety of other assets including high-yield bonds and a volatility-selling strategy. Our findings highlight the value of information contained in dividend and bond forward curves and suggest substantial co-movement in international risk premia.

Discussant: Jacob, Andrea (University of Augsburg)

Session E2: Behavioral Finance Empirical III

Location: H12, Start Saturday 11:00, Chair: Schaub, Nic

Disentangling Investor Sentiment: Mood and Economic Expectations

Authors: Meyer, Steffen; Kostopoulos, Dimitrios

Institution: Leibniz Universität Hannover

In this paper, we disentangle investor sentiment into two components: mood and economic expectations. We apply acoustical analysis to the daily top ten of music downloads in iTunes for Germany to derive a novel and direct measure for mood (MOOD). We match MOOD with trading data of German individual investors. We find that when MOOD is high (positive mood), investors purchase more, particularly trading into risky and out of less-risky securities. To proxy for economic expectations, we use an already existing index (FEARS), which bases on Google search volumes of negative economic terms. We find that FEARS drives trading in the same fashion as in previous studies and that these effects significantly depend on MOOD. We conclude that there are two sources of sentiment driving individual investors, which significantly interact.

Discussant: Lesnevski, Pavel (University of Mannheim)

How to Overcome Correlation Neglect?

Authors: Laudenbach, Christine; Ungeheuer, Michael; Weber, Martin

Institution: Goethe University Frankfurt

By sampling. In two laboratory experiments, we vary how correlation is presented in an investment task. In a descriptive treatment, where participants directly get probabilities for all possible outcomes of a joint return distribution, we confi rm the common fi nding that investors neglect correlation, keeping their diversifi cation decision constant even if they notice changes in correlation. However, when participants sample returns from the same joint distribution, they diversify more when correlation decreases. In our fi rst experiment, where we use only four prospects for the two risky assets, respectively, this finding is robust to sampling numerical returns or graphical bar chart returns. When we use a more realistic continuous return distribution, participants only diversify more at lower correlations after graphical sampling. Hence, graphical sampling helps overcome correlation neglect.

Discussant: Meyer, Steffen (Leibniz Universität Hannover)

Tracking Retail Investor Activity

Authors: Boehmer, Ekkehart; Jones, Charles; Zhang, Xiaoyan

Institution: Singapore Management University

We provide an easy way to use recent, publicly available U.S. equity transactions data to identify retail purchases and sales. Based on retail order imbalances, we find that retail investors are informed at horizons up to 12 weeks. Individual stocks with net buying by retail investors outperform stocks with negative imbalances; the magnitude is approximately 10 basis points over the following week, or 5% annualized. Retail investors are better informed in smaller stocks with lower share prices. They do not, however, exhibit any market timing ability.

Discussant: Kostopoulos, Dimitrios (Leibniz Universitaet Hannover)

Session E3: International Finance

Location: 251, Start Saturday 11:00, Chair: Noth, Felix

The Yen Risk Premiums: A Story of Regime Shifts in Bond Markets

Authors: Cho, Sungjun; Hyde, Stuart; Liu, Liu

Institution: Research Center SAFE

We document a new monetary mechanism, namely the shift of monetary policies, to account for the forward premium puzzle in the USD-JPY currency pair. The shift of monetary policy regimes is modelled by a regime switching dynamic term structure model where the risk of regime shifts is priced. Our model estimation characterises two policy regimes in the Japanese bond market---a conventional monetary policy regime and an unconventional policy regime of quantitative easing. Using foreign exchange data from 1985 to 2009, we find that the shift of monetary policies generates currency risk: the yen excess return is predicted by the Japanese regime shift premium, and the emergence of the yen carry trade in the mid 1990s is associated with the transition from the conventional to the unconventional monetary policy in Japan.

Discussant: Taskin, Ahmet A. (Ulm University)

Banking Globalization, Local Lending, and Labor Market Effects: Micro-Level Evidence from Brazil

Authors: Noth, Felix; Ossandon Busch, Matias

Institution: Halle Institute for Economic Research (IWH) and OvGU Magdeburg

This paper estimates the effect of a foreign funding shock to banks in Brazil after the collapse of Lehman Brothers in September 2008. Our robust results show that bank-specific shocks to Brazilian parent banks negatively affected lending by their individual branches and trigger real economic consequences in Brazilian municipalities: More affected regions face restrictions in aggregated credit and show weaker labor market performance in the aftermath which documents the transmission mechanism of the global financial crisis to local labor markets in emerging countries. The results represent relevant information for regulators concerned with the real effects of cross-border liquidity shocks.

Discussant: Kirschenmann, Karolin (ZEW - Centre for European Economic Research)

What drives interbank loans? Evidence from Canada

Authors: Bulusu, Narayan; Guérin, Pierre

Institution: Bank of Canada

We analyse the drivers of the Canadian interbank market using a novel dataset of uncollateralised and collateralised overnight loans, and applying a Bayesian model averaging approach to deal with model uncertainty. We find three important classes of drivers of the terms of interbank loans: (i) the price of substitutes, (ii) financial stress, and (iii) systemic liquidity needs. These drivers have a heterogeneous impact on interbank loans, depending on the collateral quality. We then present the results of a structural VAR analysis, which shows a persistent impact of financial stress and systemic liquidity shocks on the overnight interbank funding market.

Discussant: Liu, Liu (Research Center SAFE)

Session E4: Asset Pricing Theoretical II

Location: 252, Start Saturday 11:00, Chair: Branger, Nicole

Optimal Disclosure and Fight for Attention

Author: Schneemeier, Jan

Institution: Federal Reserve Board

This paper shows that managers can compete for speculators' scarce attention by withholding private information about their firm. By raising speculators' uncertainty regarding the future payoff, a firm becomes a more attractive target for speculators who allocate more attention to it, in turn. Each firm has an incentive to engage in this "fight for attention" because more attention implies more informative prices, which allows firm managers to extract more information and to invest more efficiently. In a setting with endogenous capital, the firms' fight for attention is inefficient, i.e. all firms would be better off if they instead disclosed their private information to speculators. Surprisingly, giving each firm manager a myopic contract that rewards increases in the short-run asset price, encourages disclosure and implements the first-best outcome.

Discussant: Schertler, Andrea (University of Lueneburg)

Equilibrium with Slow-moving Capital

Author: Isaenko, Sergey

Institution: Concordia University

This paper studies an economy where investors have strong short-term trading incentives but can change their stock allocations only with delays. The presence of high short-term trading incentives and delays in capital allocations offers new explanations for a number of stylized empirical observations including excess volatility and high risk premium of stock returns. Furthermore, the paper explains high volatility of the conditional Sharpe ratio and a negative correlation between the conditional risk premium and volatility of aggregate consumption. We document a short-term overreaction of stock returns and predict that its presence should make estimates of standard deviation of the conditional Sharpe ratio be strongly affected by frequency of time series.

Discussant: Meinerding, Christoph (Deutsche Bundesbank)

Extreme Inflation and Time-Varying Disaster Risk

Authors: Dergunov, Ilya; Meinerding, Christoph; Schlag, Christian

Institution: Goethe University Frankfurt

Low consumption growth tends to occur together with either very high or very low inflation. The probability of low expected consumption growth estimated from a Markov chain for consumption growth and inflation is highly correlated with a measure for the likelihood of consumption disasters suggested by Wachter (2013). A simple asset pricing model with recursive utility and unobservable states reproduces the time variation in volatilities and correlations of stock and bond returns very well. Our findings suggest that the disaster risk paradigm can be extended towards an explanation of the time-varying nature of the stock-bond return correlation when the informational role of inflation is taken into account properly.

Discussant: Koziol, Christian (University of Tübingen)

Session E5: Corporate Governance

Location: 226, Start Saturday 11:00, Chair: Limbach, Peter

Disciplining Entrenched Managers through Corporate Governance Reform: Implications for Risk-Taking Behavior

Author: Pryshchepa, Oksana

Institution: University of Birmingham

Prior studies find that entrenched managers destroy firm value by choosing lower risk negative NPV projects. In this paper, I argue that enhanced monitoring by boards and internal controls established following the passage of the Sarbanes-Oxley Act of 2002 (SOX) mitigated risk-related agency conflicts in entrenched firms. I construct the risk measure based on variances and covariances of industries in which the firm operates and more accurately reflects managerial risk-taking decisions. Using this measure, I examine changes in risk-taking and investment policies and performance in entrenched firms following SOX. I find that, by imposing an additional layer of discipline on managers, SOX increased managers' willingness to take on riskier, but more value-enhancing projects that were previously stifled in entrenched firms.

Discussant: Gider, Jasmin (University of Bonn)

Superstar Directors: Busy Directors' Travel Distance and Firm Valuation

Authors: Rapp, Marc Steffen; Schmid, Thomas; Urban, Daniel

Institution: Philipps-Universität Marburg and Copenhagen Business School

This paper shows that there is no uniform effect of director busyness on firm value. Rather, some ”superstar” directors increase value, whereas others have no or a negative impact. To identify superstar directors, we exploit the geographical dispersion of their board positions. In contrast to directors with multiple positions in close proximity, distant board positions likely reflect superior director skills. We calculate the travel distance for each director based on the headquarters of their companies and conduct long- and short-run event studies around 550 exogenous director retirements. We find that directors with high travel distance are beneficial to firm value, whereas those with only local positions are detrimental. Furthermore, superstar directors improve monitoring, but are not necessarily better advisors.

Discussant: Pryshchepa, Oksana (University of Birmingham)

Do Financial Advisors Matter for M&A Leakage?

Authors: Betzer, André; Gider, Jasmin; Limbach, Peter

Institution: University of Cologne and Centre for Financial Research

This paper investigates whether financial advisors matter for information leakage prior to the announcement of mergers and acquisitions (M&A). We regress abnormal stock behavior prior to M&A announcements on the identities of financial advisors using data on public U.S. transactions announced between 1990 and 2013. We document that the identity of financial advisors is systematically related to abnormal stock behavior. The economic magnitude is substantial with an interquartile range of advisor coefficients of approximately 9%. These results hold for a variety of measures, including abnormal volume, and seem to be persistent across time. Exploiting enforcement events as shocks to advisor-speci fic leakage propensities, a difference-in-differences analysis documents that leakage decreases after an enforcement event. This finding lends support to a causal interpretation of financial advisor effects.

Discussant: Kunzmann, Anja (University of Mannheim)

Session E6: Central Banking and Regulation

Location: H11, Start Saturday 11:00, Chair: Fischer, Marcel

Bank stress testing under different balance sheet assumptions

Authors: Busch, Ramona; Drescher, Christian; Memmel, Christoph

Institution: Deutsche Bundesbank

Using unique supervisory survey data on the impact of a hypothetical interest rate shock on German banks, we analyse price and quantity effects on banks' net interest margin components under different balance sheet assumptions. In the first year, the cross-sectional variation of banks' simulated price effect is nearly eight times as large as the one of the simulated quantity effect. After five years, however, the importance of both effects converges. Large banks adjust their balance sheets more strongly than small banks, but they are impacted more strongly by the price effect. The quantity effects are explained better by a bank's current balance sheet composition, the longer the forecast horizon. The opposite holds for banks' price effect.

Discussant: Franke, Günter (Universität Konstanz)

Office Market Interconnectedness and Systemic Risk Exposure

Authors: Ruf, Daniel; Füss, Roland

Institution: University of St.Gallen

This paper studies the co-movements among financial center office markets which can be traced back to the underlying stock market interconnectedness. We show that this cross-dependency among office markets cannot be explained by systematic risk of common factors. Using a spatial econometric model we find empirical evidence of systemic risk in office markets that arises from stock market return correlations. Office market return co-movements during financial turmoil periods are also related to the common systemic expected capital shortfall risk of the banking sector in financial centers.

Discussant: Fischer, Marcel (University of Konstanz and Copenhagen Business School)

Gap-Filling Debt Maturity Choice in the Government Bond Market

Author: Eidam, Frederik

Institution: University of Mannheim and Centre for European Economic Research (ZEW)

I study the interaction of governments' debt maturity choice to manage the aggregate demand for government debt across maturities. Building on a new panel data set of individual Eurozone government debt issues between 1999 and 2015, I find that governments increase long-term debt issues following periods of low aggregate Eurozone long-term debt issuance. This finding, however, only holds since the start of harmonizing EU insurance regulation in late 2009, which stipulated insurers to match the maturity of liabilities with government debt. In addition, gap-filling is more pronounced for less financially constraint governments and higher rated governments. Using the ECB's three-year LTRO in 2011-2012 for identification, I find interactions between peripheral and core Eurozone governments maturity choice. My results are consistent with limits to arbitrage and partially segmented bond markets that induce governments' cross-country gap-filling behavior.

Discussant: Imbierowicz, Björn (Copenhagen Business School)

Poster Session

Location: Foyer outside the "Hörsaal Innere Medizin", Friday 13:00-14:30

Does Financial Literacy Improve Financial Inclusion? Cross Country Evidence

Authors: Grohmann, Antonia; Klühs, Theres; Menkhoff, Lukas

Institution: Deutsches Institut für Wirtschaftsforschung (DIW Berlin)

While financial inclusion is typically addressed by improving the financial infrastructure we show that financial literacy, representing the demand-side of financial markets, also has a beneficial effect. We study this effect at the cross-country level, which allows to consider institutional variation. Regarding “access to finance”, financial infrastructure and financial literacy are mainly substitutes. However, regarding the “use of financial services”, the effect of higher financial literacy strengthens the effect of more financial depth. The causal interpretation of these results is supported by IV-regressions. Moreover, the positive impact of financial literacy holds across income levels and several subgroups within countries.

Moral suasion in regional government bond markets

Author: Ohls, Jana

Institution: Deutsche Bundesbank

The European sovereign debt crisis has highlighted the need to better understand banks’ incentives to hold home government debt. This paper studies the moral suasion hypothesis in the context of the state (“Laender”) government bond holdings of German banks. The empirical strategy makes use of the regional variation in bank ownership and fiscal strength and of a detailed security-by-security panel dataset on the state bond portfolio of each German bank. Using a Heckman selection model, I find that home state-owned banks hold a significantly higher amount of home state bonds than other banks when the state’s fiscal situation is poor. Findings are in line with moral suasion and robust against controlling for alternative explanations such as information asymmetries.

Numeracy and the quality of on-the-job decisions: Evidence from loan officers

Authors: Brown, Martin; Kirschenmann, Karolin; Spycher, Thomas

Insitutions: ZEW - Centre for European Economic Research

We examine how the numeracy level of employees influences the quality of their on-thejob decisions. Based on an administrative dataset of a retail bank we relate the performance of loan officers in a standardized math test to the accuracy of their credit assessments of small business borrowers. We find that loan officers with a high level of numeracy are more accurate in assessing the credit risk of borrowers. The effect is most pronounced during the pre-crisis credit boom period when it is arguably more difficult to pick out risky borrowers.

Social Recognition and Investor Overconfidence

Authors: Breitmayer, Bastian; Pelster, Matthias

Insitution: Leuphana University

We investigate the trading patterns of 21,694 investors who received social recognition for their investment decisions between 2012 and 2015. We find that confirmatory social recognition leads to increased trading activity, which can be explained by overconfidence, biased self-attribution, and misinterpretation of observed feedback. On average, investors execute 12 additional trades per month after receiving confirmatory social recognition for the first time. Our results suggest that social interaction may not increase market efficiency and that social recognition can explain investors' trading patterns. We contribute to the empirical literature on investor behavior by showing that (i) social recognition influences investor trading patterns and that, (ii) under certain circumstances, the effect of social recognition on trading activity is greater than that of financial outcomes.

Parameter Uncertainty, Financial Turbulence and Aggregate Stock Return

Author: Stöckl, Sebastian

Insitution: University of Liechtenstein

In this paper I show that time-varying parameter uncertainty (PU), proxied by financial turbulence (FT), does predict the equity premium in- and out-of-sample. This sheds light on the number and role of investors that are prone to PU aversion, reducing their investment in risky assets when PU tends to rise, subsequently causing a decline in aggregate stock returns. Not only does FT predict the equity premium and its volatility, it does also outperform a variety of popular predictors, including the short interest index (SII), which is so far the best performing predictor (Rapach et al. 2016). Combining the predictive power of FT for the equity premium as well as its volatility yields the highest Sharpe ratios and achieves annualized certainty equivalent returns of 7.78% for a mean-variance investor.

Optimal Capital Buffers of Sovereign Debt Management Offices

Authors: Eisl, Alexander; Ochs, Christian; Pichler, Stefan

Institution: WU Vienna

We present a framework of sovereign debt issuances and precautionary capital buffers. In a setting where sovereign debt managers are confronted with budget risk and intertemporal funding is costly, the sovereign may issue debt in excess of expected funding needs - a capital buffer - as a measure of self-insurance. We provide an empirical assessment of optimal capital buffers for a panel of European countries and derive policy recommendations. For realistic parameters, our model suggests capital buffers in a range from 0.19% to 1.41% of the gross domestic product if the debt manager's budget predictions are based on an estimate of the deficit's unconditional mean. If debt managers can predict future deficits at least to some extent, high budget forecast errors become less likely and capital buffer holdings decrease. Our model suggest that optimal capital buffers remain positive and lie between 0.04% to 0.19% of the gross domestic product.

ESG Risks and the Cross-Section of Stock Returns

Author: Gloßner, Simon

Institution: Catholic University Eichstaett-Ingolstadt

This paper finds that environmental, social, and governance (ESG) risks generate negative long-run stock returns. A value-weighted portfolio of firms with high ESG risks exhibits a four-factor alpha of -3.5% per year, even when controlling for other risk factors, industries, or firm characteristics. The negative alpha stems from unexpected costly ESG incidents and from negative earnings surprises. These findings make three contributions. First, weak corporate social responsibility (CSR) destroys shareholder value. Second, stock markets fail to incorporate the consequences of intangible risks. Third, shorting firms with high ESG risks is a profitable socially responsible investing (SRI) strategy.

Board Overconfidence in Mergers & Acquisitions: A Self-attribution Bias

Authors: Kind, Axel Herbert; Twardawski, Torsten

Institutions: University of Konstanz and Ludwig Maximilian University of Munich

This study investigates whether overconfidence of board directors, gained via biased self-attribution in recent M&A deals, influences the quality of corporate acquisitions. We propose an experience-based measure of board overconfidence that complies with established theories in the fields of social psychology and group decision making and is related to the literature on CEO overconfidence and M&A transactions. The measure is found to correlate positively with optimistic insider trading of board directors before M&A deals and is thus a reliable proxy for board overconfidence. Based on a large set of public acquisitions carried out by large U.S. companies, we show that board overconfidence is negatively related to abnormal stock returns upon merger announcements and positively to the premiums paid in such transactions. The results are economically relevant and statistically robust and further suggest that the effect of board overconfidence is distinct from (and adds to) the documented influence of CEO overconfidence on the quality of corporate acquisitions.

Stock Recalls as a Source of Informational Advantage through Short Selling: Empirical Evidence from Mergers and Acquisitions

Authors: Strych, Jan-Oliver; Schubert, Richard

Institution: Karlsruhe Institute of Technology

We suggest that stock recalls lead to an informational advantage through short selling because short sellers might infer from their private observations of recalls that lenders intend to sell or vote. If stock lenders are blockholders, short sellers' informational advantage is even more valuable. As a trading strategy to profit from such advantage we regard merger arbitrage: short sellers of acquirers' stocks become merger arbitrageurs and sell their target stocks upon a recall of acquirer stocks with high institutional ownership concentration. Since acquirers anticipate short sellers' merger arbitrage and thus their willingness to tender target stocks, acquirers lower offered premiums. Consistently, we find empirically: the higher acquirers' short interest and the higher their institutional ownership concentration, the lower premiums are: we find that a change in the standard deviation of this interaction term is associated with a decrease of the one-week premium by 8.495 percent and by USD 33.473m for the average target.

Does the Board Learn from Short Sellers? Evidence from CEO Turnovers

Authors: Meier, Kristina; Kunzmann, Anja

Institution: University of Mannheim

We use instrumental variable regressions and Regulation SHO as a natural experiment to establish that short sales induce forced CEO turnover. We find a negative feedback effect from CEO turnover to short sales. This implies that short sellers know that their holdings signal bad CEO quality and decrease their short position in anticipation of a forced turnover. Second, when exogenously increasing the information contained in short sales through Regulation SHO, the CEO turnover-short interest sensitivity increases. Since there is no effect on the CEO turnover-stock return sensitivity, we infer that it is not the threat of a decrease in stock prices, but short selling itself that triggers CEO turnover. These results provide new evidence for the potential benefits of short selling.

Corporate Social Responsibility and bank loan pricing: It pays to be good, but only when banks are too.

Author: Hauptmann, Clarissa

Institution: Maastricht University

We show that borrowers with high sustainability performance pay lower loan spreads than borrowers with low sustainability performance, but only when the lending bank exhibits high sustainability performance. Banks with low sustainability performance do not provide varying loan spreads to borrowers with different levels of sustainability performance. We determine that the relationship between sustainability performance and loan prices is driven by a premium in loan spreads for borrowers with low sustainability performance, rather than a spread discount for high sustainability performers. We show that this premium is not based on underlying differences in credit risk due to sustainability issues. Instead, we find that our results are indicative of a reputation risk premium that is charged by high-sustainability banks to borrowers with low sustainability performance. Our results are robust to a wide range of robustness tests and analyses.

Call for Papers

25th Annual Meeting of the German Finance Association (DGF)

Trier University, 21-22 September 2018

We cordially invite researchers and practitioners to participate in the 25th Annual Meeting of the German Finance Association (DGF) to be held at Trier University on 21 and 22 September 2018. A doctoral workshop will take place on 20 September 2018.

The conference aims to bring together researchers and practitioners in order to discuss the latest theoretical and empirical research from all areas of finance, banking and insurance.

We are very pleased that Alexander Ljungqvist, Ira Rennert Professor of Finance and Entrepreneurship at New York University Stern School of Business, will deliver the academic keynote speech.

Guidelines for submission:

- Submissions (only completed papers in English) should be uploaded using the online submission system that opens on 1 February 2018.
- Papers must not contain any reference to the name(s) and affiliation(s) of the author(s). The first page of the paper should contain only the title, the abstract and JEL classification codes.
- Papers have to be accompanied by an abstract of no more than 150 words.
- All submissions will be subject to a double-blind review process. The deadline for submission is 27 April 2018 (midnight CET).

Additional information will soon be available via dgf2018.uni-trier.de. Online registration and paper submission will open on 1 February 2018. In case of any questions, please contact us via dgf2018@uni-trier.de.

We look forward to an interesting conference in Trier.

Best regards

Axel Adam-Müller

SWISS SOCIETY FOR FINANCIAL MARKET RESEARCH (SGF)

Publishers of Financial Markets and Portfolio Management

SGF CONFERENCE 2018

April 6, 2018, SIX ConventionPoint, Zurich

CALL FOR PAPERS

SUBMISSION DEADLINE: OCTOBER 31, 2017, 24.00 CET

SUBMISSION OF PAPERS

We would like to invite both academics and practitioners to submit papers on all topic areas of financial market research **until October 31, 2017, 24.00 CET**.

Papers must be in English. For online paper submission please visit our website www.fmpm.ch/conference. When submitting a paper to the conference, you may also choose to directly submit to the journal "Financial Markets and Portfolio Management (FMPM)".

REGISTRATION FOR PARTICIPATION

There is no deadline for registration. The conference fee is 200 CHF. PhD students can be granted a reduced fee of 120 CHF. In case you have not registered for conference participation by April 5, 2018, the walk-in rate amounts to 250 CHF. Furthermore, there will be a pre-conference dinner in Zurich on **April 5, 2018**. The fee for this dinner amounts to 120 CHF. For registration, please refer to our website www.fmpm.ch/conference.

FOR FURTHER QUESTIONS PLEASE CONTACT

Dr. Michael Herold
c/o University of Bamberg • Chair of Banking and Financial Control
Kärntenstr. 7 • 96052 Bamberg • Germany
Phone: +49 - (0)951 - 863 2093 • Fax: +49 - (0)951 - 863 2092
sgf-conference@fmpm.ch • www.fmpm.ch

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centre for financial research
cologne

cfr / university of cologne
albertus-magnus-platz
D-50923 köln

tel. +49 (0)221-470-6995
fax +49 (0)221-470-3992

call for papers

17th colloquium on financial markets

asset management

march 12th, 2018, cologne

Topic: The colloquium provides a unique platform to discuss the latest issues in asset management. We particularly encourage submissions of papers on all areas of asset management, such as mutual and hedge funds, pension funds and ETFs, trading strategies, and investor behavior. However, there is no restriction on these topics.

Concept: The 17th Colloquium on Financial Markets addresses both academics and practitioners interested in the field of asset management. There will be presentations and a separate poster session. To provide a workshop atmosphere, the number of participants is limited. We expect participants to be willing to discuss another paper. The conference language is English.

Submission: Please submit your paper as pdf file via email to colloquium@cfr-cologne.de. The cover page of your submission should include the title, the names of the authors, their addresses, phone numbers, and email addresses. The following page should contain the title and an abstract, leaving no hint on the authors' identities.

Schedule: The deadline for submissions is **January 9th, 2018**. The papers will be double-blind reviewed by a distinguished referee panel. Authors will be notified about the outcome by mid-February 2018.

Registration: The conference fee is € 75. Conference fees will be waived for all presenting authors and discussants. If you are interested in attending, please apply via www.cfr-cologne.de.

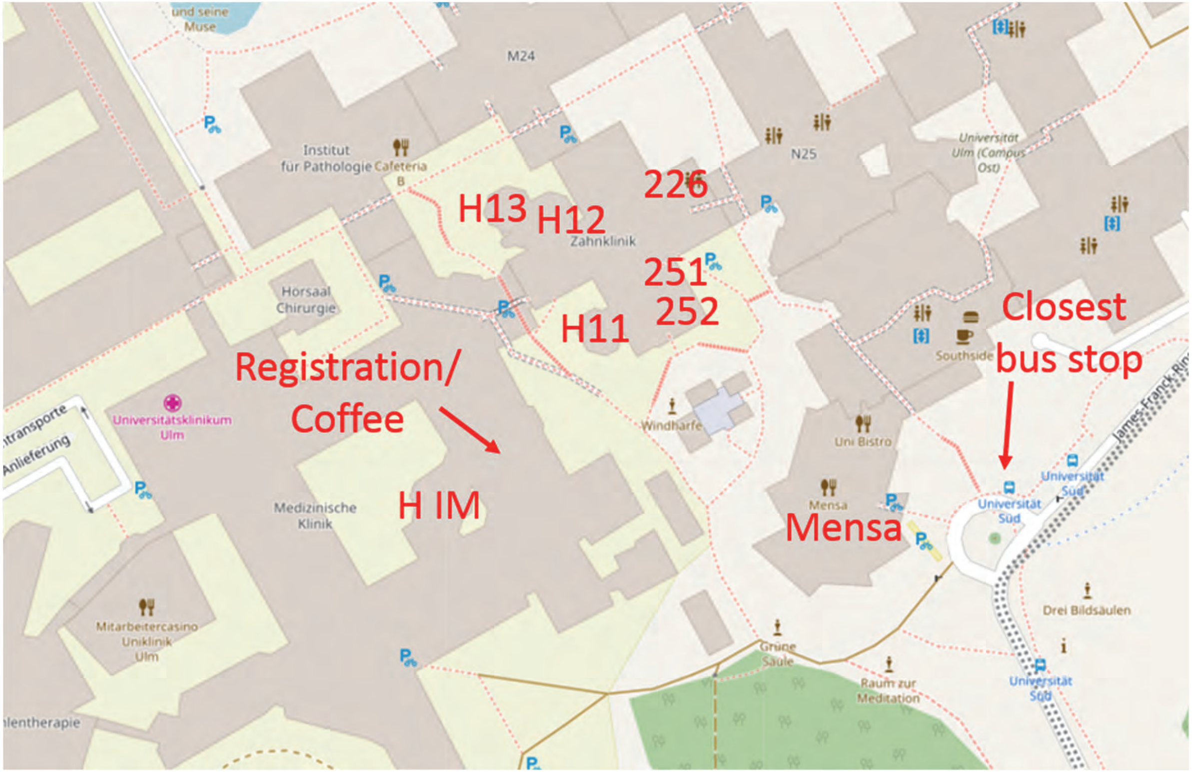
Information: For further information, please visit our website www.cfr-cologne.de or contact Dr. Alexander Pütz (puetz@cfr-cologne.de).

Notes

Notes continued

Notes continued

Conference Venue



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