Wednesday Program

10:00am-12:00pm	Welcome Letter from the Journal of Financial Research				Current Review of Financial Economics Issue (Best Paper Sponsor)				
11:00am-5:00pm	Registration Table Open								
1:30pm-3:00pm	A.1. CSR and Firm Risk (Sunset 1)	A.2. Policy and Bank Performance (Sunset 3)	A.3. Real Estate (Sunset 4)	A.4. Theoretical Asset Pricing (Sunset 5)	A.5. Firm Response to Climate Policy (Sunset 6)	A.6. Financial Advising (Santa Monica 2)	A.7. Macroeconomic Announcements (Melrose 2)	A.8. Institutional Investors (Wilshire A)	A.9. Investing (Wilshire B)
3:00pm-3:30pm	Coffee Break (Melrose 4)								
3:30pm-5:00pm	B.1. The Cost and Benefits of CSR (Sunset 1)	B.2. Financial Planning (Sunset 3)	B.3. Climate Risk in Banking (Sunset 4)	B.4. Cryptocurrency (Sunset 5)	B.5. Derivatives (Sunset 6)	SWFA Board Meeting (Outgoing Members) (Santa Monica 2)	B.7. Corporate Debt Structure (Melrose 2)	B.8. CEO Behavioral Biases (Wilshire A)	B.9. Portfolio Management (Wilshire B)
6:00pm-7:30pm	Welcome Reception (Celebrity 1&2)								

10:00 - 12:00

Welcome Letter from the Journal of Financial Research ()

Current Review of Financial Economics Issue (Best Paper Sponsor) ()

11:00 - 17:00

Registration Table Open ()

13:30 - 15:00

A.1. CSR and Firm Risk (Sunset 1)

Impact of Foreign Promoter Ownership On Idiosyncratic Volatility: Evidence From India

Anushka Agarwal, Indian Institute of Technology, Delhi

Neeru Chaudhry, Indian Institute of Technology, Delhi

Promoter-owners refer to those individuals or corporations present during the firm's incorporation and bear significant control over its operations. For a sample of Indian firms, we document that firms with foreign promoters experience lower idiosyncratic volatility. Non-dividend-paying firms, firms with no foreign debt, and firms with poor informational environments observe lower idiosyncratic volatility when foreign promoters are present. The negative effect of foreign promoters on idiosyncratic volatility is observed for older, mature, and financially unconstrained firms. Foreign promoters have a significant effect on idiosyncratic volatility when they own at least 26% equity in a firm so as to influence corporate decision-making. However, during periods of macroeconomic uncertainty, stocks of foreign promoter firms are observed to be more volatile, perhaps because of a preference for an early resolution of macroeconomic uncertainty or capital flight from emerging markets to safer markets. Lastly, an important finding is that foreign promoter firms have higher firm value despite the lower levels of firm risk. Overall, our findings support the argument that foreign promoters are efficient monitors of management.

Inheriting From Bankrupt Firms? Evidence On Long-Term Performance of Local Firms

Zhexu Ai, Wagner College

I posit an "inheriting process" where a bankrupt company positively impacts the local economy by releasing a significant number of employees to the local labor market. I provide supporting evidence that other local companies benefit in the long run from this labor force. Specifically, the stock portfolio of adjacent firms beats the benchmark factors by 31.8% in five years. Additionally, adjacent firms outperform their industry average by 65% in sales, while investing 116% more in R&D expenses. As expected, further tests attribute this performance to new employees from the bankrupt company, especially highly skilled ones.

Biodiversity Risk In The Corporate Bond Market

Sevgi Soylemezgil, Binghamton University

We investigate whether biodiversity risk is priced in the US corporate bond market. Using a market-based measure of biodiversity risk, we find that longer term bonds issued by firms with higher biodiversity risk exposure have higher yield spreads, consistent with biodiversity being perceived as

a long-run risk. This effect is stronger among firms with marginal credit quality and those that mention biodiversity regulation in their financial statements. Using the adoption of the Kunming-Montreal Global Biodiversity Framework as an experiment, we find that the impact of biodiversity exposure on yield spreads is more pronounced when biodiversity-related awareness and regulatory risks rise.

A.2. Policy and Bank Performance (Sunset 3)

China's Wto Entry and Local U.s. Banks

Samar Ashour, University of Alabama at Bimingham

Thomas J. Chemmanur Chemmanur, Boston College

Xi Li, University of Arkansas

Jiajie Xu Xu, University of Iowa

We analyze how the product market competition shock due to China's WTO entry affected local US banks across various regions. Using a difference-in-differences empirical strategy, we document that in regions with greater exposure to the shock, loan quality deteriorated and bank profitability declined more severely, coupled with slower loan growth and higher loan interest rates after the shock. Further, small banks lost market share and banking market concentration increased more in these regions. Overall, our paper documents, for the first time in the literature, how China's WTO entry affected the local banking system in various U.S. regions.

The Impact of The Low-Income Designation On Credit Union Performance

Michelle Gabor, University of Wisconsin Parkside

Arjan Premti, University of Wisconsin Whitewater

Mohammad Jafarinejad, University of Wisconsin Whitewater

The low-income designation, which provides regulatory waivers and operational assistance to credit unions that serve low-income members, is one type of US governmental program promoting financial inclusion. Despite the increasing occurrence of low-income designation, the impact on credit union financial performance is unclear. The present study employs regression analysis using panel data to assess the impact of low-income designation. The study finds the low-income designation and usage of attendant regulatory benefits are positively associated with credit union financial performance. These findings provide insights for credit union practitioners and regulatory agencies regarding the sustainability of credit unions that serve the underserved. The research findings provide insights for financial institution practitioners, investors, and regulatory agencies regarding the influence of various regulatory activities, specifically ones that are designed to promote fair financial services, on the U.S. financial institutions who provide these services.

Impact of Overdraft Protection Regulation and Bank Practices On Market Valuation

Michelle Gabor, University of Wisconsin - Parkside

Mohammad Jafarinejad, University of Wisconsin-Whitewater

Arjan Premti, University of Wisconsin-Whitewater

Since the persistent low-interest rate environment that started in the 2000s, banks have increasingly relied upon non-interest income sources such as account fees to replace interest income. In response to the 2007 financial crisis, the Dodd-Frank Wall Street Reform and Consumer Protection Act created the CFPB (CFPB), and also enacted a wide range of consumer protection and systemic risk reduction regulations including controls on bank overdraft protection practices. Despite these provisions of the Dodd-Frank Act, the CFPB continues to investigate bank overdraft protection fees and has been discussing additional consumer protection regulations. Beginning in 2021, dozens of large banks voluntarily reduced or eliminated overdraft protection fees. On the one hand, this may cause concern regarding their profitability while, on the other hand, this may be viewed as a pro-social and ethical policy change that will lead to more customers and improved financial performance. This study examines the impact of both overdraft protection regulations and voluntary bank policy announcements on the stock price of US banks.

A.3. Real Estate (Sunset 4)

15 Seconds To Alpha: Higher Frequency Risk Pricing For Commercial Real Estate Securities

Andreas Christopoulos, Yeshiva University - Sy Syms School of Business

Joshua Barratt, Barratt Consulting

In this paper we estimate risk decompositions of default, interest rate, liquidity and excess liquidity at intraday frequency for securitized commercial real estate securities in intervals of fifteen seconds for 572 days during the Covid pandemic. In cross-sectional analyses we discover stark patterns in the price formation of risks. We articulate twenty-four long-short trading strategies in the frequently traded, and related, REIT sector to exploit these aberrations. In Year 1 of the Covid-era, 88% of our risk signalled automated trading strategies produced significant alphas, with 90% of those strategies also generating strong positive abnormal returns. These patterns of revealed mispricing of risk, and trading skill, persist across the entire sample period. This is the first paper to estimate risk decompositions for securitized commercial real estate securities at intraday frequencies which reveal market mispricings of such risks in CMBX and which provide investment insights into the related REIT sector.

Underdiversification and Housing Risk Premia

Ricardo Lopez A., Syracuse University

Erasmo Giambona, Syracuse University

Esther Eiling, University of Amsterdam

Patrick Tuijp, University of Amsterdam

Investor underdiversification is pervasive, particularly in the housing market where most homeowners own only one property. At the same time, there is an increasing presence of landlords and institutional investors with better diversified housing portfolios. We show, both theoretically and empirically, how the presence of underdiversified households versus diversified institutional investors relates to the types of risk that are priced in the cross-section of housing returns. We find that, even though homeowners are exposed to sizeable zip code-level idiosyncratic housing risk, they are not always compensated for this risk. In areas with high homeownership, zip code--specific risk is 29% more likely priced. In contrast, in areas with more geographically diversified real estate investors, housing market risks at the metropolitan or national levels are more likely priced. Our findings point to a link between asset pricing and the ability of different asset owners to hold a well-diversified portfolio.

Sentiment Pricing Strategy In Single Family House Transactions: A Case Study of Two Counties In Washington State

Ying Huang, University of South Alamaba

YING ZHANG, UNIVERSITY OF MANITOBA

Bill Hu, Arkansas State University

Hongchao zeng, University of Nevada, Reno

This paper studies how market sentiment affects pricing strategy of using zero in single-family home sales for (1) Skagit County with only 130,6961 population and (2) King County with over two million population. Depending on the position of the digit, zero which is proven psychologically more attractive (Lynn, Flynn, and Helion, 2013) is commonly used in the ones, tens, hundreds, and thousands positions. We find strong correlation between the use of zeros in ones, tens, hundreds, and thousands positions and price level. Moreover, although the housing markets are drastically different between the Skagit County and King County with respect to factors pertaining to demand and supply, we find that in general the higher average selling price in previous 3-month, 6-month,12-month periods, the more use of zeros in the ones, tens, hundreds, and thousands positions are strongly associated with higher price. Further, the shorter number of days on the market and the lesser supply, the higher likelihood of using zeros. Thus, our findings show that the use of zeros is driven by psychologically preference reasons.

A.4. Theoretical Asset Pricing (Sunset 5)

Risk Is Not Sufficient To Generate A Return On Investment

Benjamin Jansen, MTSU

This paper argues that theories focusing solely on risk as the driver of returns may not be sufficiently reflecting relevant asset price inputs. This conclusion largely stems from prevalent asset pricing theories ignoring the firm side supply of value into their financial securities.

Models of Gold Options Market and Evidence In Favor of Financialized Gold and Against Disasterization

Xiaohui Gao, Temple University

Gurdip Bakshi, Temple University

Zhaowei Zhang, Temple University

This paper presents models for gold, which consists of four components: (i) uncertainty driven by idiosyncratic, jump, unspanned, and spanned risks; (ii) a semi-analytical solution for option risk premiums; (iii) an analytical representation of VIXgold(t); and (iv) models that can be estimated using Kalman filtering. The estimated models capture characteristics of the gold markets, such as the negative magnitudes of put risk option premiums, compatible with financialized gold. Furthermore, the combined modeling of idiosyncratic and nonidiosyncratic variance, as well as price jumps, is quantitatively relevant for option pricing, return volatilities, and VIXgold(t) evolution.

Default Risk and Firm Valuation In A Discounted Cash Flow Framework

Yixiao Jiang, Western New England University

Steven Baxley, Capital One

This study incorporates default risk in a general enterprise valuation framework, which includes the Gordon growth model as a special case. A simple closed-form formula is derived for the value of enterprises with a stochastic default point. From a practical standpoint, we recommend analysts perform sensitivity analysis with various default probability scenarios to assess the robustness of their valuation.

A.5. Firm Response to Climate Policy (Sunset 6)

Do Firms Respond To Commitments On Climate Change? Impact of Cop21 On Investment Intensity

Sanjay Kumar Jain, Indian Institute of Management Ahmedabad

Pramendra Singh Tank, Indian Institute of Management Ahmedabad

Balagopal Gopalakrishnan, Indian Institute of Management Ahmedabad

In the Paris Climate Agreement (COP21), countries pledged to restrict global warming to 1.5-2.0 degrees Celsius by 2100 and reduce greenhouse gas (GHG) emissions. We examine whether firms respond to the commitments made by countries in the period following the agreement. Using cross-country data with 68,471 firm-year observations and a policy experiment approach, we find that manufacturing firms domiciled in countries with ex-ante higher GHG emissions per capita reduce their capital expenditure intensity after COP21. We also find that the market valuations of such firms are substantially depressed compared to those located in countries with low GHG emissions per capita. The findings suggest that climate policy uncertainty and transition risks have likely contributed to the heterogeneous firm response across countries. The insights from our study contribute to a relatively novel literature that assesses the impact of the global climate agreement on capital expenditure intensity and market valuation.

"To Give Or To Keep": Climate Change Exposure and Corporate Tax Avoidance

Deepak More, University of Texas Rio Grande Valley

This paper investigates whether firms with high climate change exposure engage in higher tax avoidance. The results show that firms use tax avoidance as an additional source of funds to mitigate the adverse effects of high climate change exposure. The positive effect of climate change exposure on tax avoidance is more profound after the events that increased climate change awareness globally (The Stern Review & The Paris Agreement), and mainly manifests in firms with stronger internal governance and in firms with weaker external governance. This study also documents that tax avoidance increases the firm value conditional on climate change exposure. The results are robust and not driven by CEOs risk-taking incentives or agency problems.

Carbon Risk and Debt Maturity

Michael Milewski, McMaster University

Anna Danielova, McMaster University

The Paris Agreement, endorsed by 196 signatories, signifies a global commitment to limit global warming to 1.5°C by limiting and reducing carbon emissions. This event signals to the market that stricter environmental regulations or a reduction in demand for carbon-intensive assets can occur in the future. We find that firms with greater carbon risk (CO_2 emissions) have a longer average maturity length of their debt after signing the Paris Agreement than lower-emitting firms. We attribute the longer debt maturity to firms managing their liquidity risk, providing greater flexibility to refinance debt.

A.6. Financial Advising (Santa Monica 2)

Mystery Shopping: do Financial Advisors Play Their Role As Intermediaries In The Transformation Process Towards A Sustainable Economy?

Julia Eckert, University of Kassel

Thomas Cauthorn, University of Kassel

Anne Kellers, University of Groningen

Christian Klein, University of Kassel

Bernhard Zwergel, University of Kassel

This paper examines the role of financial advisory services in the area of sustainable investments. Given the complexity of these investment products, most individual investors rely on the advice of financial advisors, making the advisor's role as an information intermediary crucial. However, previous research shows that financial advisors often do not provide investors with sufficient information about sustainable investments. The European Commission has recognized this issue and introduced changes to MiFID II to ensure that advisors address investors' sustainability preferences during the advisory process. This study focuses on assessing the quality of sustainable investment advisory services after the introduction of MiFID II. The present study addresses several research questions, including compliance with regulatory requirements, the quality of advisory services in the field of sustainable investments, whether investment adhere to the individual investors' sustainability preferences, and examines various factors that determine advisors' sustainable product recommendations. To investigate these research questions, we employ a mystery shopping approach. Around 100 mystery shoppers, trained over several days, visit the financial advisory services of different financial institutions in Germany (n=455). Our trained mystery shoppers evaluate the quality of the advisory service on the basis of predefined criteria in a pre-tested online survey. Our results will provide valuable insights into the effectiveness of MiFID II regulations and the quality of sustainable investment advice. By analyzing these aspects, the study contributes to valuable insights into the evolving landscape of sustainable investments and identifies both strengths and potential weaknesses of the financial advisory service in the field of sustainable investing.

Competition and Misconduct: Evidence From Financial Advisory Industry

Ishitha Kumar, Emory University

Short Selling and Audit Reporting Lags

Robinson Reyes Pena, Florida International University

Suchismita Mishra, Florida International University

Krishnan Dandapani, Florida International University

Kannan Raghunandan, Florida International University

We examine the relation between audit report lags and short selling activity. Our results show that the timing of audit reports decreases monotonically with the intensity of short selling around the end of the fiscal year. This association is significant after controlling for the conventional client and auditor characteristics in a multivariate framework including year fixed effects. These findings are indicative of management exerting pressure on audit firms to release their reports sooner, when firms are targeted by short sellers, as a means to curb price declines. A faster audit turnaround time amid increased short selling is also consistent with the previously documented positive relationship between short selling and audit fees.

A.7. Macroeconomic Announcements (Melrose 2)

Emotions Drive Actions: Sentiment and Cryptocurrency Market Reactions To Macroeconomic News Announcements

Nhan Huynh, Macquarie Business School, Macquarie University

Commodity Etfs and Price Discovery

Gabriel Power, Laval University

This study examines volatility dynamics and price discovery in commodity Exchange-Traded Funds, a fast-growing sector in financial markets. We investigate the relationship between each ETF and its components by constructing indicative Net Asset Values (iNAV) for each ETF using high-frequency data. We model the ETF price dynamics using Bayesian VAR and HAR models, with and without jumps (distinct from the diffusion component of volatility). The results show a strong spillover effect from the indicative Net Asset Value (iNAV) to the ETF. Rather than simply reflecting market movements, the iNAV affects ETF volatility, while the reverse is not true. We document differences in the relationships across ETFs.

Learning About Fed Policy From Macro Announcements: A Tale of Two Fomc Days

Zohair Alam, University of Toronto

I show that pre-FOMC drift and FOMC announcement premium are realized only on the small subset of FOMC days preceded by key macro data releases. On the other roughly two-thirds of all FOMC days, there is neither drift nor any announcement premium. These equity returns are thus not unconditionally high around FOMC statements. Instead, they predominantly reflect reactions to new information, in particular to expectations regarding the path of monetary policy that are updated on key macro announcements. More broadly, financial market movements around FOMC statements strongly differ when key macro announcements immediately precede FOMC announcements. On this subset of FOMC days, conventional monetary policy shocks are predictable using past data, the Fed information effect can be observed, the secular decline in interest rates phenomenon around FOMC statements can be seen and the security market line is upward sloping. On all other FOMC days not preceded by macro news, the Fed information effect is absent, monetary policy shocks are not as predictable, there is no decline in interest rates around FOMC statements and the security market line is flat.

A.8. Institutional Investors (Wilshire A)

Do General Partner Incentives Impact The Duration of Private Equity Funds?

Mohammadali Fallah, California State University, Fresno

Karan Bhanot, University of Texas San Antonio

Jingjing Guo, University of Texas San Antonio

Using private equity fund data for 2,855 funds initiated in the period 2000-2012, we ask how general partner (GP) incentives impact the duration of a fund. Consistent with the premise that GPs maximize the lifetime revenue of their firm, i.e., both fees from the current fund and expected future funds, we find that a fund's duration is shorter when GPs raise a follow-on fund, even when distributed capital is below 100%. Funds with very long durations are more likely when incentives are misaligned- smaller funds with low distributed capital and low expectations of raising future funds.

Do Venture Capitalists Value Climate Risk?: Evidence From State Climate Adaptation Plans

Hyeonjoon Park, University of Oklahoma

This study examines the association between climate risk and green innovation within startup companies, with a specific focus on the role of venture capital (VC) investors in their consideration of climate risk when making investment decisions. By using the State Climate Adaptation Plans (SCAPs) as sources of exogenous variation to the perceived level of climate risk, I find that startups respond by intensifying their commitment to green innovation, while VC investors correspondingly increase their funding allocation to such environmentally focused startups. However, there is a significant heterogeneity observed among VC investors in terms of their valuation of climate risk within their investment decisions. Notably,

experienced VCs do not exhibit a shift in demand towards green startups, a phenomenon that contributes to their long-term success in terms of achieving more favorable exits. Furthermore, the study finds that the SCAPs adversely affect brown startups in terms of attracting VC funding, while startups operating within the energy sector exhibit an increase in green innovation but fail to secure additional VC financing. These findings hold notable implications for green startups and for VC investors seeking to support green innovation in the face of evolving environmental policies.

Alpha Return Dynamics: Evidence From Hedge Fund Indices

Gregory Koutmos, Fairfield University, Dolan School of Business

The ability of hedge fund managers to earn "alpha returns" has been extensively investigated in the academic literature. Less attention has been paid to the robustness, or stability of alpha returns across the conditional distribution of hedge fund returns. This paper investigates the behavior of alpha returns as well as the exposure to risk factors across the conditional distribution returns using a quantile regression approach. The empirical findings reveal that alphas as well as risk exposure parameters are not stable across the distribution of returns. Interestingly, alpha returns appear to be significant only around the center of the distribution of returns.

A.9. Investing (Wilshire B)

Do Short-Term Measures of Risk and Return Predict Long-Run Wealth?

Paul Haensly, Retired

This paper examines two questions about the long-run performance of an equity portfolio. What is the relation between short-term measures of portfolio risk and reward and measures of long-run performance, and does this relationship depend on the degree of diversification? I perform a simulation analysis of equity portfolios over an accumulation period of 30 years. The results show that short-term total portfolio risk, short-term diversifiable risk, and the Sharpe ratio generally are poor predictors of the median level of ending real wealth. In addition, short-term total portfolio risk and short-term diversifiable risk generally are poor predictors of downside risk, i.e., the risk that ending wealth will fall short of what is needed for retirement. The general exceptions are portfolios that are not well diversified in the sense that the portfolio holds a relatively small number of stocks. These results are robust across portfolio weighting (equal weighted or value weighted), level of trading costs, rebalancing frequency, and form of the underlying asset pricing model in the simulation.

Tradfi Or Defi: Which Is Better For An Investor's Portfolio?

Vivek Pandey, The University of Texas at Tyler

Decentralized Finance (DeFi) protocols seek to replace traditional financial (TradFi) institutions by empowering individual market participants to interact directly with each other, saving them fees and hassle of interacting with centralized institutions. Does DeFi offer better diversification opportunities to equity investors when compared to TradFi? Some experts have also noted that DeFi protocols and TradFi institutions can thrive together with co-operation. Does the addition of both DeFi and TradFi assets enhance an investor's portfolio? This study attempts to seek answers to the abovementioned questions.

Are Women More Risk Averse? A Sequel

Efstathia D. Korkou, York College, The City University of New York

Christos I. Giannikos, Baruch College/The Graduate Center, The City University of New York

The current paper revisits the 1998 work "Are women more risk averse?" by Jianakoplos and Bernasek, and suggests certain refinements in their model with regards to the database used, namely the U.S. Federal Reserve Board's Survey of Consumer Finances(SCF). The suggested refinements pertain first to an enhanced computation of wealth, that includes additional categories of assets such as 401(k)s or other thrift saving accounts, and second to a more subtle handling and consideration of specific demographicdata of the SCF respondents. Following the refinements, new tests are performed on the latest SCF of 2022, comparing single (never married) women and single (never married) men. The 2022 SCF results reveal a continuing pattern of decreasing relative risk aversion but no significant gender differences.

15:30 - 17:00

B.1. The Cost and Benefits of CSR (Sunset 1)

Cost of Green

Wonseok Choi, Texas Woman's University

Dongnyoung Kim, California State University San Marcos

Hirofumi Nishi, The University of Texas at Dallas

This article examines the relationship between the financial performance of an industrial electricity consumer and the prevalence of renewable energy within the state, where the firm operates. Our empirical analysis indicates that the proportion of electricity generated from renewable energy sources within a state has a significant negative impact on a firm's productivity, profitability, and value. Conversely, it is positively correlated with industry volatility. Our analysis suggests that the observed findings are influenced by the position of local governments regarding renewable energy. The government stance toward renewable energy is measured by the quantity of renewable energy policies and financial incentives in place. The

implications of our findings have significant policy relevance, highlighting the necessity to explore alternative approaches to promote sustainable profitability for industrial electricity consumers.

The Role of Corporate Social Responsibility: Evidence From Market Reaction To Data Breach Announcements

Wei-Ju Liao, McMaster University

Trevor Chamberlain, McMaster University

Rahman Khokhar, Saint Mary's University

Using a sample of US data breaches and two major sources of corporate social responsibility (CSR) ratings, we examine the relationship between firm performance and CSR activities and the channel through which CSR activities affect investors' views of breached companies when the news breaks. A data breach involves an intentional or unintentional leakage of proprietary information about a company and its stakeholders, which may precipitate reductions in firm value. We find that firms with higher pre-breach environmental, social and corporate governance (ESG) scores experience a significantly less negative stock market reaction to data breach announcements than their counterparts with lower pre-breach ESG scores. Our evidence suggests that social performance insures companies against information security incidents. However, the way to which the market assesses CSR ratings provided by different agencies is divergent, which should be of concerns to stakeholders.

Corporate Environmental Policy and Capital Allocation Efficiency: Evidence From Toxic Release Inventory Data

Md Ismail Haidar, University of Texas Rio Grande Valley

Namhoang Nguyen, University of Texas Rio Grande Valley

We study the impact of corporate environmental policy on investment efficiency. Using the firm's mandatory emissions reports filed with the Environmental Protection Agency (EPA) to capture the firm's annual toxic release from 1991 to 2021, we show that firms with greater level of industrial pollution decrease capital allocation efficiency. Further analysis reveals that the effect is more pronounced for firms with high litigation risk, for firms in communities that do not prefer stricter environmental policies, firms with financial constraints, and for firms with weak corporate governance practices. Our results are robust to endogeneity concerns and other robustness checks. Overall, our results highlight the real effect of environmental pollution, which is a costly negative externality caused by firms on society, public health, and investment efficiency.

B.2. Financial Planning (Sunset 3)

Generational Differences In Retirement Planning Perspectives

Young Baek, Nova Southeastern University

David Cho, Nova Southeastern University

Doseong Kim, Sogang University

1. This study analyzed the Survey of Consumer Finances waves from 1989 to 2019 to examine the generational differences in retirement planning, while controlling for ages and time periods. 2. Millennials have less motivation for retirement saving, and less preference for long term planning, but their self-assessment of retirement income adequacy is not lower. 3. Millennials' confidence in retirement adequacy without strong motivation for retirement saving or future time preference is ungrounded, and a different set of financial policies, education and counseling is recommended to the policy makers and practitioners.

Does Technology Make You Happier? Online Budget Planner and Financial Well-Being

Nguyen Nguyen, Minnesota State University Mankato

Thanh-Dat Le, University of Northern Colorado

Quynh Nguyen, Flinders University

This study investigates whether adopting online budget planning platforms (e.g., Goodbudget, Mint) benefits households' subjective financial well-being, as demonstrated by financial confidence and satisfaction. Using National Financial Capacity Survey (NFCS) data in 2018 and 2021 that includes more than 50,000 households, we find that financial budgeting tools significantly bolster households' subjective financial well-being by encouraging healthy financial behaviors. The empirical evidence also illustrates that online budget planners' positive impacts are more pronounced among disadvantaged households such as low-income, financially illiterate, and Black families. This paper suggests a new tool to promote financial wellness and equity in the community.

B.3. Climate Risk in Banking (Sunset 4)

Adaptation To Climate Change Through Mortgage Default and Prepayment

Timothy Riddiough, University of Wisconsin - Madison

Does An Exclusive Relationship With Government Banks Matter During Climate Shocks?

Harish Kamal, Indian Institute of Management Calcutta

Samit Paul, Indian Institute of Management Calcutta

Avijit Bansal, Indian Institute of Management Calcutta

Climate shocks adversely affect firms' operations and performance. Is maintaining an exclusive relationship with government banks (GOBs), a potential solution for firms (GOB firms) to emerge out of distress caused by climate shocks when government aids are unavailable? Using abnormal rainfall conditions as a proxy of climate shock and firms' banking relationship, our study finds that GOB firms, compared to other firms, secure 7.2\% higher funds and invest 2.2\% more, which enables them to earn 6.7\% higher profit during abnormal rainfall periods vis-\'a-vis normal rainfall periods. While exploring the channels, we find support for the "flight-to-safety" hypothesis, i.e., GOB firms, due to implicit government guarantees associated with GOB relationship, secure loans from banks other than GOBs. Our evidence is inconsistent with the view which suggests there is an implicit commitment of welfare-maximizing GOBs to help the firms, especially GOB firms, during times when firms are adversely affected by climate shocks.

B.4. Cryptocurrency (Sunset 5)

Cbdc and The Shadow of Bank Disintermediation: Us Stock Market Insights On Threats and Remedies

Lars Beckmann, University of Muenster

Paul F. Hark, University of Muenster

Jörn Debener, University of Muenster

Andreas Pfingsten, University of Muenster

Highly deposit-dependent banks might be strongly negatively affected by the introduction of a central bank digital currency (CBDC). Particularly a retail CBDC, focusing on the use by consumers, may constrain cheap funding and thus erode profits of banks (deposit channel). Our empirical study reveals that stock market reactions of US banks to speeches by US Federal Reserve (FED) executives indicating a CBDC introduction are indeed more negative the more these banks depend on deposits. However, as soon as protection against disintermediation is promised by the FED, e.g., via a non-interest bearing CBDC or a CBDC holding limit per person, we observe positive stock market reactions for highly deposit-dependent banks.

Bitcoin Volatility Forecasts: Machine Learning Approach

Koutaroh Minami, Hitotsubashi University

Bitcoin's most prominent feature is its high volatility, and forecasting volatility is one of the key challenges in terms of risk management. This paper examines the feasibility of forecasting the bitcoin volatility. We use the GARCH model as a benchmark and compare the machine learning methods, the neural network and the LSTM which is one of the recurrent neural networks. We find that neural network works better in long-term forecasts than GARCH and LSTM works better for all forecasts than GARCH and neural network. We also find that our LSTM model is a suitable forecasting tool when the market is unstable. It can forecast in advance when the market goes to exuberance and when it ends.

Revisiting The Predictability of Asian Uncertainty On Bitcoin Returns Using Xai

Jinghua Wang, New Jersey Institute of Technology

Geoffrey M. Ngene, Stetson School of Business and Economics M

Yan Shi, Computer Science and Software Engineering Department, University of Wisconsin - Platterville

The aim of this study is to offer fresh insights into the predictability of economic policy uncertainty on Bitcoin returns during the period from 2011 to 2023. Specifically, we explore the potential predictability of the economic policy related uncertainty from the Asian region, while also including global and US-based uncertainties as control groups within a seven-uncertainty system. The study applies the novelty methodology in finance which is an explainable LightGBM algorithm with SHAP. Our findings highlight the previously overlooked influence of India's emerging role on Bitcoin returns, reinforcing the significance of Singapore economic policy uncertainty in predicting these returns. The robustness of our results demonstrates that Asian uncertainty has a greater impact on prediction compared to global and US-based uncertainties. These empirical findings can serve for stakeholders in investment allocation and for policy makers in regulating cryptocurrency market.

B.5. Derivatives (Sunset 6)

The Impact of Using Derivatives On Stock Market Liquidity

Neeru Chaudhry, Department of Management Studies, IIT Delhi

Aastha Gupta, Department of Management Studies, IIT Delhi

Stock liquidity refers to the trade in large number of securities with minimal impact on market prices. When firms use derivatives for hedging, their risk goes down. In addition, the quality of information environment improves, and corporate governance gets enhanced. Investors in capital markets develop positive outlook for such stocks. All these mechanisms cause the price impact of trade to reduce and trading volume to increase, together creating stock market liquidity. In this study, we find that using derivatives causes significant improvement in stock liquidity. This relationship is robust to endogeneity and reverse causality concerns. We demonstrate that decrease in stock illiquidity with derivative usage is more pronounced for firms with high information asymmetry and firms with more agency problems. Furthermore, derivative usage improves stock liquidity when firm risk is high and investor sentiments are negative. These results lay emphasis on the liquidity creation role of derivative usage which

complements other functions of derivative markets such as price discovery and risk management. Our findings become even more important as financial markets in emerging economies are perceived to be nascent and less liquid than the developed markets. In a developing financial and institutional setup, we document the advantage of using derivatives in generating stock liquidity while reducing the impact of frictions such as information asymmetry, agency problems, firm risk, and investor perception.

Too Much Love Will Kill You: Compensation Impact In Option Hedge Trading

Taeyoung Park, University of Texas at Dallas

A growing body of literature examines the impact of dynamic hedges by option traders on the return momentum of underlying assets when they have an open gamma imbalance. Simultaneously, the media highlights that there has been a notable increase in the compensation of hedge traders. Combining the two aspects, this study utilizes a theoretical framework to examine the impact of compensation on option hedge behavior. While in the first equilibrium of optimal hedge timing, the objective of the principal (financial intermediaries), maximizing book value, aligns with the agent (trader), in the second equilibrium, the agent seeks to maximize their own compensation. This study finds evidence that in the presence of short gamma imbalances, agents deviate from the first equilibrium and engage in aggressive hedging behavior, influencing market momentum and that with long gamma imbalances in options, they tend to defer hedging activities, enabling the market to maintain its momentum. As a result, this study shows that the compensation package given to alleviate any moral hazard from agents leads them to deviate from the principal's interest and to drive subsequent market impact.

Does The Behavior of Short-Lived Options Suggest Information Asymmetry?

Yufei Wu, Auburn University

Jitka Hilliard, Auburn University

Jimmy Hilliard, Auburn University

The scholarly literature finds that informed traders prefer to transact in the options market, presumably because of the increased leverage found in that market. We define a new measure of asset interest based on the monetary size of changes in option open interest with the probability of expiring out-of-the-money (OTM) options having monotonically higher weights. We sort portfolios into deciles based on the asset's call option interest measure divided by the aggregated call and put options interest measure. The information measure has predictive value. We find that stocks in the high decile portfolios have better performance than those in the low decile portfolios even after accounting for transaction frictions and short sale costs.

Detangling Risk Premiums: Common and Idiosyncratic Components of Crude Oil, Corn, and Ethanol Futures

Rui Liu, Duquesne University

Bingxin Li, West Virginia University

Xiaoli Etienne, University of Idaho

Applying a no-arbitrage term structure model, we investigate the dynamic relationship of risk premiums in the crude oil, corn, and ethanol futures markets, motivated by their increasing price comovements. Specifically, the model estimates a common factor that summarizes the information driving the three futures prices simultaneously and one idiosyncratic factor that captures distinct information in each market. The common risk premiums are significantly correlated with macroeconomic variables, while idiosyncratic risk premiums are more related to market-specific factors. The crude oil and corn risk premiums were on average negative during financialization, but have increased and become positive post-financialization. The ethanol risk premiums were on average positive, being less impacted by financialization. However, we find that financialization may have a limited impact on the comovement between the risk premiums in the three markets. In contrast, uncertainties in biofuel policies may have affected the linkage between corn and ethanol risk premiums.

SWFA Board Meeting (Outgoing Members) (Santa Monica 2)

B.7. Corporate Debt Structure (Melrose 2)

The Effect of The Tcja On Lease Financing and Debt Financing

Onur Bayar, University of Texas at San Antonio

Ivalina Kalcheva, University of Texas at San Antonio

Heritage Oyelade, University of Texas at San Antonio

This paper examines the effect of the 2017 Tax Cuts and Jobs Act (TCJA) on firms' choice of lease financing in their financing mix and the substitutability between operating leases and debt financing. The results of our difference-in-differences analysis demonstrate an increase in operating leases for firms impacted by the limit on interest deductibility provision of TCJA. Specifically, the affected firms exhibit a greater tendency to shift from debt financing to lease financing, indicating the influence of TCJA on this financing strategy. Furthermore, our analysis reveals a decrease in operating leases as a percentage of total assets for firms impacted by the bonus depreciation provision of TCJA. This effect indicates that the affected firms are more inclined to replace operating leases with asset purchases. Overall, these findings support the view that the TCJA had heterogeneous effects on firms' choice between debt financing and lease financing depending on firms' financing policies and real asset characteristics prevailing prior to the TCJA.

Government Subsidies and The Choice Between Bank and Public Debt

Kyuyoung Oh, University of Kentucky

How do government subsidies affect firms' capital structure? I find that subsidized firms shift their debt financing structure toward more public debt and away from bank debt. These key findings are robust to alternative regression model specification and hold under propensity score-matched and entropy-balanced samples as well as an IV approach exploiting changes in powerful congressional committee chairmanships. Cross-sectional tests reveal that the documented effect of government subsidies on the shift toward public debt is amplified among firms with better governance, severe information asymmetry, and more positive political sentiment, consistent with the notion that enhanced external scrutiny and increased perceived credibility stemming from endorsement effects diminish the need for the traditional monitoring and informational roles of bank debt.

Purchase Obligations and Debt Concentration

Steven Xuanrui Zhu, University of Houston

Hui Zhu, Ontario Tech University

This study investigates how a firm's purchase obligations affect its subsequent choice of debt structure. As a means of planning for a firm's future expected sales, purchase obligations can act as a signal for the firm's future cash outlays not reported on its balance sheet. Thus, we conjecture and find that firms with greater purchase obligations are more likely to concentrate their debt among fewer types of debt to avoid future uncertainty. Further analysis shows that the positive relationship between debt concentration and purchase obligations is exasperated for firms that have non-investment grade bonds, engage in more R&D activities, have lower leverage, are larger, and set outside of crisis periods. Additional evidence from an instrument variables approach and a propensity score matched sample analysis imply that our findings are robust to accounting for endogeneity. Overall, our findings suggest that the use of purchase obligations cause firms to utilize a more concentrated debt structure.

B.8. CEO Behavioral Biases (Wilshire A)

Ceo Neuroticism and Corporate Cash Holdings: Evidence From Ceos' Tweets

Robin Chou, National Chengchi University

Dien Giau Bui, Yuan-Ze University

Chih-Yung Lin, National Yang Ming Chiao Tung University

Chien-Lin Lu, National Ilan University

We examine the effects of CEO neuroticism on corporate policies for cash holdings. After hand collecting tweets by CEOs to measure their neuroticism, we find that firms with relatively neurotic CEOs hold more cash than other firms. This positive effect is more pronounced when the firm has a higher precautionary motive to hold cash. The cash held by firms with neurotic CEOs leads to higher firm values and lower credit risks. Overall, neurotic CEOs maintain more conservative corporate policies on holding cash, resulting in a lower cost of financial distress and an improvement in the value of firms

Lobbying and Ceo Overconfidence

Marcos Velazquez, The University of Texas Permian Basin

The Disposition Effect In Ceos' Decisions To File Chapter 11 Abstract

Zhexu Ai, Wagner College

Edward Lawrence, Florida International University

It is well known that investors exhibit disposition effects when trading assets. Both individual investors and corporate insiders are documented to have the tendency of holding on to losers and selling winners. Using 345 bankruptcy cases, we show that, besides obvious CEO agency issues, CEOs' disposition effect significantly delays the decision-making process on bankruptcy filings as well, that is, CEOs are reluctant to realize the value loss of the firm by filing for bankruptcy. We also provide evidence consistent with the "distress puzzle", in which companies with high default risks show low equity premiums.

B.9. Portfolio Management (Wilshire B)

A Competitive Data Strategy For Asset Management In The Era of Alternative Data

Andreas Kakolyris, Kean University

Tin Shan Suen, Kean University

Hany Guirguis, Manhattan College

Unlike passive index funds, active equity managers can improve investment performance by identifying new data sources that predict stock returns, and these 'alternative data' sources comprise an emerging ecosystem in finance. Though the utility of alternative data has been demonstrated, it can be challenging to integrate these new value-added data sources into an existing investment decision process, and the value of these novel sources

declines quickly as competing managers adopt the same data. This paper presents an innovative 'data strategy' that simplifies the data adoption process and sustains the competitive advantage of the data. The proposed data strategy crowdsources stock-picking ideas via Vestly, a phone app and stock-trading game that drives the data generation process (DGP) and collects ideas from players. We show here that the Vestly DGP can deliver profitable investment signals. A simple long/short strategy generated statistically and economically significant positive stock-specific returns over a four-year period, with an information ratio of 0.72. Our paper thus demonstrates that managers can in-source their own alternative DGP as part of a strategy to remain competitive in the new era of alternative data.

Value Versus Growth: The Conditional Sorting Investment Strategy

Haiwei chen, University of Alaska Fairbanks

Thanh Ngo, East Carolina University

Currently, mutual funds are created to mimic the value and size premium by independently sorting stocks based on the book-to-market ratio and the market capitalization. In this study, we propose a conditional two-way sorting procedure. Using data between 1991 and 2022, we show that the conditional sorting procedure generates a higher average than the traditional two-way sorting procedure. Specifically, conditionally sorting on size proxy before sorting on value proxy, generates extra 0.65% return on an annual basis for the equally-weighted portfolios, and 0.61% for the value-weighted portfolios. Similarly, sorting on the value proxy first before sorting on the size proxy generates extra return of 0.66% for the equally weighted and 0.86% for the value-weighted portfolios.

Multi-Period Portfolio Optimization: A Parallel Nsga-Iii Algorithm With Real-World Constraints

Yihe Qian, University of Macau

Jinpeng Wang, Guangzhou City University of Technology

This study presents an enhanced algorithm that seamlessly integrates the parallel processing capabilities of PGAs with the multi-objective optimization strengths of NSGA-III, tailored for multi-period optimization. It broadens the optimization objectives to T+1, explicitly focusing on minimizing risk across multiple t periods while simultaneously maximizing terminal returns, all within the framework of an additional practical constraint designed to cap maximum portfolio loss. Our algorithm consistently outperforms the standard NSGA-III, delivering substantial improvements in both risk reduction and return optimization across varied time frames and portfolio reallocation frequencies, with quarterly adjustments showing particular effectiveness. We also investigate the optimal algorithmic parameters, identifying a population size of 70 and a 10% migration rate as the most effective settings. Overall, our findings offer a more realistic representation of real-world investment scenarios, offering invaluable insights for both academic research and industry applications.

18:00 - 19:30

Welcome Reception (Celebrity 1&2)

Thursday Program

Time											
7:00am-8:00am	Women Scholar's Networking Breakfast (Melrose 3)										
7:30am-5:00pm	Registration Table Open										
8:00am-9:30am	C.1. Information Diffusion (Sunset 1)	C.2. Anomalies (Sunset 3)	C.3. Politics and Regulations (Sunset 4)	C.4. Hedge Funds (Sunset 5)	C.5. SPACs (Sunset 6)	C.6. Cost of Debt (Santa Monica 2)	C.7. CSR and Firm Performance (Melrose 2)	C.8. Consumer Credit (Wilshire A)	C.9. Earnings Quality (Wilshire B)	C.10. Institutional Investors (Sunset 2)	C.11. Presentation Workshop (Melrose 3)
9:30am-10:00am	Coffee Break (Melrose 4)										
10:00am-11:30am	D.1. Disclosure (Sunset 1)	D.2. Credit Ratings (Sunset 3)	D.3. Mutual Funds Information Processing (Sunset 4)	D.4. Short Selling (Sunset 5)	D.5. FinTech (Sunset 6)	D.6. Determinants of Yield (Santa Monica 2)	D.7. Corporate Debt Financing (Melrose 2)	D.8. CEO Skill and Power (Wilshire A)	D.9. Retail Trading (Wilshire B)	D.10. CSR and Firm Valuation (Sunset 2)	D.11. Bridging Finance and Data Analysis (Melrose 3)
11:45am-1:15pm	Business Meeting Lunch (Celebrity 4)										
1:30pm-3:00pm	E.1. Professional Service (Sunset 1)	E.2. Supply Chain Relationships (Sunset 3)	E.3. Determinants of CSR (Sunset 4)	E.4. Market Microstructure 1 (Sunset 5)	E.5. Policy Uncertainty (Sunset 6)	E.6. Fixed Income (Santa Monica 2)	E.7. International Return Volatility (Melrose 2)	E.8. Managerial and Firm Decision Making (Wilshire A)	E.9. International Return Correlations (Wilshire B)	E.10. Exchange Rates (Sunset 2)	E.11. Doctoral Student Workshop 1 (Melrose 3)
3:00pm-3:30pm	Coffee Break (Melrose 4)										
3:15pm-4:45pm	F.1. Bond and OTC Market Microstructure (Sunset 1)	F.2. Cross-section of Stock Returns (Sunset 3)	F.3. Factors (Sunset 4)	F.4. Payout Policy (Sunset 5)	F.5. Pension Funds (Sunset 6)	F.6. Executive Compensation (Santa Monica 2)	F.7. REIT and MBS Returns (Melrose 2)	F.8. FinTech (Wilshire A)	F.9. Discrimination (Wilshire B)	F.10. Expectations and Inflation (Sunset 2)	F.11. Meet the Editors Panel (Melrose 3)
5:00pm-6:00pm	Keynote Speech & Best Paper Awards (Celebrity 4)										
6:00pm-7:30pm	Reception (Celebrity 1&2)										

07:30 - 17:00

Registration Table Open ()

08:00 - 09:30

C.1. Information Diffusion (Sunset 1)

Extreme Opinion of Financial Analysts

Kotaro Miwa, Kyushu University

This study analyzes the informational value of changes in analysts' extreme opinions regarding stock valuations (i.e., the most aggressive and the most conservative target prices). The analysis reveals that such changes contain incremental information beyond the information yielded by existing measures regarding analyst reports. Furthermore, stock prices underreact significantly to positive changes in the most conservative target prices, although such changes could have been considered herding (i.e., non-innovative) revisions by previous studies. After controlling for this underreaction, we do not observe any significant underreaction to revisions in target prices and earnings forecasts. Thus, this price underreaction to target prices and earnings forecast revisions, which have been reported by previous studies, can be attributed to a delayed price reaction to changes in the most conservative target prices. Finally, the results indicate that the most conservative target prices are usually made by experienced and active analysts (i.e., analysts with lengthy careers and analysts who make frequent updates to their target prices). All of these results support the perspective that a change in an analyst's extreme opinion regarding a stock valuation provides essential information and that investors significantly underreact to such extreme opinions—especially positive changes in the most conservative target prices.

Twitter, Investor Demographics, and The Diffusion of Information In Financial Markets

Mahnaz Paydarzarnaghi, University of Texas at Arlington

David Rakowski, University of Texas at Arlington

This research explores the link between information diffusion and social media user characteristics through an analysis of Twitter posts and stock returns. We examine over 9.7 million company-specific Twitter posts and 398,129 Twitter users from 2017 to 2019. We test how stock price reactions to information differ between human and bot (automated accounts) users and how stock price reactions to information are associated with the race, ethnicity, age, and gender of social media users who post that information. We find that posts generated by real people are more strongly associated with information, while posts generated by bots are more associated with a temporary liquidity shock that dissipates within days. We also show that Twitter posts, including images and URLs, impact stock prices more than posts with text. We find that posts generated by white or Hispanic social media users substantially impact stock prices more than other races and ethnicities. In addition, we find that posts by men have a stronger impact on stock returns than posts by women. Finally, we find that the age of a social media user is positively associated with the impact of that user's posts.

Can Institutional Investors Influence Media Sentiment?

Heng Emily Wang, Elon University

Xiaoyang Zhu, Wichita State University

The dissemination of misleading and false information through social media can jeopardize a company's reputation, thus posing a threat to its stock and performance. Institutional investors are known to influence corporate governance. Therefore, this paper investigates whether institutional investors engage in media sentiment management to hedge against unfavorable media sentiment, stabilize company stocks, and enhance performance. We first investigate the effect of media sentiment on market reactions and find a positive association between media sentiment and stock prices and returns. Moreover, this effect is stronger for stocks with higher institutional ownership. Then, we find supportive evidence that institutional investors play an active role in media management. Specifically, institutional investors tend to raise the sentiment on bad news while suppress the sentiment on good news. We also document some implications of this institutional investors activism. First, institutional investors' efforts to respond to media sentiment reduce the volatility of stocks in the face of news shocks. Second, we show that this institutional investors activism improves the market valuation and performance of the firm, and that the marginal effect is stronger for bad news.

C.2. Anomalies (Sunset 3)

Crowded Spaces and Anomalies

Fabio Moneta, University of Ottawa, Telfer School of Management

Ludwig Chincarini, University of San Francisco

Renato Lazo-Paz, University of Ottawa

This paper investigates the relation between crowded trades, those in which many investors hold the same stocks possibly exhausting their liquidity provision, and future stock returns on a set of well-known stock market anomalies. We find that anomaly risk-adjusted returns appear to be concentrated among the most (least) crowded stocks for the long-leg (short-leg) portfolio. Moreover, we find that our results remain significant after publication dates. We hypothesize that crowded equity positions in anomaly stocks increase institutional investor's exposure to crash risk. Our findings are consistent with this hypothesis and suggest that crowding adds a new consideration to the limits of arbitrage.

Calendar Anomalies In The Nairobi Securities Exchange

Jun Wang, University of Montevallo

This research investigates two major calendar anomalies, the day of the week effect and the holiday effect, in the Nairobi Stock Exchange (NSE), a leading African exchange. By studying eight of the exchange's most representative stock indices over a twenty-year period from 2000 to 2019, this research is the first to test and compare the presence of major calendar anomalies on the NSE before and after the 2008 financial crisis. The results indicate that a strong and negative effect on Mondays and a positive effect on Fridays appeared in the NSE only after the 2008 financial crisis. In addition, we find a strong and positive pre-holiday return effect for large cap stocks with high levels of liquidity. The increasing significance of both anomalies during the post-crisis era aligns with the ongoing trend of growing foreign capital inflows from the UK and other European nations into Kenya since 2008. Our results shed some light on the degree of market efficiency in one of the major emerging capital markets in Africa, and its increasingly close relationship with the global capital market.

Decoding Anomalies Through Alpha Dynamics

Shuhao Ren, Arizona State University

This paper studies explanations of anomalies by analyzing how alphas of the characteristic-sorted portfolio evolve over a subset of months after the sorting period, referred to as the ”alpha dynamic”. In contrast, prior studies focus on the average of alphas after the sorting period. I find that alpha dynamics provide new insights in evaluating whether anomalies (1) exist, (2) are profitable after considering trading costs, and (3) are due to mispricing or omitted factors. Upon incorporating the impacts of alpha dynamics into these questions, an analysis of 205 anomalies reveals that relying solely on t tests may miss many real anomalies. This problem becomes more severe with higher t cutoff values (e.g., 3.0). Also, the after-cost profitability has been significantly underestimated. Further, in about 65% of anomalies, the observed alpha dynamic pattern conforms to existing behavioral models rather than rational models. This suggests that they are likely to be at least partially due to mispricing. Examples of well-known categories include net share issuance, idiosyncratic volatility, and momentum.

C.3. Politics and Regulations (Sunset 4)

Csr Performance and Sec Comment Letter Review Process

Abdul-Rahman Khokhar, Saint Mary's University

Christine Panasian, Saint Mary's University

Hesam Shahriari, Prairie View A&M University

We document an implicit benefit of firms' CSR Performance through a novel channel –the Comment Letter review process by the Security and Exchange Commission (SEC). We find that a firm's CSR Performance is inversely related to the likelihood of receiving an SEC Comment Letter. Moreover, we document that for firms that receive a Comment Letter, via the random selection process of the SEC, a higher CSR score is associated with a less severe and less complex review process and, thus, lower associated costs of resolving the CL review process. Our results are robust to a comprehensive list of firm- and industry-level controls and the inclusion of firm- and year-level clustering and firm and year fixed effects. In addition, we find that the findings are robust to endogeneity concerns related to potential sample selection bias.

Political Ideology, Corruption, and Esg

Trang Pham, UTEP

This study examines the effect of local corruption on a firm's environmental, social, and governance (ESG) performance by taking into account the role of liberalism in each state. I propose that since liberals are generally more environmentally and socially concerned than conservatives, ESG performance of firms located in states with liberal views will be less negatively impacted by the local corruption than conservative-leaning states. The results provide some support for my projection. I find that for a particular level of corruption, firms located in states with liberal leaning views exhibit better ESG performance than those in areas with conservative leaning views. In addition, most of such effects are presented in the environmental and social pillars of ESG. I also investigate whether a governor's ideology has differential effects on corruption-ESG association. The findings indicate that the negative impact of corruption on ESG is lessened when a conservative state has a liberal-leaning governor instead of a conservative-learning governor.

C.4. Hedge Funds (Sunset 5)

Currency-Hedged Funds: Performance and Fund Flows

Lukas Greger, Friedrich-Alexander-Universität Erlangen-Nürnberg

Hendrik Scholz, Friedrich-Alexander-Universität Erlangen-Nürnberg

We analyze how currency hedging of currency-hedged equity funds affects their alphas and estimate the impact of the return contribution of currency hedging on their fund flows. Measuring fund manager skill based on common factor models, the factors should capture returns of known strategies, e.g. investing in value stocks. However, currency hedging activities of currency-hedged funds are not captured by common factor models. By introducing a currency hedging return factor, we show how to account for the hedging of these funds in factor models, which helps to generate a more reasonable alpha. In our empirical analyses, we use a sample of "twin share classes" that invest in the same underlying portfolio but differ in terms of their hedging behavior: One has a currency hedging designation and the other does not. We show that the introduced factor captures returns from currency hedging. Studying fund flows, we decompose the return of currencyhedged funds to derive two different estimates for alpha, one with and one without hedging adjustment, as well as an estimate for the return from currency hedging. Our results indicate that the return contribution of the fund's currency hedging strategy drives fund flows in addition to manager's skill.

Hedge Funds With(out) Edge

Eric Wilson, McMaster University

Estimates of alpha from reduced-form factor models are an incomplete measure of hedge fund performance. By focusing solely on alpha, we are failing to capture important return variation during market dislocations. The omission of this return variation from performance measures leads to poor out-of-sample (OOS) performance. To address this issue, I introduce a new measure, Edge, and benchmark, Short VIX, of hedge fund performance that I argue more accurately reflects the skill of a hedge fund manager. A hedge fund manager that is able to generate alpha without exposure to market downside risks is determined to possess Edge. With the introduction of this measure, I document a new finding in the hedge fund literature: Hedge funds can be separated, ex-ante, into two groups, with respect to Edge. Only 3% of hedge funds possess Edge. OOS, hedge funds with Edge have both higher sharpe ratios and positive skewness while those hedge funds without Edge have lower sharpe ratios and negative skewness.

Partisan Conflict, Crisis Concern, and Hedge Fund Returns

Yuhao Chen, Minnesota State University, Mankato

New economic theory (Azzimonti 2019b) suggests that tightening partisan disagreement increases the market concern about future crises. We test the relationship by utilizing the newly developed Partisan Conflict Index (PCI) and the risk-return profile of hedge funds. Hedge funds are likely to be exposed to substantial tail risk because of their specific trading strategies (Stulz 2007). Therefore, their performance might be impacted by the variation in partisan conflict. We at first document that the monthly hedge fund style indices are positively related to the PCI innovation in the past month after controlling for common risk factors. Next, we find that hedge funds with higher dependence on PCI innovation are associated with higher tail risk in the future. We also show that hedge funds may chase higher risk-adjusted returns by exploiting the increasing market concern when PCI goes up.

C.5. SPACs (Sunset 6)

The Diminished Role of Larger Auditors As External Monitors In De-Spac Transactions

Brian Burnett, University of North Carolina at Charlotte

Al Ghosh, University of North Carolina at Charlotte

Lingfei Kong, Washington University in St Louis

Our study investigates the demand for auditing by a private company merging with an exchange-traded “special purpose acquisition company” (SPAC) in a de-SPAC transaction. Even though information asymmetry and agency conflicts are likely to be more severe in de-SPACs than in IPOs, and therefore auditing benefits are also likely to be greater, we find that de-SPACs are significantly less likely to retain a Big 4 than an IPO. More importantly, we find that the de-SPAC financial reporting problems are neither infrequent nor transitory regardless of auditor quality (Big 4 or non-Big 4). Further, we fail to find evidence that the financial reporting problems and stock underperformance are lower in de-SPACs with Big 4 than non-Big 4. However, we do find that the Big 4 charge considerably more than the non-Big 4 and this fee premium, at least partially, is compensation for added business risk. Finally, we provide some insights into Big 4 retention by a de-SPAC using de-SPAC deal characteristics and risk attributes. Collectively, these results underscore the diminished dominance of the Big 4 in de-SPACs than in IPOs.

Determinants and Predictive Power of Spac Shares Redemption

Mian Wei, University of Ottawa

Special Purpose Acquisition Companies (SPACs) are a special type of public companies in the financial market. In this study I address important factors that can affect investors’ SPAC shares redemption decision. I show that investors demand information on SPACs from different sources, and several relevant factors are identified from three sides: SPAC side, target company side, and the merger deal and financial market side. I also find that the SPAC shares redemption rate shows predictive power to the post-merger operational performance. Furthermore, the redemption rate exhibits significant predictive power to the post-merger stock performance for original SPAC shareholders but not for the new shareholders who purchase stock shares of the newly-merged firm after the merger.

The Time To Completion of Spac Mergers and Despac Performance

Asif Malik, University of Oklahoma

Bryan Stanhouse, University of Oklahoma

Peter Mueller, Fordham University

Fang (Hank) Lin, Pacific Lutheran University

Xin Yue Zhou, University of Oklahoma

This paper uses duration analysis to empirically document the relationship between SPAC mergers that take place late in the life of the SPAC and “value destroying” new business combinations. Our investigation is guided by a target acquisition model which provides the optimal minimum value of a potential merger partner. Furthermore, the solution’s comparative static behavior reveals an incentive for sponsors to deviate from their original assurances of target quality to investors. If this misalignment of incentives influences the decision making of managers, it should be reflected in the data. Our maximum likelihood estimation produces a positively sloped and convex hazard function which documents an enhanced likelihood of an “uncoupled” SPAC merging as maturation threatens. This result suggests that to the detriment of SPAC investors, sponsors have lowered the optimal threshold value of the target to avoid losing their “promote.” To support our prima facia evidence, we examine the statistical relationship between the timing of SPAC mergers and the ROAs for the new business combinations as well as the “buy and hold” common stock returns.

Spacs and Their Warrants

Gustav Finne, Hanken School of Economics

Jesper Haga, Hanken School of Economics

Special purpose acquisition companies (SPACs) provide an alternative to traditional initial public offerings (IPOs). SPACs raise capital by issuing units that contain common shares and warrants. We argue that this combination of instruments creates staged financing that reduces agency problems arising from managers’ access to excessive free cash flows. Consistent with the usage of warrants to reduce the agency problem, we show that SPACs with greater warrant coverage are of lower quality, trade at higher premiums as of closing, but have worse performance after the business combination.

C.6. Cost of Debt (Santa Monica 2)

Determining Cost of Debt For Unlisted Energy and Infrastructure Firms of India Using Market Data

Puneet Prakash, Missouri State University

Kewal Singh

The Energy and Infrastructure sectors require large capital outlays and private investors prefer debt over equity financing in these sectors. However, estimating borrowing costs is a challenge as debt is thinly traded in India, if at all. Moreover, private firms out number publicly listed ones in these sectors in India. In this exploratory study, we employ the Merton model of default to impute cost of debt and propose estimating the cost of debt for these unlisted firms by matching them with their publicly listed counterparts based on propensity score matching using financial variables. We find the average listed firm has an expected cost of debt of 8.80% compared to 7.67% for unlisted one, but that is due to no listed firm operating in the irrigation and railway infrastructure sectors. We document significant differences across sub-sectors and provide possible explanations for our findings given the Indian setting of our study

Esg In The Mining Industry and Cost of Debt Implications

Jennifer Brodmann, California State University Dominguez Hills

Mahelet Fikru, Missouri University of Science and Technology

Li Li Eng, Missouri University of Science and Technology

Despite a growing number of studies arguing for the need to transparently measure the sustainability impact of mining companies, it is not clearly understood to what extent institutional factors versus firm capabilities/resources could explain the variation in sustainability scores, and whether favorable scores contribute to a mining firm's cost of acquiring capital (cost of debt) after controlling for key factors that have a bearing on ESG scores. We contribute to the literature by quantitatively examining the role of firm size and country of origin on two different third-party provided sustainability scores: Sustainalytics ESG Risk Ratings and Refinitiv ESG Score. Our results suggest that country of origin affects both scoring mechanisms but at a different rate, after controlling for firm size effects. Furthermore, the evidence suggests that Refinitiv's ESG score is negatively correlated with the cost of debt while Sustainalytics' ESG Risk Rating is not, after accounting for the endogeneity of sustainability ratings. These findings have implications for management and investment in the mining industry.

The Effect of Cybersecurity Risk On The Cost and Pricing of Corporate Debt

Amir Gholami, The University of Texas Rio Grande Valley

Fariba Gholami, The University of Texas Rio Grande Valley

Siamak Javadi, The University of Texas Rio Grande Valley

Using a newly developed measure of Cybersecurity risk, we show that bonds issued by firms with high cyber risk have higher average returns. A long-short portfolio based on cyber risk earns a significantly positive alpha after controlling for well-known bond and equity risk factors. Further analysis shows that high cyber risk firms have larger credit spread and CDS spread changes. Cross-sectional tests suggest that this link is stronger for poorly rated firms and long-term bonds. We also find that the count and the inclusion probability of covenants are significantly higher for high cyber risk. Overall, results suggest that cybersecurity is a meaningful risk for bondholders.

C.7. CSR and Firm Performance (Melrose 2)

The Effects of Local Shareholders On Firm Performance: Evidence From Corporate Social Responsibility

Hyoseok (David) Hwang, University of Wisconsin at Eau Claire

Hyun Gon Kim, Rutgers University, Camden

This paper shows that local institutional shareholders tend to improve firm performance through corporate social investments. Using an extensive U.S. mutual fund-firm dataset, we find that local mutual funds tend to promote corporate social responsibility (CSR). In addition, the social investments are positively associated with firm performance. Finally, it is evident that CSR mediates the relation between local ownership and firm performance. Consistent with instrumental stakeholder theory, our findings suggest that local shareholders help firms develop reputational and relationship capital through CSR and lead to higher firm performance.

Corporate Social Responsibilities and Firm Performance – The Study of Political Connection In China

Li Xu, Nanjing Audit University

Liyu Yang, Jinan University

We explore financial performance and CSR activities in firms with different political backgrounds and determine that, by contributing the same to society, financial performance is generally lower in firms connected to current political figures but higher if firms' top executives are former politicians. Further results indicate that being more responsible to stakeholders, environment and communities promote profitability only in firms managed by previous government officials and in places with higher level of political intervention or lower level of market development. We observe that firms managed by previous officials receive more government subsidies and tax returns, hence conclude that top executives who have previously worked in government are more advantageous at information-collection and networking, and they are also more familiar with government procedures and actions, therefore, they can buffer their companies from political pressure through social contributions to selected groups while receiving corresponding financial supports from authorities. Our conclusions remain the same after several robustness checks.

C.8. Consumer Credit (Wilshire A)

The Online Payday Loan Premium

Filipe Correia, University of Georgia

A

Language Frictions In Consumer Credit

Chao Liu, Northwestern University

This paper studies how language barriers between lenders and borrowers translate into differences in borrower outcomes in the U.S. mortgage market. I use survey data to infer and machine learning techniques to predict borrowers' English proficiency. I document significant descriptive differences in perceptions of mortgages, application experiences, and mortgage rates between limited English proficient (LEP) and non-LEP borrowers. To measure the causal effects of language frictions, I exploit a Federal Housing Finance Agency policy that provided translated mortgage documents in Spanish to mortgage lenders. After the policy change, LEP Hispanic borrowers had a streamlined application process, contacted more lenders, understood mortgage contracts better, and enjoyed lower borrowing costs. Reducing language frictions also led to expanded access to credit, reduced loan risks, and a more competitive mortgage market for LEP borrowers. Overall, my findings highlight a cost-effective way to create a responsible inclusion of well-qualified LEP borrowers in the mortgage market.

Community Language In Peer-To-Peer Lending

Laura Gonzalez, California State University Long Bach

Peer-to-peer (P2P) lending platforms in languages such as Spanish in U.S. introduce community effects in the lender’s decisions. Beyond networks in English, P2P online platforms lenders can be exposed to testimonials and loan applications in their community language, besides the traditional investment return analytics, to incentivize lending and alleviate credit risk aversion. Thus, the examination of financial literacy and lending decisions by individuals who identify as Latinx in platforms that use English vs. Spanish language can effectively assist the financial inclusion goals of these platforms. This study examines over 1,000 pro-social lending decisions by Latinx finance students on two mock P2P sites, one in Spanish and one in English. Testimonials were used to condition participants towards pro-social decision making. Each participant was asked to make three lending decisions in English or Spanish. This is the first study to examine the effectiveness of language and its credit risk effects in P2P lending.

C.9. Earnings Quality (Wilshire B)

When There’s A Cap On Sec Pay, Firms Will Play With Their Roa

Shiu-Yik Au, University of Manitoba

Relative Performance Evaluation and Contagion In Financial Reporting Quality

Jinjing Liu, Moravian University

Deniz Anginer, Simon Fraser University

Paul Irvine, Texas Christian University

Çelim Yıldızhan, Koç University

We examine the effect of relative performance contracts on a company’s financial reporting quality. Using data on actual peer firms, we find that the adoption of relative performance contracts provides financial incentives for earnings management. Higher earnings management in the set of peer firms leads to higher earnings management in the target firm. If the peer firm also uses the target firm as its peer in their incentive plans, this mutual benchmarking strengthens the earnings management contagion effect. The contagion effect also exists in real earnings management, the likelihood of restatement, forecast rate and horizon of managerial forecasts, as well as the bias and error in these forecasts.

Do Sec Enforcement Actions Deter Real Earnings Manipulations of Industry

Zhexu Ai, Wagner College

Evidence has shown that peer firms tend to lower their accrual-based earnings management after an announcement of SEC enforcement action. Considering SEC’s efforts to punish real earnings management, I examine whether the deterrence effect exists in terms of real earnings management as well. Using multiple empirical methods, I find a significant deterrence effect of SEC enforcement actions on real earnings management, in addition to the previously-found deterrence effect on accruals earnings management. This result is robust to a series of tests that address potential endogeneity concerns and empirical model defects. Surprisingly, the deterrence effect is weaker after the passage of SOX Act in 2002, justifying the importance of the recent trend that SEC pays more attention to punishing real earnings management.

C.10. Institutional Investors (Sunset 2)

See It, Say It, Shorted: Strategic Announcements In Short-Selling Campaigns

Jane Chen, Chinese University of Hong Kong, Shenzhen

I study how hedge funds strategically disclose their private information during short-selling campaigns. Using data on hedge funds' voluntary announcements and daily short positions in the EU market, I document the existence of two groups of funds: Announcers and Followers. Announcers, typically small and young, (1) establish short positions, (2) publish research reports about short targets, and (3) realise profits from the falling price within a short time frame. Followers, usually large, enter at the release of the report and increase their short positions even after

announcers exit. To understand the strategic interaction among short sellers, I provide a model to explain how size affects a short seller's incentive and behaviour. Small funds benefit more from disclosing when facing binding leverage constraints. In contrast, large funds profit from others' private information by offering capital to price discovery. I characterize the effect of such short-selling campaigns on market efficiency and confirm the model prediction that stocks with lower borrowing costs and larger mispricing are more likely to be announced by hedge funds.

Disagreement and Market Returns: Evidence From Institutional Investors' Portfolio Churn Rate

Ivalina Kalcheva, University of Texas San Antonio

Onur Bayar

Ping McLemore

H. Zafer Yuksel

We examine whether the divergent views of institutional investors reflected in their trading actions predict market returns, where dispersion of opinion is measured as the aggregate portfolio churn (APC) rate of institutional investors. Consistent with theory, we find that larger APC predicts lower market returns both in- and out-of-sample. APC's return predictability is robust to controlling for popular forecasting variables, including disagreement metrics, consumption wealth ratio, relative bill rate, log dividend–price ratio, log dividend–earnings ratio, and household equity share. The results are not due to market liquidity, uncertainty, sentiment, seasonality, or price impact. Furthermore, incorporating multiple risky assets and liquidity traders into the Kandel and Pearson (1995) model, we show a strong relation between the dispersion of beliefs and the APC, particularly when accounting for liquidity-focused trades by non-institutional investors.

Investor Sophistication, Investor Sentiment, and Cash-Based Operating Profitability

Prodosh Simlai, University of North Dakota

C.11. Presentation Workshop (Melrose 3)

10:00 - 11:30

D.1. Disclosure (Sunset 1)

The Effect of Ceo Overconfidence On Corporate Disclosures Amid A Pervasive Shock: Evidence From The Covid-19 Pandemic

Surendranath Jory, University of Southampton

Thanh Ngo, East Carolina University

Jurica Susnjara, Barry University

We investigate how CEO overconfidence affects firms' voluntary reporting of COVID-19 exposure using five text-based measures of firm-level COVID-19 pandemic exposure reports by Hassan et al. (2020). Our analysis of 3,038 firm-quarter earnings conference calls in 2020 reveals that overconfident CEOs express a less pessimistic tone compared to non-overconfident CEOs when discussing their firms' exposure to the pandemic, and these results hold under various robustness checks. Additionally, this more pronounced negative pandemic exposure sentiment predicts weaker subsequent operating performance among non-overconfident and overconfident CEOs alike. While increased negative sentiment leads to weaker stock performance among firms with non-overconfident CEOs, this predictive power is significantly weakened for overconfident CEOs. Our findings provide insights into how CEO overconfidence can affect firms' disclosure behavior during a crisis and contribute to the literature on CEO overconfidence and pandemic-related disclosures.

Remote Work and Voluntary Disclosures: Evidence From Covid-19 Lockdowns

Alok Nemani, Bentley Univeristy

This paper examines the impact of remote work on managers' access to soft information and voluntary disclosure. Using county-level lockdowns as exogenous shocks to managers' access to information, we find that the informativeness of management forecasts declines by nearly 50 percent, indicating an economically meaningful reduction in the information advantage of managers who are more likely to be experiencing remote work adoption. In response, managers revise their voluntary disclosure policies. More specifically, managers in lockdown counties are 6.6% less likely to provide guidance, 9.8% more likely to initiate earnings calls, and 13.6% more likely to file voluntary 8-Ks. Cross-sectional and robustness tests indicate that our findings stem from managers' diminished ability to acquire information. Overall, our findings shed light on how managers' access to soft information affects voluntary disclosures.

Getting The Vote: do School Bond Issuances and Outcomes Depend On Ballot Disclosures?

Weiling Liu, Northeastern University

Nicole Boyson, Northeastern University

Over 0 billion of education municipal bonds outstanding are approved by public ballot, and they improve real outcomes, including standardized test scores and home values. Republican districts and those with fewer school-aged children approve fewer ballots. Parsing 1,228 ballot texts in California, we show that ballots mentioning tax increases (fixing HVAC systems) have 3.4% lower (2% higher) approval rates. These disclosure

effects are heterogeneous; younger voters more often vote yes on ballots mentioning technology. Controlling for specific uses, voters more often approve ballots using needy descriptions, such as "aging" or "deteriorating," suggesting they are also swayed by soft information.

D.2. Credit Ratings (Sunset 3)

Unveiling The Impact of Alternative Credit Scoring Systems On Small and Medium-Sized Enterprises

Ga-Young Jang, SusFin Research

Hyoung-Goo Kang, Hanyang University

Jaesung James Park, Korea SMEs & Startups Institute

Hyung-Suk Choi, Ewha Womans University

This study uses data from Naver Corporation to examine the impact of Alternative Credit Scoring Systems (ACSS) on Small and Medium-sized Enterprises (SMEs). The results show that utilizing ACSS and obtaining loans through the platform significantly improves SME sales. The study conducts switching regression analysis to minimize selection bias, revealing that even eligible SMEs who have yet to obtain loans would benefit from increased sales if they receive the loans. The findings align with the theory of dynamic capabilities, emphasizing the importance of SMEs acquiring the necessary resources and capabilities to adopt and utilize ACSS effectively. The research offers valuable insights for SMEs to enhance their resources and capabilities, maintain a competitive advantage, and optimize their success in today's rapidly changing business environment.

Conservatism In Credit Ratings - Real Or Perceived? Evidence From Stock Returns

Karolina Krystyniak, Ontario Tech University

Viktoriya Staneva, University of New Hampshire

This study examines the impact of perceived changes in credit rating standards on a firm's stock market performance. We find that firms more heavily impacted by rating conservatism tend to experience negative future abnormal returns. Our findings suggest two critical points: 1) Credit Rating Agencies (CRAs) utilize private information or superior analysis, which is neither available to the average investor nor captured by existing empirical models, when assigning ratings; and 2) investors, believing that CRAs are using more stringent rating standards, do not immediately react to what they perceive as conservative ratings, leading to inefficient market prices. We argue that the rating conservatism documented in prior studies can be attributed, at least in part, to CRAs incorporating this 'soft' information into ratings.

The Myth of Tightening Credit Rating Standards In The Market For Corporate Debt

Karolina Krystyniak, Ontario Tech University

Viktoriya Staneva, University of New Hampshire

This study revisits the existing evidence of a downward trend in credit rating standards indicating that CRAs have become more conservative over time. We find that the time-series variation in the proxy for rating standards is mostly driven by the market-based variables in the model, specifically market capitalization and idiosyncratic volatility. We examine an alternative specification of the model, incorporating risk characteristics of rated firms relative to those of the average firm in the economy, and find it to have a higher explanatory power. Most importantly, we find no evidence of increased conservatism over time, in contrast to prior studies.

D.3. Mutual Funds Information Processing (Sunset 4)

The Information In Portfolio Holdings and Investors' Capital Allocations

Bingkuan Cao, University of Nebraska-Lincoln

The paper studies mutual funds' portfolio management and investors' capital allocations in a unified framework under mandatory portfolio disclosure. By modeling fund managers and investors simultaneously, I show that more skill managers produce better performance by trading more actively, which causes investors to care about both fund performance and activeness when evaluating fund managers. This investor's behavior explains the convex flow-performance relation observed in the market. In addition, my model demonstrates that portfolio holdings information is more useful to investors than fund returns because portfolio holdings reveal manager activeness that is not fully captured by fund returns. My model offers three novel empirical predictions for which I find consistent evidence in the data. First, investor flows respond to both fund performance and activeness. Second, investor flows are more sensitive to the performance of illiquid holdings in the portfolio. Finally, in a diff-in-diff analysis, I show that investor flows become more sensitive to fund activeness when portfolios are disclosed more frequently.

Mutual Fund Shorts and The Benefits of Acquiring Information

Boone Bowles, Texas A&M University

Adam Reed, University of North Carolina

We study the performance and information acquisition behavior of mutual funds for both their long and short positions. We show that managers acquire relatively more information about their shorts because the benefit of acquiring information about shorts is larger. Mutual funds' shorts also generate better returns than their longs. Moreover, with respect to short positions, performance and information acquisition are inversely related.

Though surprising, we demonstrate that this finding aligns with standard theory as the inverse relation follows from managers acquiring less information about certain high performing short positions, the clear winners.

Does Partisanship Affect Mutual Fund Information Processing? Evidence From Textual Analysis On Earnings Calls

Wanyi Wang, University of California, Irvine

This paper examines the influence of partisanship on mutual fund information processing at the firm level. Through textual analysis of earnings call transcripts, I identify discussions on partisan-sensitive topics, such as climate change, pandemic, and healthcare. I find that Democratic-leaning funds exhibit stronger reactions to topics that the Democratic party is more negative about, and tend to sell more stocks after firms increase discussions on these topics compared to Republican funds. The effect is more pronounced for funds with greater political polarization and firms with larger weights in fund portfolios. Moreover, the observed overselling behavior by Democratic funds does not improve fund performance, indicating that the partisan effect is driven by non-financial considerations rather than rational expectations about future returns. Overall, these finding suggest that partisan funds react stronger to information consistent with their pre-existing beliefs.

D.4. Short Selling (Sunset 5)

The Influence of Media Slant On Short Sellers

Glades McKenzie, Florida State University

Baixiao Liu, Peking University

April Knill, University of South Carolina

John McConnell, Purdue University

Using the positive shift in tone of Fox News coverage of macroeconomic news after the Republican Bush election in 2000, we investigate whether media slant influences the investment decisions of short sellers. We find that firms headquartered in Republican-leaning townships with Fox News availability experienced a relative decrease in short interest post the 2000 election. We further find that the relative decrease is more pronounced for firms that are more subject to investors' home bias. We interpret our findings to mean that short sellers, as sophisticated as they may be, are not immune to the slant in media coverage.

Do Female Analysts Know Politics Better? Evidence From China

Haoran Wu, Kean University

Jiahe Zhou, Wenzhou-Kean University

Qilong Yu, Wenzhou-Kean University

Yunfei Zhao, Concordia University

This study, utilizing data spanning from 2008 to 2018 as its sample, examines and analyzes disparities in forecasting accuracy and optimism between male and female analysts in China when confronted with political events. Additionally, it assesses whether males and females exhibit differing levels of political sensitivity. The findings indicate that under political conditions, analysts tend to demonstrate lower forecasting accuracy coupled with greater optimism. This research contributes to existing literature by establishing that female analysts, under the influence of politics, offer predictions that are not only more accurate but also less optimistic compared to their male counterparts. Here, politics refers to the level of political connection of the predicted company, the local political corruption level, or the economic policy uncertainty condition. Further investigation into the reasons behind the heightened accuracy and reduced optimism among female analysts in political contexts reveals that this phenomenon becomes more pronounced in the presence of gender inequality and is further intensified when there is a higher number of mothers among female analysts.

News Complexity and Short Sellers

Shuhao Ren, Arizona State University

Short sellers obtain an information advantage when information is complex. In this paper, I propose a new text-based measure to proxy for corporate news complexity. Using the measure, I show that the profitability of short selling remains unaffected by the presence of news in a given quarter. However, short selling is more pro table when news complexity is higher. A portfolio that buys lightly-shorted stocks and shorts heavily-shorted stocks earns an alpha that is 0.48% larger per month during quarters of high news complexity compared to those with low news complexity. This difference persists for at least a quarter. Further, I find that short selling in quarters with high news complexity is more profitable when there is less analyst coverage or less total corporate news. Moreover, short selling is negatively correlated with future firm earnings surprises only in quarters with high news complexity.

D.5. FinTech (Sunset 6)

The Impact of Mobile App Usage On Firm Value

Zheng Liu, the University of Texas at Dallas

The widespread adoption of smartphones enhances the importance of mobile apps in firms' operations. This paper proposes a timely and easily accessible measure of mobile app usage using more than 54 million app reviews from Google Play and examines the implications of app usage to firm value. I find that a hedged portfolio that long (short) stocks with high (low) abnormal review volume from 2013 to 2022 yields an alpha ranging from 55.4 to 61.9 basis points per month under various risk models. App usage also posi- tively correlates with contemporaneous profitability and revenue surprises. These results suggest that app reviews contain valuable information about firm fundamentals that is not fully recognized by the stock market.

Block Size, Miners Discretion, and Blockchain Adoption

Le (Tim) Dong, University of Tennessee

What is the secret of top cryptocurrencies? Why is Bitcoin number one? Despite the growing literature on blockchain, the dominance of Bitcoin is not well understood. Given that Bitcoin is the slowest blockchain with the most limited programmability, it is puzzling that it can remain at the top position after 15 years. In this paper, I study the trade-offs between choosing a larger block size and keeping the cost of blockchain node low. Following Kydland and Prescott (1977) I argue that the benefits of running a node come from imposing ``rules rather than discretion'' on miners. A node has certainty over which policy miners will take, while a non-node may have to believe miners' promises, which are subject to change according to miners' updated objective function. Increasing the cost of node discourages more people to run a node themselves and validate all transactions, leading to more policy deviation and less efficiency. From this observation, I show that small-block blockchains, although they offer lower speed and more expensive transactions, can be preferable because the cost of monitoring these blockchains is lower, inducing more node monitoring and thus making the blockchains more secure. This conclusion helps explain why Bitcoin can remain at the top despite all its limitations. Empirical tests support the hypothesis that small-block blockchains gain more trading volume and have higher market capitalization. The result offers several important empirical implications for blockchain developers, regulators, and users.

The Effect of Cryptocurrency Hacks On Blockchain Companies

Steven Schilhabel, University of Wisconsin Green Bay

Arjan Premti, University of Wisconsin Whitewater

Balaji Sankaranarayanan, University of Wisconsin Whitewater

This research employs an event study methodology to investigate the impact of cryptocurrency hacks on the stock prices of publicly traded companies associated with blockchain technology. Drawing upon a sample of six significant cryptocurrency hack events from 2020 to 2021, this study analyzes stock price reactions using a two-day event window. The results reveal a statistically significant negative relationship between cryptocurrency hacks and the stock prices of blockchain-linked firms. In addition, we find that the larger the cryptocurrency hack, the more negative are the consequences for blockchain firms. This finding supports the hypothesis that the public's association of cryptocurrencies with blockchain technology influences market perceptions, leading to adverse stock price reactions in the event of cryptocurrency-related incidents. The study's implications are relevant for investors and practitioners, highlighting the interconnectedness of the cryptocurrency sector and blockchain-linked stocks.

D.6. Determinants of Yield (Santa Monica 2)

Taking Sides: Political Alignment and Municipal Bond Yield

Weijia Zhao, Northwestern Kellogg

Pengyu Ren, Chicago Booth

This paper studies the effect of political alignment between state governors and counties on municipal bond yield spreads. Exploring close gubernatorial elections, we find that politically misaligned counties face higher yield spreads while aligned ones benefit from lower spreads. The magnitude of the effect varies on bond characteristics: bonds with long maturity, backed by utility revenue, and issued by counties less reliant on state transfers are less sensitive to political alignment shock. In addition, yield spread variations correlate with changes in credit risk and inter-governmental transfers. Politically misaligned counties elevate bond issuance despite augmented costs, offsetting reductions in intergovernmental transfers.

Real Estate Values and Corporate Yield Spreads

Yifei Li, University of Nevada, Reno

Anni Wang, University of Nevada, Reno

Sean Wilkoff, University of Nevada, Reno

We investigate how fluctuations in values of corporate real estate holdings affect bond yield spreads. Our findings reveal a negative relationship between real estate values and yield spreads. Specifically, a one-standard-deviation increase in real estate values as a proportion of total assets leads to an 11-basis-point reduction in yield spreads for all U.S. public corporations, increasing to 29 basis points for speculative-grade bonds. Building upon the existing collateral channel literature, our study provides enhanced measures of real estate value. This research sheds light on the significant impact of corporate real estate holdings on credit spreads, contributing to a deeper understanding of the dynamics between collateral assets and corporate debt.

What Makes The Yield Spread So Prescient?

Triwit Ariyathugun, South Dakota State University

Abstract The enduring ability of the yield spread to forecast U.S. recessions is well established, but the reason for this ability remains a puzzle. In unraveling this puzzle, we find that, while the spread's prescience about recessions is robust to a wide range of forecasting horizons, the underlying reasons change. At horizons of up two years ahead, it is the short-rate expectations component of the spread that plays the larger role in its forecasting ability. Beyond the two-year horizon, it is the term premium component that plays the larger role. Further analysis shows that the forecasting power of short-rate expectations reflects the anticipation of monetary policy, while the forecasting power of the term premium reflects a flight to quality when credit risk premia rise and start to weaken the economy. These results allow us to characterize episodes when the Fed fell behind the curve in its efforts to preempt recessions.

D.7. Corporate Debt Financing (Melrose 2)

Financing Intangibles

Bianca He, University of Chicago Booth School of Business

This paper utilizes a large sample of detailed assets valuation data from M\&A transactions to examine the impact of intangible assets on firms' capital structure decisions. Contrary to conventional wisdom, the findings reveal that intangibles do not result in lower debt usage compared to tangible assets; instead, intangible assets can support debt financing to a comparable extent, with a greater association with cash flow-based rather than asset-based debt. Furthermore, the research highlights the importance of considering heterogeneity among intangibles, presenting a theoretical framework for categorization. A model is developed to elucidate the mechanism underlying the finding that demand-shifter intangibles exhibit higher debt capacity than production intangibles.

The Long and Short of Cash Flow Shocks and Debt Financing

Seong Byun, Virginia Commonwealth University

We investigate how debt financing relates to exposure to long-lived and temporary cash flow shocks. We use filtering methods to identify shocks after verifying that they are highly effective and identify economically distinct long-lived and temporary shocks in our sample. Consistent with predictions from theoretical models, we find that firms with greater exposure to long-lived shocks have higher leverage. Firms also issue more debt following positive long-lived shocks as opposed to temporary ones. The differential sensitivity is economically large and long-lasting. It is larger for firms that are more profitable and more financially constrained.

The Paradox of Record Cash and Record Debt

Raymond Kim, Northern Arizona University, W.A. Franke College of Business

The paradoxical reality of firms simultaneously holding record levels of cash and debt is at odds with a widely held traditional view that firms use excess cash to deleverage their balance sheet. In my analysis of over 50 years of firm-level data, I have identified a recent, novel trend: acquired cash expands debt capacity and subsequent leverage. Using the Tax Cut and Jobs Act as an exogenous shock, results reveal two key motives: 1) repatriation tax avoidance, and 2) the cash collateral channel to boost debt capacity. Findings indicate that larger multinational firms with a repatriation tax motive favor financial flexibility, while domestic firms undergo a dichotomy. Domestic firms under mild distress use cash as collateral to increase debt capacity, while smaller firms under significant constraints and uncertainty adhere to traditional financial theories by using cash to deleverage their balance sheets.

D.8. CEO Skill and Power (Wilshire A)

Incoming Ceo Power and Corporate Tax Avoidance

Pengyu Wu, Mississippi State University

Anwar Bou Mosleh, Mississippi State University

Given the challenges firms face in discouraging manager misconduct, we analyze tax avoidance to understand the role of incoming powerful CEOs. Analyzing a sample of firms with powerful new CEOs and a control sample of non-powerful new CEOs, we find evidence suggesting that powerful incoming CEOs influence the decision to manage taxes. Specifically, our analysis indicates that the presence of a powerful new CEO decreases the cash effective tax rate by 2 percentage points. We find more efficient tax management approaches after SOX when incoming CEOs hold larger power to influence corporate governance. Further, efficient tax management practices result in firms with incoming powerful CEOs having positive accounting and stock performance during the subsequent year. These findings clarify that tax avoidance is one reason for the higher performance of powerful new CEOs and earnings from unconsolidated subsidiaries is one possible channel for these CEOs to manage tax.

Workplace Automation and Corporate Innovation

Andréanne Tremblay, Andréanne Tremblay

Beyond Specialization: Generalist Ceos and Their Impact On Corporate Hedging

Busra Agcayazi, Howard University

Gunratan Lonare, Illinois State University

Ahmet M. Tuncez, University of Michigan-Dearborn

This study examines the influence of generalist CEOs on corporate hedging strategies. We find that firms led by generalist CEOs tend to adopt more hedging practices. Increased cash volatility, elevated R&D expenditures, and heightened product market competition typically drive the use of more extensive hedging instruments. The impact is particularly more pronounced in the presence of strong governance mechanisms and powerful CEOs. We employ the entropy balancing method and high-dimensional fixed effects to address the potential endogeneity issues. Our findings remain robust across alternative hedging measures

D.9. Retail Trading (Wilshire B)

Pulling The Plug: Retail Traders and Social Media

Justin Mohr, University of Illinois at Urbana-Champaign

Using days on which social media platform connectivity is exogenously interrupted, I measure the impact of social media on retail trading activity. On these ”outage” days there is an increase in retail trading volume of social-media discussed stocks. Retail sentiment, while on non-outage days positively predicting retail OIB, on outage days negatively predicts retail OIB with positive sentiment predicting selling. These outage days are associated with a drop in price which reverses over the next day. To explain the empirical findings, I extend Pedersen (2022) to include disruptions to social networks, showing that these findings are consistent with fanatical and rational beliefs spreading to na¨ıve investors in a social network. These findings highlight the important role of social media in retail trader’s belief formation and the market consequences of this importance.

Swimming Against The Current: Contrarian Retail Trading

Brad Cannon, Binghamton University

Hannes Mohrschladt, University of Muenster

Retail investors exhibit a higher propensity to sell a stock when the stock is trading further from their purchase price. We document that this V-shaped selling results in a predictable trading response to daily price movements. Retail investors execute trades in a contrarian way for positions with unrealized capital gains and in a reverse-contrarian way for positions with unrealized capital losses. In line with increased liquidity due to retail investors' contrarian trading, short-term return reversals and return volatility are smaller among stocks with greater unrealized capital gains. Using stock splits as a natural experiment, our results lend support for a causal interpretation of our findings.

The Effects of The News Cycle On Retail Investing

Spencer Wyld, University of Arkansas

D.10. CSR and Firm Valuation (Sunset 2)

Does Corporate Philanthropy Provide Insurance Value? Evidence From The Securities Law Revision In China

Yijun Liu, Renmin University of China

Trung Nguyen, Northern Kentucky University

Rong Xu, Renmin University of China

Donald Lien, University of Texas at San Antonio

This study investigates the ex-ante insurance value of corporate philanthropy on firm valuation by exploiting an exogenous increase in firms’ future litigation risk due to the adoption of class-action lawsuits in the 2019 Securities Law revision. Analyzing a sample of Chinese listed firms constructed from the propensity score matching approach, we find that the commitment to corporate philanthropy exerts ex-ante insurance-like effects. In addition, firms with a history of being a defendant in a lawsuit or greater litigation-related expenses realize more benefits from CP investments. The empirical findings are robust to additional sensitivity checks and offer important implications regarding the use of corporate donations as a risk management tool.

Measuring Business Social Irresponsibility: The Case of Sin Stocks

Patrick Schwarz, University of Duisburg-Essen

Hamid Boustanifar, EDHEC Business School

Negative screening (of "sin" stocks) is the most common strategy used by socially responsible investors. There is no consensus in the literature whether these exclusions result in higher cost of capital (and hence higher expected returns) for targeted firms. The existing literature identifies sin companies using industry classification codes (IC). We propose an alternative measure of firms' exposure to sin activities (sinfulness) based on textual analysis (TA) of their annual reports. Sinfulness captures both cross-sectional and time-series variation in firms' exposure to sin activities. The correlation between the IC and TA sin indicators is only 0.69, with twice as many sin stocks in TA than in IC. TA reveals several important false positive and numerous false negative sin stocks in IC. While the number of publicly listed sin-related stocks has declined by 43% between 1997 and 2021, their total market capitalization has increased almost threefold from about 0bn to 0bn during the same period. A sin-weighted portfolio of sin stocks earns an annualized Fama-French 6-factor alpha of 4%. Overall, our study highlights important shortcomings of using IC to identify sinful firms and resurrects the sin premium, that is, more sinful stocks have higher expected returns.

A Practical Approach To Incorporating Esg Risks Into Equity Valuation

Seth Hoelscher, Missouri State University

The rise in the amount of capital allocated and focus attributed to ESG investing over the past several years has been significant. However, the current literature is not settled regarding the value that ESG risk measures and reporting have on investments and valuations. If these risks are essential, then these risks should be incorporated to account for the presence or the lack of ESG-related risks in investment valuation models. However, with the relative newness and the difficulty in quantifying ESG risks, there is little practical guidance on how to incorporate these risks into valuation estimates. We provide evidence that ESG-related risk scores are positively associated with the cost of equity. Building upon that result, we operationalize the positive relationship to adjust the cost of equity in free cash flow to equity valuation models. Firms with higher ESG risks result in a higher required rate of return, while firms with lower ESG risks have a lower discount rate. Our approach is a simple but practical guide for investors and analysts to account for ESG risk adjustments to the required rate of return for valuation models.

Firm-Level Climate Sentiments and Implied Cost of Equity Capital

Katsiaryna Bardos, Fairfield University

Dev Mishra, University of Saskatchewan

Yirlier Hyacinthe Somé, University of Sherbrooke

In a sample of U.S. firms, we find strong evidence that firms ex ante expected returns are decreasing in a novel proxy of climate change sentiments of earnings conference call participants, suggesting that investors demand higher returns from their investments in firms carrying “brown” perceptions and lower returns from those with “green” perceptions. We utilize the variation in regionwide public opinion about scientists’ belief on the happening of global warming as an instrument and two step GMM to address potential endogeneity issues. Our findings support the theoretical insights in recent work of L. Pástor, R. Stambaugh, and L. Taylor. Sustainable investing in equilibrium. Journal of Financial Economics 2021 and early work of R. Heinkel, A. Kraus, and J. Zechner, The effect of green investment on corporate behavior. Journal of Financial Quantitative Analysis, 2001.

D.11. Bridging Finance and Data Analysis (Melrose 3)

13:30 - 15:00

E.1. Professional Service (Sunset 1)

E.2. Supply Chain Relationships (Sunset 3)

Cooperation Or Conspiracy: The Effect of Supply Chain Executives On Corporate Misconduct

Wei Chen, Sun Yat-sen University

Xuezhi Zhang, Sun Yat-sen University

Wenqian Tan, Sun Yat-sen University

Using data of Chinese listed companies, we find that the presence of supply chain executives (SCEs) exacerbates corporate misconduct. This finding is robust to several methods adopted to address endogeneity concerns. Furthermore, our results suggest that SCEs can reduce the expected cost of misconduct and decrease corporate transparency. Detailed analysis reveals that SCEs significantly impact all three primary types of misconduct: information disclosure violations, operational violations, and manager violations. We also observe that the effect on misconduct will be more pronounced for firms that hire SCEs without legal background or those from new suppliers or consumers. Our findings indicate a dark side of executives’ personal networks—their potential association with corporate wrongdoing. This study augments the existing body of literature on determinants of corporate misconduct from a supply chain perspective. The main policy implication is that further development of the SCEs profession in emerging economies may be detrimental to investors and erode business ethics. The supply chain-based connections of managers should command the attention of regulators, investors, enterprises, and scholars.

Voting For Managerial Entrenchment: Evidence From Institutional Cross-Holdings Along The Supply Chain

Shuran Zhang, Hong Kong Polytechnic University

This paper explores how cross-holdings of supply chain partners affect investors’ voting behavior. Institutional investors are more likely to vote for managerial entrenchment when the firm’s dependent suppliers represent a larger weight in their portfolios. Difference-in-differences analysis exploiting financial institution mergers supports a causal interpretation. Consistent with investors’ incentives to prevent relationship disruptions, the effect is more pronounced when incumbent directors or suppliers are captured by management and when switching customers is costlier. Larger cross-holdings are associated with an increased probability of management winning a vote, fewer incidences of takeovers and CEO turnovers, and longer duration of supply chain relationships.

Preempting Distress Spillovers Along The Supply Chain: Evidence From Precautionary Savings

Shuran Zhang, Hong Kong Polytechnic University

This paper explores whether corporate cash holdings respond to changes in supply chain partners’ distress risk. Firms increase cash holdings when their principal customers have a larger fraction of long-term debt maturing over the next year. Analysis exploiting predetermined differences in fiscal year ends reveals that firms accumulate cash after observing customers’ debt maturity structures and before the refinancing uncertainty is

resolved. The effect is concentrated in firms that are financially constrained or highly susceptible to customer distress. During the 2007 financial crisis, cash holdings prevented performance deterioration for firms whose customers had more debt prescheduled to mature. The market valuation of an incremental dollar of cash holdings increases with customers' maturing debt. Overall, the evidence highlights that firms' precautionary behavior is shaped by the incentives to preempt distress spillovers from supply chain partners.

E.3. Determinants of CSR (Sunset 4)

Does Societal Trust Reduce Greenwashing? International Evidence

Md Ismail Haidar, University of Texas Rio Grande Valley

This paper investigates the effect of societal trust on greenwashing as measured by the ESG controversies score. Using an international sample of firms from 44 countries, I find that firms in high-trust societies are less likely to engage in greenwashing. Further evidence reveals that country-level formal institutions moderate the societal trust-greenwashing relation. The results are robust to entropy balancing methods to address selection bias, instrumental variable approach and diagnostic tests regarding omitted variable bias, alternative measures of societal trust, and other robustness checks. Overall, these results suggest that societal trust helps to decrease greenwashing.

Under The Spotlight: The Peer Standard In Csr and The Role of Public Attention

Hirofumi Nishi, University of Texas at Dallas

S. Drew Peabody, Elon University

As sustainability takes center stage in business strategies, firms lagging behind their peers on environmental initiatives are strongly motivated to bridge the gap. Analyzing the U.S. sectors primarily responsible for CO_2 emissions, we show that environmentally lagging firms increase the efforts to reduce emissions and adopt eco-friendly materials in the subsequent year. Interestingly, this phenomenon becomes significantly more pronounced among companies exposed to higher levels of consumer interest as measured by Google search volumes. Our finding suggests that lagging firms under greater public scrutiny recognize the need to address their sustainability deficiencies to maintain competitiveness and corporate reputation.

Do What Exchanges do Matter? Stock Exchange Esg Initiatives and Impact On Firm Sustainability

Michelle Chang, NTU

This paper examines the effects of Stock Exchange (SE) Environment, Social and Governance (ESG) initiatives in driving exchange members' sustainability performance and find that SEs' role comes mainly from its ESG Guidance related initiatives. Specifically, an ESG Guidance with references to international reporting instruments (the 'content' of the Guidance) is more relevant to exchange members' sustainability performance compared to the issuance (the 'timeliness' of the Guidance) as well as the presence of quantitative reporting instruments in Guidance (the 'quality' of the Guidance). This is especially so in Countries without Mandatory Reporting requirements as there is, otherwise, a substitution effect between both. We did not find any association between non-Guidance related exchange ESG initiatives and firm ESG performance and results are even weaker when the proxy for firm ESG performance is level of firm carbon emissions. The results are in line with studies on the limited role of ESG ratings.

E.4. Market Microstructure 1 (Sunset 5)

Information Risk In High-Frequency Equity Markets: Evidence From Retail and Institutional Traders

Jan Harren, University of Münster

I quantify the information content of trades in high-frequency equity markets for retail investors and institutionals using high-frequency data for the cross-section of stock returns. I find evidence of a heterogenous price impact across market participants, time, and stocks, consistent with information models that include asymmetric information risk. Information frictions drive the price impact of retailers and institutional investors in equity markets. A size-neutral trading strategy on institutional investors' price impact yields sizeable returns, beats the market, and is not explained by established risk factors. As retailers trade significant directional volumes on the Robinhood brokerage platform, institutions' price impact is reduced. This is consistent with models where retail trading aligns the price impact of all market participants. I argue that information remains an important determinant of equity returns in high-frequency markets.

Frequent Batch Auctions Vs. Continuous Trading: Evidence From Taiwan

Roberto Ricco', Norwegian School of Economics

Yi-Tsung Lee, Guanghua School of Management, Peking University.

Kai Wang, Central University of Finance and Economics

We exploit the switch from frequent batch auctions to continuous trading at the Taiwan Stock Exchange to show that liquidity did not change significantly for all stocks, while efficiency improved substantially for mid-cap and small-cap after trading became continuous. We also find positive and significant abnormal returns for mid-cap and small-cap, whilst for large-cap abnormal returns are positive but not significant. Continuous trading increased profits for fast investors and losses for individual investors in mid-cap and small-cap. The results inform the debate on optimal market design and support previous empirical studies such as Amihud, Mendelson, and Lauterbach (1997) suggesting that investors highly value the opportunity to trade continuously.

Market Fragmentation and Manipulation

Douglas Cumming, Florida Atlantic University

Shan Ji, Zhejiang Gongshang University

Suchismita Mishra, Florida International University

Le Zhao, California State University, Fresno

This study investigates the effects of stock trading manipulation on dynamic trading fragmentation and market liquidity with the population of U.S. stocks from 2014 to 2018. We find novel evidence that different types of trading manipulation do not equally impact the trading volume in each exchange. Our findings suggest that manipulation increases the illiquidity curve while the retail trading flow dampens illiquidity, aligning with the Glosten and Milgrom mode's predictions.

E.5. Policy Uncertainty (Sunset 6)

Industrial Robotic Automation Under Economic Policy Uncertainty

Siqi Wei, California State University Northridge

Yuqing Xiao, University of California Santa Barbara

This study delves into the relationship between economic uncertainties and the adoption of automation robotics, as well as the pace of installation. Through an analysis of a comprehensive proprietary robotic dataset spanning the period from 1990 to 2022 in the United States, this research empirically demonstrates that the operational stock and installations of robotics are significantly negatively associated with heightened past economic policy uncertainty (EPU). This negative association is channeled through two main mechanisms: labor force participation and financing dynamics. In addition, the EPU is instrumented by the political polarization proxied by U.S. House roll-call vote spread to alleviate the endogeneity. The result is robust to other alternative uncertainty measures, such as macro uncertainty and fiscal uncertainty in the spirit of \cite{Jurado2013}.

Congressional Stock Trades and Economic Policy Uncertainty

Ye (Brandon) Moe, University of Nebraska-Lincoln

Yao Ma, University of Nebraska-Lincoln

Do congress members trade on insider information? We answer this old question from a new perspective by investigating if there is any relation between the abnormal returns of stock trades by congress members and economic policy uncertainty. Using congressional stock trading data over 2014-2022, we find evidence of a positive relation between short-term abnormal returns of congress members’ stock purchases and economic policy uncertainty for S&P 500, size (measured by year-end market capitalization), Fama-French 12-industry adjustments, and a weaker one for Fama-French 3-factor model adjustment. Overall, our findings suggest an existence of (short-term) informativeness among stock purchases by congress members. This work is the first to link politician stock trades’ performance to an economic indicator that is also closely tied to information privilege politicians attain from their work of policymaking.

Trade Policy Uncertainty and Firm Profitability

Lukai Yang, Texas A&M International University

Xinhui Huang, University of Maine

Abdullah Shoeb, Ursinus College

The evolving and intricate character of trade policy uncertainty and its effects on firm outcomes has attracted growing attention in the past decades. In this study, we investigate the impact of trade policy uncertainty and its volatility on ROA, a proxy for firms’ profitability. Our findings reveal that both trade policy uncertainty and its volatility exhibit negative correlations with profitability. We argue that the signaling theory helps explain this phenomenon. Interestingly, when we analyze firms that were at different stages of their business, we find a heterogeneous effect across companies in different stages of their life cycle. Specifically, the negative relation is significantly stronger for firms at the introduction or decline stages than those at the growth or mature stages. Furthermore, we find that their association is buffered by political sentiment. Finally, our results remain robust when we adopt different measures of profitability. This study offers valuable insights into the correlation between trade policy uncertainty and a crucial measure of performance—profitability, thereby enhancing the understanding of corporate outcomes in the policy uncertainty context.

E.6. Fixed Income (Santa Monica 2)

International Corporate Bond Returns: Uncovering Predictability Using Machine Learning

Delong Li, University of Guelph

Lei Lu, University of Manitoba

Zhen Qi, University of Manitoba

Guofu Zhou, Washington University in St. Louis

In this paper, we apply machine learning techniques to predict corporate bond returns all over the world. With a novel dataset, we find there is strong predictability of corporate bond returns in international markets. However, the documented factors that drive bonds in the U.S. market are substantially different from factors that impact bonds in non-U.S. markets, where downside risk and illiquidity are more influential. We further find there are cross-country differences in the degree of bond cross-country integration and bond-stock integration, but these two integrations in developed markets are on average higher than in emerging markets.

Debt Maturity,takeover Risk, and de Facto Seniority

Yun Liu, Keck Graduate Institute

Aysun Alp Paukowits, University of Maryland, College Park

Jean Helwege, UC Riverside

We investigate how takeover risk affects the maturity of newly issued corporate debt, given that takeovers have the potential to raise credit risk. Using several measures of takeover risk, we find that firms can significantly extend the maturities of their bonds by reducing the likelihood of a leverage-increasing takeover. Our findings suggest that creditors refrain from providing long maturity debt when exposed to takeover risk because of concerns about losing de facto seniority. We further investigate this relationship with data on bond covenants. We find that covenants can only partially alleviate takeover risk concerns. Takeover risk leads to reduced debt maturity at the firm-level measures as well.

Debt Refinancing and Corporate Bond Returns

Anni Wang, University of Nevada, Reno

Yifei Li, University of Nevada, Reno

Qun Wu, University of Nevada, Reno

Ting Zhang, University of Dayton

This paper empirically examines how the maturity structure of financial leverage affects corporate bond returns, specifically through the rollover risk channel. We identify a strong positive effect of debt refinancing risk, measured by refinancing intensity, on cross-sectional corporate bond returns. Such an effect intensifies with heightened credit and liquidity risks, and during periods of constrained credit supply and elevated interest rates. Furthermore, we show that the premium associated with debt refinancing risk reflects a higher exposure to credit risk and liquidity risk.

E.7. International Return Volatility (Melrose 2)

Examination of Decoupling Hypothesis Between Conventional and Islamic Stocks During Sars-Cov-2 Pandemic

Darko Vukovic, Graduate School of Management, Saint Petersburg University

The purpose of this study is to investigate both the existence of volatility spillovers between conventional and Islamic stocks and whether they are transitory or permanent during SARS-CoV-2 pandemic. This study augments the Hafner and Herwartz approach by adding the Fourier terms to test equations. The results of the study provide evidence of both unidirectional and bidirectional volatility spillovers, mostly permanent nature, between stock indices. Our findings indicate that there is no reason to expect that Islamic stocks are a safe haven during the SARS-CoV-2. This study has implications for individual investors, market professionals, and policy makers, suggesting that one should be careful about finding safe havens during turmoil. Since there is permanent interconnectedness between stocks, all market participants, especially regulators, should be aware of these facts regarding what to do about stock markets in these types of turmoil.

Unveiling The Role of Tax Aggressive Strategies In Shaping Stock Return Volatility

Deepanshi Arora, Indian Institute of Technology, Delhi

Neeru Chaudhry, Indian Institute of Technology, Delhi

We empirically investigate the association between tax aggressiveness and stock return volatility using a sample of publicly listed Indian firms for the sample period 1998-2019. We find that cash-effective tax rates and stock return volatility are adversely related. The more a corporation engages in tax aggressiveness (lower cash-effective tax rates), the greater is the stock return volatility. Involvement of a firm in tax aggressiveness increases the uncertainty regarding the future cash flows in terms of penalties and fines if such strategies are exposed by the taxation authorities, increases the information asymmetry, and reduces the socially responsible behavior, and corporate value, thereby influencing the stock return volatility. The positive influence of tax aggressiveness on stock return volatility is more evident when the firms are financially constrained, non-SOEs, the managers' economic incentives (salaries) are high, and a higher proportion of outside directors are present on the board.

E.8. Managerial and Firm Decision Making (Wilshire A)

The Impact of Subsidy Receipt On Firm Behavior

Jose Amuedo, University of New Orleans

M. Kabir Hassan, University of New Orleans

Reza Houston, Ball State University

In this paper, we examine a novel database of local, state, and federal subsidies to determine how subsidy receipt impacts firm behavior. Firms become more profitable after subsidy receipt. CEOs and other C-suite management also experience an increase in total compensation after subsidy receipt. Our results indicate that subsidy recipients alter their behavior in notable ways, though they do not appear to alter firm investment behavior or cash disbursements. This study is the first wide-scale analysis of local and state subsidies for publicly-traded firms and provides clear evidence for how they influence firm behavior.

No Dangling Carrots Anymore-The Impact of Climate Change Exposure On Risk-Taking Incentive

Deepak More, University of Texas Rio Grande Valley

Siamak Javadi, University of Texas – Rio Grande Valley

Nilesh Sah, University of Tennessee at Chattanooga

This study investigates whether firm-level climate change exposure impacts the risk-taking incentives of the CEOs, Vega. The results show that the relation between climate change exposure and Vega is negative and significant. The results are profound post events that increased climate change exposure awareness globally, the Stern Review, and the Paris Agreement Period. The cross-sectional tests reveal that this negative relation is profound in firms with higher managerial entrenchment, managerial ability, and CEO overconfidence. the negative relation between climate change exposure and Vega mainly manifests in firms with high shareholder power and male CEOs. Further, the study finds novel evidence that Vega is one of the significant channels through which climate change exposure impacts risky investments of a firm, such as R&D expenses and acquisition expenses. The study indicates that the shareholders adjust the CEO's risk-taking incentives given the adverse impacts of climate change exposure on firm risk capacity to induce risk-averse behavior in CEOs' decision-making.

How do Corporates React Toward Economic Recessions? Evidence From Form 10-Q, 10-K, and Earnings Call Transcripts

Dong-Jie Fang, Department of Money and Banking, National Chengchi University

Hsing-Hua Chang, Department of Money and Banking, National Chengchi University

Shih-Kuei Lin, Department of Money and Banking, National Chengchi University

Carl Chen, Department of Economics and Finance, University of Dayton

We examine how corporates react toward the COVID-19 pandemic, the Great Recession, and the SARS epidemic. Based on the MD&A section in Forms 10-K/10-Q and earnings call transcripts, we construct three measures to evaluate the firm's reaction. Our empirical results show that the reaction measures in 10-K/10-Q filings have different impacts on post-release returns from those in earnings calls. We further investigate the causes of this difference by three decompositions. Unlike prior studies, we find the market more response to the management than analysts when discussing economic recessions. However, the analysts do propose noteworthy risks during the questioning. On the other hand, the management may cover up risk-related information in earnings calls, which reduces its negative impact on stock returns.

E.9. International Return Correlations (Wilshire B)

Idiosyncratic Volatility: Reversals and Trend, Evidence From India

Nihar Singh, Indian Institute of Technology, Delhi

Neeru Chaudhry, Indian Institute of Technology, Delhi

For a sample of Indian firms, which are listed in the Bombay Stock Exchange of India, we observe a negative trend for the market, industry, and firm-level aggregate volatility. We find that firm volatility also leads and predicts market and industry volatility, while market volatility leads and forecasts industry and firm volatility. Conversely, industry volatility tends to lag the market and firm volatility. Additionally, all three volatility components increase during recessionary periods. As the GDP growth rate rises, firm and industry volatility declines, whereas market volatility responds with a one-quarter lag. In contrast, the increase in the USD/INR exchange rate leads to a decrease in market volatility in the sixth and twelfth month. We also find five structural breaks in each volatility series. Lastly, we note that beta shock, the covariance between cash flow shock and beta shock, leverage, institutional ownership, and information quality explain the observed positive trends in firm-level idiosyncratic volatility. Cash flow shock, listing age, promoter ownership, and foreign ownership do not explain the trend in firm-level volatility.

Connectedness and Portfolios In Emerging Markets: Esg Leaders Vs. Conventional Indexes

Maria de Boyrie, New Mexico State University

Ivelina Pavlova-Stout, University of Houston-Clear Lake

This study investigates the dynamic connectedness of ESG Leaders and conventional equity indexes with commodities in emerging markets. Using data for emerging markets stocks from three regions (Asia, Europe and Latin America) from July 2013 to October 2022, we compare the spillover effects from commodities to ESG and conventional indexes. The TVP-VAR results indicate that most of the transmission of shocks occurs between equity indexes, whereas spillover from commodities is limited. While there are similarities in the behavior of ESG Leaders and conventional index time series, slightly higher transmission is documented from commodities to conventional indexes compared to the ESG Leaders. Regional differences in connectedness are observed. Within a portfolio framework, the highest Sharpe ratios are noticed in portfolios based on minimizing dynamic connectedness, but no notable differences can be seen between using the ESG Leaders or conventional emerging market indexes.

E.10. Exchange Rates (Sunset 2)

Disaster Recovery, Jump Propagation and The Multi-Horizon Uip Pattern

Bowen Du, Hunan University

Jianfeng Xu, City University of Hong Kong

The forward premium puzzle and the exchange rate level puzzle are two violations of the interest parity condition. The former implies that a high interest rate currency is riskier while the latter implies the opposite. We propose a consumption-based general equilibrium model with disaster recovery and jump propagation to explain the two puzzles and hence address the paradox. The model reproduces multi-horizon UIP regression slopes in Engel(2016), which is the key to resolving the currency puzzles. It also matches the term structure of real yields and the primary moments of exchange rate growth and interest rate.

Exchanger Rate Forecasting With Fundamentals: The Trader-Company Method

Kentaro Iwatsubo, Kobe University

Kei Nakagawa, Nomura Asset Management Co., Ltd.

In this paper, we propose a novel machine learning method for forecasting future exchange rates using economic fundamentals derived from exchange rate theories and past returns. This method, which we call the "Trader-Company method," mimics the roles of a financial institution and traders belonging to it. The company has a number of traders and combines the forecasts of selected traders to make forecasts. The company can improve its own forecast accuracy by educating traders with poor forecasts, firing them if there is not enough improvement, and hiring new traders. We demonstrate that the out-of-sample forecasting accuracy outperforms random walk for all six developed countries' exchange rates. This method has the advantage of being interpretable because of its discrete decision making based on conditional branching. The evidence suggests that both education and firing/hiring are important to the predictability of the TC method, with education playing a particularly large role.

Uip Deviations: Insights From Event Studies

Luis Ceballos, University of San Diego

Sebastian Claro, Universidad de los Andes

Elias Albagli, Central Bank of Chile

Damian Romero, Central Bank of Chile

We evaluate the behaviour of the UIP relationship around monetary policy and global uncertainty shocks using event studies. We find that the covariance between exchange rate movements and changes in long-term yield differentials is conditional on the nature of shocks. A model of partial arbitrage between domestic and US bond markets predicts that tighter US monetary policy appreciates the dollar while increasing US yields relative to domestic bonds, a response that is consistent with UIP forces, while global uncertainty shocks appreciate the dollar while raising domestic yields relative to US bonds, exacerbating the widely documented UIP violation. The empirical analysis supports these mechanisms, especially for developed economies. For emerging economies, both relationships are weaker, consistent with more pervasive currency stabilization policies that mute the FX response at the expense of higher volatility in longer yields. Our results suggest a more nuanced interpretation of the unconditional failure of the UIP.

E.11. Doctoral Student Workshop 1 (Melrose 3)

Around The Clock: Sleep Deprivation and Financial Analysts Performance

YUJIE SONG, ESSEC Business School

Insider Filing Delay and Corporate Misconduct

Brandon Cline, Mississippi State University

Caleb Houston, University of Alabama at Birmingham

Junnatun Naym, Mississippi State University

Delinquent insider trade reporting is a violation of securities law. Although these violations may appear insignificant, they indicate a firm’s broader culture of noncompliance, which can lead to other forms of misconduct. Using a panel dataset of 23,654 firm-year observations, we test the association between insider filing violations and future corporate misconduct and document a significant positive association. This effect is strongest for firms that do not have a CCO or internally imposed blackout trading restrictions. These findings suggest that implementing a strong internal regulatory system fosters a culture of compliance and establishes checks and balances within the firm.

Dual-Class Technology Ipos

Hui-Heng Cheng, Washington State University

George Jiang, Washington State University

Michael McNamara, Washington State University

This paper examines the relationship between dual-class structure IPOs in technology firms and their impact on both firm performance and innovation. We also analyze the influence of board-related attributes at dual-class structure IPOs on firm value and innovation within technology firms. Through a comprehensive examination of all technology firms' IPOs from 1994 to 2020, our findings indicate that dual-class structure tech firms tend to outperform their counterparts on two-year stock returns and higher firm value. In addition, dual-class structure tech firms invest more in innovation and have significantly greater patents granted than their single-class structure tech firm counterparts. We find that dual-class technology firms have smaller board sizes and fewer non-executive directors. The corporate governance at dual-class structure tech firms positively affects firm value if those firms have better board independence. Board size at dual-class structure tech firms improves the patent quality, yet board independence at dual-class structure tech firms has negative impacts.

15:15 - 16:45

F.1. Bond and OTC Market Microstructure (Sunset 1)

Bond Market Structure and Volatility

Isarin Durongkadej, San Jose State University

Louis Piccotti, Oklahoma State University

We apply variance ratio methodologies to examine market quality in the US corporate bond market. We find that the open-to-open to close-to-close return variance ratio is greater than one suggesting that the corporate bond market is less efficient during the opening hours than during the closing hours. We show that the higher variance ratio at the open is related to the market power of dealers at the open. Market quality appears to be higher when bond volume and credit rating are low. The results are consistent with dealers behaving strategically to unload risky assets and take on safer assets.

Mark-Up Disclosure Rule and Its Effects On Trading Costs In The Municipal Bond Market

Yu He, University of Nebraska-Lincoln

In 2018, the Municipal Securities Rulemaking Board implemented a mark-up disclosure rule to strengthen post-trade transparency. Broker-dealers were required to disclose mark-ups to retail investors on the confirmation page. This paper explores the influence of the mark-up disclosure rule on trading costs. Both effective spreads and “waterfall” mark-ups are measured and analyzed. Overall, trading costs of retail-sized trades decreased after the approval and implementation of the mark-up disclosure rule. The results suggest that the information asymmetry between broker-dealers and retail investors may have decreased after the mark-up disclosure rule. To further explore the mechanism, the reduction in trading costs is more pronounced for frequently traded bonds while there is no significant change with infrequently traded bonds. The increased bargaining power of retail investors may be the main force driving the trading costs decline.

Otc Trading Activity Around Public Disclosures

Ryan Davis, University of Alabama at Birmingham

Travis Box, Clemson University

We examine the market response to SEC filings in the equity shares of unlisted firms, where few other public sources of information may be available. Relative to exchange-listed firms, the volume of trading activity increases in the days following a public filing by an over-the-counter (OTC) firm. Using server data from the SEC’s EDGAR database, we also track the number of downloads by venue, firm, and form type and partition our results according to human and machine downloads. In addition to timing differences and form-type preferences between humans and machines, we find that information consumption by human investors leads to an increase in OTC share volume relative to listed firms. Our findings indicate that OTC investors value information disclosure and that SEC filings may be one of the few trading motivations in the OTC stock market that can be attributed to the dissemination of information.

F.2. Cross-section of Stock Returns (Sunset 3)

Cross-Firm Information In Analyst Reports

Kotaro Miwa, Kyushu University

This study explores the informational significance of cross-firm information in analyst reports. When financial analysts release reports on a particular stock (highlighted stock), they also refer to other economically linked (related) stocks that may be impacted by the report’s subject matter and analysis. The analyses reveal that when an analyst positively (negatively) revises target prices while mentioning the related stock, the analyst adjusts the target prices of the related stock with a 2-10 day lag. Furthermore, revisions to target prices of the highlighted stock are positively associated with the subsequent stock returns of the related firms. Lastly, the return predictability of the related stock is attributed to the above-mentioned delayed adjustment of the analysts’ target prices. These results support the informational value of cross-firm information and its gradual incorporation into analysts’ and investors’ expectations for related stocks.

Political Profiles and Performance

Shaddy Douidar, University of Nevada, Reno

We provide a comprehensive examination of multi-dimensional political influences on industry return performance by constructing eight industry-level political profiles based on combinations of industries’ exposure to policy uncertainty, degree of corporate political activism and reliance on

government for doing business. Portfolios comprising of "politically naked" industries, those facing high policy uncertainty without much protection from politicians or from doing business with the government, consistently and significantly outperform all others on a risk-adjusted basis. This result is robust to different estimation methods and mostly in line with the view that the market fails to correctly price the implications of exposure to political risk.

Low-Risk Anomaly, Risk Aversion, and Uncertainty

Jingjing Chen, Washington State University

George Jiang, Washington State University

Andrew Zhang, University of Nevada, Las Vegas

This study examines the performance of low-risk investment strategies, i.e., betting against IVOL and beta, at a daily frequency. We find that economic uncertainty (UNC) and investor risk aversion (RA) have a significant impact on the daily performance of these strategies, with RA having a stronger influence. On approximately one-third of the sample days with notable increases in RA and UNC, low-risk stocks outperform high-risk stocks. Conversely, on approximately one-third of the sample days with significant decreases in RA and UNC, high-risk stocks actually yield higher returns compared to low-risk stocks, in line with the risk-return trade-off. We also provide evidence supporting the risk-rebalancing hypothesis, suggesting that institutional investors actively reduce risk exposure during periods of elevated market uncertainty and risk aversion, leading to reduced demand and lower returns for high-risk stocks. Additionally, we observe a consistent preference for high-quality stocks during days with high shocks to UNC and RA but rule out flight-to-liquidity as an explanation for the low-risk anomaly. Finally, we note that low-risk investing performs best on Mondays and worst on Fridays, particularly during weeks characterized by pronounced increases in RA and UNC.

F.3. Factors (Sunset 4)

A Cross-Sectional Asset Pricing Test of Model Validity

James Kolari, Texas A&M University

Jianhua Zhang, The Chinese University of Hong Kong, Shenzhen (CUHK-Shenzhen)

Wei Liu, Texas A&M University

Huiling Liao, University of Minnesota

An out-of-sample cross-sectional regression coefficient test of alpha in asset pricing models is investigated. The test is straightforward, easy to implement, and supplements in-sample GRS alpha tests of average pricing errors. Using U.S. stock returns, consistent with model mispecification, we find that the CAPM as well as prominent multifactor models have significant alpha coefficients in cross-sectional regressions. However, alpha coefficients are insignificant using a recent model dubbed the ZCAPM. We conclude that the cross-sectional distribution of alphas across test assets contains useful information about model validity.

Instrumented_deep_factor_model

Brian von Knoblauch, Institute of Banking and Finance, Leibniz University Hannover

Maik Dierkes, Institute of Banking and Finance, Leibniz University Hannover

Utilizing deep neural networks, we construct an economically guided asset pricing model. This novel autoencoder model combines innovations from leading machine learning asset pricing models. It explains more than 18% of monthly cross-sectional returns, exhibits Sharpe ratios larger than 3, and compares favorably with leading models in out-of-sample prediction tasks. We discuss in depth the nonparametric characteristic-return relationships revealed by this new deep neural network model while controlling for numerous other variables - a task deemed impossible with tradi�tional portfolio sorts or linear regressions. The discussion includes, but is not limited to size, momentum, max return, and idiosyncratic volatility. We rediscover already known results about the cross section of stock returns and add new insights about nonlinearity and interesting interaction effects. Technically speaking, we employ a Long Short-Term Memory network which condenses 185 macroeconomic variables into a small number of hidden states. Combined with 53 firm-specific factors and corresponding sensitivities, the model distills the found return patterns from the cross section of more than 20,000 individual stocks.

Out-of-Sample Performance of Factor Return Predictors

Du Nguyen, University of Missouri

Using a comprehensive set of 92 equity factors, I re-evaluate the performance of variables that have been shown from prior studies to be good predictors of factor returns. I find that most variables do not provide systematic evidence in favor of factor return predictability, as judged by their poor out-of-sample performance. Model instabilities appear to be the primary reason for the weak performance of individual variables. I overcome these limitations by exploring a variety of shrinkage techniques that combine signals from all predictors. Results show that this approach offers more favorable and conclusive evidence for predictability. The shrinkage approach typically leads to significant economic gains for factor timing strategies in real time.

F.4. Payout Policy (Sunset 5)

Life Cycle Measures, Agency Costs and Payout Behavior

Puneet Prakash, Missouri State University

Vikas Sangwan, JGBU India

While the association between a firm's life cycle and its corporate decisions has been extensively studied, the misclassification of firms into incorrect life cycle stages has been largely overlooked. This oversight can be attributed to the absence of a direct and universally accepted life cycle measure, leading researchers to rely on various context-specific proxies. Unfortunately, these proxies are prone to misclassification errors arising from accounting manipulation and idiosyncratic variations. To address these limitations, our study proposes two new hybrid proxies based on two stage filtering mechanisms that mitigate such inherent challenges. We test these hybrid proxies to study dividend payout behavior as driven by agency cost issues over a firm's life cycle. Again, we introduce and utilize multi-dimensional agency cost proxies. Through empirical testing of the agency cost version of the life cycle theory of dividends, our hybrid life cycle proxies demonstrate satisfactory performance, enhancing the construct validity and reliability of our empirical models by reducing life stage misclassifications. These findings contribute valuable insights to the existing literature on life cycle measures, agency cost measures, and the life cycle theory of dividends.

Within-Firm Pay Inequality and Payout Policies

Mian Wei, University of Ottawa

This paper examines CEO behavior in response to within-firm pay inequality. Using CEO-median employee pay ratio data mandated by the SEC, the study reveals that following the release of pay ratio disclosures, CEOs with higher pay ratios tend to issue higher dividend payments as a strategy to mitigate adverse reactions from investors and the market than those with lower pay ratios. This positive correlation between CEO pay ratio and dividend payouts is consistently observed on both yearly and quarterly basis. The positive relationship between CEO pay ratio and dividend payouts remains robust when taking into account various firm characteristics and external shocks such as the COVID-19 pandemic and overall market condition. Furthermore, I employ instrumental variable regression analysis, subsample analysis, alternative measures analysis, and omitted variables analysis to validate the findings. On the other hand, the results indicate that CEO pay ratio does not significantly impact stock repurchases, as this relationship is sensitive to exogenous shocks, and stock repurchases are susceptible to potential shareholder base loss. The comprehensive analysis conducted in this paper highlights the significance of CEO pay ratio in influencing dividend payout decisions while shedding light on the limited impact of such ratio on stock repurchases. The results contribute to the understanding of CEO behavior and its implications for corporate financial policies and shareholder responses.

Legally Powerful Shareholder Proposals For Payout Policy: Evidence From Japan

Yukihiro Yasuda, Hitotsubashi University

Kiyonori Iwata, Tokyo University of Science

We empirically examine the determinants of shareholder proposals for payout policy and the subsequent effect on corporate policies in Japan. Unlike in the U.S., the shareholders in Japan have more powerful statutory rights on the payout policy. We found that firms with zero leverage and "quiet life" are more likely to receive shareholder proposals for profit distribution. This tendency is more pronounced for quiet life firms with poor investment opportunities and zero leverage. Although all the proposals are voted down by majority voting, firms that have received the proposals after the inception of the "Japan Revitalization Strategy" in 2013, interestingly, tend to increase the subsequent dividends.

F.5. Pension Funds (Sunset 6)

Pension Fund Activism Behind The Scenes

Brian Blank, Mississippi State University

Brandy Hadley, Appalachian State University

Choonsik Lee, University of Rhode Island

We study how pension funds perform shareholder activism behind the scenes. Using SEC log data, we find that pension funds often research details pertaining to proxy items for Socially Responsible Investing (SRI) proposals immediately after filings are available. Although these pension funds are not the primary sponsor of the proposals, their attention is linked with higher vote support and a higher likelihood of passing, suggesting that pension attention likely leads to proxy solicitation efforts. Consistently, pension attention is linked with greater vote support from mutual funds that previously were not supportive of SRI proposals. When the proposals fail despite pension attention, the same proposals are more likely to be submitted in the following year. These results are not explained by the last-minute attention by pension funds or attention by unlikely associated groups such as unions.

Public Pension Duration Risk, Interest Rate Swap Usage, and Transparency

Allen Carrion, University of Memphis

John Coughlan, U.S. Commodity Futures Trading Commission

We study the usage of interest rate swaps (IRS) by U.S. public defined-benefit pension plans, their role in interest rate risk management, and transparency to the public. We first describe the duration risk of these pensions, show that it is large, and review how it is commonly believed to be hedged with IRS. Using CFTC regulatory data, we document that the pensions collectively hold positions in IRS. However, these positions are held by a minority of funds, are small relative to their duration hedging needs, and are often in the wrong direction to serve as hedges. Swaptions and interest rate futures are not generally used as substitute hedges. We analyze the public disclosures of pensions identified as IRS users in the data. We

find that most are not sufficiently transparent to conduct interest rate risk analysis, and some do not clearly disclose the existence of IRS in their portfolios.

Loan Covenant Violation and Corporate Pension Funding

Bin Qiu, DePauw University

F.6. Executive Compensation (Santa Monica 2)

Cybersecurity and Executive Compensation

Asligul Erkan-Barlow, East Carolina University

Trung Nguyen, Northern Kentucky University

This study contributes to the emerging literature on the determinants and the consequences of cyberattacks by examining the impact of inside debt compensation on a firm’s likelihood of experiencing a cyberattack and on attacked firms’ cash holdings, R&D investments, and asset tangibility. We provide compelling evidence that inside debt compensation reduces the probability of experiencing a cyberattack. Furthermore, we document that high inside debt CEOs reduce their firm’s cash holdings while they increase R&D investments and asset tangibility once their firms experience a hacking incident. Our results are robust to alternative measurements of inside debt compensation and after accounting for potential sample selection and endogeneity concerns. Our findings underscore the importance of inside debt compensation as a governance mechanism that alleviates inefficiencies related to cybersecurity investments.

Ceo Compensation and Analyst Following: Incentives and Risks For Information Intermediaries

Yilun Lu, University of Texas at Arlington

Salil Sarkar, University of Texas at Arlington

This study investigates the relationship between CEO stock compensation and analyst following. With equity-based compensation becoming a prominent component of CEO pay, managers are incentivized to engage in riskier behaviors and obscure negative information in financial disclosures. Despite the anticipated mixed effects on analysts' reactions to this situation, our results reveal a clear trend: analyst following decreases as the proportion of CEO stock options compensation rises. This research contributes to the understanding of the pivotal role of CEOs' personal incentives in shaping financial disclosure practices and influencing analyst coverage.

Ceo Opportunism: Manipulating Ex-Ante Compensation Composition

Subramanian Iyer, University of New Mexico

F.7. REIT and MBS Returns (Melrose 2)

Mbs Stock Returns Around Lsap Announcements

Seongsu David Kim, St. Cloud State University

Yo-Shin Song

Our study explores the share price behaviors of mortgage-backed security (MBS) stocks. Specifically, we examine the share price reactions of exchange-traded funds (ETFs) and mutual funds converted from MBSs; mortgage real estate investment trusts (MREITs); Ginnie Mae funds; and Fannie Mae, Freddie Mac agency stocks to examine the MBS market reactions to the Federal Reserve Bank's (FRB's) Large-Scale Asset Purchase (LSAP) announcements during Quantitative Easing (QE) and Quantitative Tightening (QT) periods of MBSs. After controlling for market factors, we find that abnormal returns are ideal to accurately measure the MBS market's immediate response to policy announcements. Based on a standard event study, we estimate the secondary market's reaction to thirty LSAP announcements from 2008 to 2022. Our study finds positive market returns during QE and negative returns during QT periods of MBSs on the LSAP announcement days. Thus, investors' sentiments were primarily driven by the FRB's intention to increase/decrease its System Open Market Account's (SOMA's) balance sheet's MBS assets and the volatility of the amount purchased. To our best knowledge, our study is the first event study that explores MBS stock share price behaviors that also includes the most recent LSAP announcements during the COVID-19 pandemic.

Does Reit Style Matter During Covid Pandemic?

FNU Pratima, Texas A&M University -Commerce

Ankita Damani, Auburn University at Montgomery

Anh Nguyen, RMIT Vietnam

In this paper, we investigate the impact of COVID-19 on different performance measures and risk of US REITs with properties across the globe. In contrast to the traditional risk-return paradigm, our findings suggest a different phenomenon observed amidst the COVID-19 pandemic, with compelling evidence of reduced returns without any significant changes in risk profile. Particularly, mortgage and hybrid REITs appear to be more adversely affected compared to equity REITs. We further explore and analyze the performance of specialized REITs in contrast to diversified REITs in the distinctive conditions presented by COVID-19. We find that during COVID pandemic, diversification helps to combat the negative impact of COVID-19 on REIT performance but does not help to reduce risk. The findings on risk suggest investors’ short-run outlook on market reaction.

These results remain robust to multiple additional tests. The implications provide insight for investors as a reference to reallocate assets in their portfolios during uncertain times.

Coskewness and Cokurtosis Risk Premium In Reit Returns

Babatunde Odusami, Widener University

James Nguyen, Texas A&M University – Texarkana

Omokolade Akinsomi, University of Witwatersrand

This paper examines whether investors' affinity for higher-order moments in asset returns is priced into the performance of Real Estate Investment Trust (REIT) stocks. Using the universe of REIT stocks from 1993 to 2022, the study explores the dynamics of the total, systematic, and idiosyncratic skewness, and kurtosis in the time series of REIT returns. We find that REIT stocks with higher idiosyncratic and total skewness generate significantly higher returns than those with low idiosyncratic and total skewness. REIT stocks with average systematic skewness appear to be more desirable than those with extremely high and low systematic skewness. REIT stocks with higher idiosyncratic, systematic, and total kurtosis are associated with lower returns than those possessing lower idiosyncratic, systematic, and total kurtosis. Overall, the results indicate that there are potential diversification benefits to be obtained from the inclusion of REIT stocks in equity portfolios of non-REIT companies.

F.8. FinTech (Wilshire A)

Mobile Payment Use and Crime Reduction

Hongze Jiang, Anhui University

Pinghan Liang, Sun Yat-sen University

Leng Ling, Georgia College and State University

This study investigates the influence of mobile payment application usage on crime rates. Utilizing a unique dataset comprising 1,515,409 verdicts from criminal courts in China, along with an index that measures the extent of mobile payment usage, we find that a one standard deviation increase in mobile payment usage leads to an 11% decrease in theft rates. Furthermore, the effect of widespread mobile payment adoption on theft rates is more pronounced in areas where cash transactions are more common. These findings suggest that a reduction in cash circulation in society due to mobile payment use may decrease incentives for theft. However, we find no evidence to suggest that mobile payment usage influences other types of criminal activity, such as robbery, arson, brawling, homicide, and serious injury by vehicle.

Impact of Clan Culture In Peer To Peer Lending

hongju ren, stevens institute of technology

Spiritual Influence: Exploring The Relationship Between Religiosity and Fintech Credit Adoption

Mohammad Hashemi Joo, California State University, Los Angeles

Yuka Nishikawa, California State Polytechnic University, Pomona

Krishnan Dandapani, Florida International University

In this paper, we investigate how religious beliefs play a role in adoption of fintech credit, a new type of lending facilitated by online platforms. Prior research suggests that religiosity is associated with greater risk aversion. Based on this argument, we conjecture that fintech credit is less adopted in regions with high religiosity. We empirically test this hypothesis.

F.9. Discrimination (Wilshire B)

The Long Term Impact of Slave Export On Firm Corruption and Corruption Related Outcomes In Africa

Yu Liu, University of Texas Rio Grande Valley

Jian Xu, Fort Hays State University

We examine the long-term impact of the slave export, one of the most traumatic events in African history, on firm corruption and corruption-related outcomes using data from over 30,000 firms across 41 African countries from 2006 to 2021. Our results show that the slave export is positively associated with reported corruption obstacles, bribes requested, and bribes paid by African firms. These findings are both statistically and economically significant and robust under various identification and robustness tests. We also demonstrate a positive relationship between slave export and corruption perception at the country and individual levels. Our results reveal that corruption activities reported by firms are primarily a demand-side phenomenon. Additionally, our findings indicate that in high slave export countries, firms are more likely to engage in various activities to avoid taxes, evade interactions with government officials, and remain unregistered due to rampant corruption. Overall, this study contributes to our understanding of firm corruption and corruption-related outcomes from a historical perspective.

Investors do Not Have A Taste For Discrimination. Revisiting Mutual Fund Flows When Managers Have Foreign-Sounding Names

John Adams, University of Texas at Arlington

Kumar, Niessen-Ruenzi, and Spalt (2015) argue that U.S. investors irrationally discriminate against mutual fund managers with foreign-sounding names. They report that managers with foreign-sounding names attract less annual investor flows, experience less inflows following good performance and more outflows following bad performance. They also find that following 9/11, flows to funds with Middle Eastern sounding manager names declined abnormally. This study is unable to corroborate these findings. Instead, it finds that the flow-performance relation is consistent with a rational expectations framework where investors compete for returns and learn about manager skill from past performance.

Racial Discrimination In Asset Prices: Evidence From Horse Betting

Spencer Barnes, The University of Texas at El Paso

Luke Stein, Babson College

In the presence of behavioral biases, prices can diverge from fundamentals, and the effects of racial/ethnic bias are evident in many financial and non-financial markets. We investigate the determinants and consequences of discrimination in parimutuel horse betting, characterized by significant limits to arbitrage, short termination windows, posted payouts, extensive public information about fundamentals, and an absence of systematic risk. We consider return differences across horses whose trainers have racially/ ethnically distinctive surnames, which bettors may see as a proxy for horse quality (accurately or inaccurately) or a source of non-pecuniary returns (due to animus). Horses with non-white-named trainers earn higher realized returns. These differences exist despite the fact that they are disproportionately likely to train longshots, who receive lower returns under the well-known "favorite–longshot" bias. Risk-adjusting to control for these effects, we find evidence for racial/ethnic return differences, especially among long shots, horses with poor prior performance, low-stakes races with "fast" conditions, and the U.S. South. These results are consistent with the effects of discrimination being strongest among the least informed bettors and those most subject to other behavioral biases.

F.10. Expectations and Inflation (Sunset 2)

The Effect of Covid-19 Uncertainty On Corporate Default Risk: International Evidence

Md Ismail Haidar, University of Texas Rio Grande Valley

Md Showaib Rahman Sarker, University of Texas Rio Grande Valley

Andre Mollick, University of Texas Rio Grande Valley

This paper investigates the effect of COVID-19 uncertainty on corporate default risk using an international sample of firms from 71 countries. We document that corporate default risk increases with higher COVID-19 uncertainty, even after controlling for a wide range of firmlevel and country-level characteristics. The effect is weaker for firms in highly religious adherence countries, stronger for firms in developed countries, and for firms geographically closer to China and Italy. Further, the effect is weaker for highly innovative firms and less financially constrained firms. Our findings are robust to propensity score matching and entropy balancing methods to address selection bias, diagnostic tests regarding omitted variable bias, and alternative measures of COVID-19 uncertainty and default risk.

Financial Market Inflation Perceptions

Marius Mihai, John Carroll University

Navigating Inflation Risk In Corporate Bond Markets: Evidence From Mutual Funds

Luis Ceballos, University of San Diego

Han Xiao, Chinese University Hong Kong

The global inflation surge has refocused attention on the impact of inflation risks. We investigate whether mutual fund managers time the inflation risks in the corporate bond market. Our findings reveal a significant and robust timing ability among managers in different investment subcategories, translating into a sizable fund performance of around 4% per annum. Timing is associated with managers adjusting portfolio holdings to bet on future risks rather than past realizations. Cross-sectional evidence suggests that over 40% of individual funds exhibit strong inflation risk timing ability, controlling alternative timing abilities, factor structures, and monetary policy shocks. The bootstrapping exercise further validates managerial skills rather than pure luck. Our results provide policy implications for monetary policy transmission in corporate bond markets.

F.11. Meet the Editors Panel (Melrose 3)

17:00 - 18:00

Keynote Speech & Best Paper Awards (Celebrity 4)

18:00 - 19:30

Reception (Celebrity 1&2)

Friday Program

Time											
7:30am-12:00pm	Registration Table Open										
7:30am-8:30am	Assistant Professor's Breakfast (Melrose 3)										
8:30am-10:00am	G.1. Mutual Fund Manager Decision Making (Sunset 1)	G.2. Corporate Governance (Sunset 3)	G.3. Politics and Finance (Sunset 4)	G.4. Options (Sunset 5)	G.5. Market Microstructure 2 (Sunset 6)	G.6. Banking and Tax Regulations (Santa Monica 2)	G.7. Returns to Sustainability (Melrose 2)	G.8. CEO Gender and Culture (Wilshire A)	G.9. Asset Pricing (Wilshire B)	G.10. Corporate Boards (Sunset 2)	G.11. Personal Finance (Melrose 3)
10:00am-10:30am	Coffee Break (Melrose 4)										
10:30am-12:00pm	H.1. Theoretical Asset Pricing (Sunset 1)	H.2. Mutual Fund Performance (Sunset 3)	H.3. Environmental Regulation and Policy (Sunset 4)	H.4. Political Risk (Sunset 5)	H.5. CEO Characteristics and Conduct (Sunset 6)	H.6. News and Returns (Santa Monica 2)	H.7. Corporate Boards and Risk (Melrose 2)	H.8. Financial Education (Wilshire A)	H.9. Insider Trading (Wilshire B)	H.10. Barriers to Trade and Financial Markets (Sunset 2)	H.11. Utilizing Public Data Workshop (Melrose 3)
12:00pm-1:30pm	Doctoral Student Lunch (Celebrity 1&2)										
1:30pm-3:00pm	I.1. Market Quality (Sunset 1)	I.2. Innovation (Sunset 3)	I.3. Passive Fund Management (Sunset 4)	I.4. Earnings (Sunset 5)	I.5. Lottery Stocks and Auctions (Sunset 6)	I.6. Crash Risk (Santa Monica 2)	I.7. ESG Disclosure (Melrose 2)	I.8. Hedging (Wilshire A)	I.9. Access to Credit (Wilshire B)	I.10. Discrimination (Sunset 2)	I.11. Doctoral Student Workshop 2 (Melrose 3)
3:00pm-3:30pm	Coffee Break (Melrose 4)										
3:30pm-5:00pm	J.1. Trade Credit (Sunset 1)	J.2. International Returns (Sunset 3)	J.3. Monetary Policy and Financial Markets (Sunset 4)	J.4. Human Capital (Sunset 5)	J.5. ESG (Sunset 6)	SWFA Board Meeting (Incoming Members) (Santa Monica 2)	J.7. Return Predictability (Melrose 2)	J.8. Corporate Risk Management (Wilshire A)	J.9. Mergers & Acquisitions (Wilshire B)	J.10. Societal Impact on Finance (Sunset 2)	J.11. Financial Constraints (Melrose 3)

07:30 - 12:00

Registration Table Open ()

08:30 - 10:00

G.1. Mutual Fund Manager Decision Making (Sunset 1)

Self-Declared Benchmarks and Fund Manager Intent: “Cheating” Or Competing?

Huaizhi Chen, University of Notre Dame

Richard Evans, University of Virginia

Yang Sun, Brandeis University

Using a panel of self-declared benchmarks, we examine funds’ use of mismatched benchmarks over time. Mismatching is high at the beginning of our sample (45% of TNA in 2008), consistent with prior studies, but declines significantly over time (27% in 2020), driven by existing specialized funds changing benchmarks to match their style. Market forces including investor learning, institutional investor governance, market competition, and product positioning all play a role in the benchmark correction decisions. For broad funds, mismatched benchmarks are not associated with a performance bias. Our study highlights the value of market solutions in aligning manager-investor interests.

Identifying Effective Workplace Connections: The Case of Mutual Funds

Yuan Gao, University of Arizona

Suiheng Guo, University of Arkansas

This paper investigates workplace information sharing through the lens of mutual fund organizational structures. I construct a novel fund-level skill-weighted measure of interfund comanager connections (ICC). I find that funds with a higher ICC exhibit more similar portfolio holdings to their connected funds. Exploiting within-fund variation, a higher ICC is associated with better fund performance. Using a quasi-experiment of plausibly exogenous superstar manager departures, I confirm the positive ICC-performance relation in a causal setting. By hand-collecting a unique and comprehensive sample on fund hierarchical structures from SEC fund prospectuses, I also show that high ICC funds outperform low ICC funds based on an alternative ICC measure that uses the lead portfolio manager status. Further, the performance effect of ICC is more pronounced in smaller funds possibly due to lower hierarchy costs as in Chen et al. (2004). Conditional on having a hierarchical structure, team-managed funds have a stronger ICC-performance relation than solo-managed funds, implying that teams with centralized decision rights gain more from possessing lower information capacity constraints. Value-relevant information is transmitted via comanager linkages: ICC funds profit more from trading on overlapped hard-to-research stocks and non-local stocks than non-ICC funds.

Flow Hedging and Mutual Fund Performance

Du Nguyen, University of Missouri

Fund flows in and out of active equity mutual funds create incentives for managers to hedge against common flow shocks, which in turn explains a flow risk premium in the cross section of expected stock returns and lower expected fund returns (Dou, Kogan, & Wu, 2023). It is not clear, however, to what extent an active fund is willing to forgo the premium associated with flow shocks. I document a significant variation in flow-hedging behavior in an extended sample of US domestic equity funds with nearly half of the funds tilting toward high-flowbeta stocks. A rational model in which informed investors receive more precise private signals about common flow shocks can explain this finding. Motivated by the model's implication that funds with higher exposure to common flows are more skilled, I empirically measure fund-level management of flow betas as the covariance between deviations of a fund's portfolio weights from a benchmark portfolio and its holdings' flow betas. I find that funds in the top decile of the measure outperform those in the bottom decile by 5% annually from 1994 to 2021. Overall, the paper identifies a new aspect of flow risk management among active equity funds.

G.2. Corporate Governance (Sunset 3)

Do Managers and Their Firms Get Disciplined By Competition? The Role of Innovation, Firm Efficiency, and Market Concentration

Nana Twum Owusu-Peprah, Texas A&M International University

The gap in literature is the role of competition in disciplining managers to eschew their short-term self-interest and cost-cutting of research and development expenditures to meet revenue targets, bonuses, and career progression. This study adds and contributes to the growing body of literature on myopic management, corporate innovation, and efficiency. Using U.S. nonfinancial publicly traded firms between 1979 and 1997, we find a negative relationship between the efficiency of the firm and innovation. This is primarily due to the inward-looking behavior of the managers, which creates financial frictions such as information asymmetry and free cash flow. We also document that this negative relationship reverses when firm efficiency interacts with market competition (proxied by the Herfindahl-Hirschman Index (HHI). We argue that market competition as a prevalent mechanism has the potential to discipline corporate managers, serve as a substitute in a weak governance environment, and invariably ameliorate market frictions. We address endogeneity issues using firm-level controls, and firm and year-fixed effects. The findings are robust after applying other alternative model and instrumental variable specification. The results help to advance knowledge of internal corporate decisions and hold vital policy implications.

The Effect of Director Wealth On Corporate Governance and Firm Value

Dipesh Bhattarai, University of Tennessee

I investigate the effect of director wealth on firm value and explore potential channels through which wealthy directors affect decision making. I find that the appointment of wealthy independent directors, defined as directors with more than million in net worth, is associated with an increase in shareholder value. Moreover, when wealthy independent directors pass away, there is a drop in shareholder value. At the firm-level, I find that firms with a greater proportion of wealthy independent directors have higher firm valuations, tend to align executive incentives with performance more effectively, produce more and higher quality innovation, and manage cash better. These results hold in specifications that include industry and year fixed effects, firm fixed effects, and to using the supply of local wealthy directors and the total number of monthly direct flights to a firm's county as instrumental variables. Overall, my results suggest that directors' wealth can insulate them from managerial influence, enabling them to more effectively fulfill their roles as monitors and advisers.

G.3. Politics and Finance (Sunset 4)

The Impact of High-Pressure Political Reforms On State-Owned Enterprises: Evidence From China

Sung Bae, Bowling Green State University

Taek Ho Kwon, Chungnam Naational University

ChenYang Liu, Chungnam National University

Taking the case of high-pressure political reforms including the ongoing anti-corruption campaign in China, we investigate the impact of such reforms on the performance of Chinese state-owned enterprises (SOEs) from the agency problem perspective. We report that before the reforms, SOEs significantly underperform non-SOEs in most performance measures, consistent with the existing evidence. Following the reforms, however, the performance gaps between SOEs and non-SOEs become insignificant or even reversed. Our results of positive impacts of the reforms on overall performance, cost control, operating efficiency and cash positions and their negative impacts on investment levels and efficiency for SOEs are in supportive of our hypotheses based on the agency theory. We further find that the state as SOEs' controlling shareholder is the primary beneficiary

of the reforms through higher tax collections from SOEs, though incurring a loss in shareholder stock returns. We also report a few cases of industry heterogeneity in the impacts. Our results lend strong evidence that the political reforms empower the state to deter SOEs' corrupt practices and align their business decisions with the state's political objectives mainly by mitigating agency problems in Chinese SOEs.

Political Connections and Their Effects On Covenant Enforcement, Ceo Turnover, and Ceo Pay

Maneesh Shukla, Ohio Northern University

Lindsay Baran, Kent State University

Steven Dennis, Kent State University

Marc Via, Kent State University

This paper examines the effect of borrower political connections on connected firms and their CEOs following poor performance related to financial covenant violations. We find that firms with political connections have less strict covenants at loan origination, are less likely to violate financial covenants over the life of the loan even controlling for original covenant strictness, and lenders are less likely to enforce a material covenant violation following the breach of a financial covenant. In terms of the effect of political connections on a firm's executives, we find that CEOs in politically connected firms are less likely to experience turnover or forced turnover following financial covenant violations. In addition, after firms have financial covenant violations, politically connected CEOs receive less reduced compensation than their non-politically connected peers, and their wealth is less sensitive to stock price changes.

Partisan Politics and Stock Returns Under Strong Presidential Regimes: Religion and Politics

Javier Mella, Universidad de los Andes, Chile

G.4. Options (Sunset 5)

Informed Option Trading of Target Firms' Rivals Prior To M&a Announcements

Mingzhi Du, Auburn University

Jimmy Hilliard, Auburn University

This paper investigates the option market of target firms' rivals prior to M&A announcements. Utilizing a sample of 1,899 M&A events from January 1996 to December 2020, we observe positive and significant abnormal trading volumes in the option market of target firms' rivals, particularly in out-the-money (OTM) options. Our analysis further explores the underlying reasons for these patterns based on two major theories from existing literature: the acquisition probability theory, which suggests that rivals of target firms experience ab- normal returns due to the increased likelihood of future acquisitions, and the collusion theory, which asserts that horizontal mergers lead to enhanced market power and, consequently, abnormal returns for rivals. Our findings predominantly support the acquisition probability theory.

Bundled Risks, Dollar Index Options, and Quantitative Implications For Dynamic Currency Models

Xiaohui Gao, Temple University

Gurdip Bakshi, Temple University

Yuan Hu, Temple University

We propose a model of options and futures on the dollar index, which are traded vehicles to protect against concerted U.S. dollar appreciations or depreciations. Estimating the model, we draw quantitative assessments and examine consistency with new empirical findings. First, average excess returns for out-of-the-money (OTM) calls on dollar index futures are negative and statistically significant, whereas those for OTM puts are insignificant. Second, conveying strike-price-dependent dollar concerns, average excess returns for call options become more negative at higher strikes. The estimated model adheres to the data on option prices, volatilities, and supports negative risk premiums for OTM call options.

The Effect of Short Sale Constraint On Option Liquidity: Evidence From Jgtrra

Ruixin Yang, Rutgers University

Ken Zhong, Rutgers University

This study examines the effect of short-sale costs on option liquidity. A larger difference between tax rates of income and dividends indicates higher short sale costs around dividend distributions. Then the effect of taxation on short sale costs is transferred to option liquidity. The JGTRRA enlarges this difference for firms distributing dividends. We find that the option liquidity decreases for those firms after JGTRRA. The pessimistic investors prefer at-the-money options, options for underlying stocks with mild mispricing and larger dispersion in investors' opinions. This study contributes to the literature on short sale cost and option liquidity.

G.5. Market Microstructure 2 (Sunset 6)

Lead-Lag Relationships In Market Microstructure

Micha Bender, Goethe University Frankfurt

Tino Cestonaro, Goethe University Frankfurt

Julian Schmidt, Goethe University Frankfurt

We investigate high-frequency cross-asset lead-lag relationships using various market microstructure measures capturing price, liquidity, depth, and volatility dimensions. We use historical trade and order book data from stocks, futures, and exchange-traded products covering asset classes such as equities, bonds, commodities, and cryptocurrencies. Our results show that information from one asset's transaction prices and order book imbalance at the best quotes provides information about the future behavior of another asset's midpoint. We also discover lead-lag relationships between different volatility measures. Most of the lead-lag relationships in our sample exist between fundamentally related instruments. With respect to the determinants of lead-lag effects, we find that trading activity and liquidity strengthen the lead of equity-related instruments, but this does not hold true for all asset classes in our sample. We show that lead lag relationships can be used to predict short-term changes of the lagging instrument based on the history of the leading instrument.

Predictions, Profits, and Delays In Prices

Yihe Yu, The State University of New York at Buffalo

Dominik Roesch, The State University of New York at Buffalo

Using machine learning algorithms, we predict 1-minute returns in the US (and international) stock market from 2005 to 2012 and in 2020. For the US, we calculate returns from prices in the sequence in which prices are reported in TAQ, i.e., when returns capture both time- series as well as cross-sectional variation across exchanges. Consistent with Chinco, Clark- Joseph, and Ye (2019), using this approach, we find that returns are predictable. Finally, we show that predictability is partially due to delays in prices caused by the SIP and caused by unobservable variations in delays across exchanges. In other words, we propose to use predictability as a proxy for random delays across signals and argue that high-frequency return predictability can be explained by delays in prices, providing another explanation for why paper profits often do not materialize.

Effects of Zero-Commission Trading On Stock Market Liquidity

Zhiguang Wang, South Dakota State University

G.6. Banking and Tax Regulations (Santa Monica 2)

Understanding The Trend In Cash-Effective Tax Rates: Evidence From India

Deepanshi Arora, Indian Institute of Technology, Delhi

Neeru Chaudhry, Indian Institute of Technology, Delhi

The study investigates the trend in cash-effective tax rates over the last two decades in India, which is an emerging nation. The findings show that the cash-effective tax rates in India are increasing over the sample period from 1998-2020. The alternate measures of corporate tax avoidance are also increasing over time. The rising trend in cash-effective tax rates can be explained by changes in corporate behavior, firm characteristics, and statutory corporate tax rates. Furthermore, we find that the change in statutory corporate tax rates impacts the firm’s corporate behavior, which further influences the cash-effective tax rates.

The Long and Short of U.s. Bank Regulations: From The Great Depression To The 2023 Bank Failures

Osama Khawar, University of Florida

Exploiting a unique century-long dataset of U.S. bank balance sheets and stock prices, I study how bank regulation impacts financial intermediaries both in the short- and long-run. I begin by constructing a novel "Bank Regulation Index" from a century of historical newspaper articles. The index identifies cycles, from the Great Depression to the 2023 bank failures, in which crises prompt regulations, instill stability, and set the stage for subsequent deregulations. Short-term analysis of news text, using machine learning methods FinBERT and LDA, reveals that deregulations consistently receive positive media coverage. Bank-level evidence demonstrates that deregulations bolster banks' profitability and stock returns. Long-term analysis, however, underscores the essential role of regulations in lowering bank leverage and preventing crises within the banking sector.

Financial Distress, Bank Branching Deregulation, and Customer-Supplier Relationships

Yili Lian, California State University, Stanislaus

The paper exploits the deregulation of interstate bank branching laws to examine whether improved access to bank credit for customer firms affects the probability of their suppliers’ financial distress. The study provides robust evidence that suppliers’ financial distress risk is lower when the states of their major customer firms experience bank branching deregulation. The results are more pronounced for supplier firms with stronger customer-supplier relationships, for financially constrained suppliers, and for suppliers whose customers are financially unconstrained. Overall, the findings highlight the importance of customers’ access to credit on the financial distress risk of their suppliers.

G.7. Returns to Sustainability (Melrose 2)

Sustainable Indices and Carbon Risk

Mathis Leifhelm, HSBA Hamburg School of Business Administration

Peter Scholz, Duale Hochschule Baden-Württemberg

We analyze whether sustainable market indices have a lower carbon risk than comparable conventional market indices. We estimate the indices' carbon risk as the carbon beta using a multi-factor model. The results indicate that sustainable indices generally do not exhibit a lower carbon risk. This implies that although sustainable indices meet certain sustainability criteria, they do not provide investors with additional protection against carbon risk. Additionally, the results are further evidence that sustainable indices may have smaller positive impact on the real economy than expected by the public, investors, and regulators.

Backtesting Bias In Sustainable Stock Indices

Niklas Kestler, Friedrich Alexander Universität Nürnberg Erlangen (FAU)

Hendrik Scholz, Friedrich Alexander Universität Nürnberg Erlangen (FAU)

In this paper, we examine the performance of sustainable stock indices. Our primary objective is to investigate whether these indices exhibit a performance difference before and after their inception. According to previous literature we expect an outperformance in the pre-inception period and/or a subsequent performance decline after inception for certain categories of indices. In our empirical analysis, we distinguish between ESG labelled indices and sustainability related indices perform several performance tests. Our results show a pattern of outperformance in the pre-inception period for all index categories. This outperformance is then followed by a performance decline in the period after inception by some certain types of categorized indices i.e. Smart-Beta-ESG and Thematic-ESG Indices. Thus investors should be careful when comparing index performance. Especially index performance might not be an inappropriate indication of performance, hence investor should act with caution when selecting certain sustainable ETFs.

Carbon Emissions, Stock Returns and Portfolio Performance

Papa Orgen, Ulm University / Fulda University

Is carbon risk, proxied by carbon intensity priced in stock returns? The results show increased investor responsiveness to firm-level carbon intensity in the aftermath of the Paris Climate Con-ference. Previously undocumented in the literature, carbon risk is cross-sectionally underpriced in stock returns before Paris, but strong and economically significant afterwards. The estimated car-bon premium can neither be diversified away by risk factors, nor is it attributable to highly carbon-intensive sectors. Moreover, portfolios with low carbon intensity focus broadly outperform a mar-ket benchmark and/or high carbon intensity portfolios regardless of firm size, beta and alpha.

G.8. CEO Gender and Culture (Wilshire A)

Ceo Cultural Heritage, Corporate Social Responsibility, and Firm Value

Md Showaib Sarker, The University of Texas Rio Grande Valley

Ahmed Elnahas, The University of Texas Rio Grande Valley

We examine the impact of CEOs' cultural heritage on corporate social responsibility. CEOs originating from countries with high Power Distance, more Uncertainty Avoidance, and Long-term Orientation have high CSR scores, while those originating from Individualistic and Indulgent cultures have low CSR scores. This effect lasts up to three generations before it disappears due to acculturation. These results are robust to using difference-in-difference estimate, propensity score matching, entropy balancing, and Oster's test to address endogeneity and selection bias. Our factor and machine learning (K-means clustering) analyses shed additional light on the countries of origin of high and low CSR performers.

The Role of Female Executives In Supply Chain Finance

Mohammad Hashemi Joo, California State University, Los Angeles

Yuka Nishikawa, California State Polytechnic University, Pomona

Chen-Huei Chou, College of Charleston

This study investigates the relationship between female executives and operating cycle computed as the sum of the days inventory outstanding and days sales outstanding. Using the sample of U.S. manufacturing firms, our empirical results show that firms with female representation in top management are associated with a lower operating cycle than firms with no female representation in top management. Our findings suggest that the presence of female executives may improve supply chain efficiency. Moreover, our results lend support to critical mass theory that implies the effect of a minority group with more than one member as we find that having two or more female executives in top management further reduces the operating cycle.

Selecting Ceos and Identification of Gender Biases Using Machine Learning

Tomas Jandik, University of Arkansas

Xiaonan Wei, University of Arkansas

We use machine learning to predict CEO selections and test whether female executives face gender bias during the nomination process. We find that machine learning algorithm (XGBoost) could predict CEO performance better than OLS. CEOs predicted to do well (bad) by XGBoost perform well (bad). OLS does not have a good performance prediction ability. Females are underrepresented in CEO positions and are less likely to become CEO. However, female CEOs outperform their male counterparts if they are selected for a CEO position. Having a large personal network helps executives to be competitive, especially for female executives. Working in gender□friendly states also provide higher chances for highly connected

female executives to be named CEOs. Boards reward executives who embrace inclusiveness through higher number of connections to other female executives by higher probability to be selected CEOs. Boards with higher average age or poor corporate governance are more likely to make gender-biased decisions when selecting CEOs. On the other hand, higher representation of female directors and higher connections to other females at the board level mitigate the gender bias.

G.9. Asset Pricing (Wilshire B)

Probability Weighting and Equity Premium Prediction: Investing With Optimism

Mehran Azimi, University of Massahusetts, Boston

Soroush Ghazi, University of Alabama

Mark Schneider, University of Alabama

Empirically motivated theoretical models of probability weighting which overweight tail events are finding many applications in finance. However, probability weighting has not yet been applied to equity premium prediction or to constructing optimal market timing investment strategies. We show that a measure of market optimism from a representative agent asset pricing model with probability weighting can be used to construct optimal dynamic investment strategies that outperform the buy-and-hold strategy and strategies generated by 27 leading equity premium predictors. We further show that this theory-based measure of market optimism predicts the equity premium and market Sharpe ratio in-sample and out-of-sample as predicted by the asset pricing model. The predictability is not subsumed by disaster probabilities, market sentiment, or market skewness.

Stochastic Dominance, Stochastic Volatility and The Prices of Volatility and Jump Risk

Hamed Ghanbari, University of Lethbiridge

Product Variety and Asset Pricing

Carlos Nunez, Georgia State University

G.10. Corporate Boards (Sunset 2)

Bankruptcy and Director Reputation

Megan Ramsey, Missouri State University

I examine the impact of firm bankruptcy on director reputation in the director labor market. Consistent with a reputational penalty, directors on boards of firms filing for bankruptcy (bankruptcy-affiliated directors) are less likely to gain new directorships in the three years following the filing. Post-bankruptcy, bankruptcy-affiliated directors lose roughly 1.5 outside directorships. Of the bankruptcy-affiliated directors, those with more experience as a director and those whose firm reorganizes under Chapter 11 (as opposed to liquidation) realize a lesser director labor market penalty from the bankruptcy. These results suggest bankruptcy harms director reputation, but experienced directors who protect shareholders from liquidation by creditors can mitigate some of the reputational damage. I examine directors of financially distressed firms that avoid a bankruptcy filing and find evidence of a reward for financial distress experience – directors of financially distressed firms who avoid bankruptcy are more likely to gain new directorships at financially distressed firms.

Reputational Spillovers Between Board Directors

Shasta Shakya, Arizona State University

This paper asks whether reputational spillovers occur between directors within a board. Because directors choose to associate with like-minded directors and learn from one another, any revelation of a director as an ineffective monitor hurts how others perceive the monitoring quality of directors that he/she associates with. I consider directors who serve on the same committee and thus more likely to be perceived as like-minded and show that they experience such spillovers. I exploit negative shocks to the reputation of audit members as monitors in firms experiencing securities fraud litigations and show that in other non-shocked firms where they also serve on the audit committee, audit members that are themselves not shocked experience spillovers: they are less likely to obtain a chair position in the audit committee and more likely to leave the committee.

Board Reform and Tax Avoidance: Global Evidence

Md Rezwan Hossain Ratul, University of Texas Rio Grande Valley

Md Ismail Haidar, University of Texas Rio Grande Valley

This paper investigates the effect of board reforms implemented in 41 countries worldwide on corporate tax avoidance. We use a difference-in-differences method and find that firms avoid more taxes following the reform. Further evidence reveals that the increase in tax avoidance is less pronounced for firms in countries with strong external governance and more pronounced for firms in countries with weak financial reporting regulations. The results are also robust to alternative tax avoidance measures, alternative samples, entropy balancing, and other robustness checks.

G.11. Personal Finance (Melrose 3)

Competition and Shrouded Attributes In Auto Loan Markets

Morteza Momeni, Tennessee Tech University

Income Volatility and Household Carbon Emissions

Dandan Xu, Beijing Technology and Business University

Dongli Guo, Beijing Technology and Business University

Aslihan Korkmaz, Dominican University of California

Youwei Li, University of Hull

Pengpeng Yue, Beijing Technology and Business University

There is increased inequality in energy use and carbon emissions among Chinese households. This study explores the relationship between income volatility and household carbon emissions using the China Household Finance Survey (CHFS). We adopt the Consumer Lifestyle Approach method and calculate the energy use and carbon emissions by household consumption behaviors. Empirical results suggest that income volatility could affect household energy use and carbon emissions by reshaping consumption patterns. Higher income volatility will lead to a consumption behavior of lower energy use and carbon emissions. Furthermore, we find income shocks would slightly drive households that earn higher incomes or own more wealth.

Consumer Credit Without Collateral, Regulation, Or Intermediaries

Filipe Correia, University of Georgia

10:30 - 12:00

H.1. Theoretical Asset Pricing (Sunset 1)

Belief Polarization, Unconscious Bias, and Financial Markets

Nan Ma, McGill University

This paper examines the effects of social transmission of information within echo chambers on financial markets. In an equilibrium model, investors competitively trade in the market based on public information revealed by asset prices and private information obtained through word-of-mouth communication within echo chambers. I demonstrate that unconscious biases are endogenously formed in investors' private signals as information circulates within echo chambers. These biases foster polarized views among investors, leading to belief polarization, increased trading volume, and influencing assets' expected returns. The process of information sharing intensifies these effects. While public asset prices can mitigate belief polarization, they don't fully eradicate investors' unconscious biases.

A Limited Attention Theory of Time Series Momentum

Aleksi Pitkäjärvi, Vrije Universiteit Amsterdam

I present a model of bond and equity markets where some investors have limited attention, and show that the model generates both time series momentum and cross-asset time series momentum. The model makes several novel predictions about the performance of different time series momentum and cross-asset time series momentum strategies, and about the effects that investor attention has on strategy performance. Using bond and equity returns from twenty countries and Google search volume as a measure of investor attention, I find that the predictions are in line with the data.

The Double-Edged Sword of Data Mining: Implications On Asset Pricing and Information Efficiency

Shikun (Barry) Ke, Yale University

We theoretically characterize how price volatility, risk premium, and price informativeness change when investors undertake data mining. When a data-miner explores alternative data set to predict future asset payoffs in the real world, she faces scarcer training history relative to model parameterization (increasing complexity), and increasing difficulty to extract useful predictive signals (decreasing returns to data efficacy). Our model identifies a novel cost of complexity that arises endogenously from data mining. The complexity cost and decreasing returns to data efficacy together imply a finite optimal level data mining, such that excess data mining above this level will lead to lower price informativeness and investor welfare. The data-miner thus optimally chooses to ignore costless data sets beyond the optimal data mining level. When allowing for heterogeneity in prior beliefs, we show that data mining can generate disagreement in posterior beliefs and long-lasting influence from the prior. Empirically, we provide evidence on decreasing return in data efficacy in the context of "factor zoo".

H.2. Mutual Fund Performance (Sunset 3)

Interim Trading Bias In The Performance Evaluation of Equity Mutual Funds

Stéphane Chrétien, Laval University

Ali Ghali, University of Quebec at Rimouski

This paper investigates the interim trading bias that can occur when equity managers trade daily and the performance measurement period is monthly. We develop two new measures that account for interim investment opportunities and show their theoretical relevance. Empirically, the

mean bias across funds is not different from zero. However, more that 25% of the funds have statistically significant changes in performance when controlling for the bias and we investigate their characteristics. By comparison, two existing measures detect few significant biases. Our findings suggest that adjusting fund performance evaluation for the interim trading bias can be important.

Proximity and Mutual Fund Management Outsourcing: Evidence From Air Travel Data

Suiheng Guo, University of Arkansas

This paper provides novel evidence on the role of proximity in fund management subcontracting. I show that greater geographical proximity facilitates outsourced fund management. Specifically, increased availability of air travel leads to more subcontracting activities, improved performance of subcontracted funds, and lower subadvisory fees. I further show that air travel predicts the decision of fund management to outsource and reduces turnover of subadvisors. Finally, I find that higher air traffic helps subadvisors gain more fund management delegation from fund companies via reductions in information costs. Overall, my findings imply that air travel improves the efficiency of the fund sub-advising market.

Mutual Fund Strategy Changes and Performance

Hao Ding, University of Warwick

I introduce a new active portfolio management measure, Strategy Shifting, which represents the divergence of the actual weights from the expected weights that the fund should assign to stocks if the fund follows previous stock characteristics based trading strategies. The measure assesses the changes in trading strategies in response to shifts in fundamental information and is free from the benchmark mismatch problem. I show that mutual funds actively altering strategies contribute to improved fund performance. The finding remains robust after controlling for other active management measures and fund characteristics.

H.3. Environmental Regulation and Policy (Sunset 4)

Ceo Compensation and Cash-Flow Shocks: Evidence From Changes In Environmental Regulations

Seungho Choi, Hanyang University; Queensland University of Technology

Ross Levine, Stanford University

Jonghyeon Park, University of Technology Sydney

Simon Xu, Harvard Business School

This paper investigates how shocks to expected cash flows influence CEO incentive compensation. Exploiting changes in compliance with environmental regulations as shocks to expected future cash flows, we find that adverse shocks typically prompt corporate boards to recalibrate CEO compensation to reduce risk-taking incentives. However, this pattern is not uniform. Financially distressed firms exhibit milder reductions in compensation convexity, with some even increasing it, suggesting a ``gambling for resurrection'' strategy. Moreover, the strength of corporate governance influences shareholders' capacity to align executive incentives with shareholder risk preferences following unanticipated changes in the stringency of environmental regulations.

Environmental Regulatory Risk and Corporate Tax Avoidance: International Evidence

Md Ismail Haidar, University of Texas Rio Grande Valley

This paper provides international evidence on the effect of environmental policy stringency on corporate tax evidence and finds evidence that corporate tax avoidance decreases as the stringencies of environmental policies increases, even after accounting for firm and country-level factors. Further evidence reveals that corporate tax avoidance declined for firms in countries that adopted an emission trading system. The effect of environmental policy stringency is more pronounced for firms in countries with a good information environment and less pronounced for firms in countries with stronger external governance mechanisms. Moreover, this effect is attenuated for firms with high investment activities. Overall, this research implies an important economic consequence of environmental policy stringency not examined by previous studies.

Does Banks' Environmental Engagement Impact Funding Costs?

Md Jaber Al Islam, University of Edinburgh Business School

Fernando Moreira, University of Edinburgh Business School

Mustapha Douch, University of Edinburgh Business School

This study empirically investigates the impact of banks' environmental engagement on funding costs, utilizing data from 2004 to 2021 for 838 banks across 52 countries. The results show a significant relationship between banks' environmental engagement and reduced funding costs. This association is more profound among banks with higher investments in securities and those operating in competitive markets. Depositors and investors can support eco-friendly banks due to their favourable conditions in risk, capital adequacy, profitability, and reputation. Besides, the Paris Agreement has been instrumental in heightening awareness among depositors and investors regarding climate change. The study outcomes are robust to alternative samples, model specifications, estimation methods, funding cost measures, and instrumental variables.

H.4. Political Risk (Sunset 5)

Firm-Level Political Risk and The Manipulative Characteristics of Earnings Management

Hui James, University of Texas at Tyler

Thanh Ngo, East Carolina University

Jurica Susnjara, Barry University

Prior research suggests that risk and uncertainty in general, and country-wide political risk in particular, motivate managers to engage in earnings management. Using the text-based proxy for managers' perception of political risk developed by Hassan et al. (2019), as well as principal components analysis of earnings management (Christensen et al., 2021, 2022) to better capture manipulative conduct, we find that firm-level political risk is significantly positively associated with earnings manipulation using both accruals and real activities, and does so beyond the effect of macro-political risk and other determinants of earnings management from prior literature. The results are robust to alternative proxies for political risk and earnings management, various techniques addressing endogeneity concerns, and subsamples of firms with different earnings management incentives. Moreover , we find that the negative relation between earnings management and subsequent operating performance, the very association that justifies referring to earnings management activities as "manipulation," is more pronounced in firms exposed to more political risk. Collectively, these results suggest that managers are more motivated to manipulate earnings under firm-level political pressure to mitigate the perceived earnings volatility to external investors, and that these political-risk-induced earnings management activities appear to be detrimental.

Firm-Level Political Risk and Firm Efficiency

Emmanuel Boah, University of Michigan

Patrick Glavee, Texas A&M International University

Nacasius Ujah, South Dakota State University

This study examines the effect of firm-level political risk on firm efficiency. Using a sample of North American firms, we report a positive relationship between firm-level political risk and firm efficiency. In addition, the association is stronger when the firm faces lower competition and has higher redeployable assets. Our analysis also indicates that the relationship between firm-level political risk and firm efficiency is heterogeneous across different stages of the firm's life cycle. Several sensitivity tests corroborate our findings. The findings contribute to the following literature. First, political risk and uncertainty by showing that firms are more efficient when faced with political risk at the firm level. Second, on investment irreversibility by demonstrating that redeployable assets are significant to the firm's efficiency. Third, on product market competition.

Geopolitical Risk and Corporate Capital Structure

Siamak Javadi, UTRGV

Md Shahedur Chowdhury, ATU

Mohsen Aram, WKU

Using a news-based index of geopolitical risk (GPR) and over 62 years of data, we find that GPR has a long-lasting negative impact on leverage. Our result is robust to different model specifications, different proxies for leverage, a battery of robustness tests, and survives after addressing endogeneity concerns. Further, we provide evidence that the effect is channeled through declining shifts in both the demand and supply of credit. Cross-sectional tests indicate that the effect is stronger for firms with higher existing leverage, those with more irreversible investment, and those with higher exposure to GPR. Overall, our analysis indicates that GPR is more important than other macro-level determinants of capital structure such as inflation, GDP growth, interest rate variables and other widely used measures of uncertainty.

H.5. CEO Characteristics and Conduct (Sunset 6)

Dead Ceo Talks: Not All Private Benefits Are The Same

Md Masud Karim, University of Arkansas at Little Rock

The paper focuses on four common managerial private benefits: empire-building, enjoying the quiet life, nepotism, and tunneling. I document several novel findings by examining stock price reactions to the sudden deaths of 254 CEOs. First, on average, stock prices [CAR (-1,2)] increase by 1.79% around the sudden death of disloyal CEOs but decrease by 3.22% for loyal CEOs. Second, tunneling is the most prevalent private benefit and receives the most substantial backlash. Third, nepotism is associated with decreased firm value for large firms but does not affect small firms. Fourth, empire-building is more value-destroying than enjoying the quiet life. These results have critical implications for resource allocation in the capital market, in addition to compensation and turnover of CEOs.

Can Whistleblowing Improve Organizational Effectiveness? Evidence From Financial Reporting Misconduct

Hong Kim Duong, Old Dominion University

Sadok El Ghoul, The University of Alberta

Omrane Guedhami, University of South Carolina

Emmanuel Sequeira, San Jose State University

Zuobao (Eddie) Wei, The University of Texas at El Paso

The theory of prosocial organizational behavior predicts that target firms' responsiveness can influence how whistleblowers perceive organizational justice. This responsiveness also affects whistleblowers' willingness to undertake what is referred to as "extra-role" citizenship behavior. In this study, we examine whether target firms respond to external whistleblowing reports by adjusting their investment in organizational capital, generally defined as investment in employee welfare, operational processes, and communications. Insufficient organizational capital can lead to lax internal controls and low worker morale, which increases the odds of financial misconduct and subsequent whistleblowing. We collect a sample of employee external whistleblowing cases related to financial reporting misconduct, obtained via a Freedom of Information Act (FOIA) request and a hand-collected sample from public media over the 1990–2018 period. Our results show strong evidence that whistleblowing target firms increase investment in organizational capital following the allegations. Further, we find that whistleblowing target firms with increased organizational capital become more productive and have a higher firm value in the post-allegation period. Our findings have important policy and managerial implications.

Home State Ceos and Financial Misconduct Litigation

Yingmei Cheng, Florida State University

Aaron Brock, Florida State University

We evaluate the role of a CEO's home state identity on financial misrepresentations that result in punishment from SEC or DOJ litigations. We find that local (home state) CEOs are not associated with a reduction or increase in the rate of financial misrepresentations, although the CEO locality has a negative impact in the northeastern region of USA. However, firms run by local CEOs are subject to less severe punishments for culpable parties involved. Parties with local CEOs receive smaller fines in dollars and shorter prison time, and this effect is magnified if the CEO himself is named in the lawsuit.

H.6. News and Returns (Santa Monica 2)

Pollution News, Media Sentiment and Stock Returns

Oliver Budras, Leibniz University Hannover

Maik Dierkes, Leibniz University Hannover

We investigate the cross-sectional pricing of the exposure to pollution news for individual stocks. We employ the Latent Dirichlet allocation model to quantify the news coverage of environment-related news in the New York times from 1980 to 2021. Using the news coverage of environmental-related time series, we estimate betas with respect to the latter and study the pricing in the cross-section of stock returns. We find that stocks in the highest pollution news beta quintile earn significantly higher stock returns than in the lowest quintile. This outperformance survives risk-adjustment. In contrast, betas with respect to the other environment-related topics are not consistently priced. By closer studying the pollution news premium we find that the relationship of pollution news and stock returns depends on the level of media sentiment. We find a significantly positive pollution news premium only when the news sentiment is above its median value.

Overreaction To News Concentration In Financial Markets

Florian Sckade, Leibniz University Hannover

Oliver Budras, Leibniz University Hannover

Maik Dierkes, Leibniz University Hannover

We investigate the relationship of news content and financial markets. We construct a novel news dispersion measure based on the dispersion in topics within news articles in a given month. For this, we employ Latent Dirichlet Allocation to generate topic association probability distributions for news articles. A high value of news topic concentration indicates reporting focused on singular topics, i.e. outlier news events, instead of a more broad, unspecific coverage. We find a significant positive link between news concentration and volume-based investor attention metrics, as well as market volatility. Furthermore, news concentration is negatively related to several sentiment proxies. Analyzing the contemporaneous effects of news dispersion shocks and market returns, we find a significantly negative effect. In predictive regressions, news dispersion is positively related to future returns, indicating an initial overreaction to focused reporting on new negative information.

News-Based Investor Disagreement and Stock Returns

Sophia Zhengzi Li, Rutgers Business School

Zeyao Luan, Rutgers Business School

We provide new evidence on investor disagreement based on a model where investors observe public information but agree to disagree on its interpretation. Specifically, we measure firm-level investor disagreement by the intraday volume-volatility elasticity around corporate news announcement. We show that investor disagreement on news negatively predicts cross-sectional returns. Consistent with Atmaz and Basak (2018), the negative relation is more profound for stocks with high optimism and during periods of high market-level optimism. We further find that our measure mostly captures disagreement among institutional investors, and the disagreement-return relation is more profound for stocks with high institutional attention.

H.7. Corporate Boards and Risk (Melrose 2)

"Big Picture" Independent Directors Weaken Internal Control: Evidence From Abstract Thinking Analyses of Stock Price Crash Risk

Kacheng Wong, Peking University Guanghua School of Management

Longkai Zhao, Peking University Guanghua School of Management

We focus on the level of abstract thinking of the independent directors from the perspective of corporate governance and the resulting stock price crash risk. Under the framework of the construal level theory (Trope and Liberman (2010)), we suggest that effective corporate governance generally requires an independent director to have a more "concrete-oriented" attention focus in order to manage detailed and concrete governance duties. In contrast to concrete thinking (low-level construals), abstract thinking (high-level construals) involves the adoption of mental representations that are relatively abstract, broad, inclusive, and focused on fundamental and generally invariable qualities. Consequently, independent directors who are more prone to abstract thinking may have more difficulty than their concrete-thinking counterparts in coordinating their cognitive processing tendencies to match the particular circumstances of promoting and monitoring concrete and firm-specific corporate compliance and internal control activities. By developing a handwriting abstraction measure based on historically established Chinese writing styles to capture abstract thinking, the results support a significantly positive association between the level of abstract thinking of independent directors and crash risk, with corporate violations and internal control deficiencies serving as major mechanisms underlying this relationship. The crosssectional regression estimations of corporate governance environment factors such as board faultlines support the hypothesis that the positive effect of abstract-thinking independent directors on crash risk is more pronounced for firms with inferior governance environments. The paper demonstrates a dark side of corporate leaders' cognitive processing mechanisms in affecting corporate governance and the stock price.

Classified Boards and Corporate Risk-Taking

Ginka Borisova, Iowa State University

Mohammad Ali Nari Abyaneh, Iowa State University

We use a large sample of firms over 1994-2020 to analyze characteristics associated with the presence of a classified board and how this structure can affect corporate risk-taking. Larger firms, younger firms, and those with less discretionary accruals are more likely to have a classified board, and these boards are associated with less risk-taking, both across and within firms. We directly link this decrease in risk-taking to board structure using an exogenous shock from legally imposed classified boards. Our results are consistent with classified boards protecting directors from expedited replacement by shareholders or acquirers and thus disincentivizing risky (but potentially valuable) corporate actions in favor of the “quiet life”. We find debt usage and executive compensation design to be probable channels of influence.

Independent Board Leadership Structure and Stock Crash Risk

Benedikt Wick, Florida International University

Edward R. Lawrence, Florida International University

Thanh D. Nguyen, Central Washington University

We investigate if an independent leadership structure on corporate boards protects shareholder wealth by alleviating stock crash risk. Our analysis reveals that independent board chairpersons significantly reduce stock crash risk, especially in firms with high monitoring needs. Firms with an independent leadership structure appoint more financial experts to their audit committees, undergo fewer earnings restatements, and exhibit fewer unexpected negative earnings releases. Such firms are more likely to replace CEOs responsible for stock crashes. Our findings underscore the critical role of independent leadership in mitigating stock crash risk, bolstering the argument for its broader adoption in corporate governance.

H.8. Financial Education (Wilshire A)

Pandemics and Performance: The Impact of The Covid-19 Pandemic On Student Performance In College of Business Core Finance Classes

Hugh Witte, Missouri State University

We examine the impact of the COVID-19 pandemic on student performance in a core finance course. Despite an online student learning system that had been implemented well before the pandemic’s onset, student performance generally declines and rates of withdrawal generally increase. However, withdrawal rates do not increase to levels observed prior to adoption of the online learning system. Across course delivery modalities, students in online sections tend to be impacted the least by the pandemic, presumably because they are already comfortable with the required independence of online learning. Additionally, performance of students in CIS-related fields is unaffected, perhaps because they are more comfortable with technology. Our results suggest that helping students improve their self-learning skills would be beneficial in mitigating the adverse effects caused by COVID-19.

Reflections On 15 Years of Instructing Student Managed Investment Funds.

Thomas H Thompson, UT Arlington

This paper reflects on over 15 years of instructing a student managed investment fund (SMIF). Also, we update the Valuation Workbook of Thompson and Brock (2011).

Humor In The Classroom: An Introvert’s Perspectives and Implementation

Adam Lei, Midwestern State University

Huihua Li, St. Cloud State University

Not all faculty members have the same talent or skill to be humorous in the classroom. We share the experience of an introverted finance faculty member on using humor in the classroom over the past two decades. Specifically, we emphasize the weaknesses and strengths of an introvert, and how they shape the humor strategies and attempts of the faculty member. We provide examples of "educational" jokes that the faculty member used in his attempts to make it more interesting in the classroom and to engage students. Finally, we examine the effects of the attempted humor through student feedbacks.

A Classroom Demonstration of A Collateralized Mortgage Obligation Incorporating An Upward-Sloping Yield Curve

William Hudson, St. Cloud State University

This paper describes the origins of the Collateralized Mortgage Obligation. We provide a numerical example incorporating an upward-sloping yield curve for CMO tranches. This paper would serve as the basis for a lecture on Collateralized Mortgage Obligations in an undergraduate or graduate level investments or capital markets course.

H.9. Insider Trading (Wilshire B)

Synthesizing Information-Driven Insider Trades

Jens Heckmann, University of Duisburg-Essen

Patrick Schwarz, University of Duisburg-Essen

Heiko Jacobs, University of Duisburg-Essen

We propose a simple approach to synthesize presumably information-driven insider trading signals for the cross-section of stocks. We find that the resulting composite strategy can predict returns, predominantly in equal-weighted portfolios, in our global sample. The results indicate that the benefits of our composite strategy reflect a short-term informational advantage of insiders. Finally, cross-country analysis reveals that varying insider trading restrictions between countries have limited explanatory power for the benefits of the composite strategy.

Deterrence and Displacement In Offshore Trade: Evidence From The Panama Papers Leak

Mark Buckwalter Figueroa, Florida State University

Raymond Fisman, Boston University

April Knill, USC-Moore School of Business

Sergey Mityakov, Florida State University

We investigate the impact of the Panama Papers leak on international financial transactions through Offshore Financial Centers (OFCs) using granular international trade data from Ukraine. We find that trade-based financial transactions through Panama decline by more than 15 percent, indicating substantial deterrence effects from public exposure. However, transactions through other OFCs increase, particularly amongst OFCs that are not officially recognized as such by Ukrainian regulators. This increase does not fully offset the Panama-driven decline, implying an overall drop in the use of offshore vehicles. Further results suggest concerns over enforcement action may account for our results: the drop is driven by private firms' trade, while state-owned enterprises, if anything, increase their Panama-based transactions.

Politician Stock Trade Filing Violations: Oversight Or Deliberate Exploitation of Private Information?

Brandon Cline, Mississippi State University

Md Nurul Islam, Mississippi State University

This paper examines financial disclosure data to test whether U.S. politicians deliberately violate the STOCK Act 2012 reporting requirements to conceal and exploit private information in their trades for financial advantage. The empirical analysis reveals that a significant number of politicians' reported trades violate the STOCK Act reporting requirements. Specifically, the paper shows that 37.79% of reported trades are filed after the required deadline of 45 days, mandated by the STOCK Act. The paper further establishes that delinquent filings are not mere coincidences but deliberate efforts to conceal and exploit private information in their trades. Notably, politicians with such violations achieve 0.33% higher abnormal returns in purchase trades during a subsequent 10-day period. The study also finds that politicians' attributes influence their tendency for reporting violations. Additionally, the results suggest that politicians earn significantly higher abnormal returns when they trade derivative securities as opposed to stocks, the positive effect on abnormal returns amplified when they report such transactions after the required deadline of 45 days.

H.10. Barriers to Trade and Financial Markets (Sunset 2)

Mind The (trade) Gap! Stock Market Implications of Barriers To Trade

Beata Gafka, Ivey Business School at University of Western Ontario

Brexit referendum disrupted global trade: UK's exchange with EU and numerous third countries would suffer. Relative stock prices reacted accordingly with the damage greater and longer-lasting for the UK than the block. UK-focused manufacturing fared worst in both regions. UK's EU-exposed services firms were also impacted – the market correctly expected December 2020 "no-deal" outcome for that sector. Third-country exposure attenuated the shock's impact on EU but not UK companies. Consequently, the UK zone factor underperformed the old-EU one by 20 pp

between 2016 and 2019. Brexit exposure high-low portfolio explains 70% of the time-series variation in this underperformance. Overall, the results showcase impact of trade de-liberalization on firm and country business risk.

The Cost of Potential Delisting of U.s.-Listed Chinese Companies

Wei Wei, University of North Carolina at Charlotte

Al Ghosh, University of North Carolina at Charlotte

Because the PCAOB had been unable to inspect the audits completed by Chinese accounting firms until recently, U.S. regulators introduced legislation on March 28, 2019, which became effective on December 18, 2020 (HFCAA), forcing U.S.-listed Chinese companies to delist if the PCAOB is unable to inspect the audits for three consecutive years. We investigate the economic cost to U.S. shareholders because of the potential delisting of U.S.-listed Chinese companies. We find that Chinese companies outperform other Asian firms for the pre-HFCAA period. In sharp contrast, Chinese companies underperform other Asian firms from the time the HFCAA bill is introduced until an agreement was reached on August 26, 2022 allowing inspections. For the post-Agreement period, Chinese stocks perform at par with other Asian firms. Between March 28, 2019 and December 31, 2022, based on the mean (median) value, a typical U.S. shareholder lost about 46% (76%) of wealth invested in Chinese stocks. Compared to other Asian companies, the stock underperformance of Chinese companies is even worse at around 61% (87%).

The Impact of U.s. Lng Exports On Global Low-Carbon Energy Markets

Shuming Bai, McNeese State University

Kai Koong, Tuskegee University

The global low-carbon and net-zero commitment associated with the increased energy demand heightened by the Russian gas supply disruption to Europe has put a spotlight on natural gas, particularly liquefied natural gas (LNG), as a reliable and affordable transition fuel from hydrocarbons to renewables due to its lower emissions. LNG exports transport more natural gas safely in its liquid state since it is not explosive or flammable. The United States, emerged as the largest LNG exporter in the world, along with Qatar and Australia, plays a crucial role in ensuring the security of the global energy supply. Exporting 70 percent of its LNG to EU and the United Kingdom in 2022, the United States has become an important and major source of supply especially since Russian invasion of Ukraine. The high international prices in Europe and Asia have supported robust LNG exports at close to capacity volumes and are expected to continue for years to come. This study employs a modified network analysis model to examine the role of the U.S. LNG exports in supplying global energy needs responsibly and competitively in a low-carbon environment. The data for liquefied natural gas are extracted from the United Nations ComTrade from 2010 to 2022 for the top four largest exporters (U.S., Australia, Qatar, and Russia) as well as the top three largest LNG importers (China, Japan, and South Korea). Our network analysis results indicate that (i) The LNG export market is expanding and growing in trade scope or volume over the sample period. (ii) More competitive relations have formed between major exporters with the U.S. surpassing Qatar and Australia as the largest exporter within a short seven-year period, and drastic competition has been changing from regional to global scale. (iii) The integration among international natural gas markets and the inter-regional LNG trades are highly interrelated and mutually influential. (iv) Countries have different roles and occupy different central positions with China, Russia, and U.S. as the most important countries. (v) U.S. is recommended to improve its intermediary abilities by diversifying its trade orientations and communities. China should strengthen its relationships with other countries to improve its central position and build more pipelines connecting nearby countries.

H.11. Utilizing Public Data Workshop (Melrose 3)

13:30 - 15:00

I.1. Market Quality (Sunset 1)

Commonalities and Structural Spillovers In Volatility Markets

Anh Thu Mai, Purdue University Northwest

identify latent market-maker supply and end-user demand for volatility in the VIX and S&P500 option markets, and quantify the spillovers between these different volatility markets. While equilibrium net volatility demand does not strongly co-move across markets, latent supply and demand do. A multi-market analysis suggests that shocks to supply and demand for volatility in one market can have a substantial dynamic impact on other volatility markets. The magnitude of these spillovers is asymmetric: innovations to VIX supply and demand strongly affect future SPX equilibrium price and net volatility demand, more than the other way around. VIX call supply and demand considerably impact future equilibrium prices and quantities in all other markets.

Real Time Us Stock and Housing Market Bubble Test

Matthew Lutey, IU

The Impact of Investor Sentiment On Share Liquidity: Examining The Roles of Religiosity and The Covid-19 Pandemic

John Garcia, California Lutheran University

Ran Lu-Andrews, California Lutheran University

This study examines how religiosity moderates the effect of investor sentiment—sourced from Twitter and news media—on share liquidity. We find that sentiment gleaned from Twitter negatively relates to liquidity, whereas news sentiment positively relates to liquidity. Notably, this Twitter and

news sentiment-liquidity linkage is muted for firms in more religious regions, indicating a tempering effect of religiosity. Additionally, post-COVID-19, the influence of Twitter sentiment on liquidity diminishes, and the positive impact of news sentiment weakens, suggesting the pandemic's role in reshaping sentiment's predictive power. Our research unveils pivotal insights into how sociocultural elements and unforeseen events, like COVID-19, modulate the connection between investor sentiment and liquidity. It underscores the importance of fusing cultural nuances with digital trends to deepen our understanding of financial market dynamics.

I.2. Innovation (Sunset 3)

How do Green Patents Affect Follow-On Corporate Innovation?

Hyunbok Wee, University of Nevada, Las Vegas

I study how green patent grants affect firms' later innovation. To provide causal evidence, I use quasi-random assignment of examiners to applications, taking advantage of their different propensities to grant patents. After the approval of green patents, firms do more non-green innovation, while they do not pursue more green innovation. Green patent approvals do not increase institutional ownership and Environmental, Social, and Governance (ESG) scores, suggesting that the lack of positive feedback from the market does not encourage firms to commit further to green innovation. I find evidence that firms instead utilize their knowledge acquired from green innovation in subsequent non-green innovation. Moreover, firms more active in green innovation in the past are found to be less likely to produce new environmental technologies in the future.

Social Tolerance and Firm Innovation

Gia Han Doan, The University of Texas Rio Grande Valley

This study examines the relationship between social tolerance and firm innovation. We find that firms located in states with higher levels of social tolerance are more innovative. In particular, the relationship between social tolerance and firm innovation is stronger for firms located in states with higher levels of social capital and for firms with weaker diversity initiatives. The results are robust to a battery of endogeneity tests and alternative model specifications. Collectively, our findings support the notion that social tolerance, representing the openness and inclusiveness of a local community, plays a significant role in firm innovation.

Time-Limited Monopolies: Firms' Financial Characteristics and Innovation Concentration

James Driver, University of South Dakota

I develop novel innovation classification systems using firms' patent portfolio text and CPC codes to study market concentrations/monopoly power. My annually updated text network explains financial characteristics better than existing classification systems among public, patenting firms, and offers additional explanatory power for private, patenting firms. I attribute increases in explanatory power to my network's ability to update firm classifications at an annual frequency. Upon evaluating measures of industry concentration for sales and R&D, my network confirms increases in sales concentration and reveals an increase in R&D concentration that is unobserved when categorizing firms via four-digit NAICS or three-digit SIC codes.

I.3. Passive Fund Management (Sunset 4)

Passive Demand and Active Supply: Evidence From Maturity-Mandated Corporate Bond Funds

Lorenzo Bretscher, University of Lausanne, Swiss Finance Institute, and CEPR

Lukas Schmid, USC Marshall

Tiange Ye, USC Marshall

We identify a novel and common exogenous demand shock caused by passive funds in the corporate bond market. Specifically, passive fund demand for corporate bonds displays discontinuity around the maturity cutoffs separating long-term, intermediate-term, and short-term bonds and increases significantly upon a bond's crossing of 10-, 5-, and 3-year time-to-maturity cutoffs. We develop a novel identification strategy to study the impact of passive fund demand in the corporate bond market. First, we find that these non-fundamental demand shifts lead to a significant and lasting decrease in yield spreads, as well as persistent liquidity improvements. Second, passive fund demand shocks spill over to the primary market, causing lower issuing yield spreads, and firms engaging in debt market timing by substituting expensive bank debt with cheaper bond financing. While average firms mostly use the issuance proceeds to increase their cash buffers, and increase payout, financially constrained firms reduce payout and increase investment instead. We thus provide causal evidence that non-fundamental demand shocks can have real effects.

Accounting For International Exposure In Mutual Fund Performance Evaluation: Evidence From Target Date Funds

Hammad Qureshi, Investment Company Institute

We examine whether explicitly accounting for international exposure in mutual funds affects conclusions about their performance. We focus on performance of US target date funds that hold a substantial share of their assets in international equities, in addition to US equities and bonds. We find that performance estimates based on factor models that only account for US risk-factors are significantly downward biased. Additionally, the magnitude of this bias increases with investment horizon as target date funds that are further away from their target-date have greater international exposure. Our results motivate the need to explicitly control for international risk-factors in evaluating performance of funds with substantial international exposure.

The Compounding Effects of Positive and Negative Leveraged Exchange-Traded Funds

Samar Ashour, University of Alabama at Birmingham

Adam Harper, University of South Alabama

This study simulates return deviations for both positive and negative Leveraged Exchange-Traded Funds (LETFs) with daily rebalancing over various holding periods. We document that while compounding deviations for both positive and negative LETFs have a decreasing relationship with the volatility of the underlying index, the distribution of such deviations for negative LETFs has a larger range and standard deviation. Thus, we document that portfolios that combine multi-day long positions in both types of LETFs with the same multiple and the same underlying index will typically close with non-zero returns that also have a negative relationship with the underlying volatility. Finally, we find that significant trading gains are possible by employing a long-short strategy using products that have a similar correlation, but different volatilities. However, such gains are unsteady and only appear to provide significant results when high multiples are used or during unique periods. Such strategies can also prove very damaging to asset value, when underlying correlations are low, or when traditional volatility roles are reversed.

I.4. Earnings (Sunset 5)

I'Ve Got To Catch A Flight: The Effects of Investor Travel On Earnings Announcement Responses

Pia Gupta, California State University, Long Beach

Michael Gibbs, California State University, Long Beach

Reza Houston, Ball State University

Stella Liao, Illinois State University

Prior authors note that investor distraction during Fridays and some holidays leads to muted responses to earnings surprises. We develop daily investor distraction measures using abnormal U.S. air traffic to proxy for investor distraction. These measures provide additional predictive information after controlling for well-known distraction measures. Investor distraction is negatively associated with CARs and abnormal volume around quarterly earnings. Firms that release earnings on dates with abnormally high air traffic exhibit greater post-earnings announcement drift (PEAD) than firms that release earnings on low-traffic days. Our findings also indicate abnormal air taxi traffic is most closely associated with investor distraction.

Why Is Asymmetric Timeliness of Earnings Priced?

Alexander Barinov, University of California Riverside

Asymmetric timeliness (AT) measure from Basu (1997) regression is priced. Sorting firms on AT produces a 40 bp per month spread in six-factor alphas. The AT effect is driven almost exclusively by the bottom AT quintile, populated by aggressive firms that recognize gains more timely than losses. Investors seem to misinterpret aggressive accounting numbers and are ill-prepared for future negative events. The AT effect in returns in concentrated around earnings announcements, writedowns, and downgrades. The AT effect is also stronger for high limits to arbitrage firms and seems unrelated to liquidity and the business cycle.

The Impact of Noncompete Provisions On Linguistic Quality of Earnings Announcements and Capital Markets

Yongtao Hong, North Dakota State University

Huichi Huang, North Dakota State University

Limin Zhang, North Dakota State University

Wei Zhang, North Dakota State University

We study the relationship between noncompete provisions and linguistic quality of earnings announcement. We document a negative relationship between enforcement of noncompete provision and readability of earnings announcement. That is, higher level of enforcement of noncompete provisions results in lower linguistic information quality. Overall, our finding is consistent the notion that enforcement of noncompete provision, by increasing proprietary cost of disclosure and exacerbating career concerns of corporate executives, lowers the quality of corporate disclosure. Our paper provides a first large-sample evidence supporting the finding in Graham et al (2005) that increased career concerns and decreased information spillover stemming from employee immobility affects the level of qualitative corporate disclosure

Pricing The Components of Earnings

Stephen Gray, Western Illinois University

Arjan Premti, University of Wisconsin Whitewater

This study investigates how creditors price the individual components of earnings, focusing on the cash and accrual components. We examine how changes in the quality of the cash component of earnings influence interest rates while keeping accrual quality constant, and vice versa. According to prevalent literature, if creditors are astute, alterations in the quality of either component should only impact its respective pricing and not the other. Utilizing a portfolio approach, we first analyzed scenarios where accrual quality varied but cash quality remained unchanged. Results indicated that higher accrual quality enhances the ability of aggregate earnings to explain the cost of debt, implying that when accrual quality is high, lenders weigh earnings, especially the accrual component, more heavily when setting interest rates. In contrast, when studying variations in cash quality with a constant accrual quality, we found a decrease in the explanatory power of aggregate earnings as the quality of the cash

component improved. This suggests that as cash quality rises, the shared information between accruals and cash diminishes. Nevertheless, the accrual component remains equally relevant for interest rate decisions, while the cash component becomes more informative as its quality improves.

I.5. Lottery Stocks and Auctions (Sunset 6)

Implications of The Salience Theory In Identifying Stocks As Lotteries

Kuan-Cheng Ko, National Chi Nan University

S. Ghon Rhee, University of Hawai'i

Nien-Tzu Yang, National United University

Motivated by Bordalo et al.'s (2012, 2013, 2021) salience theory, this study highlights the importance of industries in the negative relation between investors' lottery preference and stock returns. We propose that investors set industries as the benchmark to identify lottery stocks, hence the lottery anomaly should be an intra-industry effect. We develop two intra-industry strategies associated with maximum daily returns (MAX) and show that the two strategies generate significantly risk premia. We also find that the standard MAX effect completely disappears when the intra-industry MAX effects are taken into account. We provide further analyses to demonstrate that the intra-industry MAX effects are explained by the salience theory.

Lottery Stocks and Lottery Jackpots: Exploration of The Effect of Increased Gambling Competition On Lottery Stocks

Spencer Wyld, University of Arkansas

Public Outcry and Art Prices

Andrew Schrowang, Florida State University

Spencer Barnes, University of Texas at El Paso

Brandon Mendez, University of South Carolina

This paper examines the influence of public outcry on art prices. Using the near universe of United States art sales at premier auction houses which accounts for 75% of the overall art market, we find that the Black Lives Matter movement increased prices of artwork by Black artists by 64%. By decomposing the effect between the three parties engaged in the transaction, we find evidence that auction houses influenced these prices more than either sellers or buyers by increasing their pre-sale price estimates.

I.6. Crash Risk (Santa Monica 2)

Market Share, Investor Horizon, and Stock Crash Risk

Thanh Ngo, East Carolina University

Jurica Susnjara, Barry University

Ha-Chin Yi, Texas State University

On a 1980 to 2016 sample of 140,874 firm-year observations, we document strong evidence of lower stock crash risk for more prominent firms (those with greater market share). This evidence is consistent across various proxies for stock crash risk, raw versus instrumented market share, and ordinary least squares versus logistic regressions. We also find that the market share's suppressing effect on stock crash risk is weakened by the relative prevalence of long-term investors. This moderating effect of investor horizon suggests the quasi-monopolistic insulation from market pressures as the explanation for the reduction in stock crash risk among more dominant firms.

The Origins and Impacts of Uncertainty

Xiaoman Duan, Sam Houston State University

How Managerial Capital Gains Taxes Increase Deception: Evidence From Stock Price Crash Risk

Gunratan Lonare, Illinois State University

Busra Agcayazi, Howard University

Timothy Trombley, Illinois State University

This paper explores the impact of CEOs' unrealized capital gains tax liability on the likelihood of a stock price crash. We find that stock price crash risk increases significantly with the CEO's tax burden. The risk intensifies when the CEO also serves as chairman or transient institutional ownership is high in the firm. Conversely, it decreases when the CEO's wealth isn't solely tied to the company or if dedicated institutional investors monitor the company. We find evidence that one potential underlying mechanism is the CEO concealing negative news during earnings calls. The main results remain robust to various endogeneity checks, including the use of entropy balancing, instrumental variables, and the Tax Relief Act of 1997 as an exogenous shock.

I.7. ESG Disclosure (Melrose 2)

Stakeholder Perceptions of Csr and Organizational Innovation Capability: Role of Esg Rating Agencies As Information Intermediaries

Hitoshi Takehara, Waseda University

Megumi Suto, Waseda University

This study aims to identify the channels that link internal and external stakeholder engagement to organizational capability by analyzing the effects of a third-party assessment of sustainability ratings on this linkage. Based on stakeholder theory, we focus on employees as internal stakeholders and investors as external stakeholders, and investigate the role of Environmental, Social and Governance (ESG) rating agencies as information intermediaries that link internal and external stakeholders' perceptions of Corporate Social Responsibility (CSR). Using data from Japanese firms (2006–2020), we empirically examine the impact of ESG ratings on the relationship between employee-oriented CSR practices (in terms of equal opportunity in the workplace and the work-life balance of employees) and organizational innovation capability (measured by innovation output and total factor productivity). This study employs the Refinitive Eikon ESG scores as ESG ratings because its integration principle is based on stakeholder relationships and its rating process is objective, transparent, and comparative. We found that ESG ratings influence organizational innovation capability through a direct effect on investor trust and an indirect effect on employees' social identity. ESG ratings strengthen the effect of work-life balance on organizational capabilities. Our findings have important implications for corporate managers to integrate stakeholder engagement and coordinate incentives between internal and external stakeholders. Our findings suggest that policymakers must confirm ESG rating agencies' functions as information intermediaries and continuously demand transparency and accountability.

The Effect of Environmental Preferences On Investor Responses To Esg Disclosure

Joanna Harris, University of Chicago

Francois Koulischer, University of Luxembourg

We study the effect of environmental preferences on portfolio allocation around the implementation of the European Sustainable Finance Disclosure Regulation (SFDR). In a model of asset allocation with heterogeneous environmental preferences, we show that the introduction of disclosure regulation leads to an increase in flows to ESG funds, in particular when investors have stronger environmental preferences. We also show that it can be optimal for some funds to misreport their greenness. We test these results by combining unique security-level data on the holdings of European mutual fund shares with survey data on country preferences for protecting the environment. We find that ESG funds experienced higher flows after the regulation, and that the development of these funds was largest in countries with stronger environmental preferences. Institutional investors appear to be more responsive to the disclosure rules than households, and funds with higher initial uncertainty about their true sustainability benefited most from the disclosure.

Does Diversity, Equity, and Inclusion (dei) Disclosure Show The Money?

Yi-Ju Chien, University of Texas at Arlington

This proposal examines a sample of 1,666 equity funds in the Top 100 funds ranked by total net assets of equity funds, some of which have presented diversity, equity, and inclusion (DEI) disclosures on their website. The disclosure's interaction with past performance has a significant positive impact on forward monthly flows, implying that the fund family adopts a signal strategy to inform investors of superior performance by releasing DEI reports. Additionally, I construct a diversity HHI index at both the fund level and family level to gain a more comprehensive understanding of the relationship between fund flow and performance (FPR), with a focus on manager's race distribution concentration. The results reveal that the FPR is unaffected by the fund level diversity HHI, which has remained stable over the past five years. However, the FPR is influenced by the family level diversity HHI, which has gradually declined during the same period. This conclusion suggests that fund families with DEI disclosures and a higher diversity of managers' race experience greater fund flow with higher performance compared to those without DEI disclosures and lower diversity.

I.8. Hedging (Wilshire A)

Hedging Securities and Silicon Valley Bank Idiosyncrasies

Raymond Kim, Northern Arizona University, W.A. Franke College of Business

Hedging requires adequacy and timing. This paper finds that banks did not systematically ignore balance sheet risks like Silicon Valley Bank, and instead exercised risk-management by asymmetrically increasing hedging activity when security losses increase and scaling back hedging activity as security losses reverse. Banks also hedge against bank runs when risk increases due to a combination of security losses and funding risks from unsecured deposits. Findings suggest Silicon Valley Bank's mistakes are idiosyncratic. Results suggest that non-stress test banks target balance-sheet risks when hedging, stabilizing themselves from interest rate shocks transmitted through fixed-income securities. Scrutiny of rules-based outliers like SVB is preferable to increased regulatory burden for all non-stress test banks.

Market Responses To Covid-19 and The Main Bank Relationship: Evidence From Japan

Hideaki Sakawa, Associate Professor, Nagoya City University

Naoki Watanabel, Associate Professor, Nagoya City University

This study examines the effect of the announcement of the coronavirus disease 2019 (COVID-19) outbreak on a bank-based financial system. We analyze whether the main-bank relationship in Japan helped decrease the negative impact of the announcement on the stock market. Using an event study method to calculate the abnormal returns and a sample of 3,690 firms listed on the Japanese stock exchange, we obtain the following results.

First, we find that the negative effect of the World Health Organization (WHO) 's declaration of a global pandemic on the stock market. Second, main-bank relationships are helpful in mitigating negative stock returns during a pandemic for firms. The results of applying a propensity score matching method confirm the robustness of our results—that firms with main-bank relationships in countries with a bank-based financial system such as Japan tend to suffer less from declining stock returns during crises such as the COVID-19 pandemic.

Net Investment Hedging As Risk Management Tool

Han Jin, University of Wisconsin - Platteville

I.9. Access to Credit (Wilshire B)

Does The Legal Status of Mfis Affect Economic Development: Evidence From Emerging Countries?

Jean Michel Banto, Universite Paris 1 Pantheon - Sorbonne

Renee Oyotode - Adebile, University of Wisconsin - Parkside

Erwan Le Saout, Universite Paris 1 Pantheon - Sorbonne

This research examines the relationship between the size of profit and not-for-profit microfinance institutions (MFIs) loans and GDP per capita. We analyze this relationship in the short- and long-run using the nonlinear autoregressive distributed lag (NARDL). We use a cylindrical panel of 588 country-year observations from 42 developing countries from 2003 to 2016 to implement this analysis. The results show that not-for-profit and profit MFIs influence GDP differently. Not-for-profit MFIs have an immediate and long-term effect on the GDP per capita, while profit MFIs only have a long-term impact on GDP per capita. In addition, investment and savings are the transmission channels in the long term, respectively, from the profit MFIs to GDP per capita and from the not-for-profit MFIs to GDP per capita. These findings indicate that both profit and not-for-profit MFIs contribute to the GDP growth in emerging countries.

The Effect of Minority Bank Ownership On Minority Credit

Jung Sakong, Federal Reserve Bank of Chicago

I.10. Discrimination (Sunset 2)

The Value of Talents

Zuobao Wei, UTEP

We exploit Employment Non-Discrimination Acts and Paid Family Medical Leave Acts as quasi-natural experiments to study the value of talents. Our findings suggest that firms with larger capacity to secure their talent pipelines enjoy higher valuations. We also identify a channel through which talents increase firm value: innovation. The value of talents is more significant among high innovation intensity industries in which talents exhibit their value most evidently. Our findings indicate that talents are mostly to obtain and replace, which ultimately increase firm intangibles and organization capital.

Learned Gender Norms and Stock Market Participation

Yang Liu, University of Manitoba

Chi Liao, University of Manitoba

Lei Lu, University of Manitoba

We provide a novel explanation for the gender gap in stock market participation. Our study reveals that a more male-dominant household gender imbalance during childhood, whereby the father has a higher income or more education than the mother, is associated with an increased probability of stock ownership, and conditional on participation, a larger allocation to stocks in adulthood. This positive relationship is strongest for men and affects women to a lesser degree. We find that the primary channel through which this effect operates is via differences in learned masculine norms rather than differences in risk tolerance, financial literacy, or trust. This suggests that learned gender norms tend to constrain the behaviors of women to traditionally "feminine roles," which impede the opportunity for girls and women to learn about investing, thereby contributing to the gender gap in stock market participation.

Breaking The Binary: Examining The Relationship Between Gender Identity, Overconfidence, and Risk Attitudes

Benedikt Wick, Florida International University

Edward R. Lawrence, Florida International University

We examine how gender identity relates to overconfidence and risk attitudes in economic decision-making using a dataset from the Financial Industry Regulatory Authority (FINRA). To capture the complexities of gender identity, we differentiate between individuals identifying as “other” and those identifying as either male or female. Nonbinary individuals exhibit significantly lower levels of overconfidence relative to individuals identifying as either male or female. The lower levels of overconfidence result from a lower self-assessment of financial knowledge rather than any meaningful difference in actual financial literacy. Moreover, individuals who identify as non-binary display a significantly lower willingness to take investment risks. These patterns persist even after controlling for variations in mental health.

I.11. Doctoral Student Workshop 2 (Melrose 3)

Spatial Extrapolation In The Housing Market

Gen Li, University of British Columbia (UBC)

Individuals form economic expectations for a given region by extrapolating from the economic outcomes of another geographic area, a phenomenon we term 'spatial extrapolation.' We exploit the scenario when Out-of-town (OOT) buyers purchase property in places different from their previous residences. Analyzing roughly 3 million U.S. housing transactions by OOT homebuyers from 2002 to 2017, we find that a 50% increase in the past five-year hometown house prices induces OOT buyers to pay an additional 2% for new OOT properties. We implement two identification strategies to rule out the wealth effect and other channels. First, we compare the purchase price differences among renters, migrants, and second-home (SH) buyers. Second, we construct a belief sensitivity instrumental variable (IV) by combining house price belief and housing transaction data. The IV provides exogenous variation in extrapolative house price belief across locations that is orthogonal to wealth changes. Our research pioneers the exploration of spatial extrapolation and sheds light on the intricate interplay between homebuyer beliefs and behaviors, emphasizing the profound influence of extrapolative belief on local housing market dynamics.

The Greatschools Rating Change

Huong Nguyen, Georgia State University

GreatSchools (GS) rating is the most visible reference point for school quality available to homebuyers. In 2017, GS changed its rating system, shifting away from focusing exclusively on test scores (TS) and incorporating a Diversity, Equity, and Inclusion (DEI) measure. Using this abrupt modification to the national school rating system as a natural experiment, I examine the response of households to the GS rating change and its DEI signals in the school system, as reflected in home prices. I find that prices in districts that received GS rating increases were not significantly impacted, while prices in districts where GS ratings were downgraded significantly increase by 3.6%. Furthermore, house prices respond negatively to the new DEI component: properties in school districts with improved DEI ratings are sold at a 9.8% discount, while those in areas where DEI declined experience a similar magnitude premium. At the transaction level, housing choices are dependent on homebuyer's race and locality. Asians and Whites tend to disfavor DEI, while Hispanics and Blacks tend to favor it. To determine purchase prices, nonlocal buyers rely more on GS ratings, which are readily available, whereas the locals pay more attention to TS performance, which requires additional research. At the neighborhood level, more affluent block groups with higher education levels and homeownership rates pay significant premiums for homes in school districts that experience a reduction in DEI rating.

15:30 - 17:00

J.1. Trade Credit (Sunset 1)

Presidential Economic Approval Rating and Trade Credit

Lukai Yang, Texas A&M International University

Augustine Tarkom, Texas A&M International University

Trade credit has become crucial for businesses, financial institutions, and policymakers due to the significant role it plays in the economy and financial management. In this paper, we discuss how an important consumer sentiment index, the Presidential Economic Approval Rating (PEAR), impacts a firm's decision to supply trade credit. We find convincing evidence that PEAR is positively correlated with trade credit extension. Furthermore, evidence indicates that while financial flexibility positively moderates the association between PEAR and trade credit, market concentration, CEO confidence, and oil supply shocks attenuate their link. Additionally, we observe that consumer sentiment partially mediates the relationship between PEAR and trade credit. Finally, our results remain statistically unchanged when we conduct a series of robustness tests using alternative measures for the PEAR index and GMM technique. In summary, our study provides valuable insights into the considerable influence the general public's perception of the way the President is handling the economy has on corporate decision-making and contributes to the emerging literature on the importance of trade credit.

Increased Creditor Protection and Trade Credit: Evidence From India

Khushboo R Thakkar, University of North Carolina at Chapel Hill

I investigate the impact of enhanced trade creditor rights on the trade credit usage of firms, leveraging a change in India's bankruptcy reform. Employing a difference-in-differences approach for data on a sample of Indian public and private firms spanning 2013 to 2021, I find that financially distressed firms significantly increase their trade credit usage following the law's implementation, compared to non-distressed firms. This increase is predominantly seen in financially distressed firms operating in industries less reliant on inputs from other industries. However, this uptick in trade credit usage among distressed firms in these less input-intensive industries is not accompanied by an improvement or an offset in profitability. Furthermore, using hand collected data on 12,000 publicly available case orders, I find that this increased trade credit usage by distressed firms in less input-intensive industries is further concentrated in states with lesser bankruptcy caseload and slightly more trade creditor favourable case outcomes. The evidence highlights that increased trade creditor rights leads to increased credit availability.

J.2. International Returns (Sunset 3)

International Spillovers of Fama-French Factors: Evidence From The Us, Europe, and Asia

Nima Vafai, The University of Texas Permian Basin

Marcos Velaszquez, The University of Texas Permian Basin

We contribute to the literature on market transmission mechanisms by analyzing how specific risk factors spread between equity markets in the United States, Europe, and Asia. We employ recently developed level and volatility transmission models that can capture gradual or smooth breaks, which are difficult to identify with other methods. Our study uses daily Fama-French 5 factor and Momentum data spanning 1990-2022. Our results reveal widespread evidence of spillovers in the market, size, profitability, investment profile, and momentum factors from the US to Europe and Asia, but no transmission of value or momentum premiums from any source to the US. Moreover, US risk factors appear impervious to economic cycles, while other regions tend to transmit more during contractionary periods. Volatility spillovers consistently propagate from the US to other markets, but there is evidence of transmission across all factors from at least one of the other regions. Our results do not provide strong evidence for the benefits of geographical diversification, and our findings have implications for investors who seek to hedge their portfolios through international exposure.

Small Country Returns: Theory and Evidence

Kenneth Kopecky, Temple University

Tai Yi, SUNY Fredonia

Sean Yoo, Belmont University

We model the real (excess) returns of a small country as a function of the real (excess) returns of two large economic blocs, G7 and BRICS, and several country-specific factors. We assume that the return of a country, whose economy is more like the G7 bloc than the BRICS bloc, will respond to a greater degree to the G7 real (excess) return compared to the BRICS real (excess) return. In a first step, we estimate the relationships between small country returns and those of the two blocs and then use the UN Human Development Index as an exogenous indicator of economic development in a regression of the estimated G7 and BRICS coefficients obtained in the first step. We find strong support for both the excess return model and the development hypothesis in regressions using data covering either the full sample period or the 2008-09 recession and post-recession period. However, regressions based on pre-recession data fail to support the development hypothesis. The source of the differing results arises in the Asian and Latin American countries. Essentially, in the pre-recession period, given their HDI values, the real excess returns of these countries are overly responsive to the G7 return and mostly unresponsive to the BRICS return. This configuration of responses cannot persist indefinitely. In our view, the 2008-09 recession and recovery period act as catalysts that induce developing countries to return to more normal relationships with both the G7 and BRICS real excess returns.

A Post-Pandemic New Normal For Interest Rates In Emerging Bond Markets? Evidence From Chile

Luis Ceballos, University of San Diego

Damian Romero, Central Bank of Chile

Jens H.E. Christensen, Federal Reserve Bank of San Francisco

Before the COVID-19 pandemic, researchers intensely debated the extent of the decline in the steady-state short-term real interest rate—the so-called equilibrium or natural rate of interest. Given the recent sharp increase in interest rates, we revisit this question in an emerging bond market context and offer a Chilean perspective using a dynamic term structure finance model estimated directly on the prices of individual Chilean inflation-indexed bonds with adjustments for real-term and bond-specific liquidity risk premia. We estimate that the equilibrium real rate in Chile fell about 2 and a half percentage points in the 2003-2020 period and has remained low since then.

J.3. Monetary Policy and Financial Markets (Sunset 4)

Monetary Policy and The Profitability Premium: The Role of Information Precision

Chun-Wei (Kingway) Lin, Virginia Tech

This study examines how monetary policy announcements impact stock returns with different profitability, thereby generating the profitability premium. By categorizing monetary policy as hawkish or dovish, representing different policy objectives and rules, I find that the profitability premium is higher during hawkish periods. Additionally, I highlight a declining profitability premium since 1980, influenced by the long-term decrease in real interest rates and stickier firm owners' inflation expectations. Through mediation analysis, the study compares the effects of transitioning to a hawkish regime on the profitability premium, finding a stronger impact through inflation expectations. These findings suggest that monetary policy conduct drives the profitability premium, providing insights into stock return predictability.

Political Partisanship, Policy Risk, and Market Quality: Evidence From Monetary Policy Reports To Congress

Brian Roseman, Oklahoma State University

The Effect of Monetary Policy On Investment and Asset Prices: The Role of Financial Constraint

Heitor Almeida, University of Illinois at Urbana-Champaign

Timothy Johnson, University of Illinois at Urbana-Champaign

Sebastiao Oliveira, University of Illinois at Urbana-Champaign

Yucheng Zhou, University of Illinois at Urbana-Champaign

In this paper, we aim to bridge this gap in the literature, since it is vital for a comprehensive understanding of how financial constraints affect firms' response to the monetary policy.

J.4. Human Capital (Sunset 5)

The Perfect Match: Effect of Employee-Firm Matches On Establishment Growth

Michael Zheng, Missouri State University

How does the local labor market contribute to establishment value? This study identifies employeefirm matches as a new channel and presents empirical evidence that labor-matching efficiency positively affects establishment growth. Using a shift-share instrumental variable approach, we document that a one standard deviation increase in the similarity between an establishment's worker composition and that of the local labor market is associated with a 15.6% increase in sales, 17.5% increase in employment growth, and 1.2% increase in labor productivity. We further suggest that the effect of labor matching efficiency is distinct from other labor market channels documented in the prior literature, such as input-output connectivity, industry cluster, product market competition, and labor mobility, and is driven by lower labor adjustment costs and greater investment in capital. Overall, our findings highlight a new labor matching channel through which firms can gain competitive advantages.

Managerial Ambidexterity and Labor Investment Efficiency: A Machine Learning

Md Nazmul Hasan Bhuyan, North Carolina A&T State University

Avishek Bhandari, UW-Whitewater

Hamid Vakilzadeh, UW-Whitewater

This study applies the latest machine learning method in measuring managerial ambidexterity and examines the relationship between managerial ambidexterity and labor investment efficiency. Our findings show a positive and statistically significant effect of managerial ambidexterity on labor investment efficiency. The effect is weaker in firms with high financial constraints and stronger in firms with high employee treatment, managerial experience, managerial ability, and CEO ownership incentives. Organizational capital and career opportunities channel the effect of managerial ambidexterity on labor investment efficiency. Our results indicate that firms led by ambidextrous managers possess superior strategic flexibility and enjoy a competitive edge, enabling them to make efficient labor investment decisions.

Human Capital Reallocation and Agglomeration of Innovation: Evidence From Technological Breakthroughs

Jing Xue, Georgia State University

This paper identifies the reallocation of human capital as a key channel of agglomeration spillovers for innovative firms. To measure agglomeration spillovers, I study how R&D labs in different local labor markets respond differently to scientific breakthroughs, which create large and unexpected shocks to innovation productivity in certain technology categories. Taking advantage of U.S. Census longitudinal establishment data matched with patent records, I systematically locate R&D labs in all local labor markets for each firm. I document four main findings. First, following scientific breakthroughs, affected labs in thicker local labor markets (i.e., commuting zones with more inventors innovating in a certain field) produce more patents and higher-quality patents, consistent with positive agglomeration spillovers. Second, the increase in patenting is mostly attributed to new hires rather than incumbent inventors. Third, the thick labor market effect is concentrated in states and industries where there is lower enforceability of non-compete agreements and labor is more mobile. Finally, using textual analysis to identify lab-level exposure to scientific breakthroughs, I find that inventors are reallocated to labs that are more favorably affected by shocks, which helps labs in thicker labor markets to more easily bring in inventors working in the same niche fields and having a diverse knowledge base. Taken together, these results point to labor mobility as a key force in explaining why innovative firms cluster, and suggest that the clustering of firms in thick labor markets can foster corporate innovation by facilitating productivity-enhancing reallocation of human capital following scientific breakthroughs.

J.5. ESG (Sunset 6)

The Convergence of Esg

Zuobao Wei, UTEP

We document the convergence of ESG: corporate ESG investment strate□gies become more similar to industry norms over time. This phenomenon is largely driven by the environmental (E) and social (S) components of ESG. Our findings are unique as we find no evidence of such trends occurring in other types of corporate investments such as R&D, capital expenditures or acquisitions. Geographical close proximity does not explain the phenomenon either. Empirical analyses indicate that agency problems can explain the trend's prevalence. In particular, founder-CEO-led firms exhibit more dis□tinctive ESG investment strategies relative to their non-founder CEO coun□terparts. Furthermore, the documented ESG convergence is more pronounced among firms operating in less competitive industries, firms with seasoned CEOs, firms with low visibility, and firms with low risk exposure. Follow□ing forced CEO turnovers, industry peers adopt less similar ESG strategies, possibly due to heightened career concerns from the shocks. We further find that the documented ESG convergence has significant value implications: An equal-weighted hedge portfolio sorted on ESG similarity earns an abnormal return of 5.08% per annum.

The Impact of Esg-Linked Compensation On Executives' Esg Awareness

Lars Beckmann, University of Muenster

Alexander Nitschke, University of Muenster

In today's global corporate landscape, the integration of Environmental, Social, and Governance (ESG) considerations into executives' compensation plans, referred to as "ESG-linked compensation", is becoming more common. However, compared to traditional "pay-for-performance", the impact of ESG-linked compensation has been little researched. This study aims to investigate how ESG-linked compensation affects executives' ESG awareness. Using state-of-the-art natural language processing (NLP) models, specifically BERT models, we extract ESG-related statements made during quarterly earnings conference calls (ECCs) to approximate executives' ESG awareness. The results aim to improve our understanding of how compensation strategies can promote sustainable business objectives and provide insights to companies, policymakers, and stakeholders working to advance corporate sustainability initiatives.

Corporate Hedging Policies and The Implications of Social Responsibility

Busra Agcayazi, Howard University

Ahmet Tuncez, University of Michigan-Dearborn

Gunratan Lonare, Illinois State University

This study examines the nexus between firm hedging strategies and Corporate Social Responsibility (CSR). Utilizing textual analysis of 10-K filings to measure corporate hedging, we demonstrate that firms with higher levels of CSR are more inclined to engage in hedging practices and with greater intensity. This tendency is further amplified under the presence of strong corporate governance frameworks. We posit that this is primarily driven by the mitigation of the cash flow volatility and the reduction in the cost of debt. Our analysis encompasses various endogeneity tests, including entropy balancing and an instrumental variables approach that considers political and geographic factors. The robustness of the results is further validated through alternative CSR and hedging metrics. This study contributes to the growing body of literature on the strategic financial implications of CSR, highlighting the multifaceted role of CSR in corporate risk management.

SWFA Board Meeting (Incoming Members) (Santa Monica 2)

J.7. Return Predictability (Melrose 2)

Sources of Return Predictability

Beata Gafka, Ivey Business School at University of Western Ontario

Positivity and Long-Lasting Momentum

Jingjing Chen, Portland State University

George Jiang, Washington State University

Chenye Liu, Shanghai University of Finance and Economics

Dongming Zhu, Jinan University

We propose a simple momentum indicator positivity, defined as the percentage of days with non-negative returns, and show that it has strong predictive power for stock returns over long horizons up to five years. Sorting stocks based on positivity measure over the past 12-month, stocks in the top quintile on average significantly outperform those in the bottom quintile by 0.75%, 0.52%, and 0.36% in monthly Fama-French five-factor alpha over 1-, 3-, and 5-year holding period, respectively. The return-predictive power outlasts other conventional momentum indicators, such as cumulative past stock returns. We show that the winners identified by positivity are young and small value firms. In contrast to volatile "glamorous" high-growth stocks, these stocks receive less attention from investors with low share turnover and low short interest. They have low beta, high Sharpe ratio, relatively low but steady sales growth, high earnings growth, robust profitability and conservative valuation.

Anchoring and Stock Return Distributions

Qingzhong Ma, California State University, Chico

David Whidbee, Washington State University

Wei Zhang, California State University, Chico

We report evidence that anchoring bias significantly affects the shape of stock return distributions. Specifically, stocks with lower reference price ratios (RPR, price relative to its 52-week high) subsequently experience greater idiosyncratic volatility (IVOL), more positive skewness (SKEW), greater kurtosis (KURT), higher maximum daily returns (MAX), and lower minimum daily returns (MIN). These relationships hold in both portfolio analyses and multiple regressions, exist in various subsamples and, especially, obtain strongly among the S&P 500 stocks. Further, controlling for the reference price ratio weakens the cross-sectional return predictability of IVOL and MAX by about 44-79%, depending on the factor models applied.

J.8. Corporate Risk Management (Wilshire A)

Cyberattacks, Cash Conversion Cycle, and Corporate Performance

Oneil Harris, East Carolina University

Trung Nguyen, Northern Kentucky University

This study examines the effect of working capital efficiency on the performance of firms that experience cyberattacks. We find robust evidence that an aggressive working capital policy improves the immediate and after-market stock returns as well as the operating performance of firms that suffer an outside party or a malware hacker attack. Specifically, we document a negative relationship between announcement period abnormal returns and the industry-adjusted cash conversion cycle, implying that investors react less favorably when breached firms have more conservative working capital policies. We also find a negative association between the cash cycle and long-horizon buy-and-hold abnormal returns indicating that working capital efficacy has a protracted positive effect on stock performance after an attack. The cash conversion cycle is also negatively related to operating performance, as measured by industry-adjusted market power, industry-adjusted return on assets, and industry-adjusted market-to-book ratio. In addition, we find that access to trade credit and the ability to delay payments made to suppliers (depicted via days' payables outstanding) are the most important factors in helping breached firms mitigate the financial and operating costs of cyberattacks. Overall, our results are robust to endogeneity concerns and expand the literature on the firm-level aspects of data breaches.

Does Enterprise Risk Management Bolster Investor Confidence? Evidence From Options-Based Restatement Contagion, Investment, and Misstatements

Michael Neel, University of North Texas

Jianren Xu, University of North Texas

We test the role of enterprise risk management (ERM) in bolstering investor confidence in a dynamic risk environment. Specifically, we examine whether firms' use of an ERM program reduces the impact of an external negative risk shock—intra-industry restatement contagion. We hand-collect firms' ERM status and measure contagion risk using the change in industry peers' option-implied volatility skewness around restatement filing dates. We find that ERM mitigates restatement contagion risk. Consistent with information benefits, ERM's effect on contagion is larger among peers with larger bid/ask spreads or analyst forecast dispersion, lower institutional ownership, and higher idiosyncratic volatility. Consistent with real benefits, ERM firms are less likely to engage in a material misstatement or overinvestment when another firm in their industry misstates earnings. Overall, we find that investors perceive ERM as a valuable tool to protect firms against downside risk and the perception is supported by firms' real underlying risk reduction.

Ahead of The Breach: Anticipatory Approaches To Mitigating Ex-Post Costs of Cyber Breaches

Ndackyssa Oyima-Antseleve, University of Texas at Dallas

This study critically evaluates the proactive cybersecurity strategies of managers in publicly traded companies, leveraging a unique dataset of actual cybersecurity risk measures from a leading cybersecurity scores company. I find that managers exhibit an awareness of their cybersecurity risks and engage in preemptive actions to either enhance their cyber defenses, acquire cyber insurance, or increase cash reserves before a breach or some combination of these actions. This investigation reveals that while some firms bolster their cyber defenses, others opt for cyber insurance and increased cash reserves as precautionary measures. The findings indicate that cyber insurance is not complementing but rather substituting for investment in cyber defense mechanisms. This substitution raises concerns about the cyber insurance market's adverse selection and moral hazard problems.

J.9. Mergers & Acquisitions (Wilshire B)

Efficiency of Frequent Winners of Fdic's Failed Banks Auctions In The Post-2008 Crisis Era

Jamal Al-Khasawneh, Gulf University for Science and Technology

Benito Sanchez, Kean University

The purpose of this paper is to track the efficiency dynamics of those U.S. banks that were assisted by the Federal Deposit Insurance Corporation (FDIC) in merging with failed banks in the period 2007–2017, following the 2008 economic crisis. It will consider factors such as their size, the number of merger deals they completed and the performance of non-merging banks, using nonparametric data envelopment analysis (DEA) to estimate the profit, revenue, and cost-efficiency scores. Among the findings is that large acquirers outperformed their peers in revenue and profit efficiency, but could not generate any corresponding cost-efficiency improvements. Furthermore, we find that merging banks achieved the highest efficiency improvement after four to seven mergers, after which point, lower rates of efficiency gains were indicated. This suggests that, given the long-term efficiency consequences, the FDIC should consider a cap on the number of merger auction invitations it extends to any potential acquirer.

Does Merger Motivation Matter? An Examination of The Merger Benefits To Credit Union Targets, Acquirers, and The Credit Union Industry

Michael Puleo, Fairfield University

Steven Kozlowski, Fairfield University

M. Kabir Hassan, University of New Orleans

Using a unique dataset that includes each merger's stated motivation, we explore the impact of credit union mergers of varying motivation and institutional size difference. We show that target institutions experience favorable abnormal savings and loan rate changes when the acquirer is in a larger peer group, whereas acquirers experience unfavorable rate changes across all merger subgroups. Further, mergers motivated by financial distress lead to greater improvements in earnings and capital ratios compared to mergers aimed at providing expanded services. This is consistent with the efficient management hypothesis and suggests acquirers subsequently utilize the assets of underperforming institutions more efficiently.

Incentive Analysis of Valuation Adjustment Mechanism On Mergers and Acquisitions

Yongli Luo, Houston Christian University

This paper examines the A-shares that announced Mergers and Acquisitions (M&As) during 2018-2022. From the perspective of the Value Adjustment Mechanism (VAM), it conducts an empirical study on the relationship between the promised profit and the compensation method in the commitment agreement. The results suggest an inverted U-shape relationship: an appropriate increase in the growth rate of the target company can motivate management to achieve better performance. However, the incentive effect of this commitment performance declines after reaching an optimal level. Additionally, when compared to cash compensation, the incentive effect of equity compensation is more profound. In addition, low carbon efficient M&A also has a higher likelihood of achieving performance commitments than its peers. However, due to the existence of information asymmetry, earnings management, and related transactions between the two parties, the inherent risk in M&A can reduce the incentive of the promised commitment. Consequently, the promised performance target might deviate from what is expected.

J.10. Societal Impact on Finance (Sunset 2)

The Link Between Societal Trust and Employee Welfare: An International Perspective

Md Ismail Haidar, University of Texas Rio Grande valley

Mark Kroll, University of Texas Rio Grande Valley

This paper investigates the effect of societal trust on employee welfare. Previous research has shown that societal trust is positively linked to financial reporting transparency, which boosts employee welfare. Furthermore, firms in a high trust society tend to increase investment efficiency and reduce agency problems, and therefore, are more likely to offer employee welfare. In line with these arguments, this paper finds that firms in countries with greater societal trust, as measured by the World Value Survey, tend to provide better employee welfare. Further analysis reveals that the effect of societal trust on employee welfare is stronger for firms with good internal and external governance, for firms with few financial constraints, are labor-intensive, and are in countries with strong employee protections. Overall, these results suggest that societal trust helps improve employee welfare.

The Value of Openness

Mitch Warachka, Chapman University

Stephan Siegel, University of Washington

Joshua Della Vedova, University of San Diego

We propose that U.S. cities differ in the value creation by their local firms partly due to differences in city-level openness. As cities differ in their residents' interest in new ideas and new experiences, local firms differ in their ability to experiment with new products and services and therefore in their ability to create valuable growth opportunities. We measure openness as the likelihood that a city's radio stations play new music songs. We find that openness varies across U.S. cities and that it can be traced back more than a century. During our 2000 to 2019 sample period, more open cities have more new and successful ventures, a larger fraction of growth firms, and more highly valued firms. Consistent with the proposed mechanism, the valuation of firms is more strongly related to openness for younger than older firms, and young firms in open cities introduce significantly more new products than young firms in less open cities.

The Influence of E-Government On Corruption: A Latin American and Caribbean Approach

Mohammad Refakar, Université de Sherbrooke

Sofia García Gámez, universidad autonoma de madrid

Gilberto Cardenas Cardenas, universidad autonoma de madrid

Alvaro Salas, universidad autonoma de madrid

The purpose of this study is to confirm whether e-Government contributes to minimizing the levels of corruption worldwide and more specifically in the Latin American and Caribbean region. To analyze this relationship, we use a quantitative analysis (panel data and OLS) of the impact of the EGDI (United Nations e-Government Development Index) and its components on the Corruption Perception Index during the period 2001-2020 in 193 countries around the world and 33 countries in the Latin American region. The empirical analyses show that e-Government plays a big role on the reduction of corruption levels in both the total sample and also the Latin America and the Caribbean region.

Firm-Level Corruption and Sme Financing Patterns Around The World

Barkat Ullah, Morgan State University

Mofoluwake Mosaku, Morgan State University

In this paper, we employ the World Bank's World Business Environment Survey (WBES) data collected from 2007-2022 for 53,824 firms in 154 countries to examine the impact of firm-level corruption on firm financing patterns. We also investigate the specific effect of firm size in the corruption-financing relation and the association between corruption and firm financing patterns in developed versus developing countries. We find that firm-level corruption does significantly affect a firm's financing decisions and higher levels of corruption increase the use of owner's equity and informal finance and decrease the level of internal finance or retained earnings. We also find that the impact of firm-level corruption on a firm's financing decision is more pronounced for smaller firms and firms located in less developed countries. This study makes important contributions to

the capital structure and corruption literature, as it is the first multiple-country study that investigates the role of firm-level corruption on firm financing patterns around the world.

J.11. Financial Constraints (Melrose 3)

Catalyzing Financial Distress - The Impact of Divergent Sentiment and Excessive Attention

John Garcia, California Lutheran University

This study examines the relationship between firm-level divergent investor sentiment across Twitter and news media content, volatility of divergent investor sentiment, investor attention, and financial distress. The results reveal a nuanced landscape: while divergent sentiment is inversely related to financial distress, both its volatility and investor attention exhibit a positive association with financial distress. Significantly, the impact of divergent sentiment volatility varies by firm size, intensifying distress in small-cap firms but alleviating it in mid- and large-cap firms. Moreover, heightened investor attention is consistently linked to increased financial distress across all firm sizes. These insights reveal a complex interplay in which divergent sentiment and investor focus play critical yet varied roles in shaping a firm's financial distress, offering valuable implications for understanding market behavior.

Access To Debt and Corporate Environmental Performance: Evidence From Anti-Recharacterization Laws

Ning Gong, Deakin University Department of Finance

Uncertain Tone and Seo Underpricing do Financial Constraints Matter?

Anh Ngo, Norfolk State University