Joint Conference

21st Annual Meeting of the German Finance Association
13th Symposium on Finance, Banking, and Insurance

Karlsruhe Institute of Technology (KIT)
December 19 - 20, 2014

DGF Deutsche Gesellschaft für Finanzwirtschaft German Finance Association

Symposium Finance, Banking, and Insurance

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Ladies and Gentlemen,

we welcome you to the joint conference of the 21st Annual Meeting of the German Finance Association (DGF) and the 13th Symposium on Finance, Banking, and Insurance held at the Karlsruhe Institute of Technology (KIT).

The goal of the conference is to bring together scholars and practitioners to discuss the latest theoretical and empirical research from all areas of banking, finance, and insurance. We are particularly delighted to welcome our keynote speaker Prof. Lubos Pastor from the University of Chicago. In his presentation "Are Active Managers Skilled?", he will evaluate the performance of actively managed mutual funds.

This conference would not have been possible without the support and help of numerous institutions and people. In particular, we thank our sponsors and partners, the DGF and the KIT for their generous support.

We wish you a very enjoyable time in Karlsruhe!

Sincerely

Martin Ruckes | Marliese Uhrig-Homburg

Maxim Ulrich | Christof Weinhardt

Contents

This conference is organized by Symposia FBV e.V. and supported by the German Finance Association (DGF) and Förderverein Finanzwirtschaft und Banken e.V. at the Karlsruhe Institute of Technology (KIT).

Information

General Information

Conf. Venue	Karlsruhe Institute of Technology (KIT) Kollegium am Schloss III Buildings 20.13, 20.14 Schlossbezirk 13-14 76131 Karlsruhe
Conf. Office	Building 20.13
Cafeteria	We offer free snacks and drinks during the coffee breaks in Building 20.13, Room 001.
Lunch	Lunch will be served at the Cafeteria.
Conf. Dinner	Schwarzwaldhalle, Festplatz 3, 76133 Karlsruhe Tram Line 5 (<u>not</u> S5) to stop *Konzerthaus*
Parking	Parkgarage Universität (Waldhornstraße), Parkgarage Schlossplatz Opening hours: 24/7, fee 1.50 EUR/hour, max 6.00 EUR/day
Internet	Free Wi-Fi access available (SSID: *wkit-802.1x*) Personalized login data is provided on your name tag.
Contact	Karlsruhe Institute of Technology (KIT) Institute for Finance, Banking, and Insurance P.O. Box 6980 76049 Karlsruhe, Germany Phone: +49 721 608-43427 Email: info@symposium-dgf2014.kit.edu Website: http://www.symposium-dgf2014.kit.edu

Registration & Conference Office

On Thursday, December 18, 2014, registration is possible at the get-together from 07:00 pm to 09:00 pm.

On Friday, December 19, 2014, and Saturday, December 20, 2014, the registration and information desk, located at Building 20.13, is open during the entire conference.

Get-together

The get-together at BBBank headquarters (Herrenstr. 2–10, 76133 Karlsruhe) takes place at December 18, 2014. The event starts at 07:00 pm. Food and beverages are provided by the host of the evening, BBBank eG.

Public Transportation

If you are traveling to Karlsruhe by train, it is best to use the public transportation system of the Karlsruhe Transport Authority (KVV) to get to the conference venue. Please exit at the stop **Kronenplatz** or **Marktplatz**. From any of these stops, the conference venue can be reached in 5 minutes walking distance.

Taxi Phone Numbers

Taxizentrale Karlsruhe:	+49 721 944 144
Minicar Karlsruhe:	+49 721 565 050

Keynote Presentation

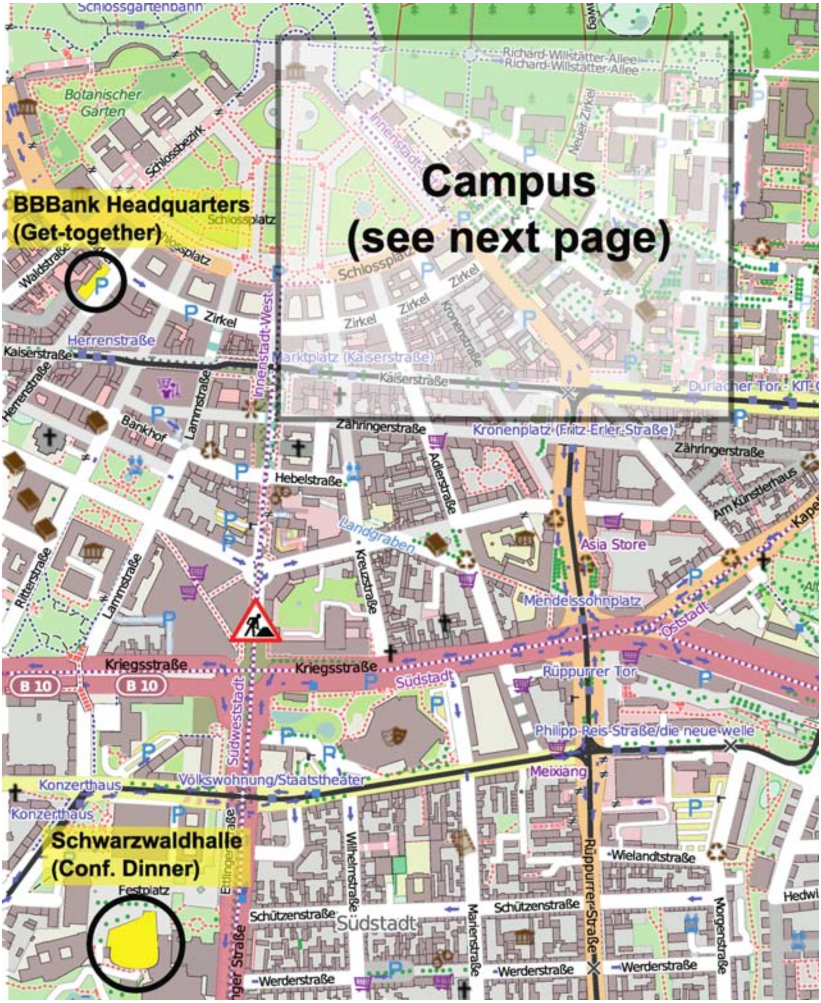
Prof. Lubos Pastor: Are Active Managers Skilled?
Friday, December 19, 2014, 04:00 pm, Building 11.40, Tulla Hörsaal

Lubos Pastor is the Charles P. McQuaid Professor of Finance at the University of Chicago Booth School of Business. He is also co-director of the Fama-Miller Center for Research in Finance, Vice President of the Western Finance Association, member of the CRSP Indexes Advisory Council, Research Associate at the National Bureau of Economic Research, and Research Fellow at the Centre for Economic Policy and Research. In addition, he is an Associate Editor of the Journal of Finance and Journal of Financial Economics, and a former Associate Editor of the Review of Financial Studies.

Selected Publications:

- With Pietro Veronesi, "Uncertainty about government policy and stock prices," Journal of Finance (2012).
- With Robert F. Stambaugh, "On the size of the active management industry," Journal of Political Economy (2012).
- With Robert F. Stambaugh, "Are stocks really less volatile in the long run?," Journal of Finance (2012).
- With Pietro Veronesi, "Technological revolutions and stock prices," American Economic Review (2009).
- With Robert F. Stambaugh, "Liquidity risk and expected stock returns," Journal of Political Economy (2003).

Maps


Campus
(see next page)
BBBank Headquarters
(Get-together)
Schwarzwaldhalle
(Conf. Dinner)
Botanischer Garten
Schlossbezirk
Schlossplatz
Zirkel
Herrenstraße
Kaiserstraße
Marktplatz (Kaiserstraße)
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Morgenstraße
Richard-Willstätter-Allee
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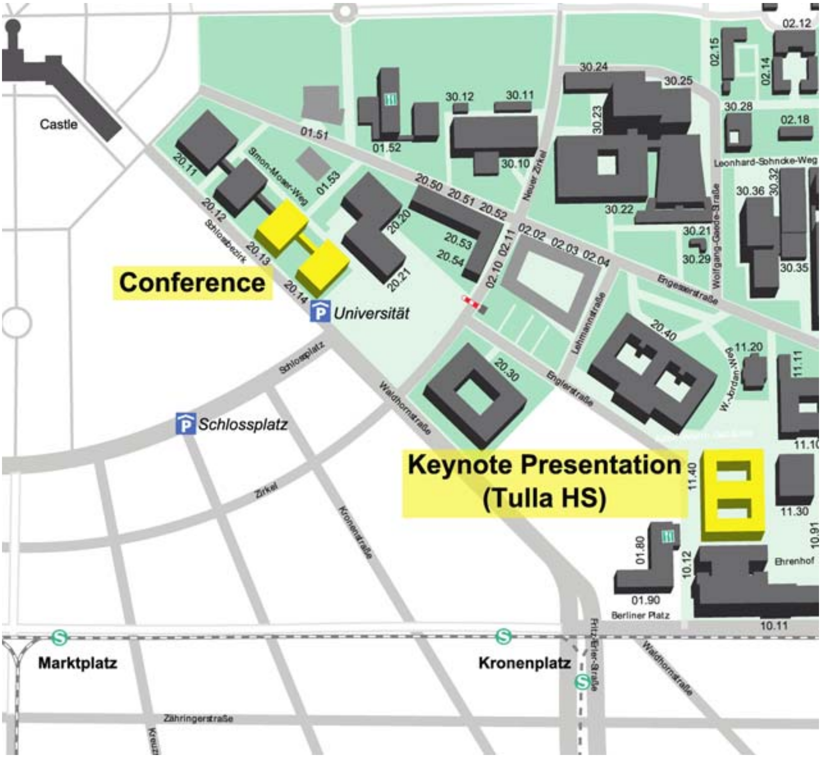
Durlacher Tor - KIT


Castle
Conference
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Fritz-Erler-Straße
Berliner Platz
Ehrenhof
Zirkel
Neuer Zirkel

Program Overview

Thursday, December 18, 2014

09:00 am – 05:15 pm: PhD workshop (see p. 13)
Location: Building 20.13, Room 110 (first floor)
Chair: Erik Theissen

07:00 pm: Get-together
Location: BBBank headquarters, Herrenstr. 2–10, 76133 Karlsruhe

Friday, December 19, 2014

08:00 am – 09:00 am: Breakfast
Location: Building 20.13, Room 001

09:00 am – 10:30 am: Sessions
Asset Pricing 1 – Building 20.13, Room 111 (first floor)
Banking 1 – Building 20.13, Room 109 (first floor)
Corporate Finance 1 – Building 20.13, Room 006
Household 1 – Building 20.14, Room 103.1 (first floor)
Microstructure 1 – Building 20.14, Room 103.2 (first floor)

10:30 am – 11:00 am: Coffee Break
Location: Building 20.13, Room 001

11:00 am – 12:30 pm: Sessions
Asset Pricing 2 – Building 20.13, Room 111 (first floor)
Banking 2 – Building 20.13, Room 109 (first floor)
Corporate Finance 2 – Building 20.13, Room 006
Delegated Investing 1 – Building 20.14, Room 103.2 (first floor)
Household 2 – Building 20.14, Room 103.1 (first floor)

12:30 pm – 02:00 pm: Lunch Break
Location: Building 20.13, Room 001

02:00 pm – 03:30 pm: Sessions
Asset Pricing 3 – Building 20.13, Room 111 (first floor)
Banking 3 – Building 20.13, Room 109 (first floor)
Corporate Finance 3 – Building 20.13, Room 006
Focus Session: Asset Management – Building 20.14, R. 103.2
Insurance 1 – Building 20.14, Room 103.1 (first floor)

03:30 pm – 04:00 pm: Coffee Break
Location: Building 20.13, Room 001

04:00 pm – 05:15 pm: Keynote Presentation (Prof. Lubos Pastor)
Location: Building 11.40, Tulla Hörsaal

05:30 pm – 06:30 pm: DGF Annual Meeting
Location: Building 11.40, Tulla Hörsaal

07:00 pm: Conference Dinner
Location: Schwarzwaldhalle, Festplatz 3, 76133 Karlsruhe

Saturday, December 20, 2014

08:30 am – 09:00 am: Breakfast
Location: Building 20.13, Room 001

09:00 am – 10:30 am: Sessions
Asset Pricing 4 – Building 20.13, Room 111 (first floor)
Banking 4 – Building 20.13, Room 109 (first floor)
Corporate Finance 4 – Building 20.13, Room 006
Household 3 – Building 20.14, Room 103.1 (first floor)
Microstructure 2 – Building 20.14, Room 103.2 (first floor)

10:30 am – 11:00 am: Coffee Break
Location: Building 20.13, Room 001

11:00 am – 12:30 pm: Sessions
Asset Pricing 5 – Building 20.13, Room 111 (first floor)
Banking 5 – Building 20.13, Room 109 (first floor)
Corporate Finance 5 – Building 20.13, Room 006
Delegated Investing 2 – Building 20.14, Room 103.2 (first floor)
Insurance 2 – Building 20.14, Room 103.1 (first floor)

12:30 pm – 02:00 pm: Lunch & Departure
Location: Building 20.13, Room 001

PhD Workshop

Date: Thursday, December 18, 2014
Location: Building 20.13, Room 110 (first floor)

Session 1: 09:00 am – 10:30 am

- *Preisbildung und Spekulation an Rohstoffmärkten*
  Bosch, David (HU Berlin)
- *Zur Rolle von Finanzderivaten bei der Genese und Analyse von Volatilität auf Rohwarenmärkten*
  Schluessler, Kristina (Universität Göttingen)

Session 2: 11:00 am – 12:30 pm

- *Far from Close Economic Substitutes: The Effect of Volatility and Correlation on Pairs Trading*
  Riedinger, Stephanie (Katholische Universität Eichstätt-Ingolstadt)
- *Firm Characteristics and Portfolio Choice Problems*
  Croessmann, Roman (LMU München)

Lunch Break: 12:30 pm – 01:45 pm

Session 3: 01:45 pm – 03:15 pm

- *Essays in Market Microstructure*
  Johann, Thomas (Universität Mannheim)
- *The Impact of Option Use on Mutual Fund Performance*
  Natter, Markus (Universität Augsburg)

Session 4: 03:45 pm – 05:15 pm

- *Essays in Theoretical Asset Pricing*
  Grüning, Patrick (Goethe-Universität Frankfurt)
- *Aggregate Uncertainty and the Cross Section of Stock Returns*
  Hollstein, Fabian (Zeppelin-Universität Friedrichshafen)

Academic Program: Overview

Friday, December 19, 2014: 09:00 am – 10:30 am

Asset Pricing 1: *Empirical Asset Pricing*

Location: Building 20.13, Room 111 (first floor)
Chair: Schlag, Christian (Goethe University Frankfurt)

Forward-Looking Measures of Higher-Order Dependencies with an Application to Portfolio Selection
Brinkmann, Felix[1]; Kempf, Alexander[2]; Korn, Olaf[1]
1: Georg-August University Göttingen, Germany; 2: University of Cologne, Germany
Presenting Author: Korn, Olaf
Discussant: Schlag, Christian (Goethe University Frankfurt)

Linear Factor Models and the Estimation of Risk Premiums
Sarisoy, Cisil; Werker, Bas; de Goeij, Peter
Tilburg University, Netherlands
Presenting Author: Sarisoy, Cisil
Discussant: Karapandza, Rasa (European Business School)

Consumption-Based Asset Pricing with Rare Disaster Risk - A Simulated Method of Moments Approach
Soenksen, Jantje[1]; Grammig, Joachim[1,2]
1: University of Tübingen, Germany; 2: Centre for Financial Research, Cologne, Germany
Presenting Author: Grammig, Joachim
Discussant: Korn, Olaf (Georg-August University Göttingen)

Banking 1: *Bank Funding*

Location: Building 20.13, Room 109 (first floor)
Chair: Wrampelmeyer, Jan (University of St. Gallen)

The Bank Lending Channel of Financial Integration

Inderst, Roman[1,2]; Pfeil, Sebastian[1]; Fecht, Falko[3]
1: Goethe University Frankfurt, Germany; 2: Imperial College London, UK; 3: Frankfurt School of Finance & Management, Germany

Presenting Author: Pfeil, Sebastian
Discussant: Hakenes, Hendrik (University of Bonn)

Volatile Lending and Bank Wholesale Funding

Dinger, Valeriya[1]; Craig, Ben[2]
1: University of Osnabrück, Germany; 2: Deutsche Bundesbank and Federal Reserve Bank of Cleveland

Presenting Author: Dinger, Valeriya
Discussant: Keiber, Karl Ludwig (European University Viadrina)

The Euro Interbank Repo Market

Mancini, Loriano[1,2]; Ranaldo, Angelo[3]; Wrampelmeyer, Jan[3]
1: Swiss Finance Institute, Switzerland; 2: EPF Lausanne, Switzerland; 3: University of St. Gallen, Switzerland

Presenting Author: Wrampelmeyer, Jan
Discussant: Grunert, Jens (University of Tübingen)

Corporate Finance 1: *Fairness Concerns*

Location: Building 20.13, Room 006
Chair: Niessen-Ruenzi, Alexandra (University of Mannheim)

Are Female Top Managers Really Paid Less?
Geiler, Philipp[1]; Renneboog, Luc[2]
1: EMLYON Business School, France; 2: Tilburg University, Netherlands
Presenting Author: Geiler, Philipp
Discussant: Niessen-Ruenzi, Alexandra (University of Mannheim)

A Friendly Turn: Advertising Bias in the News Media
Focke, Florens; Niessen-Ruenzi, Alexandra; Ruenzi, Stefan
University of Mannheim, Germany
Presenting Author: Focke, Florens
Discussant: Oesch, David (University of Zurich)

Do capital markets discriminate against analysts with foreign sounding names?
Kerl, Alexander; Schäfer, Nils
University of Giessen, Germany
Presenting Author: Schäfer, Nils
Discussant: Martin, Jens (University of Amsterdam)

Household 1: *Cognitive Aspects*

Location: Building 20.14, Room 103.1 (first floor)
Chair: Goedde-Menke, Michael (University of Münster)

Financial Loss Aversion Illusion
Merkle, Christoph
University of Mannheim, Germany
Presenting Author: Merkle, Christoph
Discussant: Goedde-Menke, Michael (University of Münster)

How Does Investor Confidence Lead to Trading? Theory and Evidence on the Links between Investor Return Experiences, Confidence, and Investment Beliefs
Hoffmann, Arvid; Post, Thomas
Maastricht University, Netherlands
Presenting Author: Hoffmann, Arvid
Discussant: Merkle, Christoph (University of Mannheim)

Information Processing and Non-Bayesian Learning in Financial Markets
Schraeder, Stefanie
University of Lausanne, Switzerland
Presenting Author: Schraeder, Stefanie
Discussant: Hillebrand, Marten (Karlsruhe Institute of Technology)

Microstructure 1: *Market Microstructure 1*

Location: Building 20.14, Room 103.2 (first floor)
Chair: Riordan, Ryan Joseph (University of Ontario Institute of Technology)

Journalist Disagreement

Hillert, Alexander; Jacobs, Heiko; Müller, Sebastian
University of Mannheim, Germany
Presenting Author: Jacobs, Heiko
Discussant: Elaut, Gert (Ghent University)

Media-Driven High Frequency Trading: Evidence from News Analytics

von Beschwitz, Bastian[1]; Keim, Donald[2]; Massa, Massimo[3]
1: Federal Reserve Board, Germany; 2: The Wharton School of the University of Pennsylvania, USA; 3: INSEAD, France
Presenting Author: von Beschwitz, Bastian
Discussant: Riordan, Ryan Joseph (University of Ontario Institute of Technology)

High Frequency Trading and the 2008 Short Sale Ban

Riordan, Ryan Joseph; Hendershott, Terrence; Brogaard, Jonathan
University of Ontario Institute of Technology, Canada
Presenting Author: Riordan, Ryan Joseph
Discussant: Westheide, Christian (University of Mannheim)

Friday, December 19, 2014: 11:00 am – 12:30 pm

Asset Pricing 2: *Credit Risk*

Location: Building 20.13, Room 111 (first floor)
Chair: Berndt, Antje (North Carolina State University)

Rolling over Corporate Bonds: How Market Liquidity affects Credit Risk
Nagler, Florian
Vienna Graduate School of Finance, Austria
Presenting Author: Nagler, Florian
Discussant: Merrick, John J. (College of William and Mary)

Safe-Haven CDS Premia
Klingler, Sven; Lando, David
Copenhagen Business School, Denmark
Presenting Author: Klingler, Sven
Discussant: Berndt, Antje (North Carolina State University)

Decomposing CDS Spreads and Their Variation
Berndt, Antje
North Carolina State University, USA
Presenting Author: Berndt, Antje
Discussant: Nagler, Florian (Vienna Graduate School of Finance)

Banking 2: *Organization of Banks*

Location: Building 20.13, Room 109 (first floor)
Chair: Kirschenmann, Karolin (Aalto University School of Business)

Powerful parents? The local impact of banks' global business models

De Haas, Ralph[1]; Kirschenmann, Karolin[2]
1: European Bank for Reconstruction and Development; 2: Aalto University School of Business, Finland
Presenting Author: Kirschenmann, Karolin
Discussant: Berg, Tobias (University of Bonn)

Tail risk, capital requirements and the internal agency problem in banks

Klimenko, Nataliya
University of Zurich, Switzerland
Presenting Author: Klimenko, Nataliya
Discussant: Schempp, Paul (University of Bonn)

Playing the devil's advocate: The causal effect of risk management on loan quality

Berg, Tobias
University of Bonn, Germany
Presenting Author: Berg, Tobias
Discussant: Wrampelmeyer, Jan (University of St. Gallen)

Corporate Finance 2: *Cash, Investment & Industry Effects*

Location: Building 20.13, Room 006
Chair: Schneider, Christoph (University of Mannheim)

Conglomerate Investment, Skewness, and the CEO Long Shot Bias
Schneider, Christoph; Spalt, Oliver
University of Mannheim, Germany
Presenting Author: Schneider, Christoph
Discussant: Glaser, Markus (LMU Munich)

Industry Competition, Winner's Advantage, and Cash Holdings
Ma, Liang; Mello, Antonio; Wu, Youchang
University of Wisconsin-Madison, USA
Presenting Author: Mello, Antonio
Discussant: Strobl, Günter (Frankfurt School of Finance & Management)

The real costs of industry contagion
Garcia-Appendini, Emilia
University of St. Gallen, Switzerland
Presenting Author: Garcia-Appendini, Emilia
Discussant: Schneider, Christoph (University of Mannheim)

Delegated Investing 1: *Mutual Funds*

Location: Building 20.14, Room 103.2 (first floor)
Chair: Halling, Michael (Stockholm School of Economics)

Mutual Fund Leverage

Klipper, Laurenz; Adam, Tim R.
Humboldt University Berlin, Germany

Presenting Author: Klipper, Laurenz
Discussant: Halling, Michael (Stockholm School of Economics)

Violations of the Law of One Fee in the Mutual Fund Industry

Cooper, Michael[2]; Halling, Michael[1]; Lemmon, Michael[2]
1: Stockholm School of Economics, Sweden; 2: University of Utah, USA

Presenting Author: Halling, Michael
Discussant: Trapp, Monika (University of Cologne)

Crystallization – the Hidden Dimension of Hedge Funds' Fee Structure

Elaut, Gert[1]; Frömmel, Michael[1]; Sjödin, John[2]
1: Ghent University, Belgium; 2: RPM Risk & Portfolio Management

Presenting Author: Elaut, Gert

Household 2: *Household Finance*

Location: Building 20.14, Room 103.1 (first floor)
Chair: Entrop, Oliver (University of Passau)

The Willingness to Pay, Accept and Retire
Schreiber, Philipp; Weber, Martin
University of Mannheim, Germany
Presenting Author: Schreiber, Philipp
Discussant: Meyer, Steffen (Goethe University Frankfurt)

Informational Synergies in Consumer Credit
Gürtler, Marc[1]; Hibbeln, Martin[1]; Norden, Lars[2]; Usselmann, Piet[1]
1: TU Braunschweig, Germany; 2: Erasmus University Rotterdam, Netherlands
Presenting Author: Hibbeln, Martin
Discussant: Entrop, Oliver (University of Passau)

Mortgage Lending: Banks' Competition and Customers' Behavior
Lukas, Moritz; Nöth, Markus
University of Hamburg, Germany
Presenting Author: Lukas, Moritz
Discussant: Hoffmann, Arvid (Maastricht University)

Friday, December 19, 2014: 02:00 pm – 03:30 pm

Asset Pricing 3: *Risk Premia*

Location: Building 20.13, Room 111 (first floor)
Chair: Hirth, Stefan (Aarhus University)

Common Risk Factors in Equity Markets
Atanasov, Victoria
VU University Amsterdam, Netherlands
Presenting Author: Atanasov, Victoria
Discussant: Sarisoy, Cisil (Tilburg University)

The Rate of Market Efficiency
Karapandza, Rasa[1]; Marin, Jose M.[2]
1: European Business School, Germany; 2: Charles III University Madrid, Spain
Presenting Author: Karapandza, Rasa
Discussant: Atanasov, Victoria (VU University Amsterdam)

Liquidity Risk and Distressed Equity
Medhat, Mamdouh
Copenhagen Business School, Denmark
Presenting Author: Medhat, Mamdouh
Discussant: Hirth, Stefan (Aarhus University)

Banking 3: *Intermediaries and Corporate Debt*

Location: Building 20.13, Room 109 (first floor)
Chair: Hakenes, Hendrik (University of Bonn)

Credit Ratings: Strategic Issuer Disclosure and Optimal Screening
Cohn, Jonathan[2]; Rajan, Uday[3]; Strobl, Günter[1]
1: Frankfurt School of Finance & Management, Germany; 2: McCombs School of Business, University of Texas, USA; 3: University of Michigan Ross School of Business, USA
Presenting Author: Strobl, Günter
Discussant: Schliephake, Eva (University of Bonn)

Separating Trading and Banking: Consequences for Financial Stability
Hakenes, Hendrik[1,3,4]; Schnabel, Isabel[2,3,4]
1: University of Bonn, Germany; 2: Gutenberg University Mainz, Germany; 3: Max Planck Institute Bonn, Germany; 4: Centre for Economic Policy Research
Presenting Author: Hakenes, Hendrik
Discussant: Klimenko, Nataliya (University of Zurich)

Outside Liquidity, Rollover Risk and Government Bonds
Schempp, Paul
University of Bonn, Germany
Presenting Author: Schempp, Paul
Discussant: Korte, Josef (Goethe University Frankfurt)

Corporate Finance 3: *Private Equity & Asset Sales*

Location: Building 20.13, Room 006
Chair: Betzer, André (University of Wuppertal)

Corporate aging and asset sales

Berchtold, Demian Simon; Loderer, Claudio; Wälchli, Urs
University of Bern, Switzerland

Presenting Author: Wälchli, Urs
Discussant: Münkel, Florian (Saint Mary's University Halifax Sobey School of Business)

Inorganic Growth Strategies in Private Equity: Empirical Evidence on Add-on Acquisitions

Hammer, Benjamin; Knauer, Alexander; Pfluecke, Magnus; Schwetzler, Bernhard
HHL Leipzig Graduate School of Management, Germany

Presenting Author: Knauer, Alexander
Discussant: Hibbeln, Martin (TU Braunschweig)

Agency costs and investor returns in private equity: Consequences for secondary buyouts

Degeorge, Francois[1]; Martin, Jens[2]; Phalippou, Ludovic[3]
1: University of Lugano, Switzerland; 2: University of Amsterdam, Netherlands; 3: University of Oxford, Said Business School, and Oxford-Man Institute, UK

Presenting Author: Martin, Jens
Discussant: Demirici, Irem (University of Mannheim)

Focus Session: *Asset Management*

Location: Building 20.14, Room 103.2 (first floor)
Chair: Göppl, Hermann (Karlsruhe Institute of Technology)

Challenges of Quantitative Investment Engineering

Paulus, Helmut
Quoniam Asset Management GmbH

Presenting Author: Paulus, Helmut

Asset Markets and the Macroeconomy

Ulrich, Maxim
Karlsruhe Institute of Technology, Germany

Presenting Author: Ulrich, Maxim

Insurance 1: *Economics of Insurance*

Location: Building 20.14, Room 103.1 (first floor)
Chair: Braun, Alexander (University of St. Gallen)

Dynamic Hybrid Products in Life Insurance: Assessing the Policyholders' Viewpoint

Bohnert, Alexander[1]; Born, Patricia[2]; Gatzert, Nadine[1]

1: FAU Erlangen-Nuremberg, Germany; 2: Florida State University, USA

Presenting Author: Bohnert, Alexander
Discussant: Schuster, Philipp (Karlsruhe Institute of Technology)

Is the Risk-based Mechanism Always Better? The Risk-shifting Behavior of Insurers under Different Insurance Guarantee Schemes

Dong, Ming[1]; Gründl, Helmut[2]; Schlütter, Sebastian[3]

1: Goethe University Frankfurt, Germany; 2: Goethe University Frankfurt, Germany; 3: Allianz Global Corporate & Specialty AG

Presenting Author: Schlütter, Sebastian
Discussant: Bohnert, Alexander (FAU Erlangen-Nuremberg)

Systemic Risk and Interconnectedness in the Financial Industry: Implications on Regulation of Financial Conglomerates

Rauch, Jannes[1]; Grace, Martin[2]; Wende, Sabine[1]

1: University of Cologne, Germany; 2: Georgia State University, USA

Presenting Author: Rauch, Jannes
Discussant: Braun, Alexander (University of St. Gallen)

Saturday, December 20, 2014: 09:00 am – 10:30 am

Asset Pricing 4: *Macro Finance*

Location: Building 20.13, Room 111 (first floor)
Chair: Branger, Nicole (University of Münster)

Nominal Rigidities and Asset Pricing
Weber, Michael
University of California-Berkeley, USA
Presenting Author: Weber, Michael
Discussant: Branger, Nicole (University of Münster)

Asset Pricing under Uncertainty about Shock Propagation
Branger, Nicole[2]; Grüning, Patrick[1]; Kraft, Holger[1]; Meinerding, Christoph[1]; Schlag, Christian[1]
1: Goethe University Frankfurt, Germany; 2: University of Münster, Germany
Presenting Author: Grüning, Patrick
Discussant: Franke, Günter (University of Konstanz)

Production technology and systematic risk
Obernberger, Stefan; Siewert, Jan
University of Mannheim, Germany
Presenting Author: Obernberger, Stefan
Discussant: Weber, Michael (University of Chicago)

Banking 4: *Small Business Financing*

Location: Building 20.13, Room 109 (first floor)
Chair: Löffler, Gunter (Ulm University)

How the bank's capitalization and environment influence its interest and liquidity risk

Nicklas, Holger[1]; Schweikhard, Frederic[2]

1: Goethe University Frankfurt, Germany; 2: University of Oxford, UK

Presenting Author: Nicklas, Holger
Discussant: Dinger, Valeriya (University of Osnabrück)

Do SMEs counter a shock to their bank debt with trade credit?

Illueca Munoz, Manuel[2]; Norden, Lars[1,3]; Van Kampen, Stefan[1]

1: Erasmus University Rotterdam, Netherlands; 2: Jaume I University, Spain; 3: Duisenberg School of Finance, Netherlands

Presenting Author: Van Kampen, Stefan
Discussant: Kirschenmann, Karolin (Aalto University School of Business)

Communication and Relationship Banking

Ingermann, Peter-Hendrik; Goedde-Menke, Michael

University of Münster, Germany

Presenting Author: Goedde-Menke, Michael
Discussant: Löffler, Gunter (Ulm University)

Corporate Finance 4: *Corporate Governance*

Location: Building 20.13, Room 006
Chair: Metzger, Daniel (Stockholm School of Economics)

Why Do Shareholder Votes Matter?
Metzger, Daniel; Bach, Laurent
Stockholm School of Economics, Sweden
Presenting Author: Metzger, Daniel
Discussant: Fahlenbrach, Ruediger (EPF Lausanne)

Ownership structure and firm value: Evidence from mergers of institutional investors
Münkel, Florian
Saint Mary's University Halifax Sobey School of Business, Canada
Presenting Author: Münkel, Florian
Discussant: Metzger, Daniel (Stockholm School of Economics)

Managerial Voting Power and Firm Value
Bröcker, Matthias[2]; Glaser, Markus[2]; Sautner, Zacharias[1]
1: Frankfurt School of Finance & Management, Germany; 2: LMU Munich, Germany
Presenting Author: Bröcker, Matthias
Discussant: Limbach, Peter (Karlsruhe Institute of Technology)

Household 3: *Trading Behavior*

Location: Building 20.14, Room 103.1 (first floor)
Chair: Nöth, Markus (University of Hamburg)

What Makes Individual Investors Exercise Early? Empirical Evidence from the Fixed-Income Market
Eickholt, Mathias[1]; Entrop, Oliver[1]; Wilkens, Marco[2]
1: University of Passau, Germany; 2: University of Augsburg, Germany
Presenting Author: Entrop, Oliver
Discussant: Lukas, Moritz (University of Hamburg)

Glued to the TV: The Trading Activity of Distracted Investors
Schmidt, Daniel; Peress, Joel
HEC Paris, France
Presenting Author: Schmidt, Daniel
Discussant: Jacobs, Heiko (University of Mannheim)

Individual Investors' Trading Motives and Security Selling Behavior
Weber, Joachim; Loos, Benjamin; Meyer, Steffen; Hackethal, Andreas
Goethe University Frankfurt, Germany
Presenting Author: Meyer, Steffen
Discussant: Schmidt, Daniel (HEC Paris)

Microstructure 2: *Market Microstructure 2*

Location: Building 20.14, Room 103.2 (first floor)
Chair: Merrick, John J. (College of William and Mary)

The Propagation of shocks across international equity markets: a microstructure perspective

Bongaerts, Dion[1]; Roll, Richard[2]; Rösch, Dominik[1]; van Dijk, Mathijs[1]; Yuferova, Darya[1]

1: Erasmus University Rotterdam, Netherlands; 2: UCLA Anderson School, USA

Presenting Author: Rösch, Dominik
Discussant: Grammig, Joachim (University of Tübingen)

Illiquidity Transmission From Spot to Futures Markets

Krischak, Paolo[1]; Korn, Olaf[1]; Theissen, Erik[2]

1: Georg-August University Göttingen, Germany; 2: University of Mannheim, Germany

Presenting Author: Krischak, Paolo
Discussant: Koziol, Christian (University of Tübingen)

Financial intermediaries in the midst of market manipulation: Did they protect the fool or help the knave?

Atanasov, Vladimir[1]; Davies, Ryan J.[2]; Merrick, John J.[1]

1: College of William and Mary, USA; 2: Babson College, USA

Presenting Author: Merrick, John J.
Discussant: von Beschwitz, Bastian (Federal Reserve Board)

Saturday, December 20, 2014: 11:00 am – 12:30 pm

Asset Pricing 5: *Volatility*

Location: Building 20.13, Room 111 (first floor)
Chair: Schienle, Melanie (Leibniz University Hannover)

Jump and Variance Risk Premia in the S&P 500

Neumann, Max[2]; Prokopczuk, Marcel[1]; Wese Simen, Chardin[3]
1: Leibniz University Hannover, Germany; 2: TU Munich, Germany; 3: University of Liverpool, UK

Presenting Author: Prokopczuk, Marcel
Discussant: Weisheit, Stefan (University of Bamberg)

A GARCH-Parametrization of the Volatility Surface

Mazzoni, Thomas
University of Greifswald, Germany

Presenting Author: Mazzoni, Thomas
Discussant: Schienle, Melanie (Leibniz University Hannover)

International Stochastic Discount Factors and Stochastic Correlation

Branger, Nicole[1]; Herold, Michael[2]; Muck, Matthias[2]
1: University of Münster, Germany; 2: University of Bamberg, Germany

Presenting Author: Herold, Michael
Discussant: Prokopczuk, Marcel (Leibniz University Hannover)

Banking 5: *Consequences of Regulation*

Location: Building 20.13, Room 109 (first floor)
Chair: Fahlenbrach, Ruediger (EPF Lausanne)

When Banks Strategically React to Regulation: Market Concentration as a Moderator for Stability
Schliephake, Eva
University of Bonn, Germany
Presenting Author: Schliephake, Eva
Discussant: Pfeil, Sebastian (Goethe University Frankfurt)

Undercover Risk-taking? The Volcker Rule and its Preliminary Effects
Keppo, Jussi Samuli[1]; Korte, Josef[2]
1: NUS Business School, Singapore; 2: Goethe University Frankfurt, Germany
Presenting Author: Korte, Josef
Discussant: Pfingsten, Andreas (University of Münster)

Why Do Banks Practice Regulatory Arbitrage? Evidence from Usage of Trust Preferred Securities
Fahlenbrach, Ruediger[1]; Boyson, Nicole[2]; Stulz, Rene[3]
1: EPF Lausanne, Switzerland; 2: Northeastern University, USA; 3: The Ohio State University, USA
Presenting Author: Fahlenbrach, Ruediger
Discussant: Norden, Lars (Erasmus University Rotterdam)

Corporate Finance 5: *Information & Incentives*

Location: Building 20.13, Room 006
Chair: Oesch, David (University of Zurich)

Financial Constraints and Corporate Disclosure
Oesch, David[1]; Irani, Rustom[2]
1: University of St. Gallen, Switzerland; 2: University of Illinois at Urbana Champaign, USA
Presenting Author: Oesch, David
Discussant: Curatola, Giuliano (Goethe University Frankfurt)

Actual Share Repurchases, Price Efficiency, and the Information Content of Stock Prices
Busch, Pascal; Obernberger, Stefan
University of Mannheim, Germany
Presenting Author: Busch, Pascal
Discussant: Geiler, Philipp (EMLYON Business School)

Executive compensation structure and credit spreads
Colonnello, Stefano[1]; Curatola, Giuliano[2]; Hoang, Giang Ngoc[1]
1: EPF Lausanne, Switzerland; 2: Goethe University Frankfurt, Germany
Presenting Author: Colonnello, Stefano
Discussant: Busch, Pascal (University of Mannheim)

Delegated Investing 2: *Investment Management*

Location: Building 20.14, Room 103.2 (first floor)
Chair: Müller, Sebastian (University of Mannheim)

Do Mutual Funds Outperform During Recessions? International Evidence

Fink, Christopher[1]; Weigert, Florian[2]; Raatz, Katharina[3]
1: University of Mannheim, Germany; 2: University of St. Gallen, Switzerland; 3: DWS Asset Management
Presenting Author: Weigert, Florian
Discussant: Jaspersen, Stefan (University of Cologne)

Hedge Fund Innovation

Zamojski, Marcin[1]; Siegmann, Arjen[1]; Stefanova, Denitsa[2]
1: VU University Amsterdam, Netherlands; 2: University of Luxembourg, Luxembourg
Presenting Author: Zamojski, Marcin
Discussant: Weigert, Florian (University of St. Gallen)

Are Professional Investment Managers Skilled? Evidence from Syndicated Loan Portfolios

Liebscher, Roberto; Mählmann, Thomas
Catholic University of Eichstätt-Ingolstadt, Germany
Presenting Author: Liebscher, Roberto
Discussant: Müller, Sebastian (University of Mannheim)

Insurance 2: *Insurance and Consumption Decisions*

Location: Building 20.14, Room 103.1 (first floor)
Chair: Kraft, Holger (Goethe University Frankfurt)

Early Default Risk and Surrender Risk: Impacts on Participating Life Insurance Policies

Cheng, Chunli[1]; Li, Jing[2]
1: Bonn Graduate School of Economics, Germany; 2: University of Bonn, Germany
Presenting Author: Li, Jing
Discussant: Meinerding, Christoph (Goethe University Frankfurt)

Portfolio Optimization Under Solvency II: Implicit Constraints Imposed by the Market Risk Standard Approach

Braun, Alexander; Schmeiser, Hato; Schreiber, Florian
University of St. Gallen, Switzerland
Presenting Author: Schreiber, Florian
Discussant: Seifried, Frank Thomas (TU Kaiserslautern)

Consumption and Wage Humps in a Life-Cycle Model with Education

Kraft, Holger[1]; Munk, Claus[2]; Seifried, Frank Thomas[3]; Steffensen, Mogens[4]
1: Goethe University Frankfurt, Germany; 2: Copenhagen Business School, Denmark; 3: University of Kaiserslautern, Germany; 4: University of Copenhagen, Denmark
Presenting Author: Kraft, Holger
Discussant: Li, Jing (University of Bonn)

Abstracts

Asset Pricing 1: *Empirical Asset Pricing*

Forward-Looking Measures of Higher-Order Dependencies with an Application to Portfolio Selection

Brinkmann, Felix[1]; Kempf, Alexander[2]; Korn, Olaf[1]
1: Georg-August University Göttingen, Germany; 2: University of Cologne, Germany

This paper provides implied measures of higher-order dependencies between assets. The measures exploit only forward-looking information from the options market and can be used to construct an implied estimator of the covariance, co-skewness, and co-kurtosis matrices of asset returns. We implement the estimator using a sample of US stocks. We show that the higher-order dependencies vary heavily over time and identify several factors driving them. Furthermore, we run a portfolio selection exercise and show that investors can benefit from the better out-of-sample performance of our estimator compared to various historical benchmark estimators. The benefit is up to seven percent per year.

Linear Factor Models and the Estimation of Risk Premiums

Sarisoy, Cisil; Werker, Bas; de Goeij, Peter
Tilburg University, Netherlands

Estimating risk premiums, that is expected excess returns, on individual assets or portfolios is one of the most fundamental problems of finance research. The standard approach, using historical averages, generally produces noisy estimates. We show that correctly specified asset pricing models produce statistical efficiency gains of up to 20% when estimating risk premiums on individual assets or portfolios. If the factor model is misspecified in the sense of a possibly omitted factor, we show that these estimates may be inconsistent. However, consistency holds in case of traded factors and efficiency gains are possible over historical averages.

Consumption-Based Asset Pricing with Rare Disaster Risk - A Simulated Method of Moments Approach

Soenksen, Jantje[1]; Grammig, Joachim[1,2]

1: University of Tübingen, Germany; 2: Centre for Financial Research, Cologne, Germany

The rare disaster hypothesis suggests that the extraordinarily high postwar U.S. equity premium resulted because investors ex ante demanded compensation for unlikely but calamitous risks that they happened not to incur. Although convincing in theory, empirical tests of the rare disaster explanation are scarce. We estimate a disaster-including consumption-based asset pricing model using a novel econometric approach that combines the simulated method of moments and bootstrapping. The estimated preference parameters are of an economically plausible size and estimation precision is high. Our results thus provide empirical support for the rare disaster hypothesis, and help reconcile the nexus between real economy and financial markets implied by the consumption-based asset pricing paradigm.

Asset Pricing 2: *Credit Risk*

Rolling over Corporate Bonds: How Market Liquidity affects Credit Risk

Nagler, Florian
Vienna Graduate School of Finance, Austria

Structural credit risk models following He and Xiong (2012) argue that market liquidity affects credit risk via the rollover channel. This paper explores this relation in the US corporate bond market. A detailed analysis of bond rollover policies is provided. In order to test to what extent liquidity affects credit risk via bond rollover, a natural experiment by exploiting the exogenous variation in liquidity arising from the Lehman bankruptcy is employed. The results reveal that, (i) liquidity affects credit risk via rollover with a transaction cost shock of 100bp being associated with an overall average treatment effect of 185bp, (ii) the impact being increasing in the rollover rate, and (iii) being observable across the entire term-structure of yield spreads.

Safe-Haven CDS Premia

Klingler, Sven; Lando, David
Copenhagen Business School, Denmark

Sovereign bond issuers which act as safe havens during a crisis often experience decreasing bond yield spreads but increasing CDS premia during flight-to-quality episodes. We develop a model that explains this apparent disconnect between bond yields spreads and CDS premia. Banks entering into interest-rate swaps with sovereigns are willing to pay high CDS premia for capital relief purposes and investors are willing to sell CDS contracts either to obtain synthetic exposure to the sovereign or as part of a naked position. We justify key model assumptions by examining the regulatory setting that incentivizes banks to hedge changes in their so-called Credit Value Adjustments (CVA) arising from sovereign swap positions. The model's predictions are confirmed using data on several sovereigns.

Decomposing CDS Spreads and Their Variation

Berndt, Antje
North Carolina State University, USA

I decompose CDS spreads into expected losses, credit risk premia and residual spreads. For a pricing kernel that is successful in explaining equity data, expected losses and credit risk premia combined account for less than 45% of the level of credit spreads, consistent with sizable residual spreads. For residual spreads to be negligible, CDS market investors would have to be more risk averse (gamma=3.80) than equity market investors (gamma=2.45). In the absence of market segmentation, however, two thirds of the temporal variation and more than half of the cross-sectional variation in CDS spreads reflects variation in residual spreads.

Asset Pricing 3: *Risk Premia*

Common Risk Factors in Equity Markets

Atanasov, Victoria
VU University Amsterdam, Netherlands

A betting against consumption (BAC) factor, which goes long high consumption growth markets and short low consumption growth markets, explains most of the cross-sectional variation in returns on equity portfolios from 47 developed and emerging markets over a four-decade period. High sensitivity to BAC is associated with high average returns and commands a pervasive and statistically significant premium. This risk premium is about 50 to 80 basis points per month and has increased in recent years. By investing in high BAC beta markets, investors load up on common macroeconomic risks.

The Rate of Market Efficiency

Karapandza, Rasa[1]; Marin, Jose M.[2]
1: European Business School, Germany; 2: Charles III University Madrid, Spain

We define two measures: the Model Performance Ratio (MPR), which ranks asset pricing models based on their ability to price random portfolios, and the Rate of Market Efficiency (RME), which measures market efficiency assuming the best pricing model (largest MPR). We find that: (i) market efficiency has almost doubled in the last four decades; (ii) the CAPM is the best performing model among five linear factor specifi- cations. The first result is in sharp contrast with the evolution of thinking about market efficiency and the rise of behavioral finance; the second, casts serious doubts on the Fama and French paradigm.

Liquidity Risk and Distressed Equity

Medhat, Mamdouh
Copenhagen Business School, Denmark

Cash holdings used to offset liquidity risk can help rationalize the anomalous pricing of distressed equity. In a model with financing constraints, a levered firm optimally accumulates cash until its liquidity risk is eliminated. Because a liquid but insolvent firm has a large fraction of its assets in cash, it has low equity risk, which can rationalize low expected returns. Using data on rated US firms between 1970 and 2013, I find consistent evidence: i) The average insolvent firm is liquid; ii) in price regressions, liquidity coefficients decline as solvency deteriorates; iii) firm-specific betas and risk-adjusted returns decline as both solvency and liquidity deteriorate; and iv) double-sorted long-short portfolios have monotonically increasing returns as both solvency and liquidity deteriorate.

Asset Pricing 4: *Macro Finance*

Nominal Rigidities and Asset Pricing

Weber, Michael
University of California-Berkeley, USA

This paper examines the asset-pricing implications of nominal rigidities. I find that firms that adjust their product prices infrequently earn a cross-sectional return premium of more than 4% per year. Merging confidential product price data at the firm level with stock returns, I document that the premium for sticky-price firms is a robust feature of the data and is not driven by other firm and industry characteristics. The consumption-wealth ratio is a strong predictor of the return differential in the time series, and differential exposure to systematic risk fully explains the premium in the cross section. The sticky-price portfolio has a conditional market beta of 1.3, which is 0.4 higher than the beta of the flexible-price portfolio.

Asset Pricing under Uncertainty about Shock Propagation

Branger, Nicole[2]; Grüning, Patrick[1]; Kraft, Holger[1]; Meinerding, Christoph[1]; Schlag, Christian[1]

1: Goethe University Frankfurt, Germany; 2: University of Münster, Germany

We study a two-sector economy with two regimes. Each sector's output is driven by a jump-diffusion process, and a downward jump in one sector of the economy might trigger a shift to a regime where the likelihood of future jumps is higher. The true regime is unobservable, so that the representative Epstein-Zin investor has to filter the regime from observable data. These two channels lead to countercyclical and excessive return volatilities and correlations between sectors. Moreover, the model reproduces the predictability of stock returns in the data without generating consumption growth predictability. Finally, the possibility of jumps in one sector triggering higher overall jump probabilities boosts jump risk premia while uncertainty about the regime induces sizeable diffusive risk premia.

Production technology and systematic risk

Obernberger, Stefan; Siewert, Jan
University of Mannheim, Germany

Strategic interaction on product markets has a substantial influence on the financial characteristics of firms, but is often sidelined in corporate finance research. This study argues that a firm's exposure to systematic risk depends on its choice of production technology relative to the technology choices of its competitors. Firms that employ a common production technology are naturally hedged against price variation in input factors. Firms that use an unusual technology have to pay a risk premium on their equity if prices of the input factors are exposed to systematic risk. Using the implied cost of capital, we document that firms with unusual technology face higher firm-specific equity risk premiums for a U. S. sample between 1981 and 2009. In line with our argument, the effect is stronger in very competitive industries and when input prices are more volatile.

Asset Pricing 5: *Volatility*

Jump and Variance Risk Premia in the S&P 500

Neumann, Max[2]; Prokopczuk, Marcel[1]; Wese Simen, Chardin[3]
1: Leibniz University Hannover, Germany; 2: TU Munich, Germany; 3: University of Liverpool, UK

In this paper, we analyze the jump and variance risk premia embedded in the S&P 500 market. We use a long time-series of spot prices and a large panel of option prices for the period 1990-2010 to jointly estimate diffusive variance risk premia, price jump risk premia and variance jump risk premia. We find that these risk premia are statistically and economically significant. The risk premia are highly time-varying and co-move strongly, indicating that some common factors jointly drive all three market prices of risk. Motivated by this result, we investigate the economic drivers of the three different risk premia. Overall, we can explain up to 63% of the risk premia's variation.

A GARCH-Parametrization of the Volatility Surface

Mazzoni, Thomas
University of Greifswald, Germany

A new method to parameterize the local volatility surface is introduced. It is based on the representation of local variance as conditional expectation of instantaneous variance, and uses a GARCH-model with a Brownian bridge increment. The resulting formula for local volatility is represented in terms of a perturbation series, where first order corrections are already very small. The model can be easily calibrated, using Gatheral's most likely path approximation for implied volatility. The method is tested on a collection of 613 European style DAX index options and is shown to generate superior results compared to existing methods.

International Stochastic Discount Factors and Stochastic Correlation

Branger, Nicole[1]; Herold, Michael[2]; Muck, Matthias[2]
1: University of Münster, Germany; 2: University of Bamberg, Germany

We consider an analytical framework that aims at investigating the impact of stochastic covariance and thus stochastic correlation between international economies. Using a Wishart pure diffusion process, we model the covariance matrix of country-specific stochastic discount factors (SDF) to incorporate stochastic volatility and unspanned stochastic covariance. We infer the dynamic structure of the SDFs and the time series of latent state variables by embedding a nonlinear filter in a quasi maximum likelihood estimation approach. Our findings suggest that at the outbreak of the financial crisis in the second half of the year 2008 stochastic discount factors face a sharp decrease in correlation associated with high levels of exchange rate volatility. After a short adaption period, local correlations stabilize at high positive levels.

Banking 1: *Bank Funding*

The Bank Lending Channel of Financial Integration

Inderst, Roman[1,2]; Pfeil, Sebastian[1]; Fecht, Falko[3]
1: Goethe University Frankfurt, Germany; 2: Imperial College London, UK; 3: Frankfurt School of Finance & Management, Germany

We show how even absent regulatory impediments, banks may have insufficient incentives to contribute to greater financial integration by interbank lending or cross-border mergers. Notably, where banks are funded largely from insured deposits, our model predicts a high degree of fragmentation, even though integration would lead to greater regional diversification of risk and greater allocative efficiency. Interbank lending is particularly insufficient across regions where it would generate greater diversification of risk. Our model helps to explain why financial integration is still far from complete even in de jure homogeneous areas such as the Euro zone and it provides novel implications, notably on bank integration and the size of interbank connectedness.

Volatile Lending and Bank Wholesale Funding

Dinger, Valeriya[1]; Craig, Ben[2]

1: University of Osnabrück, Germany; 2: Deutsche Bundesbank and Federal Reserve Bank of Cleveland

We relate banks' choice between retail and wholesale liabilities to the volatility of bank assets. We argue that since the volume of retail deposits is inflexible, banks facing volatile loan demand tend to fund loans with larger shares of wholesale rather than retail liabilities. We empirically confirm this argument using a unique dataset constructed from the weekly financial reports of 104 U.S. banks. The high frequency of the data allows us to employ dynamic identification schemes which mitigate reverse causality and selection concerns. Our results imply that the introduction of regulatory limits on wholesale liabilities will increase the exposure of banks to loan demand shocks but will also inhibit the ability of the banking sector to service more volatile loans.

The Euro Interbank Repo Market

Mancini, Loriano[1,2]; Ranaldo, Angelo[3]; Wrampelmeyer, Jan[3]

1: Swiss Finance Institute, Switzerland; 2: EPF Lausanne, Switzerland; 3: University of St. Gallen, Switzerland

The search for a market design that ensures stable bank funding is at the top of regulators' policy agenda. This paper empirically shows that an important part of the European money market features this quality, namely the central counterparty (CCP)-based euro interbank repo market. Using a unique and comprehensive data set, we provide the first systematic study of this market and show that it functions well, even during crisis episodes. CCP-based repos secured with high-quality collateral even act as a shock absorber, in the sense that repo lending increases with risk, while spreads, maturities, and haircuts remain stable.

Banking 2: *Organization of Banks*

Powerful parents? The local impact of banks' global business models

De Haas, Ralph[1]; Kirschenmann, Karolin[2]

1: European Bank for Reconstruction and Development; 2: Aalto University School of Business, Finland

We collect information about multinational banks' internal capital markets from interviews with bank CEOs across emerging Europe. We assess how internal capital markets affected local credit growth during the Great Recession. We show that subsidiaries grew faster if the parent bank set explicit growth targets; supported these targets with cheap funding; and was less involved in local risk management. We then combine our data with firm-level information about credit constraints during the crisis. In line with our bank-level evidence, we find that in localities where foreign banks received cheap parent funding, firms were less credit constrained. These results point to the importance of banks' business models—over and above funding structure—as a determinant of crisis transmission in integrated banking markets.

Tail risk, capital requirements and the internal agency problem in banks

Klimenko, Nataliya
University of Zurich, Switzerland

This paper shows how to design incentive-based capital requirements that would prevent the bank from "manufacturing" tail risk. In the model, the senior bank manager may have incentives to engage in tail risk. Bank shareholders can prevent the manager from taking on tail risk via the optimal incentive compensation contract. To induce shareholders to implement this contract, capital requirements should internalize its costs. Moreover, bank shareholders must be given incentives to comply with minimum capital requirements by raising new equity and expanding bank assets. Making bank shareholders bear the costs of compliance with capital regulation turns out to be crucial for motivating them to care about risk-management quality in their bank.

Playing the devil's advocate: The causal effect of risk management on loan quality

Berg, Tobias
University of Bonn, Germany

This paper studies the dual role of risk managers and loan officers in a bank's organizational structure. Using 75,000 retail mortgage applications, I analyze the effect of risk management involvement on loan default rates. The bank requires risk management approval for loans that are considered risky based on hard information, using a sharp threshold that changes during the sample period. Using a regression discontinuity design and a difference-in-differences estimator, I am able to show that risk management involvement reduces loan default rates by more than 50%. My findings suggest that a two-agent model can help to facilitate efficient screening decisions.

Banking 3: *Intermediaries and Corporate Debt*

Credit Ratings: Strategic Issuer Disclosure and Optimal Screening

Cohn, Jonathan[2]; Rajan, Uday[3]; Strobl, Günter[1]

1: Frankfurt School of Finance & Management, Germany; 2: McCombs School of Business, University of Texas, USA; 3: University of Michigan Ross School of Business, USA

We study a model in which an issuer can manipulate the information obtained by a credit rating agency (CRA) seeking to screen and rate the quality of its asset. In some equilibria, more intense CRA screening leads to more manipulation by the issuer, since it improves the payoff to surviving the screening. As a result, the CRA may optimally abandon screening, even though the direct marginal cost of screening is zero. This result suggests that strategic disclosure and issuer moral hazard may have played an important role in recent ratings failures.

Separating Trading and Banking: Consequences for Financial Stability

Hakenes, Hendrik[1,3,4]; Schnabel, Isabel[2,3,4]

1: University of Bonn, Germany; 2: Gutenberg University Mainz, Germany; 3: Max Planck Institute Bonn, Germany; 4: Centre for Economic Policy Research

In this paper, we present a model to analyze the consequences of separating proprietary trading from the traditional banking business. Our model extends the setup of Diamond and Dybvig (1983) by differentiating between non-fungible loans and fungible but risky securities. Endogenously, some banks use these securities to speculate and experience fundamental bank runs in bad states of the world. In some situations, traditional banking disappears completely leading to full disintermediation. Deposit insurance removes runs but induces a moral hazard effect as banks engage more in proprietary trading. Disintermediation becomes more likely. We also show that deposit insurance leads to a redistribution from depositors and the deposit insurance corporation to outside investors. Separating trading from deposit banking offsets this redistribution.

Outside Liquidity, Rollover Risk and Government Bonds

Schempp, Paul
University of Bonn, Germany

This paper discusses whether financial intermediaries can optimally provide liquidity, or whether the government has a role in creating liquidity by supplying government securities. We discuss a model in which intermediaries optimally manage liquidity with outside rather than inside liquidity: instead of holding liquid real assets that can be used at will, banks sell claims on long-term projects to investors. While increasing efficiency, liquidity management with private outside liquidity is associated with a rollover risk. This rollover risk either keeps intermediaries from providing liquidity optimally, or it makes the economy inherently fragile. In contrast to privately produced claims, government bonds are not associated with coordination problems unless there is the prospect that the government may default. Therefore, efficiency and stability can be enhanced if liquidity management relies on public outside liquidity.

Banking 4: *Small Business Financing*

How the bank's capitalization and environment influence its interest and liquidity risk

Nicklas, Holger[1]; Schweikhard, Frederic[2]
1: Goethe University Frankfurt, Germany; 2: University of Oxford, UK

This paper examines the effect of capitalization, competition and wealth of the region on the bank's level of interest risk. Our measure for interest risk – the present value loss caused by 200 basis points interest shock – is based on the detailed duration structure of future cash flows of 50 German saving banks. We find that saving banks in underdeveloped regions conduct more maturity transformation probably to exploit their full risk bearing ability which is not stressed by high credit risk. Saving banks in a competitive environment take a lower interest risk, not investing the money of their rather disloyal clients long-term. Well capitalized saving banks have a higher level of maturity transformation because of their higher risk bearing capacity.

Do SMEs counter a shock to their bank debt with trade credit?

Illueca Munoz, Manuel[2]; Norden, Lars[1,3]; Van Kampen, Stefan[1]

1: Erasmus University Rotterdam, Netherlands; 2: Jaume I University, Spain; 3: Duisenberg School of Finance, Netherlands

We investigate whether SMEs increase trade credit after they have experienced a shock to their bank debt. We focus on SMEs because they are credit-constrained and bank-dependent. The analysis is based on a large scale dataset from the five largest European countries covering the period 2006-2011. We find that high credit quality firms are more likely to substitute bank debt for trade credit after a negative shock to bank debt during the financial crisis. However, this effect becomes weaker in the second stage of the financial crisis. Interestingly, the sensitivity of the likelihood of substitution to credit quality exhibits an inversely u-shaped relation with the level of financial constraints. Our results highlight the interplay of the main sources of SME finance and have implications for the design of the lending environment and economic policy.

Communication and Relationship Banking

Ingermann, Peter-Hendrik; Goedde-Menke, Michael
University of Münster, Germany

This paper empirically examines the communication between SMEs and their bank, focusing on its intensity, the chosen medium, and its impact on credit line pricing over time. We employ a unique, bank-provided panel data set (July 2005 – December 2012) containing both monthly information on bank-firm communication as well as further detailed relationship and borrower characteristics. Among the latter is the bank's proprietary risk rating which allows us to accurately disentangle credit risk from relationship effects and to examine, as it turns out, highly important interaction effects. Our results indicate that the impact of communication on credit line pricing strongly depends on the SME's risk profile and the choice of communication medium.

Banking 5: *Consequences of Regulation*

When Banks Strategically React to Regulation: Market Concentration as a Moderator for Stability

Schliephake, Eva
University of Bonn, Germany

This paper argues that, in addition to the buffer and cost effect of capital regulation, there is a strategic effect. A binding capital requirement regulation restricts the lending capacity of banks, and therefore reduces the intensity of loan interest rate competition and increases the banks' price setting power. It is shown that the enhanced price setting power can reverse the net effect that capital requirements have under perfect competition.

Undercover Risk-taking? The Volcker Rule and its Preliminary Effects

Keppo, Jussi Samuli[1]; Korte, Josef[2]

1: NUS Business School, Singapore; 2: Goethe University Frankfurt, Germany

We analyze the Volcker Rule's preliminary effects on US Bank Holding Companies. In line with their public compliance announcements, we find that the Bank Holding Companies that will be most affected by the Volcker Rule already reduced their trading books stronger than other Bank Holding Companies. However, we do not find corresponding effects on risk-taking - if anything, affected banks seem to take more risks and use less hedging as compared to their less affected peers. These findings imply that the self-declared compliance to the Volcker Rule has so far not led to its intended consequences. Further, there is a risk that the rule remains ineffective if important loopholes for regulatory arbitrage and evasion are not closed.

Why Do Banks Practice Regulatory Arbitrage? Evidence from Usage of Trust Preferred Securities

Fahlenbrach, Ruediger[1]; Boyson, Nicole[2]; Stulz, Rene[3]

1: EPF Lausanne, Switzerland; 2: Northeastern University, USA; 3: The Ohio State University, USA

We propose a theory of regulatory arbitrage by banks and test it using trust preferred securities (TPS) issuance. Capital requirements can impose constraints on bank decisions. If a bank's optimal capital structure also meets regulatory capital requirements with a sufficient buffer, the bank is unconstrained by these requirements. We expect that unconstrained banks will not issue TPS, that constrained banks will issue TPS and engage in other forms of regulatory arbitrage, and that banks with TPS will be riskier than other banks with the same amount of regulatory capital, and therefore, more adversely affected by the credit crisis. Our empirical evidence supports these predictions.

Corporate Finance 1: *Fairness Concerns*

Are Female Top Managers Really Paid Less?

Geiler, Philipp[1]; Renneboog, Luc[2]
1: EMLYON Business School, France; 2: Tilburg University, Netherlands

Are female top managers paid less than their male counterparts? Is the gender gap higher in male-dominated industries? What effect on pay do female non-executive directors exert? While we find no pay gap for the figure-head (CEO), there is strong pay discrimination at the level of the other top managers. These female executive directors earn over a five-year tenure period £1.3 million less than male directors, and this pay gap is visible for all components of pay. The pay gap is lower for executives in firms with one or more female non-executives. Female executives in ‘male’ industries receive less remuneration than male executives but the gender pay gap is smaller.

A Friendly Turn: Advertising Bias in the News Media

Focke, Florens; Niessen-Ruenzi, Alexandra; Ruenzi, Stefan
University of Mannheim, Germany

This paper investigates whether newspapers report more favorably about advertising corporate clients than about other firms. Our identification strategy based on high-dimensional fixed effects and high frequency advertising data shows that advertising leads to more positive press coverage. This advertising bias in reporting is found among local and national newspapers. Further results show that advertising bias manifests particularly in less negative reporting after bad news events such as negative earnings surprises or extremely negative stock returns. Our findings cast doubt on the independence of the press from corporate pressure and hint at important information frictions.

Do capital markets discriminate against analysts with foreign sounding names?

Kerl, Alexander; Schäfer, Nils
University of Giessen, Germany

We examine to what extent the informativeness of sell-side analyst reports depends on analysts' characteristics such as analyst location and the familiarity of the analysts' name. Our results show that local analysts issue forecasts that trigger a higher market response. However, our results show that market participants additionally react differently to analysts' recommendations, depending on the familiarity of the analysts' name. Investors seem to follow financial analysts more if the analysts' name seems familiar, relative to the cultural background of the covered company. In contrast, our results show that forecasts issued by analyst with foreign-sounding names trigger a weaker stock reaction. Our results are first evidence that investors value the cultural proximity between analysts and companies apart from location effects.

Corporate Finance 2: *Cash, Investment & Industry Effects*

Conglomerate Investment, Skewness, and the CEO Long Shot Bias

Schneider, Christoph; Spalt, Oliver
University of Mannheim, Germany

Do behavioral biases of executives matter for capital budgeting? Using segment-level capital allocation in multi-segment firms ("conglomerates") as a laboratory, we show that capital expenditure is increasing in the expected skewness of segment returns. Conglomerates invest more in high-skewness segments than matched stand-alone firms, and trade at a discount, which indicates overinvestment that is detrimental to shareholder wealth. Using geographical variation in gambling norms, we find that the skewness-investment relation is particularly pronounced when CEOs are likely to find long shots attractive. Our results provide the first evidence showing that skewness is related to ineciencies in capital budgeting.

Industry Competition, Winner's Advantage, and Cash Holdings

Ma, Liang; Mello, Antonio; Wu, Youchang
University of Wisconsin-Madison, USA

We examine the strategic role of cash in industries with significant R&D, and the variation of cash holdings and R&D intensity across such industries. Firms compete to innovate but must also finance to bring innovations to the market. The firm that first commercializes an innovation enjoys an advantage. Outside financing takes time. Cash holdings, R&D intensity, and industry concentration are determined endogenously in equilibrium. Both cash holdings and R&D intensity increase with the winner's advantage and time delay in outside financing, and decrease with entry costs. Empirical patterns of industry cash holdings and R&D intensity support the model predictions.

The real costs of industry contagion

Garcia-Appendini, Emilia
University of St. Gallen, Switzerland

In this paper I analyze whether the higher financing costs following the distress or bankruptcy of one firm affect the real investment decisions of non-distressed industry competitors. To achieve identification, I use a difference-in-differences approach that compares within-firm changes in investment around the industry distress for non-distressed competitors with large proportions of their debt maturing immediately after the industry distress, relative to other non-distressed competitors in the same industry but that did not have debt maturing immediately after the industry distress. Results suggest that the former firms reduce their capital expenditures by around 10% more than the latter. Contagion effects are milder in concentrated and low-leveraged industries, as well as in industries that do not rely heavily on external financing.

Corporate Finance 3: *Private Equity & Asset Sales*

Corporate aging and asset sales

Berchtold, Demian Simon; Loderer, Claudio; Wälchli, Urs
University of Bern, Switzerland

This paper asks whether divestitures are motivated by strategic considerations about the scope of the firm's activities. Limited managerial capacity implies that exploiting core competences becomes comparatively more attractive than exploring new growth opportunities as firms mature. Divestitures help established firms free management time and increase the focus on core competences. The testable implication of this attention hypothesis is that established firms are the main sellers of assets, that their divestiture activity increases when managerial capacity is scarcer, that they sell non-core activities, and that they return the divestiture proceeds to the providers of capital instead of reinvesting them in the firm. We find strong empirical support for these predictions.

Inorganic Growth Strategies in Private Equity: Empirical Evidence on Add-on Acquisitions

Hammer, Benjamin; Knauer, Alexander; Pfluecke, Magnus; Schwetzler, Bernhard
HHL Leipzig Graduate School of Management, Germany

We study add-on acquisitions of portfolio firms based on a world-wide data sample covering 9,548 buyouts between 1997 and 2012. We find that add-ons have become increasingly relevant, but activity is concentrated among a few PE sponsors. Further, our results suggest that synergies are important when pursuing add-on acquisitions. We show that portfolio firms initiate acquisitions early to realize synergies until the exit. Lastly we identify determinants that increase the likelihood of add-ons for a particular buyout. Our findings help academia and practice to understand inorganic growth in buyouts, which is important given the aging of the industry.

Agency costs and investor returns in private equity: Consequences for secondary buyouts

Degeorge, Francois[1]; Martin, Jens[2]; Phalippou, Ludovic[3]
1: University of Lugano, Switzerland; 2: University of Amsterdam, Netherlands; 3: University of Oxford, Said Business School, and Oxford-Man Institute, UK

Private equity funds are structured as finite-life entities with a fixed investment period. Fund managers with unspent capital towards the end of a fund's investment period have an incentive to burn capital. We argue that secondary buyouts (SBOs) are a natural channel for doing so. Consistent with this agency hypothesis, we find that SBOs made late in a fund's investment period underperform similar primary buyouts. After a fund invests in late SBOs, the follow-on fund is smaller. Early SBOs have similar performance as other buyouts and some SBOs appear to be value-enhancing.

Corporate Finance 4: *Corporate Governance*

Why Do Shareholder Votes Matter?

Metzger, Daniel; Bach, Laurent
Stockholm School of Economics, Sweden

We show that majority-supported shareholder proposals create value not necessarily because their content has intrinsic value, but because they increase pressure on the board of directors. We document that shareholder organizations (CII), proxy advisory firms (ISS), and management often disagree about voting results because they apply different majority requirements in 60% of the cases. This allows us to identify each of those key players' reactions to what they consider an approved proposal. As soon as CII considers a proposal has passed, there is higher pressure on non-complying boards, as votes against directors and inefficient CEO turnovers increase very sharply. This is overall well-perceived by investors as stock prices also go up. Sanctions taken by ISS remain mild against otherwise well-perceived directors and do not cause inefficient CEO turnovers, but they do not improve firm value either. Interestingly, those effects of passage according to CII and ISS arise only when a proposal is not eventually implemented.

Ownership structure and firm value: Evidence from mergers of institutional investors

Münkel, Florian
Saint Mary's University Halifax Sobey School of Business, Canada

I investigate the effect of the dispersion of institutional shareholders on firm value. By using mergers of institutional investors as exogenous changes to the ownership structure of firms in their portfolios I find that institutional ownership concentration is negatively related to firm value. The average cumulative abnormal return over an 11-day window around the merger announcement is -55 basis points for firms that experience an increase in institutional ownership concentration. My findings are consistent with Edmans and Manso (2011) who show that multiple small shareholders can be more effective monitors than few large shareholders. Firms with high information asymmetry show a more pronounced negative effect on firm value from increased concentration.Besides shedding light on the relation between institutional ownership and firm value my results have implications on the use of institutional ownership variables in corporate governance research, in general.

Managerial Voting Power and Firm Value

Bröcker, Matthias[2]; Glaser, Markus[2]; Sautner, Zacharias[1]

1: Frankfurt School of Finance & Management, Germany; 2: LMU Munich, Germany

From a theoretical point of view, a large voting stake is neither necessery nor sufficient for a manager to possess substantial voting power, that is, the ability to affect the outcome of a vote. Using a measure of managerial voting power, we find that managerial voting power is negatively related to firm value. To establish a causal relation between managerial voting power and firm value, we exploit a German capital gains tax reform that caused an exogenous decrease in non-managerial blockholdings and thus implied an exogenous increase in managerial voting power. Our findings point to an important, yet relatively unexplored, channel through which managers may become entrenched and firm value may be affected. The detrimental effects of managerial ownership can arise even if ownership stakes are relatively low or if a wedge between cash flow rights and voting rights is absent.

Corporate Finance 5: *Information & Incentives*

Financial Constraints and Corporate Disclosure

Oesch, David[1]; Irani, Rustom[2]

1: University of St. Gallen, Switzerland; 2: University of Illinois at Urbana Champaign, USA

This paper exploits two quasi-experiments to examine the causal impact of financial constraints on corporate disclosure. First, we use the 2004 American Jobs Creation Act as an exogenous relaxation of financial constraints. Following the Act, firms with unrepatriated foreign earnings reduce the quantity and quality of disclosure, particularly ex-ante constrained firms. Second, we examine the 1989 junk bond market collapse as a tightening of financial constraints and find that below-investment grade firms increase disclosure. Overall, our results suggest a positive causal impact of financial constraints on disclosure, lending support to theoretical models predicting a managerial response to information-related financing costs.

Actual Share Repurchases, Price Efficiency, and the Information Content of Stock Prices

Busch, Pascal; Obernberger, Stefan
University of Mannheim, Germany

We examine the impact of share repurchases on the information content of stock prices using several measures of price efficiency. The study is based on manually collected data on share repurchases in the United States for the period 2004-2010. We find that share repurchases make prices more efficient. In particular, share repurchases increase the accuracy of the stock price after negative information comes to the market. We conclude that share repurchases increase the information content of stock prices by providing price support at fundamental values. There is no evidence that share repurchases incorporate private information into the stock price or that share repurchases increase the noise in stock returns.

Executive compensation structure and credit spreads

Colonnello, Stefano[1]; Curatola, Giuliano[2]; Hoang, Giang Ngoc[1]
1: EPF Lausanne, Switzerland; 2: Goethe University Frankfurt, Germany

We develop a model of managerial compensation structure and asset risk choice. The model provides predictions about how inside debt features affect the relation between credit spreads and compensation components. First, inside debt reduces credit spreads only if it is unsecured. Second, inside debt exerts important indirect effects on the role of equity incentives: When inside debt is small or secured, stock holdings reduce credit spreads; When inside debt is large and unsecured, this effect is reversed. We test our model on a comprehensive sample of public firms with CDS contracts traded, finding evidence supportive of our predictions.

Delegated Investing 1: *Mutual Funds*

Mutual Fund Leverage

Klipper, Laurenz; Adam, Tim R.
Humboldt University Berlin, Germany

Exploiting the auction rate security (ARS) market freeze in February 2008 as a natural experiment, we analyze the reaction of U.S. domestic closed-end equity funds to an exogenous funding shock. Using a difference-in-difference approach, we show that funds that are affected by the shock are in general able to substitute most ARSs by debt, such that their overall leverage ratio remains unaffected. This reallocation of leverage is associated with short term performance deterioations of 5.5 bps per day. Funds that need to lower their leverage ratio in response to the shock due to regulatory limits, perform even worse and show abnormal asset (fire) sale activities.

Violations of the Law of One Fee in the Mutual Fund Industry

Cooper, Michael[2]; Halling, Michael[1]; Lemmon, Michael[2]
1: Stockholm School of Economics, Sweden; 2: University of Utah, USA

In competitive markets, similar products should have similar prices. We apply this concept to all US equity mutual funds and, surprisingly, find little support. After controlling for fund heterogeneity, we find average spreads in expenses between "identical" funds as large as 230 basis points per year. Most importantly, we find no evidence of decreasing spreads over time, despite the enormous growth in assets under management. These results are particularly pronounced among the very largest funds. We test a number of hypotheses to explain these puzzling results including a holdings-based competition hypothesis, but are unable to reduce spreads notably.

Crystallization – the Hidden Dimension of Hedge Funds' Fee Structure

Elaut, Gert[1]; Frömmel, Michael[1]; Sjödin, John[2]

1: Ghent University, Belgium; 2: RPM Risk & Portfolio Management

This study investigates the implications of variations in the frequency with which managers update their high-water mark on fees paid by investors. We first document the crystallization frequencies used by Commodity Trading Advisors (CTAs) and then perform an analysis of the effect on fee loads. We show that the crystallization frequency has a statistically and economically significant effect on the total fee load. As such, our findings illustrate that the total fee load not only depends on the management fee and incentive fee, but also on the crystallization frequency set by the manager.

Delegated Investing 2: *Investment Management*

Do Mutual Funds Outperform During Recessions? International Evidence

Fink, Christopher[1]; Weigert, Florian[2]; Raatz, Katharina[3]

1: University of Mannheim, Germany; 2: University of St. Gallen, Switzerland; 3: DWS Asset Management

Glode (2011) shows theoretically and documents empirically that U.S. equity mutual funds have a systematically better performance during bad states of the economy and investors are willing to pay high fund fees for this insurance. In this paper we test these hypotheses out-of-sample using international mutual fund data from 16 different countries. Surprisingly, we cannot confirm that mutual funds outperform during recessions and do not find that funds with high alphas during recessions can charge higher fees to investors. Hence, our study raises doubt on the validity of Glode (2011)'s model and asks for alternative explanations of mutual fund's state-specific performance and optimal fee setting.

Hedge Fund Innovation

Zamojski, Marcin[1]; Siegmann, Arjen[1]; Stefanova, Denitsa[2]

1: VU University Amsterdam, Netherlands; 2: University of Luxembourg, Luxembourg

We study first-mover advantages in the hedge fund industry by clustering hedge funds based on the type of assets and instruments they trade in, sector and investment focus, and fund details. We find that early entry in a cluster is associated with higher excess returns, longer survival, higher incentive fees and lower management fees compared to funds that arrive later. Moreover, the latest entrants have a high loading on the returns of the innovators, but with lower incentive fees, and higher management fees. Cross-sectional regressions show that the out-performance of innovating funds are declining with age. Our results are robust to different specifications and suggest that specific first-mover advantages exist in the hedge fund industry.

Are Professional Investment Managers Skilled? Evidence from Syndicated Loan Portfolios

Liebscher, Roberto; Mählmann, Thomas
Catholic University of Eichstätt-Ingolstadt, Germany

Theory predicts that an individual investor's incentives to uncover new information about asset values are low if asset prices are efficient. This implies that heterogeneity in manager skill, if present, should be most clearly visible among managers that focus on asset classes with less informationally efficient prices. We investigate this argument using a large sample of syndicated bank loan portfolios managed by collateralized loan obligation (CLO) managers. Using a CLO's equity tranche cash-on-cash return to measure performance, we find strong persistence. This result cannot be explained by differences in risk or data bias issues. We also find that skilled managers capitalize on their skill by being more likely to increase assets under management and enjoying higher management fee levels.

Focus Session: *Asset Management*

Challenges of Quantitative Investment Engineering

Paulus, Helmut
Quoniam Asset Management GmbH

The practitioner's point of view on the challenges of quantitative investment engineering.

Speaker: Helmut Paulus, CEO & CIO, Quoniam Asset Management GmbH

Asset Markets and the Macroeconomy

Ulrich, Maxim
Karlsruhe Institute of Technology, Germany

Household 1: *Cognitive Aspects*

Financial Loss Aversion Illusion

Merkle, Christoph
University of Mannheim, Germany

We test the proposition that investors' ability to cope with financial losses is much better than they expect. In a panel survey with real investors from a large UK bank, we ask for subjective ratings of anticipated returns and experienced returns. We examine how the subjective ratings behave relative to expected and experienced portfolio returns. Loss aversion is strong for anticipated outcomes with investors reacting over twice as sensitive to negative expected returns as to positive expected returns. However, when evaluating experienced returns, the effect diminishes by more than half and is well below commonly found loss aversion coefficients. It seems that a large part of investors' financial loss aversion results from a projection bias.

How Does Investor Confidence Lead to Trading? Theory and Evidence on the Links between Investor Return Experiences, Confidence, and Investment Beliefs

Hoffmann, Arvid; Post, Thomas
Maastricht University, Netherlands

We develop a theoretical framework and present empirical evidence on a mechanism through which investor confidence leads to trading. Using a unique combination of individual investors' brokerage records and matching monthly survey data, we show that more confident investors rely more on intuitive judgments when forming beliefs about expected returns. In particular, these investors rely more on naïve reinforcement learning and extrapolate individual return experiences into the future more strongly. That is, given the same return experience, more confident investors change their beliefs more strongly, providing more reason to trade. Ultimately, this results in higher turnover, which hurts investors' performance.

Information Processing and Non-Bayesian Learning in Financial Markets

Schraeder, Stefanie
University of Lausanne, Switzerland

Ample empirical and experimental evidence documents that individuals place greater weight on information gained through personal experience - a phenomenon that Kahneman et al. (1982) call availability bias. I embed this bias in an overlapping generations equilibrium model in which the period that investors first enter the market establishes the starting point of their experience history. The difference in the individuals' experience leads to heterogeneity among agents and perceived noise trading. The model captures several empirical findings. It explains why returns on high-volume trading days tend to revert. Consistent with empirical evidence, young investors buy high and sell low, trade frequently, and obtain lower returns.

Household 2: *Household Finance*

The Willingness to Pay, Accept and Retire

Schreiber, Philipp; Weber, Martin
University of Mannheim, Germany

Today's pay-as-you-go social security systems are put under pressure due to increasing life expectancy, the baby boomers generation entering retirement and a decreasing effective retirement age. In most developed countries workers retire remarkably earlier than the full retirement age. Conducting a large online survey, this paper relates the willingness-to-accept/ willingness-to-pay disparity to the retirement decision and shows that the presentation of the decision problem strongly influences the outcome. The willingness-to-accept late retirement is more than twice as high as the corresponding willingness-to-pay. Using the reduction in German social security benefits for early retirement as a market price also shows that the presentation in a willingness-to-accept frame can induce early retirement. The analysis is repeated with a representative panel survey (SAVE-Panel).

Informational Synergies in Consumer Credit

Gürtler, Marc[1]; Hibbeln, Martin[1]; Norden, Lars[2]; Usselmann, Piet[1]
1: TU Braunschweig, Germany; 2: Erasmus University Rotterdam, Netherlands

We investigate whether account activity measures from different credit products lead to informational synergies on the probability of default and credit line usage of consumers. We base our analysis on combined information from all checking and credit card accounts of a bank during 2007-2014. We find that activity measures from both credit products contain information beyond traditional credit scores, borrower characteristics, and relationship characteristics. Interestingly, activity measures from checking accounts indicate credit quality deterioration earlier and more accurately that those from credit cards. We further identify variables that affect the probability of default but not the credit line usage (and vice versa) to document the reasons for consumer defaults and possible selection effects in the estimation of credit line usage at default. The evidence highlights how financial intermediaries can exploit cross-product informational synergies to manage credit risk and customer relationships.

Mortgage Lending: Banks' Competition and Customers' Behavior

Lukas, Moritz; Nöth, Markus
University of Hamburg, Germany

Many German retail mortgage borrowers pay high interest rates after refinancing although interbank competition is high. Matching the results of a survey among mortgage borrowers with market data, we find that surprisingly few borrowers switch to an outside lender even though non-switching borrowers face significantly higher interest rates than those who switch. Additional data from a lab experiment reveals that this behavior is driven by systematic biases in borrowers' decision-making: borrowers overestimate switching costs and underestimate the benefits of switching. Due to anchoring on previous interest rates, borrowers' efforts to screen offers by outside lenders are significantly lower when interest rates fall than with rising interest rates. The observed behavior cannot be reconciled with rational explanations such as credit availability, cross-product subsidization or search costs. Overall, several billion euros p.a. are transferred to lenders.

Household 3: *Trading Behavior*

What Makes Individual Investors Exercise Early? Empirical Evidence from the Fixed-Income Market

Eickholt, Mathias[1]; Entrop, Oliver[1]; Wilkens, Marco[2]
1: University of Passau, Germany; 2: University of Augsburg, Germany

This paper studies the empirical early exercise behavior of Individual Investors in non-tradable putable bonds. Analyzing circa 31 million holding and exercise decisions of more than 220,000 Individual Investors over 13 years, our major findings are: (i) Individual Investors use their early exercise right predominantly at points in time that are not economically advisable, which results on average in negative excess returns from exercising. (ii) Only a small fraction of attractive exercise opportunities are exploited over time. (iii) Exercise behavior differs significantly among investor groups and is related to personal characteristics. (iv) The demand for liquidity and financial flexibility is apparently a more important investment and exercise motive than performance seeking.

Glued to the TV: The Trading Activity of Distracted Investors

Schmidt, Daniel; Peress, Joel
HEC Paris, France

We investigate how inattention affects the trading behavior of retail investors. Exploiting episodes of sensational news exogenous to the stock market, we document that investors don't scale down their trades but stop trading altogether when they are distracted, consistent with the cost of attention being fixed. This phenomenon is related to, but distinct from, their documented tendency to buy attention-grabbing stocks (Barber and Odean (2008)). In contrast to this tendency, distraction affects buys and sells symmetrically. It makes trades less likely, but only for stocks in investors' consideration set. Its effect is more pronounced for more overconfident – i.e., male and active – investors. As these investors tend to trade too much, they actually benefit from inattention.

Individual Investors' Trading Motives and Security Selling Behavior

Weber, Joachim; Loos, Benjamin; Meyer, Steffen; Hackethal, Andreas
Goethe University Frankfurt, Germany

Using a unique dataset of individual investors, we categorize their security sale transactions into liquidity sales (proceeds withdrawn from the sample bank), speculative sales (proceeds used to purchase other securities), and all other sales. Liquidity sales and speculative sales make up 12% and 20% of all transactions, respectively. The key question of this paper is does trade motivation affect trade quality? The answer is yes. To raise cash, investors sell lower-cost mutual funds, more winners and fewer losers, and attention-grabbing stocks. This behavior bears negatively on performance. When trading speculatively, however, behavior appears much more rational.

Insurance 1: *Economics of Insurance*

Dynamic Hybrid Products in Life Insurance: Assessing the Policyholders' Viewpoint

Bohnert, Alexander[1]; Born, Patricia[2]; Gatzert, Nadine[1]
1: FAU Erlangen-Nuremberg, Germany; 2: Florida State University, USA

Dynamic hybrid life insurance products are intended to meet new consumer needs regarding stability in terms of guarantees as well as sufficient upside potential. In contrast to traditional participating or classical unit-linked life insurance products, the guarantee offered to the policyholders is achieved by a periodical rebalancing process between three funds: the policy reserves (i.e. the premium reserve stock, thus causing interaction effects with traditional participating life insurance contracts), a guarantee fund, and an equity fund. In this paper, we consider an insurer offering both, dynamic hybrid and traditional participating life insurance contracts and focus on the policyholders' perspective.

Is the Risk-based Mechanism Always Better? The Risk-shifting Behavior of Insurers under Different Insurance Guarantee Schemes

Dong, Ming[1]; Gründl, Helmut[2]; Schlütter, Sebastian[3]

1: Goethe University Frankfurt, Germany; 2: Goethe University Frankfurt, Germany; 3: Allianz Global Corporate & Specialty AG

Insurance guarantee schemes (IGSs) aim to protect policyholders from the costs of insurer insolvencies. However, IGSs can also reduce the incentives of insurers to conduct appropriate risk management. We investigate the risk-taking behavior of a stock insurer under insurance guarantee schemes with two different financing alternatives: a flat-rate premium assessment versus a risk-based premium assessment. Previous studies indicate that the flat-rate premium assessment can induce insurers to take more risks, a problem that can be resolved under the risk-based premium assessment. Our results show that the risk-taking incentive of the insurer can also occur under the risk-based IGS. The risk-based mechanism is only superior to the flat-rate one, if an appropriate premium loading is included.

Systemic Risk and Interconnectedness in the Financial Industry: Implications on Regulation of Financial Conglomerates

Rauch, Jannes[1]; Grace, Martin[2]; Wende, Sabine[1]

1: University of Cologne, Germany; 2: Georgia State University, USA

Evidence suggests a contagion effect from banks to insurance companies existed during the recent financial crises. However, studies examining the effect of sector-specific events like insurance-related events (e.g. natural catastrophes) or general banking-related events (e.g. banking fraud events and bailouts) on the overall financial industry do not exist. Therefore, we examine the interconnectedness and systemic risk with respect to certain sector-specific events. We use an event study methodology and regression analyses to examine how these sector-specific events influence returns on the entire financial industry. Additionally, we analyze the stock market reactions of banks with insurance operations separately, as these companies do business in both banking and insurance and should have direct exposures towards events in both sectors. For those interconnected banks we show that the effects of insurance events are relatively small.

Insurance 2: *Insurance and Consumption Decisions*

Early Default Risk and Surrender Risk: Impacts on Participating Life Insurance Policies

Cheng, Chunli[1]; Li, Jing[2]
1: Bonn Graduate School of Economics, Germany; 2: University of Bonn, Germany

We study the fair valuation of participating life insurance policies with surrender guarantees when an early default regulatory mechanism forces an insurance company to be liquidated once a solvency threshold is reached before maturity. We uncover the impacts of the regulation on the policyholders' surrender decision under the assumption that a representative policyholder's surrender intensity is bounded from below and from above. A partial differential equation is derived to characterize the price of a participating policy and solved with the finite difference method. Finally, we discuss the impacts of early default regulation and insurance company's investment strategies on the policyholder's surrender behavior as well as on the contract value, which are dependent on policyholder's rationality level.

Portfolio Optimization Under Solvency II: Implicit Constraints Imposed by the Market Risk Standard Approach

Braun, Alexander; Schmeiser, Hato; Schreiber, Florian
University of St. Gallen, Switzerland

We optimize a life insurer's asset allocation in the context of classical portfolio theory when the firm needs to adhere to the market risk capital requirements of Solvency II. We estimate empirical risk-return profiles for the main asset classes held by European insurers and run a quadratic optimization program to derive nondominated frontiers with budget, short-sale, and investment constraints. We then compute the capital charges under both solvency models and identify those efficient portfolio compositions that are permitted for an exogenously given amount of equity. Finally, we consider a systematically selected set of inefficient portfolios and check their admissibility, too. Our results show that the standard formula suffers from severe shortcomings that interfere with economically sensible asset management decisions.

Consumption and Wage Humps in a Life-Cycle Model with Education

Kraft, Holger[1]; Munk, Claus[2]; Seifried, Frank Thomas[3]; Steffensen, Mogens[4]

1: Goethe University Frankfurt, Germany; 2: Copenhagen Business School, Denmark; 3: University of Kaiserslautern, Germany; 4: University of Copenhagen, Denmark

The observed hump-shaped consumption pattern of individuals over their life cycle is inconsistent with classical consumption-savings models. We explicitly solve an extended model with utility of both consumption and leisure and with endogenous educational decisions affecting future wages. We show that optimal consumption is hump shaped and pin down the peak age. The hump results from consumption and leisure being substitutes and from the implicit price of leisure being decreasing over time; more leisure means less education which negatively affects future wages, and the present value of foregone wages decreases with age. The consumption hump does not require the wage rate to be hump-shaped, but also occurs when the wage rate is increasing over life as found in empirical studies.

Microstructure 1: *Market Microstructure 1*

Journalist Disagreement

Hillert, Alexander; Jacobs, Heiko; Müller, Sebastian
University of Mannheim, Germany

By quantifying the tone of hundreds of thousands of firm-specific articles in national newspapers between 1989 and 2010, we propose a bottom-up measure of aggregate journalist disagreement. In line with theoretical considerations, our high frequency proxy for differences of opinion among influential information intermediaries negatively forecasts the market return. Moreover, it has predictive power for the cross-section of stock returns and for the profitability of trading strategies exploiting slow information diffusion among economically linked stocks. Collectively, our insights support asset pricing theories incorporating belief dispersion and highlight the role of the media in this context.

Media-Driven High Frequency Trading: Evidence from News Analytics

von Beschwitz, Bastian[1]; Keim, Donald[2]; Massa, Massimo[3]

1: Federal Reserve Board, Germany; 2: The Wharton School of the University of Pennsylvania, USA; 3: INSEAD, France

We investigate whether providers of high frequency media analytics affect the stock market. This question is difficult to answer as the response to news analytics usually cannot be distinguished from the reaction to the news itself. We exploit a unique experiment based on differences in news event classifications between different product releases of a major provider of news analytics for algorithmic traders to determine the causal effect of news analytics on stock prices, irrespective of the informational content of the news. We show that coverage in news analytics speeds up the market reaction by both increasing the stock price update and the trading volume in the first few seconds after the news event.

High Frequency Trading and the 2008 Short Sale Ban

Riordan, Ryan Joseph; Hendershott, Terrence; Brogaard, Jonathan
University of Ontario Institute of Technology, Canada

We examine the effects of high frequency traders (HFTs) on liquidity and price efficiency using the September 2008 short sale ban. To disentangle the separate impacts of short selling by HFTs and non-HFTs (nHFTs) we use an instrumental variables approach exploiting differences in the ban's cross-sectional impact on HFTs and nHFTs. nHFTs' short selling improves liquidity and price efficiency, as measured by bid-ask spreads and pricing errors. HFTs' short selling has the opposite effect by decreasing liquidity and price efficiency. HFTs' negative impact is driven by liquidity demanding trades. HFTs' liquidity supply improves liquidity and price efficiency, but not enough to outweigh the negative HFT liquidity demand effect.

Microstructure 2: *Market Microstructure 2*

The Propagation of shocks across international equity markets: a microstructure perspective

Bongaerts, Dion[1]; Roll, Richard[2]; Rösch, Dominik[1]; van Dijk, Mathijs[1]; Yuferova, Darya[1]

1: Erasmus University Rotterdam, Netherlands; 2: UCLA Anderson School, USA

We conduct an empirical study of spillover effects for shocks to prices, liquidity (quoted and effective spreads), and trading activity (turnover and order imbalance) across 12 markets around the world at a 5-minute frequency for the period from 1996 to 2011. Shocks to prices, proportional quoted spreads and order imbalance are more frequent than shocks to proportional effective spreads and turnover. Shocks to prices and order imbalances do not occur independently from each other. This relation is driven by information reasons rather than liquidity reasons. Spillover effects at 5-minute frequency are present between shocks to prices and order imbalance, especially within developed Europe and between developed Europe and US, while this relation being weaker within American and Asian regions.

Illiquidity Transmission From Spot to Futures Markets

Krischak, Paolo[1]; Korn, Olaf[1]; Theissen, Erik[2]

1: Georg-August University Göttingen, Germany; 2: University of Mannheim, Germany

We develop a model of the illiquidity transmission from spot to futures markets that formalizes the derivative hedge theory proposed by Cho and Engle (1999). The model shows that spot market illiquidity does not translate one-to-one to the futures market, but rather interacts with price risk, liquidity risk, and the risk aversion of the market maker. The predictions of the model are tested empirically with data from the stock market and the market for single-stock futures. The results support our model. In particular, they show that the derivative hedge theory is important for the explanation of the liquidity link between spot and futures markets. Our results provide no evidence in favor of the substitution hypothesis.

Financial intermediaries in the midst of market manipulation: Did they protect the fool or help the knave?

Atanasov, Vladimir[1]; Davies, Ryan J.[2]; Merrick, John J.[1]

1: College of William and Mary, USA; 2: Babson College, USA

How do financial intermediaries respond to a repetitive manipulation scheme? We examine how floor traders responded to a fund manager's alleged attempt to manipulate platinum futures settlement prices using bang-the-close orders. We construct competitive price impact benchmarks that account for the large size and immediacy of these orders. The fund manager's trade prices exceeded our benchmarks by 60-80 ticks in the second half of the alleged manipulation period. In this latter period, more than 50% of the observed settlement price artificiality was due to these excess mark-ups, rather than the manager's market-stressing order choices. Our evidence is consistent with theoretical predictions that tacit collusion can arise when a small number of participants repeatedly interact in a transparent market.

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- Submissions (PDF files, in English, completed work only) must be made via the online submission system (ConfTool); this will be possible from February 2, 2015, on.
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Yours sincerely,

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10:30 am 11:00 am	**Coffee Break** (Building 20.13, Room 001)				
11:00 am 12:30 pm	**AP-2**	**B-2**	**CF-2**	**H-2**	**DI-1**
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04:00 pm 05:15 pm	**Keynote Presentation (Prof. Lubos Pastor)** (Building 11.40, Tulla Hörsaal)				
05:30 pm 06:30 pm	**DGF Annual Meeting** (Building 11.40, Tulla Hörsaal)				
07:00 pm	**Conference Dinner** (Schwarzwaldhalle)				

Registration is possible at the get-together from 07:00 pm to 09:00 pm and during the entire conference.

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12:30 pm 02:00 pm	**Lunch Break & Departure** (Building 20.13, Room 001)				

Abbreviations

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AP	Asset Pricing
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MM	Market Microstructure

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c/o Karlsruhe Institute of Technology (KIT)
Chair of Financial Engineering and Derivatives
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