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KEYNOTE SPEAKERS

DO CREDIT MARKETS RESPOND TO MACROECONOMIC SHOCKS? THE CASE FOR REVERSE CAUSALITY☆

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Abstract

We identify the response of corporate bond credit spreads to three exogenous macro-shocks: oil supply, investment-specific technology, and government spending. The response is large, significant, and a mirror image of that of macro-activity. This counter-cyclicality is largely driven by credit risk premia and translates into predictability in corporate bond returns. Proxies for equity risk premia exhibit similar responses, providing external validity. Information rigidities and leverage play a key role in the transmission of shocks. Since causal evidence linking macro-shocks to credit risk premia is scarce and recent work highlights the real effects of credit market fluctuations, our findings contribute to understanding the joint dynamics of credit markets and the macroeconomy. Keywords: JEL Classification:

Keywords: Credit Spreads, Time-Varying Risk Premia, Macroeconomic Risk, Shocks, Return Predictability model, DSGE model

JEL Classification: E44, G12

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CLIMATE RISK AND PENSION FUNDS

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Abstract

Pension funds face global risks and challenges of climate change in both the medium and long term, such as the impact of natural disasters, and changes in markets as countries seek to mitigate global greenhouse gas emissions. As the world's largest type of asset owner, pension fund disclosures related to how these financially impact their governance, risk management, strategy, and performance would help stakeholders and other users to better understand how they are dealing with these issues.

This talk aims to provide the first evidence of the degree of climate risk engagement practices by the globally largest pension funds in six OECD countries. Three ethical dimensions of pension fund engagement with climate risk are addressed: membership of external organizations, reporting and policy, and action taken issues. The discussion focuses on voluntary disclosure of pension fund reporting in the five years following the issue of the climate risk disclosure recommendations by the Task Force for Climate-Related Financial Disclosures (TCFD) for a sample of the globally largest pension funds based in Australia, Canada, Denmark, Netherlands, Sweden, UK and USA, 2016 to 2021. The findings are generally consistent with the predictions that the determinants of climate risk engagement are associated with a range of pension fund-specific financial characteristics, governance mechanisms, funding methods, and country-level factors related to legal system and culture.

Keywords: Climate Risk, Pension Funds

JEL Classification: G22, G28 and Q54

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EFFICIENT JOINT FINANCING

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Abstract

We study the optimal size of a joint financing association between individuals who share the same financial goal and who can save towards that goal at the same rate. We measure the efficiency of a joint financing association by the expected waiting time that it takes a participant to attain his goal when no participant reneges on his commitment to contribute to the common fund, and when each of the participants receives (once) the funds needed to meet his goal. Given this criterion, we define the optimal size of a joint financing association as the number of participants that results in the minimal expected waiting time. By means of an example we show that an optimal size of a joint financing association exists, that it is limited, and that it is a multiple of the number of time periods that it takes an individual to save on his own. Somewhat surprisingly, we find that when treated as a function of the size of a joint financing association, the expected waiting time is not monotonic when the size builds up from an individual saving on his own to the optimal size. A similar result obtains when we study cases where a joint financing association is enlarged beyond the optimal size. Our findings help explain the limited size as well as other features of joint financing associations observed in developing countries all over the world.

Keywords: Joint financing associations; Minimal expected waiting time; Optimal size of a joint financing association; Limited size of a joint financing association

JEL Classification:

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PLENARY SPEAKERS

FACILITATORS AND IMPEDIMENTS TO RESILIENCE IN EARLY CAREER ACCOUNTNANTS

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Abstract

The rationale of the study was to investigate the facilitators and impediments to resilience in early career accountants (ECAs). The participants were 37 (24 males, 13 females) accountants in their first five years of work who participated in an online, anonymous survey with open-ended qualitative questions on workplace resilience. A thematic analysis was conducted showing three broad categories: impediments to resilience, facilitators of resilience and the potential for ECAs to develop resilience. Impacts of challenges plus the mediating influence of resilience can have implications for the workplace. Workplace relationships, organizational issues, personal competence and work conditions seem to be essential to well-being and job satisfaction and strategies are discussed to support ECAs and prepare them for a resilient entering into the industry

Keywords:

JEL Classification: M4, M41

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THE DOUBLE-EDGED SWORD OF THE 2020 EUROPEAN SHORT-SELLING BANS*

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Abstract

In this paper, we present a theoretical framework to study the effects of shortselling bans on markets and we test its predictions using cross-sectional variation in the European 2020 short-selling bans. The model's novelty is in the way that institutional ownership affects the conditions under which bans help avert a sharp decline in prices. Empirically we find, consistent with the model, that tail risk was reduced in countries that implemented short-selling bans, and that this effect was more pronounced in stocks with low institutional ownership. However, bans were detrimental for liquidity and failed to support the average level of prices.

Keywords: short selling, ban, liquidity, price discovery, covid.

JEL Classification: G01, G12, G14, G18.

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The authors would like to thank Dante Amengual, Patrick Bolton, Marco Pagano, Rafael Repullo, Enrique Sentana, Javier Suarez as well as seminar participants at CEMFI for their helpful and constructive comments.

SYMPOSIASTS

BORROWER ESG RISKS AND ESG DISCLOSURE AND COST OF LOAN

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Abstract

This study examines the impact of borrower's ESG risks and ESG disclosure on the cost of bank debt. By decoupling real ESG risks and self-disclosure information, we find that corporate borrowers with higher realized ESG risks and lower ESG disclosure level are associated with higher loan spreads. Our main findings are robust to external and exogenous shocks. Besides, these two relationships become more pronounced for opaque and low-quality borrowers. Further analysis shows that banks' ESG attitude moderates ESG risks pricing only. Specifically, our findings suggest that although lenders are aware that compared with self-reported ESG information, realized ESG risks are a more complete and accurate way to measure borrowers' sustainability, banks still attach much importance on pricing ESG disclosure as this is an effective way to improve bank's reputation.

Keywords: ESG risks; ESG disclosure; bank's ESG; loan terms

JEL Classification:

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THE EFFICIENCY OF FDIC-IDENTIFIED COMMUNITY BANKS

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Abstract

The US Federal Deposit Insurance Corporation (FDIC) recently redrew its criteria to identify community banks by including location and business strategy. We analyze the resultant re-classification of community banks and show it affects a wide array of salient outcomes. The thus-defined community banks are one-fifth more cost-efficient than other banks. Most of this efficiency advantage finds its origin in market structure, regulatory, and business environment factors, with corresponding substantial state-level heterogeneity. Community banks fare especially better when competing with large noncommunity banks and where financial access is limited

Keywords: Bank strategy, Community banks, Federal Deposit Insurance Corporation (FDIC), Persistent efficiency, Residual efficiency, Stochastic Frontier Analysis

JEL Classification: G14; G21; G38

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THE SHADOW DISINTERMEDIATION AND COST OF RISK-SENSITIVE CAPITAL

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Abstract

Exploiting an exogenous increase to capital charges from cross-border banking laws as a source of variation in loan retention, this paper shows that banks relax contractual restrictions and originate riskier loans. The probability of default increases by 7 percentage points (45% in relative terms) but higher risk is not ex ante priced. The vintage-maturity variation of loans during the regulatory transition supports a causal interpretation. The increase in risk is more pronounced on loans in which banks have private information and expertise, while shadow banks do not change their investment in riskier loans. Exploiting transactional data from trustee filings, I also show that shadow banks sold treated loans at lower prices ex post. These findings suggest that information asymmetry in decentralized credit markets limits the effectiveness of macroprudential regulation.

Keywords: Bank capital regulation, shadow banks, adverse selection.

JEL Classification:

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I thank London Business School and Warwick Business School for financing the acquisition of the datasets used in this project. I thank the ABS and Debtwire for kindly sharing data. Huge thanks to Alex Edmans for his guidance in the generation of this paper and John Thanassoulis, David Skeie, and David Schoenherr for their valuable comments.

BANK HETEROGENEITY AND MORTGAGE SUPPLY UNDER NEGATIVE POLICY RATES

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Abstract

We use a triple-diff strategy on the Swedish bank-level data to study how specific bank features, such as reliance on deposits, on covered bonds, and capital surplus relative to the required level, affected mortgage supply at the bank level during the negative rate period. We find that banks relying heavily on deposits did not contribute to the mortgage expansion and this result was driven by weakly-capitalized banks. We also find that banks more reliant on the covered bonds expanded mortgage supply faster than their counterparts under negative rates, as they could shift into cheap deposits to reduce funding costs. We build a general equilibrium model consistent with these empirical findings, featuring banks with different deposit and covered bond ratios that compete in the deposit and mortgage market. We use the model to study the effectiveness of covered bond purchases by the Riksbank during the Covid-19 pandemic.

Keywords: Firm Characteristics, Stock Price, Long-Term Discount Rate

JEL Classification: G12

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KINGSHIP AND FINANCIAL DEVELOPMENT

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Abstract

We investigate the impact of the culture and norms of ancient families on modern financial development in a worldwide context. Using three global survey datasets containing 151 countries, 86,894 firms, and 154,923 households, we discover that tight kinship, characterized as extended family structure, post-wedding co-residence, bilateral descent system, and the presence of clans, has harmed credit availability today by shaping the culture of trust and the property rights institutions. A country with tight kinship tends to have insecure property right protection and has undeveloped financial systems, which lower the present-day supply for finance; firms and households that are in a tight kinship society are less likely to finance externally as they distrust both out group people and financial institutions, thereby the demand for finance decrease. We find that both supply and demand channels can explain the negative impact of kinship on modern financial development. Consistent results were still obtained when we used different matching methods (e.g., buffer zone and Thiessen polygons), and when we used climate risk as an instrumental variable for kinship to address endogeneity. We confirm the persistence of kinship influences by combining institution and culture in the pre-industry period and find that openness can mitigate the negative impacts of kinship on modern financial development.

Keywords: Kinship, Financial development, Trust, Property rights, Access to credit, Openness.

JEL Classification: G1, G4

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POLITICAL UNCERTAINTY AND INSTITUTIONAL HERDING

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Abstract

Political uncertainty represents a key determinant of investment decisions. In this paper, we explore whether institutional investors herd in response to political uncertainty, and affect stock prices in the process. Using U.S. equity holdings data from 13F filings, we find evidence consistent with these predictions. The herding response is especially strong when U.S. presidents are unpopular, due to their proclivity for controversial policies, and among riskier stocks. We also find that this mechanism helps impound a risk premium into stock prices, thus improving market efficiency. Overall, the findings unveil a new channel through which political uncertainty affects financial markets.

Keywords: Herding; Institutional investors; Political uncertainty; Presidential popularity

JEL Classification: G11, G18, G23.

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OPTIMAL POLICY FOR BEHAVIORAL FINANCIAL CRISES

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Abstract

Should policymakers adapt their macroprudential and monetary policies when the financial sector is vulnerable to belief-driven boom-bust cycles? I develop a model in which financial intermediaries are subject to collateral constraints, and that features a general class of deviations from rational expectations. I show that distinguishing between the drivers of behavioral biases matters: when biases are a function of equilibrium asset prices, new externalities arise, even in models that do not have any room for policy in their rational benchmark. I build on this theory to examine policy implications. First, the policymaker should use counter-cyclical capital buffers and time-varying loan-to-value ratios. These restrictions must be strengthened in times of over-optimism, as well as when the regulator is concerned that over-pessimism will arise in a future crisis. Second, uncertainty about the precise extent of behavioral biases in financial markets increases the incentives for the planner to act early. Finally, when biases depend on asset prices, monetary policy optimally complements macroprudential policy by leaning against the wind even when these macroprudential tools are unconstrained. Conventional monetary policy however loses power in normal times when agents expect the central bank to lean against the wind in the future.

Keywords: Policy, Behavioral Financial Crises

JEL Classification: D62, E44, E52, E70, G2

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NON-STANDARD ERRORS IN ASSET PRICING: MIND YOUR SORTS

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Abstract

Non-standard errors capture uncertainty due to variation in research design choices. We study the importance of differential design choices in constructing asset pricing factors. By purposely data mining over 250 different versions of each factor, we find that Sharpe ratios exhibit substantial variation within a factor due to different construction choices, which results in sizable non-standard errors and allows for p-hacking. Our study has important implications for model selection exercises.

Keywords: non-standard errors, portfolio construction, factor investing, equity factors, asset pricing models, p-hacking, data-mining.

JEL Classification: G11, G12, G15

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GENDER EFFECT AND POWER IN THE CAPITAL STRUCTURE OF FIRMS

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Abstract

This study examines the impact of powerful female CEOs on corporate debt usage. Adopting the framework of Finkelstein (1992), we distinguish different power dimensions to analyze a sample of 418 CEOs of U.S. firms for the period 2007-2015. We observe that gender effect varies with the type of power they possess. Specifically, female CEOs with high ownership power (high shareholding, founder status and long tenure) tend to use less debt, while female CEOs with high prestige power (graduating from elite universities) tend to use more debt than their male peers. The structural power dimension does not show an effect. The results suggest that the CEO gender effect needs to be studied together with the dimension and the amount of power that the CEO holds.

Keywords: Gender, CEO Power, Leverage

JEL Classification: G32, G34.

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MODULAR NETWORKS AND GENERALISED FEED FROWARD NETWORKS WITHIN HYBRIDS IN PORTFOLIO OPTIMISATION

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Abstract

I examine the Modular networks in 10 Neural and 40 Hybrid forms in a novel approach to investiogate multiple aspects of the modern portfolio theory: i) the investor behavior, ii) the incorporation of the behavior to the stochastic differential equations to describe the price efficiently under the new trends of Chaotic Dynamics described by Tsallis Statistics on entropy in the frame of Fractal Market Hypothesis, iii) the selection of the optimal classifier between 50 Modular networks compared to 60 Self Organised Features Mapsd and 70 Generalized Feed Forward models of plain and hybrid form and v) the examination of the integrated model EROS (2021) to perform financial intelligence allocating optimal portfolia.

Keywords: Genetic Algorithms, Modular Networks, Generalized Feed Forward, Portfolio Optimization, Entropy, Tsallis Statistics, Chaotic Dynamics, Stochastic Differential Equations

JEL Classification: G11, G12, G14, G17, G41

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MUTUAL FUND SELECTION AND THE INVESTMENT HORIZON

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Abstract

This paper examines how long-run investors should choose their mutual funds. Teaching the Sharpe ratio if return distributions are normal, the fund with the maximal Sharpe ratio is optimal for all investors with U'≥0, although the ranking is depended by the investment period, and the return distributions are not normal.

Keywords: Mutual Funds, Selection, Investment Horizon

JEL Classification: G1, G2

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EXAMINING VALUE RELEVANCE OF CASH FLOWS EVIDENCE FROM GCC BANKS

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Abstract:
The cash flow statement (CFS) is mandatorily disclosed by accounting standards. However, there is a longstanding debate on the informativeness of CFS, between bankers and analysts following banks on one hand and accounting standard setters on the other hand. This paper provides novel evidence on whether cash flows (CF) are value-relevant beyond the accounting earnings and book equity for a sample in emerging capital markets, more specifically Gulf Cooperation Council (GCC) countries. A panel of banks in the period 2007-2019 is examined for value relevance. The results further examine cash flows during the period of financial crisis (2007-2009) for distress predictive ability. Findings show limited value-relevance of CF beyond accounting earnings and the book value of equity. The value relevance improves significantly during the period of financial crisis, corroborating further research on CF distress predictive ability. This paper complements the scarce literature on the informativeness of CFS in a banking context and has practical implications for accounting standard setters and bank regulators in emerging markets.

Keywords: Value relevance; informativeness; cash flows; banks; financial crisis; emerging markets

JEL Classification: M41 G21 G01

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