

DGF

Deutsche Gesellschaft für Finanzwirtschaft
German Finance Association

DGF
20
22

28th Annual Meeting of the
German Finance Association (DGF)

29 September – 1 October 2022

Philipps



Universität
Marburg

Stiftung für die Wissenschaft

 Finanzgruppe

 Sparkasse
Marburg-Biedenkopf

 KONRAD
ADENAUER
STIFTUNG

Conference Schedule 2022

Day 1

Thursday, 29 September 2022

09:00 a.m. – 05:00 p.m.	Doctoral Seminar	Room +2/0110
12:30 p.m. – 05:15 p.m.	Women-in-Finance Workshop	Room 00/0080
07:00 p.m. – 11:30 p.m.	Get-together*	5 Jahreszeiten Reitgasse 5, 35037 Marburg

**Note: You may already register and receive your name badge at the get-together*

Day 2

Friday, 30 September 2022

08:00 a.m. – 05:00 p.m.	Registration	Foyer Ground Floor
08:30 a.m. – 08:45 a.m.	Welcome address	Room +2/0010

09:00 a.m. – 10:30 a.m.		Session A			
A1	A2	A3	A4	A5	A6
Asset Pricing Factors	Corporate Finance Sustainability and ESG	Household Finance Retirement Saving	Financial Intermediation Credit Risk	Digital Finance	Corporate Governance Banks
Room +1/0120	Room 00/0080	Room +2/0110	Room +1/0030	Room +2/0100	Room +2/0090

10:30 a.m. – 11:00 a.m.	Coffee break	Foyer 2 nd Floor
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11:00 a.m. – 12:30 p.m.		Session B			
B1	B2	B3	B4	B5	B6
Behavioral Finance Asset Pricing	Market for Corporate Control	Behavioral Finance Selected Topics	Financial Intermediation Credit Supply	International Finance	Corporate Governance Selected Topics
Room +1/0120	Room 00/0080	Room +2/0110	Room +1/0030	Room +2/0100	Room +2/0090

12:30 p.m. – 01:30 p.m.

Lunch break and poster session

Foyer 2nd Floor

01:30 p.m. – 03:00 p.m. Session C					
C1	C2	C3	C4	C5	C6
Asset Pricing Selected Topics	Corporate Finance Debt and Liquidity	Behavioral Finance Households	Asset Management Mutual Funds	Market Microstructure	Corporate Governance CSR and ESG
Room +1/0120	Room 00/0080	Room +2/0110	Room +1/0030	Room +2/0100	Room +2/0090

03:00 p.m. – 03:30 p.m.

Coffee break

Foyer 2nd Floor

03:30 p.m. – 04:45 p.m.

Keynote address: Brian Melzer

Room +2/0010

05:00 p.m. – 06:30 p.m.

Guided city tour: 800 years of Marburg

Meeting point:
Foyer Ground Floor

05:15 p.m. – 06:15 p.m.

DGF board meeting

Room +2/0110

07:15 p.m. – 11:45 p.m.

Conference dinner

Lokschuppen Marburg
Rudolf-Bultmann-
Straße 4h,
35039 Marburg

10:30 p.m. and 11:45 p.m.

Bus shuttles back to town

Day 3

Saturday, 1 October 2022

09:00 a.m. – 10:30 a.m.		Session D			
D1 Empirical Finance Selected Topics	D2 Corporate Finance Selected Topics	D3 Household Finance Insurance	D4 Asset Management Sustainability and ESG	D5 Derivatives	D6 Financial Regulation Disclosures
Room +1/0120	Room 00/0080	Room +2/0110	Room +1/0030	Room +2/0100	Room +2/0090

10:30 a.m. – 11:00 a.m.

Coffee Break

Foyer 2nd Floor

11:00 a.m. – 12:30 p.m.		Session E			
E1 Covid-19 and Financial Markets	E2 Women in Finance	E3 Household Finance Selected Topics	E4 Asset Management Selected Topics	E5 Real Estate Finance	E6 Financial Regulation Selected Topics
Room +1/0120	Room 00/0080	Room +2/0110	Room +1/0030	Room +2/0100	Room +2/0090

12:30 p.m.

Take-away Lunch

Foyer 2nd Floor

Dear friends and members,

on behalf of the German Finance Association (DGF), it is our privilege to welcome you to its 28th Annual Meeting at Marburg University. We are delighted to host the academic finance community for presentation and discussion of the latest research from all areas of finance, banking and insurance. Specifically, we are pleased to announce that Brian Melzer, Professor at the Tuck School of Business, Dartmouth, will give a key-note address on impact and opportunities of household finance.

Again, admission to the program was competitive and the scientific committee wants to thank all reviewers for their vital contribution to the conference. With the help of their careful guidance, 96 high-quality research papers were selected from a total of 263 submissions to be admitted to the 30 sessions and the traditional poster presentations on Friday over lunch. Following a long-standing tradition, a selected group of eight young researchers is additionally invited to present and discuss their work at the doctoral seminar on Thursday.

Moreover, we would like to draw your attention to a new highlight of the Association's annual meeting: For the first time, we host the Women in Finance-Workshop, a full-day workshop tailored to fit the requirements of female finance researchers in early stages of their careers. We are glad to originate what promises to be an established part of the conference program in the years ahead.

We gratefully acknowledge the help of the many individuals and institutions who made this conference possible and we thank the Science Foundation of the German Association of Savings Banks (Wissenschaftsförderung der Sparkassen-Finanzgruppe), Sparkasse Marburg-Biedenkopf and the DGF for their generous financial support. A special applause goes to those members of the University's philharmonic orchestra who are performing during Friday night's gala dinner at one of the town's new landmarks, the redeveloped 'Lokschuppen'. Don't miss out! And on Thursday night, make sure to join us for the traditional get-together at the '5 Jahreszeiten'.

We wish you an inspiring conference and a pleasant stay in Marburg!

Sincerely,



Oscar Stolper and the DGF 2022 Organizing Committee

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Information

General Information

Conference Venue	University of Marburg Hörsaalgebäude Biegenstraße 14 35037 Marburg
Get-together	5 Jahreszeiten Reitgasse 5 35037 Marburg
Coffee Break	Coffee is available in the foyer on the 2 nd floor.
Lunch	Lunch will be served in the foyer on the second floor. A vegan menu is served.
Conference Dinner	Lokschuppen Marburg Rudolf-Bultmann-Straße 4h 35039 Marburg
Bus Shuttle	There is a bus shuttle available to get you back to town after dinner. The bus stops at Bahnhofstraße as well as at Rudolphsplatz. Departure from the Lokschuppen venue is @ 22:30 p.m. and @ 23:45 p.m.
Parking	At the conference venue, no parking facilities are available. There are several public parking facilities close to the conference venue: <ul style="list-style-type: none">▪ Tiefgarage Lahncenter, Biegenstraße 12, 35037 Marburg▪ Parkhaus Oberstadt am Pilgrimstein, Pilgrimstein 17, 35037 Marburg▪ City-Parkhaus, Universitätsstraße 8, 35037 Marburg
Internet	In your name badge, you find a personal login code for the WIFI UMRnet_guest.
Taxi	<ul style="list-style-type: none">▪ Taxi Marburg Mitte +49 6421 22222▪ A1 Süd-Taxi Marburg +49 6421 44404
Airport	The closest airport is Frankfurt International.
Train	If you arrive at Marburg by train, we recommend using public transport to get to the conference venue. Bus lines 1, 2, 3, 4, 5, 6, 7, 10, 27, 383 get you from the Central Station to the venue (bus stop 'Erwin-Piscator-Haus'). From the Central Station to the venue it takes you about 16 minutes to walk (1.2 km).

Sightseeing in and around Marburg



Landgrafenschloss



Elisabethkirche



Alte Universität



Botanischer Garten

and much, much more...



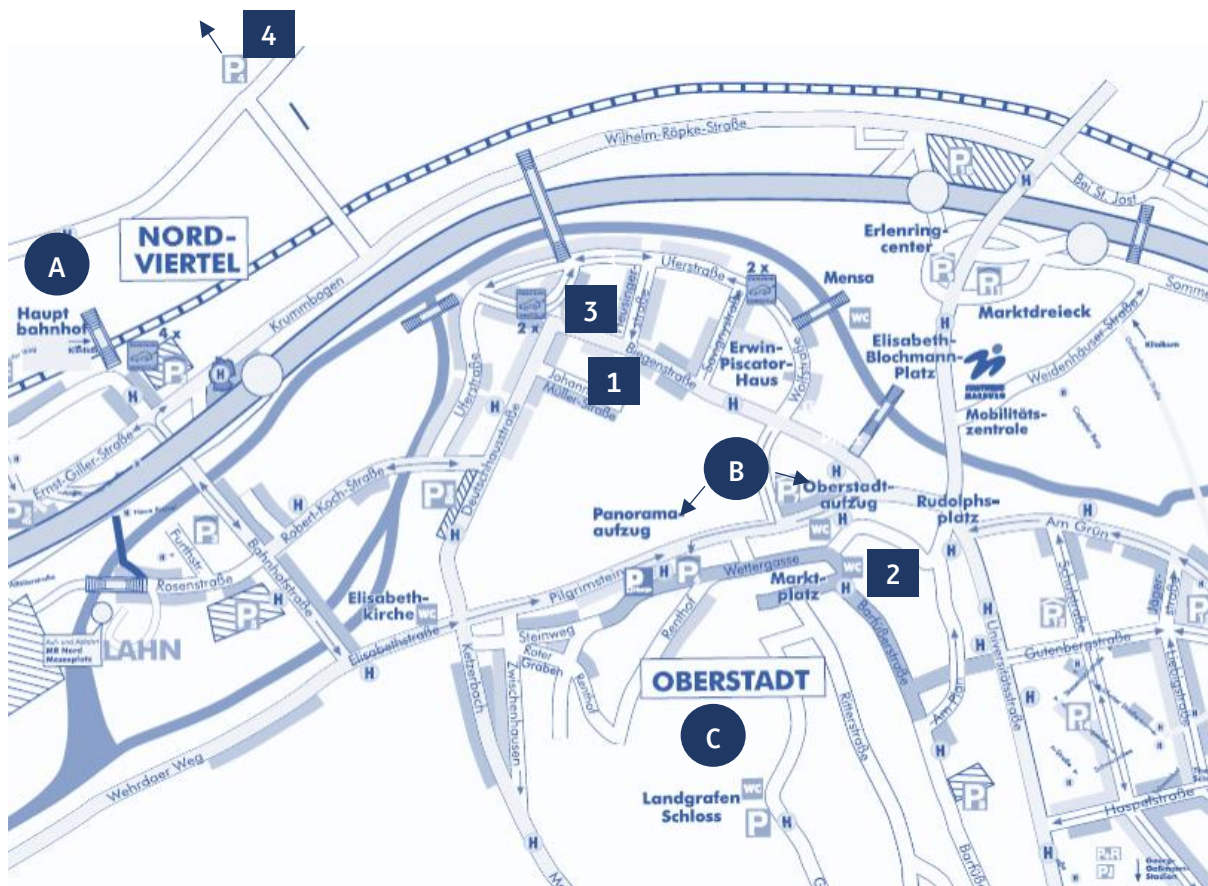
Marburg Tourist-Information

www.marburg-tourismus.de

Erwin-Piscator-Haus | Biegenstraße 15

35037 Marburg

Maps



Important locations for the conference

- | | | |
|----------|--|--|
| 1 | Conference venue | Hörsaalgebäude, Biegenstraße 14, 35037 Marburg |
| 2 | Get-together on September 29 th ,
from 06:00 p.m. to 11:30 p.m. | Fünf Jahreszeiten, Reitgasse 5, 35037 Marburg |
| 3 | Closest bus station to conference venue | Bus station Erwin-Piscator Haus |
| 4 | Conference Dinner on September 30 th ,
from 07:15 p.m. to 11:30 p.m. | Lokschuppen, Rudolf-Bultmann-Straße 4h,
35039 Marburg |

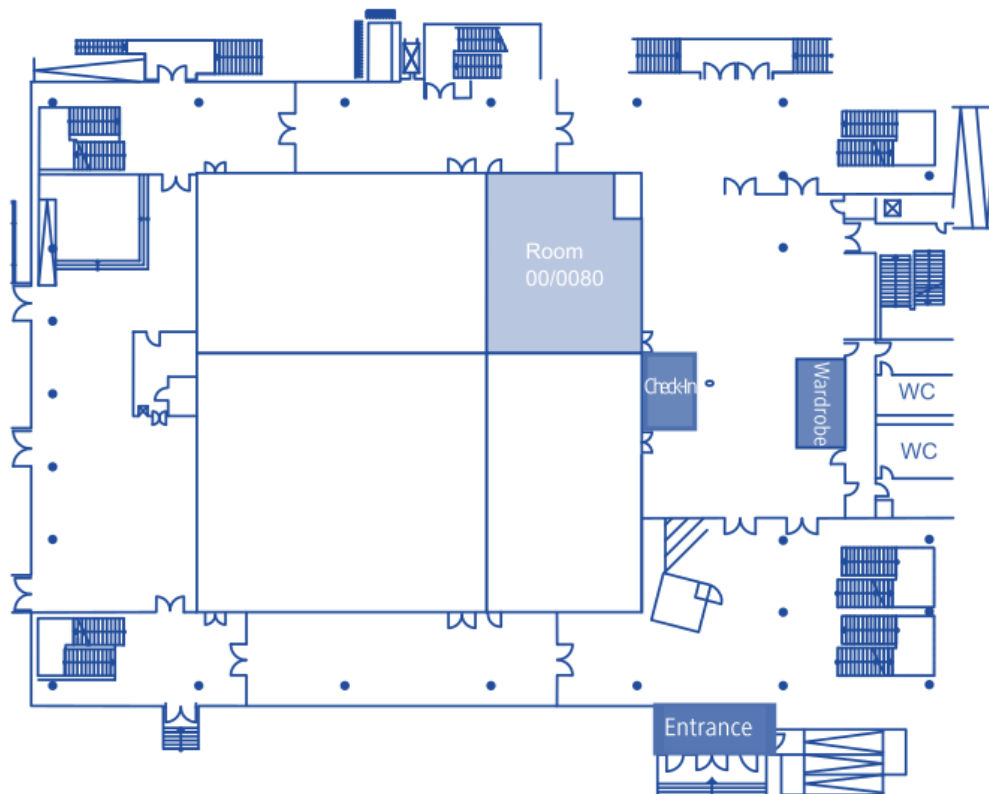
Important locations in Marburg

- A** Central Station
- B** Elevators to the historic centre of Marburg
- C** Historic centre of Marburg

Conference venue: Hörsaalgebäude

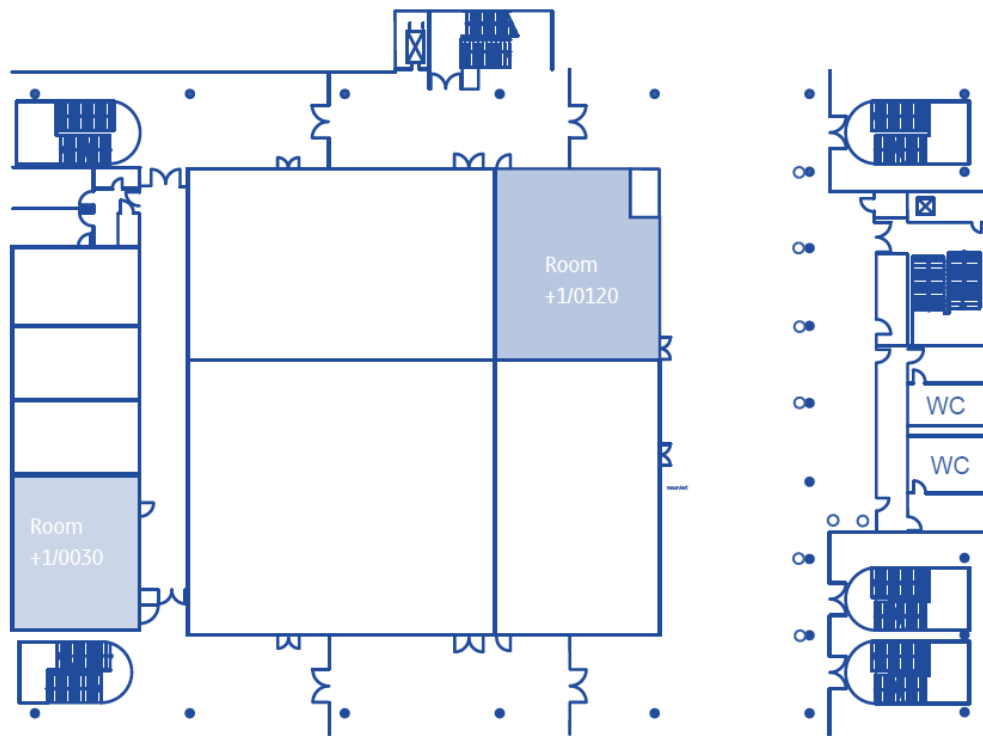
Ground Floor

- Reception and coat check (**Foyer**)
- Conference room: **00/0080**



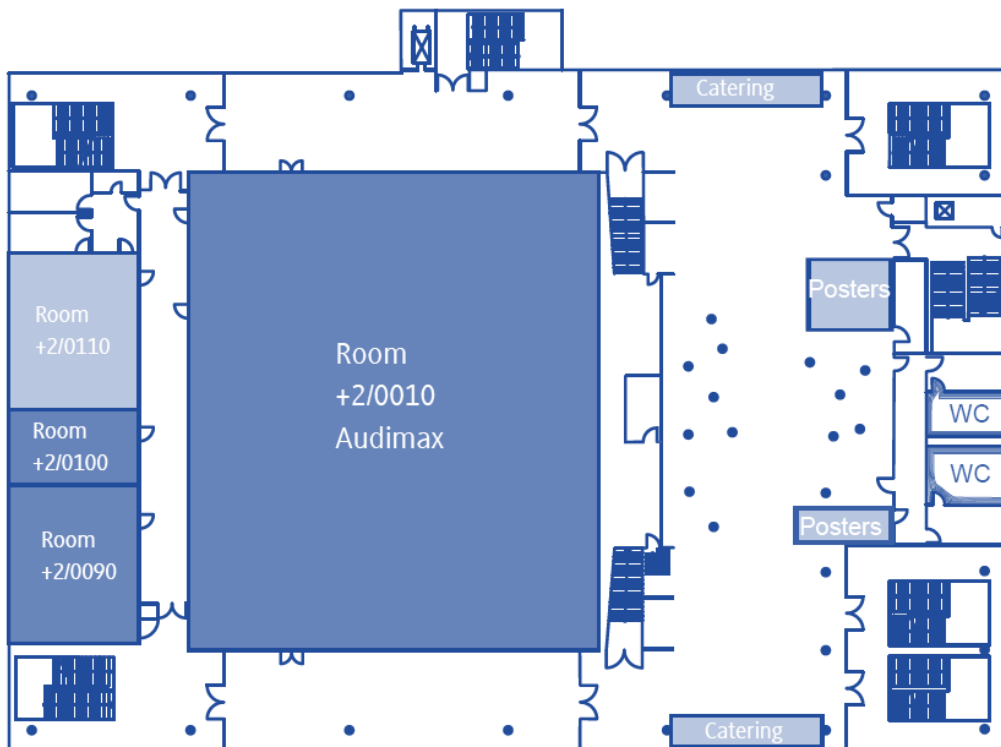
First Floor

- Conference rooms: **+1/0120** and **+1/0030**



Second Floor

- Conference rooms:
 - +2/0100
 - +2/0110
 - +2/0090
 - +2/0010 (Audimax)
- Catering (**Foyer**)



Program

Keynote

Professor Brian T. Melzer:

„Household Finance: Impact and Opportunity“

Friday, September 30th, 2022, 3:30 p.m.- 4:45 p.m.

Audimax (+2/0010)

Brian T. Melzer is an Associate Professor of Business Administration at Tuck School of Business at Dartmouth. He is an economist who studies household finance, real estate, financial intermediation, and financial regulation.

He has held positions as a senior financial economist at the Federal Reserve Bank of Chicago and as an assistant professor of finance at the Kellogg School of Management, where he taught corporate finance for MBA students.

Professor Melzer has published in leading economics and finance journals, including the *American Economic Review*, the *Quarterly Journal of Economics*, and the *Journal of Finance*.



Doctoral Seminar

The German Finance Association will again be holding a workshop for advanced doctoral students alongside the conference at the University of Marburg. This one-day event on Thursday, September 29th, 2022, offers doctoral students the opportunity to present their research and discuss its content and methodology with leading representatives of the field.

The participating faculty members are (subject to change):

- Prof. Dr. Ralf Elsas (LMU München)
- Prof. Dr. Stefan Ruenzi (Universität Mannheim)
- Prof. Dr. Christian Schlag (Goethe-Universität Frankfurt)
- Prof. Dr. Erik Theissen (Universität Mannheim)

The Science Foundation of the German Association of Savings Banks (Wissenschaftsförderung der Sparkassen-Finanzgruppe) sponsors an award worth 1,000€. The prize is awarded for the workshop's best presentation.

This year's participants are:

Daniel Kárpáti (Tilburg School of Economics and Management)	<i>Household Finance and Life-Cycle Economic Decisions under the Shadow of Cancer</i>
Manuel Christian Kathan (University of St.Gallen)	<i>LBO effects on industry peers' capital structure: Evidence from short sellers</i>
Benedikt Ballensiefen (University of St.Gallen)	<i>Collateral choice</i>
René Bernard (Goethe-Universität Frankfurt)	<i>Mental Accounting and the Marginal Propensity to Consume</i>
Bianca Putz (University of Georgia)	<i>The Effect of Round-Up Saving on Spending</i>
Gunjan Seth (London Business School)	<i>Do rights offerings reduce bargaining complexity in chapter 11</i>
Timo Wiedemann (Westfälische Wilhelms-Universität Münster)	<i>Beta Estimation Errors in Empirical Asset Pricing</i>
Jantke de Boer (TU Dresden)	<i>Global Portfolio Network and Currency Risk Premia</i>

Women in Finance-Workshop

The German Finance Association is pleased to originate a workshop which provides female researchers with the opportunity to meet, network, and listen to inspiring stories of accomplished female role models.

The debut of the Women in Finance-Workshop includes:

- An empowerment training for non-tenured researchers with professional coach Christiane Bischof
- A keynote by Renée Adams (University of Oxford)
- A panel discussion with:
 - Prof. Renée Adams, Ph.D. (University Oxford)
 - Prof. Dr. Christine Laudenbach (SAFE Frankfurt)
 - Prof. Dr. Alexandra Niessen-Ruenzi (University of Mannheim)
 - Julia Nusser (Commerzbank AG)
 - Pia Huettl (DIW)
 - Kathrin Hackenberg (Catholic University of Eichstätt-Ingolstadt)
- An early dinner before the get-together

The organizers of the event are:

- Viktoria K. Klaus (Karlsruhe Institut of Technology)
- Kathrin E. Hackenberg (Catholic University of Eichstätt-Ingolstadt)
- Talina Sondershaus (Leibniz-Institut für Wirtschaftsforschung Halle)

The workshop is organized in cooperation with The Frauenkolleg of Konrad Adenauer Stiftung.

Poster Session

The president reacts to news channel of government communication

Farshid Abdi¹, Emily Kormanyos², Loriana Pelizzon^{2,3}, Mila Getmansky Sherman¹, Zorka Simon³

¹Isenberg School of Business, UMass Amherst; ²Goethe University Frankfurt; ³Leibniz Institute for Financial Research SAFE

We present the "President reacts to news" channel of stock returns by studying the financial market impact of the Twitter account of the 45th president of the United States, Donald Trump. We use machine learning algorithms to classify topic and textual sentiment of roughly 1,200 economy-related tweets to investigate whether they contain relevant information for financial markets. Analyzing high-frequency data, we find that after controlling for past market movements, most tweets are reactive and predictable, rather than novel and informative. Our results provide suggestive evidence that there is a differential impact for trade war tweets, where the president has direct policy authority and his negative sentiment could adversely affect economic outcomes.

Mental accounting and the marginal propensity to consume

René Bernard^{1,2}

¹Deutsche Bundesbank; ²Goethe University Frankfurt

This paper studies how consumers respond to unexpected, transitory income shocks and why. In a randomized control trial, I elicit marginal propensities to consume (MPC) out of different hypothetical income shock scenarios, varying the shock size and the payment mode. The results show that the MPC falls with the shock size. Further, consumers who receive a windfall deposited in an instant-access savings account report a significantly lower MPC than those receiving a windfall paid out in cash or without any specification of the payment mode, suggesting that consumers violate fungibility. Exploring treatment heterogeneity with causal machine learning methods, I find that low liquidity, self-control problems, and low cognitive sophistication contribute to MPC heterogeneity. The results are broadly in line with mental accounting theory.

Liquidity Derivatives

Ruggero Jappelli^{1,2}, Matteo Bagnara^{1,2}

¹Goethe University Frankfurt; ²Leibniz Institute for Financial Research SAFE

It is well established that investors price market liquidity risk. Yet, there exists no financial claim contingent on liquidity. Introducing liquidity derivatives in Brunnermeier and Pedersen (2009) improves financial stability by mitigating liquidity spirals. We propose a contract to hedge uncertainty over future transaction costs, detailing potential buy and sell sides. Fitting a stochastic process to their bid-ask spreads, we simulate liquidity option prices for a panel of NYSE stocks spanning 2000 to 2020. These contracts reduce returns exposure to liquidity factors. Their prices provide a novel illiquidity measure reflecting cross-sectional commonalities. Finally, stock returns significantly spread along simulated prices.

Guns and kidneys: How transplant tourism finances global conflict

Alison Schultz

University of Mannheim

I investigate the impact of organ trafficking on local conflict using georeferenced data on conflict events and hand-collected data on local transplant infrastructure in eight countries. I exploit exogenous variation in kidney demand measured by the number of U.S. waiting list patients. Higher kidney demand increases conflict in localities with a transplanting center. Specifically, a one-standard deviation increase in the U.S. waiting list for kidneys leads to a 17% increase in the probability of conflict and a 1% increase in the number of conflict events compared to localities without transplant infrastructure. Consistent with the hypothesis that armed groups use organ trafficking to finance violent attacks, I find that non-state armed groups with transplanting capacities in their home region perform more attacks when kidney demand is higher, both in their home region and abroad. Moreover, higher kidney demand is associated with more suspicious payments to countries known for illegal organ trafficking.

Option Trade Classification

Grauer Caroline¹, Schuster Philipp², Marliese Uhrig-Homburg¹

¹KIT; ²University of Stuttgart

We evaluate the performance of common stock trade classification algorithms including the quote, tick, Lee and Ready (1991), and Ellis, Michaely, and O'Hara (2000) rule to infer the trade direction of option trades. Using a large sample of matched intraday transactions and Open/Close data, we show that the algorithms' success rate to correctly classify option trades is considerably lower than for stocks. In particular, the prevailing Lee and Ready algorithm is only able to correctly sign between 60% to 64% of option trades, which is a similar magnitude as using the quote rule alone. We find that the overall weak performance is due to sophisticated customers who often use limit orders instead of market orders to implement their trading strategies. We develop additional rules that can be used together with existing classification algorithms, improving correct classification by more than 10%.

Session A

Friday, 30 September 2022, 9:00 a.m. – 10:30 a.m.

On the performance of volatility-managed equity factors - international and further evidencePatrick Schwarz

University of Duisburg-Essen

Discussant: Jochen Lawrenz (University of Innsbruck)

Motivated by the mixed evidence on the performance of (downside) volatility-managed equity factor portfolios in the U.S., I study the performance of nine (downside) volatility-managed equity factors before and after considering transaction costs in a set of 45 international equity markets. My results suggest that volatility management is most promising for market, value, profitability and momentum portfolios and that the performance can be enhanced by applying downside volatility instead of total volatility (variance) as a scaling factor. Nevertheless, a marginal trader would find it difficult to profit from these strategies as only the managed market and momentum strategies are partially robust to my transaction cost estimations. Collectively, my results suggest that the persistence of abnormal returns of (downside) volatility-managed equity factors can largely be explained by the associated transaction costs.

Which factors for corporate bond returns?Thuy Duong Dang¹, Fabian Hollstein¹, Marcel Prokopczuk^{1,2}¹ Saarland University; ²University of Reading

Discussant: Patrick Schwarz (University of Duisburg-Essen)

We comprehensively analyze the most prominent factors proposed in the corporate bond literature. Using a Bayesian model selection approach, we simultaneously compare all 1,024 different possible subsets of these factors. A model including the bond market, term risk, credit risk, short-term reversal, and volatility risk jointly explains the cross-section of corporate bond returns best. Default risk, downside risk, liquidity risk, and momentum, among others, appear to be redundant factors. The bond market and credit risk contribute the most to explaining cross-sectional and time-series variation in test asset returns, while short-term reversal behaves more like a friction than a systematic factor.

Taste for characteristics or risk factor aversion? Evidence from institutional demandMatthias Bank, Franz Insam, Jochen Lawrenz

University of Innsbruck

Discussant: Fabian Hollstein (Saarland University)

We disentangle the relevance of risk factors versus stock characteristics in the cross-section of expected returns not only by analyzing covariance patterns in returns, but also by starting from economic first principles of price formation, i.e.~by employing the information content of institutional portfolio holdings. Our main contribution is to show that excess demand from 13(f) institutional investors is strongly affected by ex-ante known stock characteristics but not so by risk factors. Furthermore, we find strong evidence that this characteristics-induced demand is pricing-relevant and therefore reflected in the cross-section of returns. Our results can explain recent evidence which shows little explanatory power for risk factors once tested on bias-corrected individual stock level. Robustness checks discard the concern that our results are driven by latent risk factors, poor factor proxies or that it can be easily arbitrated away.

A corporate finance perspective on environmental policy

Florian Heider¹, Roman Inderst²

¹European Central Bank; ²Goethe University Frankfurt

Discussant: Santanu Kundu (University of Mannheim)

This paper examines optimal environmental policy when external financing is costly for firms. We introduce emission externalities and industry equilibrium in the Holmström and Tirole (1997) workhorse model of corporate finance. While a (Pigouvian) cap-and-trading system optimally governs both firms' abatement activities (internal emission margin) and industry size (external emission margin) when firms have sufficient funds on their own, external financing constraints introduce a wedge between these two objectives. When a sector is financially constrained in the aggregate, the optimal cap is strictly above the Pigouvian benchmark and emission allowances should be allocated below market prices. When a sector is not financially constrained in the aggregate, a cap that is below the Pigouvian benchmark optimally shifts market share to less polluting firms and, moreover, there should be no "grandfathering" of emission allowances. With financial constraints and heterogeneity across firms or sectors, a uniform policy is typically not optimal.

The Effects of ESG Performance and Preferences on U.S. Corporate Bond Prices

Lukas Handler¹, Rainer Jankowitsch^{1,2}, Alexander Pasler¹

¹WU (Vienna University of Economics and Business); ²VGSF (Vienna Graduate School of Finance)

Discussant: Florian Heider (European Central Bank)

We study the effects of ESG performance and preferences on the U.S. corporate bond market. Consistent with the theory, we show that firms with superior ESG scores benefit from lower yields and improved liquidity. In addition, we reveal a time-varying effect of ESG performance induced by a changing demand of investors for ESG securities. The effect on yields for firms with higher ESG performance in times of higher ESG preferences is up to 25 bp. Furthermore, we divide a firm's ESG performance in its underlying pillars E, S, and G, finding that the results are mainly driven by environmental concerns. Overall, our results provide evidence for theoretical models based on non-pecuniary utility benefits for ESG investors.

Internal carbon markets and corporate carbon emissions behavior in the EU ETS

Santanu Kundu

University of Mannheim

Discussant: Alexander Pasler (Vienna University of Economics and Business)

This paper examines how internal carbon markets influence the emission behavior of firms covered by the European Union Emissions Trading System. Firms with internal carbon markets relocate more carbon allowances from subsidiaries with generous free allowance allocation to subsidiaries with modest free allowance allocation after allowances become relatively scarce. In response to allowance scarcity, subsidiaries of firms with internal carbon markets are also more likely to become more carbon intensive. They become more carbon intensive so as to deny the relocation of free allowances to other divisions of the internal carbon market. These results are consistent with the internal capital markets literature suggesting that the prospect of intra-firm resource relocation distorts the incentives to make these resources available in the first place and has implications for climate change mitigation.

Mandatory pension saving and homeownership

Marcel Fischer^{1,2}, Bjarne Astrup Jensen¹, Marlene Koch²

¹Copenhagen Business School; ²University of Konstanz

Discussant: Nic Schaub (WHU - Otto Beisheim School of Management)

We explore the implications of mandatory minimum contributions to tax-deferred retirement accounts over the life cycle. These contributions defer housing market entry and increase loan-to-value ratios. We propose a flexible retirement saving scheme that does not force individuals to build up savings in a tax-deferred retirement account and only requires them to save in either a taxable account, a tax-deferred retirement account, or through home equity if they are undersaving. This flexible retirement saving scheme largely alleviates the unintended side effects of mandatory minimum contributions and simultaneously ensures that individuals build up sufficient savings for retirement.

Fluctuations in pension income: results and implications

Tabea Bucher-Koenen^{1,2}, Caroline Knebel^{2,3}, Martin Weber^{1,4}

¹University of Mannheim; ²ZEW Mannheim; ³Goethe University Frankfurt; ⁴Centre of Economic Policy Research

Discussant: Marlene Koch (University of Konstanz)

Wealth decumulation decisions during retirement have far-reaching financial consequences depending on the chosen product. We conduct a large online experiment in Germany, first, studying the choice between phased withdrawal plans with varying riskiness resulting in volatile retirement income. We find that 40% of the participants accept fluctuations in retirement income. Second, we analyze the choice between the previously selected withdrawal plan and a lifelong annuity. Here, the withdrawal plan choice is decisive of the switching behavior. In addition, we implement an anchoring and loss frame to understand the decision-making process better. We contribute to the political debate on efficient retirement provision.

Financial advice and retirement savings

Daniel Hoechle¹, Stefan Ruenzi², Nic Schaub³, Markus Schmid⁴

¹University of Applied Sciences Northwestern Switzerland; ²University of Mannheim; ³WHU - Otto Beisheim School of Management; ⁴University of St. Gallen

Discussant: Caroline Knebel (ZEW Mannheim)

We use a unique dataset from a large retail bank to examine the impact of financial advice on personal retirement savings. We document that financial advice is associated with an increased probability to open a retirement savings account, with higher inflows into retirement savings accounts, with an increased probability to participate in the stock market, and with higher inflows into equities. Our analysis suggests a causal link. The relation is more pronounced for women, wealthier clients, and better educated clients. Clients do not reallocate assets from existing savings to retirement savings, but use external sources and checking accounts for funding.

The Credit Spread Puzzle - Evidence from multiple quasi-natural Experiments

Johannes Kriebel, Andreas Pfingsten, Daniel Platte

Westfälische Wilhelms-Universität Münster

Discussant: Noah Urban (University of Duisburg-Essen)

Credit spreads are the yields of risky debt securities minus risk-free rates. The finance literature has long argued which share of them is due to credit risk and which share results from other factors. We suggest a novel set of multiple quasi-natural experiments based on government guarantees for debt securities world-wide during the global financial crisis. The results strongly support arguments that suggest credit spreads are primarily required to cover credit risk.

Risk factors for corporate bond returns in the Euro area

Gustav Finne

Hanken School of Economics

Discussant: Daniel Platte (Westfälische Wilhelms-Universität Münster)

I examine the drivers of cross-sectional corporate bond returns in the euro area using data from January 2002 to October 2020. Motivated by the rise of bond financing in the currency bloc, I set out to investigate whether recently introduced risk factors such as liquidity risk, credit risk and downside risk—are priced. I find that these factors are associated with cross-sectional variation in returns, and that downside risk exposure yields premiums in excess of established factors. I propose a novel risk factor proxying for the monetary policy intervention—and find evidence that the factor explains variation—and that it is as important as the downside risk factor for predicting bond returns in the euro area.

Credit Risk Modeling in the Age of Machine Learning

Martin Hibbeln, Raphael Kopp, Noah Urban

University of Duisburg-Essen

Discussant: Gustav Finne (Hanken School of Economics)

Based on the world's largest loss database of corporate defaults, we perform a comparative analysis of machine learning (ML) methods in credit risk modeling across the globe. We find that ML methods, especially tree-based methods, substantially outperform both simple and sophisticated benchmarks. These results hold across different credit risk parameters, even though we use a uniform modeling framework for the ML methods. We find that the commonly applied out-of-sample validation—as opposed to out-of-time validation—results in inflated performance measures, consistent with an “information leakage channel” that induces information spillovers, particularly for macroeconomic features; this problem is prevalent in many economic contexts. Our results provide guidance for financial institutions, regulatory authorities, and academics.

Proof-of-work consensus under exogenous distress: Evidence from mining shocks in the Bitcoin ecosystemJona Stinner, [Marcel Tyrell](#)

Witten/Herdecke University

Discussant: Nuria Suarez (UAM – Autonomous University of Madrid)

We investigate the impact of exogenous shocks on network and stability parameters in public proof-of-work-based blockchains with clustered mining, such as the Bitcoin network. Intuitively, declining hashing power due to a shock should weaken the network by lowering the costs of an attack. We demonstrate that parallel movement of important covariates (such as the coin price) can offset this effect and keep the mining process incentive compatible. Our model extends the general frameworks by Budish (2018) and Capponi et al. (2021) to exogenous shocks. We then provide empirical evidence from two shocks to the Chinese Bitcoin mining ecosystem caused by the Corona pandemic in October 2020 and grid disruptions in April 2021. Our results show i) the key structural parameters affecting the robustness of the consensus design against exogenous shocks and ii) how market participants incorporate and value variations in the implied stability of the distributed ledger.

Time dynamics of cyber riskMartin Eling¹, Rustam Ibragimov², [Dingchen Ning](#)¹¹University of St Gallen; ²Imperial College Business School

Discussant: Marcel Tyrell (Witten/Herdecke University)

This is the first paper to jointly analyze the three main cyber loss datasets (Advisen, SAS OpRisk and PRC), yielding the most comprehensive cyber loss data yet considered in the literature. We first study the problem of report delay bias by applying a two-stage model specific to the unique data where more than one point in the timeline of the cyber event is observed. The results show a faster rate of increase for cyber risk frequency compared with the original data. Based on these results, we then focus on the dynamics of cyber risk frequency and severity, where we separately study the properties of full distribution and tail of loss severity. We show the existence of change points over time in each dimension and find the extremely heavy-tailed nature of cyber risk. Our results are important for cyber risk management and understanding the insurability of cyber risk.

Digital disruptors at the gate. Does FinTech lending affect bank market power and stability?Pedro J. Cuadros-Solas¹, Elena Cubillas², Carlos Salvador³, [Nuria Suárez](#)⁴¹CUNEF Universidad; ²Universidad de Oviedo; ³Universidad de Valencia; ⁴ UAM – Autonomous University of Madrid

Discussant: Dingchen Ning (University of St Gallen)

This paper examines the effect of FinTech lending on the market power and stability of incumbent banks. Using an international sample of 6,309 banks during the period 2013-2019, our results show that the volume of credit provided by FinTech lenders negatively affects bank market power and stability. This negative effect is less relevant in countries with greater protection of creditor rights. We also find that the impact of FinTech lending on bank stability is partially channeled by the effect of FinTech credit on the market power of incumbent banks. Our main results – lower bank market power and stability – are also observed at the country level, after addressing potential endogeneity concerns related to FinTech lending and several robustness checks.

Are banks disciplined when they violate anti-money laundering rules?

Andrea Schertler¹, Sandra Tillema²

¹University of Graz; ²University of Groningen

Discussant: Christian Mücke (Leibnitz Institute for Financial Research SAFE)

Banks have to comply with laws and regulations that aim at preventing money laundering. We investigate the effects of news articles that report on banks which fail to comply with such anti-money laundering (AML) rules, and study whether banks' shareholders strengthen the effects of regulatory discipline. We find that stock prices decline significantly when news related to AML violations is released and these declines are larger than the monetary fines that supervisors impose. We further study whether institutional investors discipline bank managers by exiting their bank holdings. In line with a market discipline channel, we find that the institutional investor holdings decline significantly after news related to AML violations is released. More generally, our study highlights that regulatory discipline does not undermine but promote market discipline.

Do bank insiders impede equity issuances?

Martin Götz¹, Luc Laeven^{2,3}, Ross Levine^{4,5}

¹Deutsche Bundesbank; ²European Central Bank; ³CEPR; ⁴University of California, Berkeley, Haas Business School; ⁵NBER

Discussant: Andrea Schertler (University of Graz)

We evaluate the role of insider ownership in shaping banks' equity issuances in response to the global financial crisis. We construct a unique dataset on the ownership structure of U.S. banks and their equity issuances and discover that greater insider ownership leads to less equity issuances. Several tests are consistent with the view that bank insiders are reluctant to reduce their private benefits of control by diluting their ownership through equity issuances. Given the connection between bank equity and lending, the results stress that ownership structure can shape the resilience of banks-and hence the entire economy-to aggregate shocks.

The Carrot and the Stick: Bank Bailouts and the Disciplining Role of Board Appointments

Christian Mücke^{1,2}, Lorian Pelizzon^{1,2,3,4}, Vincenzo Pezone⁵, Anjan Thakor^{6,7,8,9}

¹Leibnitz Institute for Financial Research SAFE; ²Goethe University Frankfurt; ³Ca' Foscari University of Venice; ⁴CEPR; ⁵Tilburg University; ⁶Washington University; ⁷ECGI; ⁸FTG Fellow; ⁹MIT LFE research affiliate

Discussant: Martin Götz (Deutsche Bundesbank)

We empirically examine the Capital Purchase Program (CPP) used by the US government to bail out distressed banks with equity infusions during the Great Recession. We show that a feature of the CPP - the government's ability to appoint independent directors on the board of an assisted bank that missed six dividend payments to the Treasury - had a significant effect on bank behavior. Banks were averse to these appointments - the empirical distribution of missed payments exhibits a sharp discontinuity at five. Director appointments by the Treasury led to improved performance, lower CEO pay, and higher stock market valuations.

Session B

Friday, 30 September 2022, 11:00 a.m. – 12:30 p.m.

Digital innovation...and the cross-section of stock returnsKatharina Drechsler², Sebastian Müller¹, Heinz-Theo Wagner³¹TU Munich; ²University of Liechtenstein; ³Neu-Ulm University of Applied Sciences

Discussant: Paul Zimmermann (IESEG School of Management)

Based on validated word lists from the Information Systems literature, we use the MD&A section of annual firm reports to construct a text-based measure of digital innovation. In our sample period from 1996 to 2020, we find that firms with a high level of digital innovation are systematically different from low-level firms along several key characteristics like valuation, sales growth, and profitability. A digital innovation factor, which is long (short) stocks with high (low) digital innovation, earns an equally weighted (value-weighted) monthly six-factor alpha of 0.92% (0.50%) per month, both statistically significant at 1%. Differences in firm characteristics and abnormal returns are not explained by industry affiliation. Additional tests suggest that digital innovation is a priced risk factor, which should be added to existing asset pricing models.

Disentangling anomalies: risk versus mispricingJustin Birru¹, Hannes Mohrschladt², Trevor Young³¹Fisher College of Business, The Ohio State University ²University of Münster, ³A.B. Freeman School of Business, Tulane University

Discussant: Sebastian Müller (TU Munich)

Systematic mispricing primarily affects speculative stocks and tends to take the form of overpricing, predicting lower average returns. Because speculative stocks are typically deemed risky by rational models, failing to control for exposure to systematic mispricing can bias tests of risk-return tradeoffs. Controlling for the effects of systematic mispricing, we recover robust positive risk-return relations for a large number of cross-sectional risk proxies, including many low-risk and distress anomalies. We also recover robust positive illiquidity-return relations. We provide a unifying framework to explain a number of puzzles arising from the empirical failure of standard asset pricing models and show that risk-return relations supporting rational models can be recovered from the data by accounting for the existence of time-varying common mispricing.

Micro-efficiency vs. macro-(in)efficiency: the role of capital structure arbitrage in stock return predictabilityPaul Zimmermann, Alexandre Rubesam

IESEG School of Management

Discussant: Hannes Mohrschladt (University of Münster)

Starting from a structural model of the firm, we develop a model of strategic trading with informed traders who engage in Capital Structure Arbitrage (CSA) strategies to exploit mispricings between stocks, corporate bonds, and single-name credit derivatives. We analyze the model's implications for the transmission of pricing information from the credit to the stock market, as well as for market efficiency, extending econometric tests developed in the market efficiency literature to firms subject to corporate default risk. We examine the empirical implications of the model using a large dataset of S&P 500 firms and an extended time frame (2008–2020). We find (i) low levels of excess stock volatility and stock return persistence in highly-leveraged firms, (ii) an increase of stock market efficiency with firm leverage, and (iii) significant persistence of default risk information in returns of large-cap and sector U.S. stock indices. An active CDS market improves stock market efficiency.

The corporate calendar and the timing of share repurchases and equity compensation

Amy Yazhu Li¹, Ingolf Dittmann¹, Stefan Obernberger¹, Jiaqi Zheng²

¹Erasmus University Rotterdam; ²Oxford University

Discussant: Peter Limbach (University of Bielefeld)

This study examines whether the CEO uses share repurchases to sell her equity grants at inflated stock prices, a concern regularly voiced in politics and media. We find that the timing of buyback programs and equity compensation, i.e., the granting, vesting, and selling of equity, is largely determined by the corporate calendar through blackout periods and earnings announcement dates. As a consequence, share repurchases and equity compensation are positively correlated. This correlation disappears once we account for the corporate calendar and should thus not be interpreted causally. Our results do not support the conclusion that CEOs systematically misuse share repurchases at the expense of shareholders. To the contrary, equity compensation increases the propensity to launch a buyback program when buying back shares is beneficial for long-term shareholder value.

Going public and the internal organization of the firm

Daniel Bias³, Benjamin Lochner⁴, Stefan Obernberger¹, Merih Sevilir²

¹Erasmus University Rotterdam; ²Indiana University; ³Stockholm School of Economics; ⁴FAU Erlangen-Nuremberg

Discussant: Amy Yazhu Li (Erasmus University)

We examine how firms adapt the organization of their labor force when they go public. To conform with the requirements of public capital markets, we expect IPO firms to become more organized, making the firm more accountable and its human capital more easily replaceable. We find that IPO firms transform into a more hierarchical organization with smaller departments. Hiring is strongest in jobs requiring knowledge in finance, accounting, and management. New hires are better educated, but less experienced than incumbents, which reflects the staffing needs of a more hierarchical organization. Employee turnover is sizeable and directly related to changes in hierarchical layers. Wage inequality increases in public firms as they become more hierarchical. Overall, going public is associated with a comprehensive transformation of the firm's organization which becomes geared towards operating efficiently and in accordance with capital market standards.

Does speculative news hurt productivity? Evidence from takeover rumors

Christian Andres¹, Dmitry Bazhutov², Douglas Cumming³, Peter Limbach^{4,5}

¹WHU - Otto Beisheim School of Management; ²University of Wuppertal; ³Florida Atlantic University; ⁴University of Bielefeld; ⁵Centre for Financial Research (CFR), Cologne

Discussant: Stefan Obernberger (Erasmus University Rotterdam)

Takeover speculation may hurt productivity because uncertainty and threat of job loss cause anxiety, distraction, and reduced collaboration and morale among employees. Using a large panel of OECD-headquartered firms, we show that firm productivity temporarily declines after announcements of speculative takeover rumors that do not materialize. This productivity dip is more pronounced for targets and for firms in countries with lower levels of employee rights and long-term orientation. Abnormal stock returns mirror these results. The evidence fosters our understanding of potential real effects of speculative news, which are common in financial markets, and the costs of the takeover threat.

Fund manager narcissism

Anna-Lena Bauer, Dominik Scheld, Oscar Stolper

University of Marburg

Discussant: Christoph Merkle (Aarhus University)

Analysing verbatim transcribed interviews with mutual fund managers, we show that their individual level of narcissism is highly relevant for the delegated investment task they are entrusted with. First, supporting the notion that narcissists disregard agreements more often than others, we find that narcissistic fund managers are 34% more likely to deviate from the advertised investment style. Second, consistent with a myopic focus on rewards, highly narcissistic fund managers underperform their non-narcissistic peers by an average 1% annually. Third, while the impact of narcissism on style consistency is significantly mitigated in team-managed funds, this moderating effect of teamwork does not extend to the negative impact of narcissism on fund performance. Finally, a security-by-security analysis of the style-inconsistent funds suggests that fund manager narcissism can explain why these funds tend to make more growth and small-cap bets.

Leverage constraints and investors' choice of underlyings

Matthias Pelster

Paderborn University

Discussant: Philipp Kleffel (University of Bamberg)

This paper investigates the impact of a 2018 intervention by the European Securities and Markets Authority (ESMA) limiting the amount of leverage that investors can take on their trading activities. While it successfully reduced the usage of leverage, investors shifted their trading activities to riskier assets in the process, consistent with the idea that leverage-constrained investors substitute leverage with riskier securities. Thus, the intervention was not as effective as the reduction in leverage suggests. Consistent with the notion that risky investment strategies spread through the population, I find some evidence of a spillover effect to investors who are not affected by the regulatory intervention.

The affect heuristic and financial expectations

Christoph Merkle^{1,2}

¹Aarhus University; ²Danish Finance Institute

Discussant: Matthias Pelster (Paderborn University)

In three well-powered experiments (N=905), I study an application of the affect heuristic to the evaluation of financial assets. The affect heuristic predicts that people derive expectations of return and risk from a global affective impression of an asset, which leads to negative risk-return correlations. Experimental results confirm the general presence of an affect heuristic when evaluating individual stocks. Negative risk-return correlations emerge for aggregated results on stock level, as well as within individuals. A positive correlation found for asset classes suggests that the ease to recognize a risk-return trade-off can curb the reliance on the affect heuristic. Asking for required returns instead of expected returns also makes the risk-return trade-off more salient. Allowing people to select their most liked or disliked stocks, however, exacerbates the use of the affect heuristic as participants presumably select stocks they feel most strongly about.

Information salience and credit supply: evidence from payment defaults on trade bills

Aleksandra Baros¹, Ettore Croci², Mattia Girotti³, Federica Salvadè⁴

¹University of Bologna; ²Università Cattolica del Sacro Cuore; ³Paris School of Business; ⁴Banque de France

Discussant: David Heller (Max Planck Institute for Innovation and Competition)

Using microdata from France, we provide novel evidence that salience shapes banks' lending decisions. Information about borrowers' payment defaults on trade bills is publicly available to all banks, but it appears more prominently to the bank managing the payment transaction (i.e., the reporting bank). We show that the reporting bank reduces lending to a defaulting borrower more than non-reporting lenders. This effect persists when non-reporting banks have incentives to monitor payment default information routinely, and when reporting and non-reporting banks hold the same private information on the borrower. We conclude that informational gaps between banks cannot explain our findings and the reporting-bank effect we document hinges precisely on information salience.

Creditor control rights and the pricing of private loans

Marc Arnold¹, Nicola Kollmann¹, Angel Tengulov²

¹University of St.Gallen; ²University of Kansas

Discussant: Ettore Croci (Università Cattolica del Sacro Cuore)

This paper investigates the influence of creditor control rights on the pricing of corporate loans. We construct a novel dataset, which combines hand-collected covenant violations data with information about individual borrower, creditor, and loan characteristics. Importantly, our data identifies creditors that receive direct control rights after a covenant violation and creditors that do not receive those rights after a covenant violation. By comparing the loan terms of these two creditor types, we isolate the impact of creditor control rights on loan pricing from the impact of other factors related to covenant violations. We find that creditors exploit their control rights to overprice new loans. In addition, we uncover novel cross-sectional and time-series loan pricing patterns that can be explained by creditor control rights.

Intellectual property as loan collateral

Laurie Ciaramella^{1,2}, David Heller¹, Leo Leitzinger³

¹Max Planck Institute for Innovation and Competition; ²Télécom ParisTech; ³Goethe University Frankfurt

Discussant: Nicola Kollmann (University of St.Gallen)

We use novel administrative data from France to provide first evidence on the use of intellectual property (IP) rights (trademarks, patents, and designs) as loan collateral, and study how IP publications affect collateralization by mitigating information frictions. We show that IP collateral predominantly involves trademarks, is used by SMEs, and enhances firms' debt capacity and economic activities. We exploit the launch of online repositories in 2006 by public authorities as an exogenous shock to accessing publication information. We find significantly smaller delays in IP collateralization post-2006, especially for firms in competitive environments, and having competitors with better broadband access. Our results disclose that uncertainty over IP rights can delay their use as collateral while highlighting their relevance for financing activities.

You can't always get what you want (where you want it): cross-border effects of the US money market fund reform

Daniel Fricke, Stefan Greppmair, Karol Paludkiewicz

Deutsche Bundesbank,

Discussant: Giorgia Simion (WU Vienna University of Economics and Business)

This paper documents significant cross-border effects of the 2014 US money market fund (MMF) reform on MMFs in the euro area. As US-based prime MMFs became less money-like due to the reform, euro area-based prime MMFs received large inflows from foreign investors. These cross-border flows were largely motivated by the search for stable net asset value instruments rather than by the introduction of gates and fees. Consistent with an easing of competitive pressure, institutional prime funds in the euro area reduced their risk-taking. However, the industry became more concentrated overall and more exposed to run risk from foreign investors. This risk materialized during the COVID-19-induced stress period.

Tax heist using American Depositary Receipts

Jonathan Brogaard¹, Dominik Roesch²

¹University of Utah; ²University at Buffalo

Discussant: Karol Paludkiewicz (Deutsche Bundesbank)

European countries lost around 60 billion dollars from cum-ex deals, in which investors claim tax refunds for taxes on dividends that were never paid. Using data on US stocks and American Depositary Receipts (ADRs) from 1999 to 2007, we document abnormally large trading volumes around ex-dividend dates, especially on ADRs and from trades with special settlement conditions. Using trades from institutions we document an even larger increase, especially on ADRs and from day trading. The average institution sells ADRs before ex-dates and buys afterwards. These findings are more consistent with dividend avoidance and cum-ex trading than with dividend capture trading.

Pricing and constructing international government bond portfolios

Otto Randl, Giorgia Simion, Josef Zechner

WU Vienna University of Economics and Business,

Discussant: Dominik Roesch (University at Buffalo)

This paper documents that even naïve cross-market diversification strategies lead to substantial improvements of risk-return relations of government bond portfolios. Motivated by this finding, we derive a global stochastic discount factor, which prices excess returns of individual bond markets and international bond portfolio strategies. The SDF is supported by standard validation tests, but the fraction of unpriced components of bond returns is high, at around 50%. Hedging internationally diversified bond portfolios against these unpriced risks improves portfolio performance substantially. The performance improvements are robust, even when conservative bounds on individual market weights are imposed. We find that the SDF cannot be explained by the principal components derived from bond returns.

Competition and the Reputational Costs of Litigation

Felix von Meyerinck^{1,4}, Vesa Pursiainen^{2,3}, Markus Schmid^{2,3}

¹University of Zurich; ²University of St. Gallen; ³Swiss Finance Institute (SFI); ⁴Tilburg University

Discussant: Marc Steffen Rapp (University of Marburg)

We study the role of competition in customers' reactions to litigation against firms, using anonymized mobile phone location data. A class action lawsuit filing results in a 4% average reduction in customer visits to target firms' outlets in the following months. The effect strongly depends on competition. Outlets facing more competition experience significantly larger negative effects. Closer competition matters more, both in terms of geographic and industry proximity. Announcement returns and quarterly accounting revenues around lawsuit filings also strongly depend on competition. Our results suggest that competition is an important component in customers' ability to discipline firms for misbehavior.

Blockholder Representation on the Board: Theory and Evidence

Samed Krüger¹, Peter Limbach², Paul Voß³

¹University of Wuppertal; ²University of Bielefeld; ³Central European University

Discussant: Vesa Pursiainen (University of St. Gallen and Swiss Finance Institute)

We present a model that helps explain why only few blockholders seek board representation despite little direct costs. In the model, inefficiently few blockholders take a board seat because it signals adverse information to outside investors, lowering trading profits. However, once taken, board seats commit blockholders to stay invested and monitor management. In light of our results, negative stock returns to appointments of blockholder-directors need not reflect rent extraction but are in line with blockholders improving performance. We provide evidence consistent with our model's predictions using German data, which mitigates endogeneity concerns due to features of the German law.

Better safe than sorry – Labor market regulation and cash holdings of founding family firms

Markus Fütterer, Marina Kononova, Marc Steffen Rapp

University of Marburg

Discussant: Paul Voß (Central European University)

We study the impact of labor market regulation on cash holdings of founding family firms (FFF). Based on a novel sample covering listed firms from 17 European countries, we document that FFFs increase their cash holdings in response to tightening labor regulations while other firms decrease cash. This pattern is more pronounced in domestic and labor-intense firms, substantiating that changes in labor market regulations causally drive our results. Examining the channels, we document that FFFs respond to tightening labor regulations by increasing their cash flow from financing by issuing long-term debt and reducing payouts to shareholders. Our results are robust to different regression designs, including matched sample and instrumental variable approaches, alternative definitions of cash holdings and labor regulation, as well as alternative explanations. Overall, our findings support the view that FFFs put more weight on financial flexibility vis-à-vis bargaining power considerations when faced with tightening labor markets.

Session C

Friday, 30 September 2022, 1:30 p.m. – 3:00 p.m.

Is there an equity duration premium?

Dominik Rudolf Walter¹, Rüdiger Weber²

¹Vienna Graduate School of Finance (VGSF); ²WU Vienna

Discussant: Martin Kipp (University of Tübingen)

We study the relation between equity duration, cash-flow timing and stock returns. Established measures of equity duration mix up information on the level of discount rates (expected returns) and the timing of cash flows. Regardless of the equity term structure, duration is a monotonically decreasing function of each stock's true market discount rate. Hence, the relation between mean returns and empirical duration measures relying on market-price information is mechanically negative. We therefore introduce new measures of pure cash-flow timing and find an unconditionally flat relation between timing and returns. In line with the qualitative predictions of standard, consumption-based asset pricing it turns out that in recessions (expansion episodes), there is a negative (positive) relation between cash-flow timing and average stock returns.

Money in the right hands: the price effects of specialized demand

Aleksandra Rzeźnik¹, Rüdiger Weber²

¹Schulich School of Business, York University; ²WU Vienna

Discussant: Viktoria Klaus (KIT)

We study stock liquidity from a demand-based perspective in the context of mutual fund fire sales. Specifically, we show that active and specialized demand is a key determinant of fire sale price discounts. Only when there is a lack of specialized demand, as proxied by inflows to active, specialized funds, do we observe the marked price pressure effects recorded previously in the literature. Inflows to passive funds have little to no impact on price discounts, pointing to the importance of active mandates for price efficiency. Our findings are robust to using the exogenous variation in fire sale pressure due to the 2003 late trading scandal. Asset quality and adverse selection do not explain the result. Rather, our results suggest inefficient allocations induced by forced sales as an explanation for price pressure. This implies that fire-sale pressure in the absence of active specialized demand can be interpreted as a non-fundamental shock to prices.

Tail risk management and the skewness premium

Martin Kipp, Christian Koziol

University of Tübingen, Germany

Discussant: Rüdiger Weber (WU Vienna)

In this paper, we analyze how tail risk impacts asset prices and the optimal asset allocation. For this purpose, we consider an equilibrium model with investors exhibiting an empirically well-justifiable decreasing relative risk aversion (DRRA) and different investment horizons. In contrast to the seminal CAPM, two fund separation does no longer hold, and investors not only regard one risk measure (standard deviation) but additionally care for tail risk. The shorter the investment period, the more prone they are to negatively skewed returns. Particularly, short-term investors hold a lower equity ratio than (else equal) long-term investors and reduce the fraction of assets with negative tail risk. Consistently, the more short-term investors are in a market, the higher the tail risk premium is. Consequently, these theoretical findings allow us to draw empirical predictions about the drivers of the skewness premium and characteristics for markets in which the premium is especially severe.

Covenant prices of US corporate bonds

Lukas Handler, Rainer Jankowitsch, [Patrick Weiss](#)

Vienna University of Economics and Business,

Discussant: Ramona Westermann (Copenhagen Business School)

This paper provides a novel approach to empirically determine prices of bond covenants based on transaction data for the US corporate bond market. Thereby, we are the first to measure price effects over the whole lifetime of bond contracts. We find that covenant prices vary significantly over time and are associated with changes in market-wide credit risk, volatility, and macroeconomic variables. Apart from these time-series dynamics, there is also significant variation across bond and firm characteristics. In particular, covenant prices increase with interest rate, credit, and liquidity risk and are higher for firms that have more growth options, more tangible assets, and are smaller. Furthermore, we document a positive correlation between the prices of covenants and their subsequent inclusion rates.

Corporate bond issuance fragmentation, liquidity, and issuance costs

[Christian Westheide](#)¹, Mohammad Izadi²

¹University of Vienna; ²Goethe University Frankfurt

Discussant: Philipp Schuster (University of Stuttgart)

Many companies issue multiple bonds that are outstanding simultaneously. Market participants surmise that this fragmentation of issuance is one reason for the relative lack of liquidity in the corporate bond market. Using data from the US, we confirm that bond issuance fragmentation predicts lower bond liquidity, as measured by estimates of the bid-ask spread and the intra-quartile range of trade prices. These results hold for both retail and institutional-sized trades. The effect was most severe during the Global Financial Crisis, and it has generally reduced over time. Our results are most consistent with predictions from models of search and bargaining costs, though they do not rule out a role of dealer inventory costs. Bond issuers do not benefit from more concentrated issuance because they are associated with higher yields despite their higher liquidity.

Personal Taxes and corporate Cash Holdings

Jens Dick-Nielsen, Kristian R. Miltersen, [Ramona Westermann](#)

Copenhagen Business School

Discussant: Christian Westheide (University of Vienna)

Dividends are taxed at the personal level, but injecting funds into firms does not offer the symmetric tax benefit. Hence, there is a personal tax saving incentive to retain cash in the firm. We develop a corporate finance model of liquidity management, in which the firm's liquidity policy trades off precaution and saved personal taxes against agency and corporate tax costs. The model implies that the tax saving motive is substantial and increasing with the dividend tax rate. Consistent with the model, we empirically show that affected firms reduce their cash accumulation after a dividend tax cut.

Do investors care about negative returns?

Alina Steshkova¹, Borys Koval²

¹Vienna University of Economics and Business; ²Vienna Graduate School of Finance

Discussant: Daniel Kárpáti (Tilburg University)

In this paper, we analyse the impact of negative return frequency and the recency bias on future stock market returns. Specifically, we propose a strategy that is based on counting of daily negative returns during the previous month, where investors earn 11.9% p.a. using exponentially-weighted daily returns. Our results show that the exponentially-weighted strategy outperforms the equally-weighted strategy and is robust to a range of existing risk factors and the firms' characteristics, suggesting that the most recent observations during the month receive more investors' attention and are the most relevant for future performance. The exponentially-weighted strategy remains significant for stocks in S&P 500 after transaction costs. Although the return of the exponentially-weighted strategy is positive for stocks held by institutional and retail investors, it is the highest for stocks that are largely held by retail traders.

Ambiguity about volatility and stock market investment decisions

Charline Uhr, Steffen Meyer

University of Southern Denmark, Danish Finance Institute

Discussant: Alina Steshkova (Vienna University of Economics and Business)

We investigate individual investors' decisions under ambiguity about volatility (VVIX) using a setting of plausibly exogenous forced mutual fund liquidations. Individuals reduce stock holdings when ambiguity is high. They reinvest 68% less out of forced liquidation when the sale occurs on a day of high ambiguity than a day with low ambiguity. It is 8% more likely that individuals exit the stock market at all when ambiguity is high. Our results are not driven by rebalancing decisions and are robust to alternative measures of ambiguity about volatility.

Household Finance and Life-Cycle Economic Decisions under the Shadow of Cancer

Daniel Kárpáti

Tilburg University

Discussant: Steffen Meyer (Aarhus University)

I study the causal effects of life expectancy on financial, economic, and demographic decisions. My sample consists of individuals who undergo genetic testing for a hereditary cancer syndrome. Genetic testing randomizes tested persons into two groups. Those who test positive learn that they face a high risk of cancer and a shorter life expectancy. Those who test negative learn that their cancer risk is similar to that of the general population. The differences in outcomes between these two groups identify the effects of life expectancy. I find that life expectancy has a positive effect on wealth accumulation. Lower savings rates, safer portfolios, decreased labor supply, and different preferences for household composition explain lower wealth accumulation under reduced life expectancy.

Who creates and who bears flow externalities in mutual funds?

Hannes Wilke, Daniel Fricke, Stephan Jank

Deutsche Bundesbank

Discussant: Lukas Handler (WU Vienna)

Using a unique dataset on the sectoral ownership structure of euro area equity mutual funds, we study how different investor groups contribute to the negative externality on performance resulting from large outflows. Investment funds, as holders of mutual funds, are the main contributors to the flow externality. Insurers and households, in particular less financially-sophisticated ones, are the main receivers. These differences are due to investment funds reacting more strongly on past fund performance and displaying a more pro-cyclical investment behavior compared to households and insurers. Our results raise concerns regarding consumer protection and financial stability due to the trading activity of short-term oriented investors.

Fund managerial taxes, ownership, and risk-taking decisions

Chia-Yi Yen¹, Anna Theresa Bührle^{1,2}

¹University of Mannheim; ²ZEW

Discussant: Hannes Wilke (Deutsche Bundesbank)

Changes in fund managers' personal taxation can potentially affect their risk-taking decisions at the fund level if the fund managers hold shares of their own funds. This paper hypothesizes that fund managers with co-ownership take more risk when facing higher personal taxes. Exploiting the enactment of the American Taxpayer Relief Act 2012 as an exogenous shock that led to a significant tax increase in the U.S., we find that fund managers with co-ownership increase 12.63%-standard-deviation of their portfolio risk-taking after the tax hike. The effect is both statistically and economically significant. Our findings provide evidence that the impact of personal taxes can spill over from individuals into investment companies.

Got skin in the game? Investor reaction to managers' signaling of private investments in mutual funds

Dominik Scheld, Oscar Stolper

University of Marburg

Discussant: Chia-Yi Yen (University of Mannheim)

"Skin in the game", i.e. money managers' private investments in the funds they run, helps aligning potentially conflicted interests of investors and managers. Prior research acknowledges this benefit but remains silent about how investors are supposed to learn if fund managers have skin in the game. We remedy by investigating strategic signaling of aligned incentives in the shareholder letter, i.e. explicitly addressed to the investor. Analyzing ~16,000 shareholder letters of U.S. mutual funds, we first show that fund managers' disclosure of private investment leads to significant fund inflows up to two weeks after the letter is sent out. Second, inflows are especially pronounced following poor performance. Third, investors do not trade on the precise dollar amount of managers' private investments. Fourth and finally, the impact of skin in the game communication on fund flows limits to retail shareholders. Our research informs the de-bate on how to design effective governance for mutual funds.

(In)efficient repo markets

Tobias Dieler¹, Lorian Mancini^{2,5}, Norman Schürhoff^{3,4,5}

¹University of Bristol; ²University of Lugano; ³University of Lausanne; ⁴CEPR; ⁵Swiss Finance Institute

Discussant: Timo Wiedemann (University of Münster)

Existing repo markets trade off the allocation of short-term funding with resilience to funding shocks. In a maturity-mismatch model with safe collateral under asymmetric information and aggregate funding shocks, we show that over-the-counter repo markets prevent asset fire sales but cause runs on low-quality borrowers. CCPs insure against small funding shocks and increase run resilience but suffer from inefficient asset liquidations. A collateral transfer mechanism is required to implement the privately optimal market solution. CCPs with two-tiered guarantee funds are optimal as they insure against illiquidity and insolvency. Our findings inform the policy debate and explain collateral premia.

When firms open up: Identifying value relevant textual disclosure using simBERT

Christian Breitung, Sebastian Müller

Technical University of Munich

Discussant: Tobias Dieler (University of Bristol)

We analyze how investors price new textual information from international annual reports by introducing *simBERT*, a novel similarity measure that leverages a state-of-the-art pre-trained language model. Our results suggest that investors overlook relevant textual information. A portfolio that is long in *non-changers* and short in *changers* yields a highly significant monthly six-factor alpha of 64 basis points. The anomaly is more pronounced for firms that face stricter regulation. We further find evidence that this “lazy prices” effect is stronger among stocks with low analyst coverage, controlling for market capitalization and that analysts update their earnings forecasts and recommendations based on textual firm report information. The evidence suggests that analysts contribute to market efficiency by conveying textual information to the public.

Asynchronous trading revisited: Bias in beta and implications for empirical asset pricing

Timo Wiedemann

University of Münster

Discussant: Christian Breitung (Technical University of Munich)

Asynchronous trading is a consequence of trading not taking place continuously. This fact has important implications for empirical asset pricing. While its theoretical impact is well understood, the magnitude of its empirical impact was hard to quantify with transaction level data not being available for a long time. This paper shows that the effect of asynchronous trading on an asset's risk estimate and evaluates its implication for the recent asset pricing literature. It shows that estimates are heavily downward biased, with this bias being as large as 50 % for an early data period. It further shows that the explanatory power of the conditional CAPM can be enhanced in the sense that it can fully explain the liquidity premium observed in the literature. I argue that the asset pricing literature does not fully account for the bias induced by asynchronous trading.

Not by whom but where: analyst reaction to firms' ESG incidents

Nataliya Gerasimova, Maximilian Rohrer

Norwegian School of Economics

Discussant: Manuel Hass (RWTH Aachen University)

We document that financial analysts exhibit a local-event bias. In particular, we find that analysts located in countries affected by ESG incidents start issuing lower recommendations to the committing firms compared to analysts from other countries. The effect lasts for more than a year after the event, concentrates in hard-to-value firms, and is also reflected in financial forecasts. We show that this local-event bias is distinct from the local-firm bias, the general tendency of issuing optimistic forecasts for local firms. Our evidence is consistent with an underlying preference to rely on personal experience combined with attachment to a given geographic place and is not driven by informational advantage.

The impact of corporate social responsibility on firm value – The role of shareholder preferences

Martin Rohleder, Stefan Paulus

Universität Augsburg

Discussant: Nataliya Gerasimova (Norwegian School of Economics)

Whether CSR increases shareholder value is controversially debated and empirical evidence is mixed. Several theoretical models have recently emerged suggesting that CSR increases value for certain shareholders. We derive and test two hypotheses: the capital market splits into submarkets of CSR-preferring and preference-neutral investors, and CSR is appreciated on the former but not on the latter. Developing a new method to measure shareholder preferences from observable investment habits, we show that (ir)responsible firms concentrate in (ir)responsible portfolios, confirming hypothesis one. Confirming hypothesis two, CSR robustly increases firm value if shareholders have a CSR-preference but not if they are preference-neutral. The resulting CSR-premium is economically relevant. These findings also hold in a dynamic analysis. This has important implications for strategic management decisions as CSR investments only pay off for firms held by responsible investors.

All that glitters is not Gold: Performance Impact of Corporate Greenwashing

Wolfgang Breuer, Manuel Hass

RWTH Aachen University

Discussant: Martin Rohleder (Universität Augsburg)

This paper examines the impact of greenwashing in corporate communication on the operating performance of firms under consideration of stakeholder demand for CSR based on an inter-national sample. Besides providing a new approach for measuring greenwashing by applying textual analysis on corporate claims, we find that greenwashing significantly reduces firms' operating return on assets, especially if respective stakeholder pressure is high. On the other hand, greenwashing leads to short-term increases of firms' market value, which, however, turn negative in the long run, hinting at investors reacting in the short run to expected stakeholder behavior rather than CSR communication itself. Furthermore, the disclosure of dedicated CSR reports appears to be crucial in detecting greenwashing. The presented results are moreover robust to different methodological specifications as well as alternative sample and variable constructions.

Session D

Saturday, 1 October 2022, 9:00 a.m. – 10:30 a.m.

New stylized facts of financial exuberance periods

Marco Kerkemeier¹, Robinson Kruse-Becher^{1,2}, Christoph Wegener³

¹University of Hagen; ²CREATES, Aarhus University; ³Leuphana University Lüneburg

Discussant: Elissa Ana Maria Iorgulescu (University of Münster)

We provide a comprehensive analysis of exuberance periods by analysing a 50 years sample of 30 markets from different asset classes. Overall, we find 143 exuberances. We test a number of common beliefs and provide insights into typical empirical properties of explosive prices and their collapse. Our results indicate significant discrepancies with typical settings in the literature. Empirical explosiveness is much milder and collapse phases are in most cases smooth rather than abrupt. Moreover, prices do not revert back to the initial value, but stay significantly above. The simplified view that prices are strongly exploding with a full collapse in short time is not supported by our results. Duration dependence modelling reveals that the length of the explosive phase is positively affected by economic growth. Finally, we offer empirically relevant parametrizations for data generating processes and study the consequences for the empirical performance of popular bubble detection and date-stamping procedures.

Investment incentives of rent controls and gentrification - Evidence from German micro data

Vera Baye¹, Valeriya Dinger^{1,2}

¹Osnabrueck University; ²Leeds University

Discussant: Marco Kerkemeier (University of Hagen)

We examine the effects of the rent brake, a form of rental control introduced in Germany in 2015, on housing returns and on the affordability of living space. We derive housing returns by matching micro-level quotes on similar objects offered for rent and for sale and approximate the affordability of living space by regional rent-to-income ratios. To identify the effect of the rent brake, we estimate multiple period difference-in-differences models exploiting the temporal, regional, and object-specific variation of the rent brake introduction. Our results suggest that the main goal of the political intervention to secure affordable living space in tense housing markets cannot be attained due to construction incentives in newbuilds and fostered gentrification.

Grain futures trading during the interwar period: introducing a new dataset and evidence

Elissa Ana Maria Iorgulescu¹, Alexander Pütz¹, Pierre L. Siklos²

¹University of Münster; ²Wilfrid Laurier University

Discussant: Vera Baye (Osnabrueck University)

This paper retraces the origins of modern futures trading by creating a new dataset, and provides new evidence to an open question in economic history, whether the assumed negative impact of speculation, which generated several regulatory and institutional changes, is reflected in interwar futures trading. We first devote attention to the regulatory changes since these continue to influence market activities today. We then analyze econometrically the drivers of interwar speculative behavior and the impact of speculators' position changes on the volatility of grain prices. Our findings reveal that speculators significantly adjust their trading positions according to past returns movements, but follow different trading strategies before and after the 1929 stock market crash. We do not find evidence of speculators amplifying the volatility of grain prices.

Market power and systematic risk

Fabian Hollstein¹, Marcel Prokopczuk^{1,2}, Christoph Würsig¹

¹ Saarland University; ²University of Reading

Discussant: Andreas Knetsch (RWTH Aachen University)

We investigate the impact of product market competition on firms' systematic risk. Using a measure of total product market similarity, we document a strong negative link between market power and market betas. There is a more than threefold increase in the effect during the most recent low-competition period. Announcements of anti-competitive mergers lead to a significant reduction in market betas, underlining the causality of the market power--systematic risk relationship. Firms that face less competition appear to be partly insulated from systematic discount-rate shocks. Lower equity costs therefore mean that market power is in part self-perpetuating.

Employee health and firm performance

Alexander Schandlbauer¹, Daniel Rettl², Mircea Trandafir¹

¹University of Southern Denmark; ²University of Georgia

Discussant: Thuy Duong Dang (Leibniz University Hannover)

When workers are in bad health, their productivity declines. We investigate whether the health of employees affects firm performance, taking advantage of the severity of the seasonal influenza seasons as a source of exogenous variation. We find that firms whose employees are particularly affected by influenza experience reductions in their return on assets and in net income. These results are not driven by firm-specific characteristics, as we find the same relationship between influenza severity and firm performance within firms, at the establishment level. We also document substantial heterogeneity in the effects, with small firms and labor-intensive firms driving our findings. This suggests that labor is an important driver of firm performance and that capital-intensive and larger firms are better able to shift resources in response to temporary shocks to their workforce. Back-of-the-envelope calculations suggest that smaller firms may be better off subsidizing vaccination programs for their employees.

Big bath accounting in managerial tone following CEO turnovers

Wolfgang Breuer, Marcos Andrés Follonier, Andreas Knetsch

RWTH Aachen University

Discussant: Daniel Rettl (University of Georgia)

Prior work has documented that incoming CEOs make income-decreasing accounting decisions. It is however unclear what motivates this so-called "big bath" behavior. For one, it might serve to give a more accurate representation of actual firm performance. For another, big baths by incoming CEOs might be motivated opportunistically. Investigating the tone in earnings press releases in the years surrounding CEO turnovers, we find that incoming CEOs use negative tone to an extent that cannot be explained by a firm economic situation. This phenomenon of "big bath rhetoric" is more common to "forced" turnovers, and among turnovers where the incoming CEO takes a big bath by means of financial figures. We also show that overconfident CEOs are less likely to perform big baths rhetoric. Our results document opportunistic accounting behavior consistent with the hypothesis that incoming CEOs strategically try to bias market participants' perception about their firm's situation downwards.

On-Demand Insurance

Alexander Braun¹, Niklas Haeusle¹, Paul Thistle²

¹University St. Gallen; ²University Las Vegas

Discussant: Elisabeth Stöckl (Ludwig-Maximilians-Universität München)

An innovation in the Fintech space is on-demand insurance which meets the needs of the digital economy. These contracts make use of a simple mechanism in a practical way: People differ in their frequency of exposure as well as the probability of loss; the extra dimension of heterogeneity can be used to screen the insured which leads to welfare improvements. The conditioning on time periods relaxes the incentive compatibility constraint since high frequency types are risking being uncovered for some time by choosing a different contract. We provide sufficient conditions when a full coverage equilibrium is reached. We also show that time-flexible contracts weakly pareto dominate standard contracts and scrutinize various types of on-demand contracts.

Households' appetite for a free lunch: Evidence from flood insurance

Ben Collier¹, Tobias Huber², Johannes Jaspersen², Andreas Richter²

¹Temple University; ²LMU München

Discussant: Niklas Haeusle (University St. Gallen)

We examine the reactions of a highly subsidized group of policyholders in the U.S. National Flood Insurance Program to an increase in their insurance premiums. Using difference-in-differences estimation on a panel of over two million policy-year observations, we find that about one fourth of the policyholders cancel their insurance coverage even though it is still cheaper than a fair rate. We examine potential explanations of our results and find evidence of a behavioral response: consumer non-renewals closely correspond to periods of negative media coverage of the reform. We also show tentative evidence that the reaction to the reform increased the likelihood of households experiencing financial hardship. Our findings add to research on public policy design and on household insurance demand.

The impact of claimant fraud on optimal coverage in liability insurance

Elisabeth Stöckl

Ludwig-Maximilians-Universität München

Discussant: Johannes Jaspersen (LMU Munich)

I study the impact of claimant fraud on optimal coverage in liability insurance and investigate how setting minimum coverage requirements can enhance social welfare. Victims of liability cases might be tempted to fraudulently inflate claims due to information advantages about the loss amount. To prevent fraudulent claims inflation, liability insurers audit claims. The policyholder's choice of a coverage limit influences the claims auditing likelihood and therefore also the claimant's tendency towards fraudulent inflation. Full coverage is optimal if audit costs are small, but partial coverage is utility-maximizing if audit costs are large and inflation costs are small. The curbing of claimant falsification requires a sufficiently high insurance coverage limit. If individuals in a society differ in wealth and risk aversion and some always opt for the given minimum coverage requirement, a utilitarian welfare-maximizing minimum coverage requirement should be non-decreasing in the number of persons opting for the minimum coverage requirement.

The investment skill of ESG aware mutual funds

Marco Ceccarelli¹, Richard Evans², Simon Glossner³, Mikael Homanen⁴, Ellie Luu⁵

¹Maastricht University; ²University of Virginia, Darden School of Business; ³University of Virginia, Darden School of Business; ⁴PRI Association; ⁵University of Bristol

Discussant: Martin Georg Becker (University of Giessen)

This paper investigates financial returns to ESG integration by mutual fund families measured via a novel survey on responsible investing. Funds with the highest level of ESG integration have monthly risk-adjusted returns that are 4 basis points higher than comparable funds with lower levels of integration. The findings are robust to controlling for portfolio exposure to an ESG factor and to time-unvarying fund and portfolio manager characteristics. We find that the higher returns are concentrated in mutual funds with the highest level of ESG integration that are also exposed to firms where having superior information is most valuable, i.e., those with high disagreement in ESG ratings and those that experience incidents. Specifically, only funds with the highest level of ESG integration that over-weight high ESG uncertainty stocks outperform. Taken together, the results showcase the superior investment skill of ESG-aware fund managers.

Responsible investment and responsible consumption

Hendrik Hakenes¹, Eva Schliephake²

¹University of Bonn; ²Universidade Catolica Portuguesa

Discussant: Marco Ceccarelli (Maastricht University)

To reduce a negative externality, socially responsible households can invest responsibly (SRI), consume responsibly (SRC), or do both. Which is better? In a closed microeconomic model with intertwined product and capital markets, we analyze how responsible households should use SRI and SRC to maximize their impact. Both strategies reduce the externality as long as investors are risk-averse and the products have no perfect substitutes. Responsible households gain the highest impact when using SRC in equal proportion to SRI. A mere focus on SRC is never efficient. SRI plays a role in any green strategy. The financial performance of green investments is determined by the responsible households' mix between SRI and SRC.

Which institutional investors drive corporate sustainability?

Marco Ceccarelli¹, Simon Glossner², Mikael Homanen³, Daniel Schmidt⁴

¹Maastricht University; ²University of Virginia - Darden School of Business; ³PRI and Bayes Business School (formerly Cass); ⁴Technische Universität Muenchen

Discussant: Hendrik Hakenes (University of Bonn)

Many institutional investors publicly commit to some form of responsible investment. This raises concerns about the credibility of such claims. We use participation in collaborative engagements to identify "Leaders", i.e., institutional investors that are truly committed to improving firms' sustainability outcomes. Despite owning only 2.2% of the average firm, Leaders alone explain the positive relationship between institutional ownership and firms' environmental and social performance. In line with committed owners facilitating corporate change, engagement campaigns are successful only when firms are substantially owned by Leaders. We also find that these firms are less at risk of experiencing negative incidents.

Quality Issues of Implied Volatilities of Index and Stock Options in the OptionMetrics IvyDB DatabaseMartin Wallmeier

University of Fribourg

Discussant: Maria Kosolapova (Free University of Bozen)

The implied volatilities provided by OptionMetrics suggest substantial deviations from put-call parity that do not really exist. In S&P 500 options, artificial deviations occur because OptionMetrics uses non-synchronous index and option prices and an average implied dividend yield. In EuroStoxx 50 options, large deviations occur even though the original option prices are perfectly in line with the put-call parity. The implied volatilities of stock options in Europe show clusters of exceptional deviations that are caused by incorrect dividend information. In stock options in the US, a timing mismatch of one minute generally increases the variability of implied volatility spreads. In addition, it results in considerable distortions at the outbreak of the COVID-19 pandemic and strongly affects aggregate implied volatility spreads.

Estimation of rare disaster concerns from option prices - An arbitrage-free RND-based smile construction approachPascal Albert, Michael Herold, Matthias Muck

University of Bamberg

Discussant: Martin Wallmeier (University of Fribourg)

This research focuses on the estimation of measures of rare disaster concerns from option prices. We propose a new smile construction approach to obtain the required continuum of implied volatilities from discretely sampled observations that are affected by microstructure noise. We extrapolate implied volatilities of far out-of-the-money options by modeling the tails of the risk-neutral return distribution (RND) ensuring that option prices do not admit arbitrage. Our approach unifies favorable properties of standard extrapolation methods without entailing their disadvantages. In particular, it substantially reduces estimation errors when event risk is high.

Estimating time-varying risk aversion from option prices and realized returnsMaria Kosolapova¹, Alex Weissensteiner¹, Michael Hanke²¹Free University of Bozen; ²University of Liechtenstein

Discussant: Pascal Albert (University of Bamberg)

We combine risk-neutral densities from equity index options with realized index returns to estimate the market's risk aversion. Starting from a power utility framework with constant risk aversion, we extend it by more flexible stochastic discount factors. We allow for time-varying risk aversion of the marginal investor and we base our estimation as much as possible on forward-looking information. While the levels of the resulting estimates for risk aversion and expected returns are in line with the literature, we find the pricing kernel puzzle to be only an intermittent phenomenon, and our results point to pro-cyclical risk aversion.

Text-implied uncertainty in 10-K filings: Do investors get the message?

Oliver Budras, Maik Dierkes, Sebastian Schroen

Leibniz University Hannover

Discussant: Vanessa Behrmann (University of Bremen)

We investigate the role of text-implied uncertainty in the cross-section of stock returns. We employ word embeddings to derive an uncertainty dictionary from 10-K annual company filings. Stocks in the highest uncertainty quintile generate a 0.281% higher monthly return compared to stocks in the lowest quintile. This outperformance survives risk adjustment with recent factor models. Furthermore, we find that uncertainty is negatively related to filing period abnormal returns and that this information is priced into stocks within one day after filing. High-uncertainty companies have lower return-on-assets and unexpected earnings and are less likely to increase dividends in the subsequent fiscal year. Our results indicate that uncertainty-averse investors demand a positive premium for holding stocks with a high level of uncertainty.

The leverage effect of bank disclosures

Philipp Koenig¹, Christian Laux², David Pothier²

¹Deutsche Bundesbank Research Centre; ²University of Vienna

Discussant: Oliver Budras (Leibniz University Hanover)

The general view underlying bank regulation is that bank disclosures provide market discipline and reduce banks' risk-taking incentives. We show that bank disclosures can increase bank leverage and bank risk. The reason stems from the interaction between insured and uninsured debt. Bank disclosures reduce the agency problem between uninsured debt and equity, thereby lowering the cost of leverage for banks. By issuing uninsured short-term debt that is repaid ahead of insured deposits when economic conditions deteriorate, banks dilute insured deposits. Higher levels of uninsured short-term debt increase the subsidy provided by deposit insurance, which increases banks' risk-taking incentives. We identify conditions under which this negative leverage effect dominates the standard market discipline effect, so that providing market discipline through bank disclosures increases banks' risk.

Disclosure deregulation of quarterly reporting

Vanessa Behrmann, Lars Hornuf, Jochen Zimmermann

University of Bremen

Discussant: Philipp Koenig (Deutsche Bundesbank Research Centre)

In this article, we investigate the deregulation efforts resulting from the 2015 transposition of the EU's Transparency Directive into German law and analyze whether a reduction in the minimum content requirements for quarterly reporting increases information asymmetries and decreases firm value. Using a novel dataset of firms listed on the Frankfurt Stock Exchange, we manually examine firms' quarterly reports for their content elements and construct a new quarterly reporting measure with an ordinal quality dimension. The results reveal that during the period from 2012 to 2019, lower quarterly reporting levels due to the deregulation on average increase information asymmetry and reduce firm value. We find that this effect is stronger for first-tier stocks and firms with high media coverage, which makes quarterly reporting more important for these firms. The results are robust to potential selection effects regarding firms' choice of quarterly reporting content levels.

Session E

Saturday, 1 October 2022, 11:00 a.m. – 12:30 p.m.

Public Guarantees, Loan Allocation, and Real Effects: Evidence from the COVID-19 pandemic

Ozan Güler^{1,3}, Ilia Samarin^{1,2}

¹Ghent University; ²National Bank of Belgium; ³KU Leuven

Discussant: Nicole Branger (Universität Münster)

We study the financial and real effects of the Belgian loan guarantee program implemented after the onset of the COVID-19 pandemic. The unique feature of the program, coupled with our unique loan-level data, allows us to observe the outcomes of the eligible loan applications. We document that riskier firms were more likely to obtain guaranteed loans, which were also partly used to substitute for existing non-guaranteed debt. On the other hand, banks allocated non-guaranteed credit to their more important borrowers. Our analysis reveals that borrowers of guaranteed loans defaulted more frequently and guaranteed loans translated into weaker sales growth.

Countercyclical capital buffers and credit supply: Evidence from the COVID-19 crisis

Alexander Schandlbauer¹, Özlem Dursun-de Neef², Colin Wittig³

¹University of Southern Denmark; ²Goethe University Frankfurt; ³Independent

Discussant: Ozan Güler (Ghent University; KU Leuven)

This paper examines how European banks adjusted their lending subsequent to the release of the countercyclical capital buffers (CCyB) during the COVID-19 pandemic. At its onset in 2020Q1, being exposed to a higher ex-ante countercyclical capital buffer led to a reduction in banks' lending. Yet the relief of the CCyBs removed this negative effect from 2020Q2 onwards. We find that the reduction in CCyBs led to a significant relative increase in the average bank's lending by about 5.6 percentage points of their total assets. This increase happened mainly in retail mortgage loans and was independent of banks' capital ratios. These results imply that the release of the CCyBs was effective in promoting bank lending during the pandemic.

Covid-19 and its Impact on Dividend Futures

Nicole Branger, Mark Trede

Universität Münster

Discussant: Özlem Dursun-de Neef (Goethe University Frankfurt)

COVID-19 has had a huge impact on the stock market in 2020. We explain the observed price dynamics in a disaster risk model with time varying disaster intensity, time varying expected growth rates and Epstein-Zin preferences and allow for partial recovery. We show that this model captures the large observed changes in the relative prices of dividend futures. Both the expected growth rate and the disaster intensity vary significantly over time.

Gender, performance, and promotion in the labor market for commercial bankers

Marco Ceccarelli¹, Christoph Herpfer², Steven Ongena^{3,4,5,6,7}

¹Maastricht University; ²Emory University, Goizueta Business School; ³SFI; ⁴University of Zurich; ⁵KU Leuven; ⁶Norwegian University of Science and Technology NTNU; ⁷CEPR

Discussant: Leah Zimmerer (University of Mannheim)

We investigate the role of gender in the U.S. labor market for commercial bankers. Using banker level data from the U.S. syndicated loan market, we find that female bankers issue higher loan volumes than their male peers in the same institutions. Nevertheless, female bankers are under-represented among the more senior ranks and less likely to be promoted than their male counterparts even after controlling for a wide range of measures of performance and skill. The chance of promotion for female bankers is unevenly distributed across ranks. While women are more likely to be promoted at junior ranks, they are less likely to be promoted at higher ranks, consistent with a glass ceiling effect. Importantly, we find that these patterns are concentrated in the early parts of the sample and weaken after a series of high-profile discrimination lawsuits brought against banks.

The additional value of labor market signals for women's careers

Alexandra Niessen-Ruenzi, Leah Zimmerer

University of Mannheim

Discussant: Marco Ceccarelli (Maastricht University)

We show that signals of higher education, professional experience, and access to professional networks are more valuable for women's career advancement than for men's. On average, additional qualification signals increase male directors' probability to become CEO by 10.1%, while this probability increases by more than 30% for female directors. With respect to compensation, additional qualification signals increase male directors' compensation by 10.4% (\$444,145). Female directors' compensation benefits more than twice as much and increases by 21.1% (\$849,500). Additionally, the composition of professional networks matters for women's career advancement. We find that connections to male executives and executives who are members of an old boys' club are more valuable for women than having access to all-female networks.

The anatomy of consumption in a household foreign currency debt crisis

Gyozo Gyongyosi¹, Judit Rariga², Emil Verner³

¹Leibniz Institute for Financial Research SAFE; ²ECB; ³MIT Sloan

Discussant: Jan Wedigo Radermacher (Leibniz Institute for Financial Research SAFE)

This paper studies the consumption response to an increase in the domestic value of foreign currency household debt during a large depreciation. We use detailed consumption survey data that follows households for four years around Hungary's 2008 currency crisis. We find that, relative to similar local currency debtors, foreign currency debtors reduce consumption approximately one-for-one with increased debt service, suggesting a role for liquidity constraints. We document a variety of margins of adjustment to the shock. Foreign currency debtors reduce both the quantity and quality of expenditures, consistent with nonhomothetic preferences and "flight from quality." We find no effect on overall household labor supply, consistent with a weak wealth effect on labor supply. However, a small subset of households adjusts labor supply toward foreign income streams. Affected households also boost home production, suggesting a shift in consumption from money-intensive to time-intensive goods.

Time inconsistency and overdraft use: evidence from transaction data and behavioral measurement experiments

Andrej Gill¹, Florian Hett¹, Johannes Tischer²

¹Johannes Gutenberg Universität Mainz; ²Deutsche Bundesbank

Discussant: Gyozo Gyongyosi (Leibniz Institute for Financial Research SAFE)

Households regularly fail to make optimal financial decisions. But what are the underlying reasons for this? Using two conceptually distinct measures of time inconsistency based on bank account transaction data and behavioral measurement experiments, we show that the excessive use of bank account overdrafts is linked to time inconsistency.

By contrast, there is no correlation between a survey-based measure of financial literacy and overdraft usage. Our results indicate that consumer education and information may not suffice to overcome mistakes in households' financial decision-making. Rather, behaviorally motivated interventions targeting specific biases in decision-making should also be considered as effective policy tools.

Personality Augmented MPC

Jan Wedigo Radermacher¹, Fabian Nemeczek²

¹Leibniz Institute for Financial Research SAFE; ²Goethe Universität Frankfurt

Discussant: Andrej Gill (Johannes Gutenberg Universität Mainz)

We investigate the link between Big Five personality traits and the marginal propensity to consume (MPC) for users of a German financial account aggregator app. We use 1,700 survey responses and transaction data of 56,000 app users to assess whether Big Five personality traits help explain MPC heterogeneity. We find that extraversion corresponds to an increase in consumption whereas agreeableness and neuroticism correspond to a decrease in consumption. We test this with trust and risk preferences and find that risk indicates more explanatory power in consumption response than the Big Five. Our findings help policy makers target individuals more efficiently.

Money management and real investment: The inevitability (and optimality) of negative alphasSimon Gervais², Günter Strobl¹¹University of Vienna; ²Duke University

Discussant: Nataliya Gerasimova (BI Bergen)

We propose and analyze an equilibrium model of money management in which the asset allocation decisions of money managers affect the production decisions of firms. The model produces two main results. First, comparing the performance of money managers to that of the overall market portfolio becomes less appropriate as investors (endogenously) choose to delegate more of their money to them. Indeed, as money managers control more money, their holdings get closer to the market portfolio, making it less likely that they outperform it. Second, although money managers may be outperformed by the market portfolio after their fees are taken into account, it is optimal for investors to hire their services. This is because money managers prompt a more efficient allocation of capital, making the economy more productive and firms more valuable in the process.

A non-linear market model

Tobias Sichert

Stockholm School of Economics

Discussant: Günter Strobl (University of Vienna)

This paper estimates a single pricing factor from index options and shows that it can explain a large set of prominent stock return anomalies jointly. A key feature of the new pricing factor is that it is a U-shaped function of index returns, implying that investors demand both a downside and upside risk premium. The upside risk premium is sizable and crucial for the success of the pricing factor. Moreover, I document that investors demand a sizable premium for upside risk exposure in other prominent asset classes such as bonds and commodities. The results are consistent with a compensation for exposure to systematic variance.

Advising the Advisors: Evidence from ETFsJonathan Brogaard¹, Nataliya Gerasimova², Ying Liu³¹University of Utah; ²Norwegian School of Economics; ³Shanghai University of Finance and Economics

Discussant: Tobias Sichert (Stockholm School of Economics)

Asset managers play a dual role by simultaneously managing funds and increasingly providing investment model recommendations to third-party financial advisors. Using a novel data set focusing on recommendations by ETF issuers and strategists, we discover that these recommendations have a substantial impact on ETF flows. Model providers recommend their affiliated ETFs more frequently, and these funds tend to have higher fees and lower performance than recommended unaffiliated ETFs. In addition, investors who follow the recommendations exhibit weaker sensitivity to funds' returns. We fail to find evidence that recommendations are driven by private information about the future outperformance of affiliated funds.

Regulating Zombie Mortgages

Huyen Nguyen¹, Jonathan Lee²

¹Halle Institute for Economic Research; ²University of Glasgow

Discussant: Sebastian Schreiber (Goethe University Frankfurt)

We evaluate how zombie property law affects mortgage supply and house prices. Exploiting exogenous differences in zombie property law along several US state borders, we document that the law causes lenders to reduce mortgage acceptance rates and raise interest rates. The contraction in mortgage supply triggers declines in local house prices. The results are much stronger for non-banks due to their reliance on riskier mortgages. Our findings inform the debate on policy responses to eliminate zombie properties and enhance mortgage lending practices.

How do assessed values affect the transaction prices of homes?

Simon Stehle

University of Konstanz

Discussant: Huyen Nguyen (Halle Institute for Economic Research)

Property taxes are commonly levied as a proportion of a home's assessed value (AV). AVs are likely to affect home trading prices through two counteracting channels. First, an unexpected AV increase implies higher tax payments, which should negatively affect a home's trading price (tax channel). Second, AVs are potential reference prices, which should lead to a positive effect (anchoring channel). In a quasi-experimental setting, which exploits geographic variation in AV-publication dates and reassessment frequencies, I find that a higher AV leads to a lower trading price, i.e., that the tax channel prevails, indicating an exacerbation of previously documented taxation-induced inequity.

How unconventional monetary policy fuels real estate markets

Tobias Berg¹, Rainer Haselmann², Thomas Kick³, Sebastian Schreiber^{2,3}

¹Frankfurt School of Finance & Management; ²Goethe University Frankfurt; ³Deutsche Bundesbank

Discussant: Simon Stehle (University of Konstanz)

Using granular supervisory data from Germany, we investigate the impact of unconventional monetary policies via central banks' purchase of corporate bonds. While this policy results in a loosening of credit market conditions as intended by policy makers, we document two unintended side effects. First, the policy impacts the allocation of credit among industries. Affected banks reallocate loans from investment grade firms active on bond markets to mainly real estate firms without investment grade rating, and thereby fuel real estate overvaluation. Second, banks that are more exposed to borrowers benefiting from the bond purchases now lend more to high-risk firms with no access to bond markets, leading to a drop in bank profitability due to more loan write-offs. Overall, our findings suggest that central banks' quantitative easing via the corporate bond markets has the potential to contribute to both real estate bubbles and banking sector instability.

Spillovers of cum-ex and cum-cum trading with single stock futures

Arne Reichel, Valerie Laturnus, Mark Wahrenburg

Goethe University Frankfurt

Discussant: Gunjan Seth (London Business School)

We examine single stock future (SSF) trading and respective underlyings around dividend ex-dates to study a specific form of dividend tax arbitrage, widely known as cum-ex and cum-cum trading, across Europe. Both strategies are designed to profit from illicit refunds of tax withheld from dividends, using SSF to share the realized gains between colluding parties. Our results document trading spillovers into more favorable tax regimes. High trading activity disappears in markets with enacted tax reforms. SSF have been considerably overpriced during the cum-ex period. All findings are robust to controls, such as volume, volatility and institutional ownership. Ex-day price drops are largely unaffected by changes in investors' tax heterogeneity.

When Options are an Option: regulating Shorts under SEC Rule 201

Rainer Brand¹, Matthias Molnar², Angel Tengulov³

¹Vienna University of Economics and Business; ²Vienna University of Economics and Business; ³Kansas University School of Business

Discussant: Arne Reichel (Goethe University Frankfurt)

This paper investigates the effect of the current short-sale regulation, SEC Rule 201, on cross-market trading and its impact on market quality. The data suggests that after Rule 201 is triggered, shorting activity decreases and put option activity increases. Further, put option bid-ask spreads, equity bid-ask spreads and price dispersion increase. Importantly, the increase in equity bid-ask spreads is reduced for stocks with traded options. This evidence is consistent with informed short sellers migrating from the equity market to the options market after short-sale restrictions become binding and contributes to a long-standing debate on the topic. Further, the evidence highlights the need of additional disclosure requirements related to large synthetic short sale positions through options.

Innovations in bankruptcy financing: rights offerings in chapter 11

Gunjan Seth

London Business School

Discussant: Matthias Molnar (Vienna University of Economics and Business)

The paper investigates the rising trend of rights offerings in U.S. Chapter 11 reorganizations. In the last decade, rights offerings have been used in more than 40% of the bankruptcy filings and have evolved as a market based response to the uncertainties in the valuation process of complex Chapter 11 cases. I find that they are highly correlated with the performance of the stock market, and largely displace Section 363 asset liquidations, which have been found to be value reducing. Their causal effect on bankruptcy outcomes is identified using the within-district random assignment of bankruptcy judges, and the S&P fluctuations during the book building phase as instruments for rights offering completion. I find that compared with other sources of financing, rights offerings are associated with shorter periods spent in Chapter 11, higher recovery rates, and reduced uncertainty about the court valuation of the reorganized company.

Acknowledgments

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29th Annual Meeting of the German Finance Association (DGF)

University of Hohenheim, Stuttgart
September 28-30, 2023

We cordially invite researchers and practitioners to participate in the 29th Annual Meeting of the German Finance Association (DGF) to be held at the Faculty of Business, Economics and Social Sciences of the University of Hohenheim in Stuttgart on September 29 and 30, 2023. A doctoral workshop will take place on September 28, 2023.

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

Call For Papers

We invite submission of recent research papers. Guidelines for the submission are:

- Submissions are only accepted through the online submission system (ConfTool)
- The submission period is from February 01, 2023 to April 30, 2023 (midnight, CET)
- Submissions are subject to a double-blind review process. Thus, papers have to be submitted in anonymous format (No reference(s) to author(s) or affiliation(s))
- Only full papers in English are considered for review. Papers should be accompanied by an abstract of no more than 120 words.

For all necessary information (including location, accommodation, etc.) please visit the conference website: <https://bank.uni-hohenheim.de/dgf2023>.

We are looking forward to an interesting conference and we welcome you to Stuttgart!

Best regards,

Hans-Peter Burghof

Thomas Dimpfl

Robert Jung

SGF CONFERENCE 2023

March 31, 2023, SIX ConventionPoint, Zurich

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SUBMISSION DEADLINE: OCTOBER 31, 2022, 24:00 CET

The 2023 Annual Meeting of the Swiss Society for Financial Market Research (SGF Conference 2023) will be held in Zurich on March 31, 2023. Should mobility restrictions prevent an on-site meeting, we will alternatively hold the conference as a webinar on the same date. Prospective contributors are invited to submit papers on all topic areas of finance by October 31, 2022. The submission fee is CHF 50. The conference will also feature a dedicated Poster Session for PhD students. Online paper submission will be possible as of September 1, 2022 at:

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