ESSFM 2016 Asset Pricing Informal Evening Sessions

Date:	**Monday 18 July**	**Tuesday 19 July**	**Wednesday 20 July**	**Thursday 21 July**
Room:	**Bern**			
20:30-21:00	**Pasquale Della Corte (Imperial College London and CEPR)** “The Term Structure of Implied Volatility and Volatility Risk Premia in the FX Market”	**Hongjun Yan (DePaul University)** “Funding Liquidity Shocks in a Natural Experiment: Evidence from the CDS Big Bang”	**Ansgar Walther (Nuffield College, University of Oxford)** “Social media, news media and the stock market”	**Ioanid Rosu (HEC Paris)** “The Quote-to-Trade Ratio”
21:00-21:30	**Anisha Ghosh (Carnegie Mellon University)** “Income Versus Consumption Inequality: The Role of Time-Varying Higher Moments”	**Petri Jylhä (Imperial College London)** “Does Funding Liquidity Cause Market Liquidity? Evidence from a Quasi-Experiment”	**Jiasun Li (UCLA Anderson School of Management)** “Profit-Sharing, Wisdom of the Crowd, and Theory of the Firm”	**Paul Whelan (Copenhagen Business School)** “Variance Risk Premia on Stocks and Bonds”
21:30-22:00	**David Schreindorfer (Arizona State University)** “Tails, Fears, and Equilibrium Option Prices”	**Gyuri Venter (Copenhagen Business School)** “Short-sale constraints and credit runs”	**Gur Huberman (Columbia University and CEPR)** “Asset Pricing for the Shortfall Averse”	**Barbara Rindi (Bocconi University)** “Fee Fight: Evidence from BATS Europe”
Room:	**Thun**			
20:30-21:00	**John Chi-Fong Kuong (INSEAD)** “Servicing Securitisation through Excessive Foreclosures”	**Ilaria Piatti (University of Oxford)** “The Cross-Section of Subjective Bond Risk Premia”	**Tse-Chun Lin (The University of Hong Kong)** “Equity Lending Market Condition and Stock Price Crashes: Evidence from Lending Fees and Fee Risk”	**Sergei Kovbasyuk (Einaudi Institute for Economics and Finance)** “Key Investors in IPOs”
21:00-21:30	**Sophie Shive (University of Notre Dame)** “Do LPs trade on inside information?”	**Adrian Buss (INSEAD)** “Information Aggregation and Asset Prices in Large Markets with Institutional Investors”	**Alberto Manconi (Tilburg University)** “Diversity investing”	**Nikolai Roussanov (University of Pennsylvania)** “Equity Market Contagion and the Global Trade Network”
21:30-22:00	**Marcin Kacperczyk (Imperial College London and CEPR)** “Chasing Private Information”	**Elvira Sojli (UNSW / Erasmus University)** “Determinants of High Frequency Trading Activity”	**Jens Carsten Jackwerth (University of Konstanz)** “Stock Market Performance of Jewish Firms During the 3rd Reich”	**Nina Boyarchenko (Federal Reserve Bank of New York)** “The Federal Reserve and Market Confidence”

ESSFM 2016 Asset Pricing Informal Evening Sessions

Monday 18 July

20.30 – 21.00

Room: Bern

"The Term Structure of Implied Volatility and Volatility Risk Premia in the FX Market"

Presenting author: Pasquale Della Corte (Imperial College London and CEPR)

Co-authors: Roman Kozhan (University of Warwick) and Anthony Neuberger (Cass Business School, City University London)

Abstract: We identify a risk factor that drives the cross-section of forward volatility agreement returns in the FX market. We show that a zero-cost strategy that buys forward volatility agreements of currencies where the term structure of volatility is downward sloping, and sells short swaps of currencies where the term structure is upward sloping earns on average 5.15% per month. Portfolios of forward volatility agreements sorted by the slope of the implied volatility curve exhibit a very clear factor structure. The return of the zero-cost strategy - we call it the volatility term premium - fully explains the cross-sectional variation of the slope sorted portfolios. The lower the slope of the implied volatility curve, the more the forward volatility agreement is exposed to the volatility term premium. In the cross-section, it is only weakly related to traditional FX risk factors, like carry trade risk factor, global imbalance risk factor, global FX volatility and liquidity.

20.30 – 21.00

Room: Thun

"Servicing Securitisation through Excessive Foreclosures"

Presenting author: John Chi-Fong Kuong (INSEAD)

Co-author: Jing Zeng (Frankfurt School of Finance and Management)

Abstract: How does securitisation distort the foreclosure decision of non-performing mortgages? In a model of mortgage-backed securitisation with endogenous foreclosure, we find that securitisers optimally adopt an excessive foreclosure policy towards future delinquent mortgages while retaining the junior tranche, in order to signal the quality of their assets to investors in the senior tranche. Ex post excessive foreclosure is therefore ex ante optimal because it mitigates informational frictions in securitisation. When the securitisers cannot commit to such a foreclosure policy, they can effectively do so by outsourcing the foreclosure decisions to mortgage servicers who are intrinsically ``tough'' or are provided with ``biased'' servicing contracts. Our model predictions are consistent with empirical findings on foreclosures in the subprime mortgage crises. Finally, we demonstrate that policies which aim to restore ex post efficient foreclosures have the unintended consequence of lowering mortgage originators' screening effort and thus social welfare.

21.00 – 21.30

Room: Bern

"Income Versus Consumption Inequality: The Role of Time-Varying Higher Moments"

Presenting author: Anisha Ghosh (Carnegie Mellon University)

Abstract: We propose an approach to explore the link between income and consumption inequality that incorporates time-varying skewness of the income process in a tractable fashion. We find evidence of no insurance with respect to persistent income shocks, contrary to prior studies that document the existence of partial insurance with respect to such shocks. This difference can potentially be attributed to the omission of time-varying higher moments of income from the analyses in prior studies - a phenomenon for which there is ample recent empirical evidence. We find evidence of almost full insurance of transitory income shocks. Our results suggest that consumption inequality tracks income inequality much more closely than commonly believed.

21.00 – 21.30

Room: Thun

"Do LPs trade on inside information?"

Presenting author: Sophie Shive (University of Notre Dame)

Co-author: Paul Schultz (University of Notre Dame)

Abstract: Limited partners (LPs) of buyout funds are significantly more likely to hold the stocks of their funds' LBO targets in the quarter prior to the announcement, both relative to other stocks in their portfolios and relative to 13F portfolios matched on size and number of securities. Moreover, LPs increase holdings in the target in the quarter before the buyout is announced. LPs are not more likely to hold or buy LBO targets of other funds that they do not invest in. These trades are lucrative given the much larger public equity portfolios relative to private equity investments, and these findings suggest

that fund returns are not the only source of value to PE investors, and thus that private equity investment returns are understated. We find that LPs with the smallest ratios of fund commitments to equity portfolio size, and thus the most incentive to trade, are most likely to trade prior to LBO announcements.

21.30 – 22.00

Room: Bern

“Tails, Fears, and Equilibrium Option Prices”

Presenting author: David Schreindorfer (Arizona State University)

Abstract: Recent empirical evidence suggests that the compensation for rare events accounts for a large fraction of the average equity and variance premia. I replicate this fact in a parsimonious consumption-based asset pricing model based on a (generalized) disappointment averse investor and conditionally Gaussian fundamentals. In the model, time-variation in endowment volatility interacts with the investor's tail aversion to produce a high price of tail risk and a realistic implied volatility smirk. The presence of multiple shock frequencies in volatility gives the variance premium the ability to predict returns over short horizons and the price-dividend ratio the ability to predict returns over long horizons.

21.30 – 22.00

Room: Thun

“Chasing Private Information”

Presenting author: Marcin Kacperczyk (Imperial College London and CEPR)

Co-author: Emiliano Pagnotta (Imperial College London)

Abstract: Do public trade signals (volume and asset prices) reveal the presence of privately informed investors? What signals are most reliable in this regard? We examine these issues using a novel sample of over 5,000 equity and option trades based on material and non-public information documented in the Securities and Exchange Commission's (SEC) insider trading litigation files. We find that information embedded in equity (option) markets offers a generally weaker (stronger) signal of private information. Days when informed investors trade display, both in stock and option markets, abnormally high volatility and volume and low illiquidity. The most consistent signals combine both option and stock volume, especially the volume of leveraged and short-

term options. We exploit the implementation of the SEC's Whistleblower Program to assess the validity of our approach against selection bias. Overall, our results provide new guidance in the search for private information.

Tuesday 19 July

20.30 – 21.00

Room: Bern

“Funding Liquidity Shocks in a Natural Experiment: Evidence from the CDS Big Bang”

Presenting author: Hongjun Yan (DePaul University)

Co-authors: Xingjie Wang (Southern University of Science and Technology), and Yangru Wu and Ken Zhong (both (Rutgers University)

Abstract: The CDS Big Bang (the protocol changes for the CDS market in April 2009) increased the upfront funding requirements for trading CDS contracts, especially for those with credit spreads further away from 100 and 500 basis points. Exploiting this natural experiment, we document direct evidence that a higher funding requirement reduces market liquidity, increases the absolute value of the CDS-bond basis, and CDS spread volatility. Our evidence highlights an unintended consequence of the ongoing standardization of OTC markets—while its intention is to reduce systemic risk, standardization may significantly jeopardize market liquidity precisely during periods of financial distress.

20.30 – 21.00

Room: Thun

“The Cross-Section of Subjective Bond Risk Premia”

Presenting author: Ilaria Piatti (University of Oxford)

Co-authors: Andrea Buraschi (Imperial College London and CEPR) and Paul Whelan (Copenhagen Business School)

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Abstract: This paper studies the properties of bond risk premia in the cross-section of subjective expectations. To this end we exploit an extensive dataset of yield curve forecasts from financial institutions that allows the identification of heterogeneous P-dynamics. We present a number of novel findings. First, consensus beliefs are a misleading statistic due to a rich dynamic in the cross-section. Second, contrary to evidence presented for stock markets, but consistent with rational expectations, the relation between expectations and realisations is positive, and this result holds for the entire cross-section. Third, we show that optimistic beliefs are more spanned by bond prices and, at the same time, they are the most accurate. Moreover, we show that, out-of-sample, optimistic beliefs outperform popular forecasting models and thus represent a valid measure of bond risk premia that can be used to avoid issues related to in-sample fitting of ex- post returns, when evaluating models. As an application of this result, we study the link between survey forecasts and proxies for state-variables arising in structural models and uncover a number of statistically significant relationships in favour of rational expectations models.

21.00 – 21.30

Room: Bern

“Does Funding Liquidity Cause Market Liquidity? Evidence from a Quasi-Experiment”

Presenting author: Petri Jylhä (Imperial College London)

Abstract: Using an exogenous reduction in margin requirements, this paper shows that funding liquidity causally affects market liquidity. On July 14, 2005 the Securities and Exchange Commission approved a pilot program that permitted portfolio margining of index options but not equity options. The resulting significant improvement in funding liquidity leads to an increase in trading volume, a decrease bid-ask spread, and a decrease in price impact for index options compared to the unaffected equity options. These results provide strong causal evidence in support of the theories presented by Gromb and Vayanos (2002) and Brunnermeier and Pedersen (2009).

21.00 – 21.30

Room: Thun

“Information Aggregation and Asset Prices in Large Markets with Institutional Investors”

Presenting author: Adrian Buss (INSEAD)

Co-author: Matthijs Breugem (Frankfurt School of Finance and Management)

Abstract: We study the joint determination of endogenous information acquisition and equilibrium asset prices in a rational expectation equilibrium model with a continuum of asset managers who care about their performance relative to a benchmark and have CRRA preferences. In the presence of benchmarking, managers are less willing to deviate from the benchmark and, thus, to speculate based on private information, such that less of a manager's private information gets incorporated into prices. As benchmarking also reduces the fraction of managers that endogenously decide to acquire private information, prices are substantially less informative in the presence of institutional investors. The benchmark asset is therefore perceived to be more risky, leading to a decline in price, which can dominate the positive price effect stemming from the managers' excess demand due to index-hedging, and a substantial increase in return volatility.

21.30 – 22.00

Room: Bern

"Short-sale constraints and credit runs"

Presenting author: Gyuri Venter (Copenhagen Business School)

Abstract: This paper studies how short-sale constraints affect the informational efficiency of market prices and the link between prices and economic activity. I show that un- der short-sale constraints security prices contain less information. However, short- sale constraints increase the informativeness of prices to some agents who learn about the quality of an investment opportunity from market prices and have additional private information.

Then I apply this observation when modeling a run on an investment bank by its short-term creditors, who are endowed with dispersed information and also learn from the price of an asset the bank holds. I show that short-selling constraints in the financial market lead to the revival of self-fulfilling beliefs about the beliefs and actions of others, and create multiple equilibria. In the equilibrium where agents rely more on public information (i.e., the price), creditors with high private signals are more lenient to roll over debt, and a bank with lower asset quality remains solvent. This leads to higher allocative efficiency in the real economy. My result thus implies that the decrease in average informativeness due to short-sale constraints can be more than compensated by an increase in informativeness to some agents.

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21.30 – 22.00

Room: Thun

"Determinants of High Frequency Trading Activity"

Presenting author: Elvira Sojli (UNSW / Erasmus University)

Co-authors: Egemen Genc and Wing Wah Tham (both Erasmus University), and Kumar Venkataraman (Southern Methodist University)

Abstract: This paper examines the relation between high frequency traders (HFT) and institutional investors. We use exogenous shocks to mutual fund activity to identify the behaviour of algorithmic trading and HFT around changes in mutual fund participation in stocks. Specifically, we investigate the activity of AT and HFT in stocks held by mutual funds that experience fire sales, litigations, mergers and acquisitions, and closures. We find that HFTs significantly change their liquidity supplying behaviour around exogenous shocks to mutual funds.

Wednesday 20 July

20.30 – 21.00

Room: Bern

"Social media, news media and the stock market"

Presenting author: Ansgar Walther (Nuffield College, University of Oxford)

Co-authors: Peiran Jiao and Andre Veiga (both Oxford University)

Abstract: We contrast the impact of traditional news media and social media coverage on stock market volatility and trading volume. We develop a theoretical model of asset pricing and information processing, which allows for both rational traders and a variety of commonly studied behavioural biases. The model yields several novel and testable predictions about the impact of news and social media on asset prices. We then test the model's theoretical predictions using a unique dataset which measures coverage of individual stocks in social and news media using a broad spectrum of print and online

sources. Stocks with high social media coverage in one month experience high idiosyncratic volatility of returns and trading volume in the following month. Conversely, stocks with high news media coverage experience low volatility and low trading volume in the following month. These effects are statistically and economically significant and robust to controlling for stock and time fixed effects, as well as time-varying stock characteristics. The empirical evidence on news media is consistent with a market in which some traders are overconfident when interpreting new information. The evidence on social media is consistent with Tetlock's (2011) "stale news" hypothesis (investors treat repeated information on social networks as though it were new) and with a model where investors' perceptions are subject to random sentiment shocks.

20.30 – 21.00

Room: Thun

"Equity Lending Market Condition and Stock Price Crashes: Evidence from Lending Fees and Fee Risk"

Presenting author: Tse-Chun Lin (The University of Hong Kong)

Co-authors: Eric C. Chang and Xiaorong Ma (both The University of Hong Kong)

Abstract: We find that stock price crash risk is positively associated with equity lending fees and fee risk. We establish causality by adopting a "fuzzy" regression discontinuity design. This positive relation is stronger for stocks with less realized short selling, higher arbitrage risk, and higher information uncertainty. Our results are robust to using alternative measures of stock price crash risk and short selling risk. Overall, our findings provide direct evidence to the model implications in Diamond and Verrecchia (1987) and Hong and Stein (2003) that short-sale constraints result in the accumulation of bad news and a higher stock crash risk.

21.00 – 21.30

Room: Bern

"Profit-Sharing, Wisdom of the Crowd, and Theory of the Firm"

Presenting author: Jiasun Li (UCLA Anderson School of Management)

I show that simple profit-sharing contracts with decentralized control could empower individuals with their collective wisdom by coordinating actions guided by dispersed private information. This result parallels existing theories for financial markets, where the equilibrium market price achieves an

information aggregation effect through rational expectations. The wisdom of the crowd effect of a well-designed profit-sharing contract speaks to optimal corporate governance structures, guides security design for some new financing practices such as equity crowdfunding, and sheds new light on the nature of the firm: firms endogenously emerge to complete the market under dispersed private information.

21.00 – 21.30

Room: Thun

“Diversity investing”

Presenting author: Alberto Manconi (Tilburg University)

Co-authors: Emanuele Rizzo and Oliver Spalt (both Tilburg University)

Abstract: Based on a sample of more than 70,000 top executives in US firms from 2001 to 2014, we show that top management team diversity - a new text-based measure of how diverse managers are in terms of personal characteristics and prior experiences - matters for stock returns. Diversity investing, i.e., going long firms with diverse management teams and short firms with homogeneous teams, yields comparable returns, but higher Sharpe ratios, than most leading asset pricing anomalies over our sample period. Returns are driven by large-cap stocks and the long leg of the strategy.

21.30 – 22.00

Room: Bern

“Asset Pricing for the Shortfall Averse”

Presenting author: Gur Huberman (Columbia University and CEPR)

Co-author: Paolo Guasoni (Boston University and Dublin City University)

Abstract: Extending standard models of utility from dynamic consumption to incorporate the property that the higher past peak consumption, the lower is the utility from current consumption, this paper assumes an optimizing representative consumer/investor who takes into consideration the effect of current choices on the utility of future consumption. This paper derives the term structure of real interest rates, equity prices and expected real equity returns at all horizons. With relative risk aversion around 4 the implied 3-month real rate and equity premium are .55% and 4.7%, respectively.

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21.30 – 22.00

Room: Thun

“Stock Market Performance of Jewish Firms During the 3rd Reich”

Presenting author: Jens Carsten Jackwerth (University of Konstanz)

Co-author: Jens Ihlow (University of Konstanz)

Abstract: We study the stock market performance of Jewish firms using a novel dataset on German stock market returns during the 3rd Reich. We find statistically significant evidence that stocks of Jewish firms experience a discount of 18% in the year of their Aryanization and a further discount of 20% in the preceding year. Discounts in other years are insignificant. A year-on-year analysis reveals that investors anticipated the repressions of Jewish firms during the Nazi regime and already penalized Jewish stocks one year prior to the Nazi’s seizure of control in 1933 (Machtergreifung).

Thursday 21 July

20.30 – 21.00

Room: Bern

“The Quote-to-Trade Ratio”

Presenting author: Ioanid Rosu (HEC Paris)

Co-authors: Elvira Sojli (UNSW/Erasmus University) and Wing Wah Tham (Erasmus University)

Abstract: This paper studies the quote-to-trade ratio and its relation with liquidity and expected returns. In our theoretical model, a dealer monitors the market in a risky asset in order to maximize profits while keeping a low inventory. If traders have a high elasticity with respect to the dealer's pricing error, the dealer monitors the market more often to reduce adverse selection. Doing so increases the quote-to-trade ratio, while reducing mispricing and lowering expected returns. Empirically, we find that a high quote-to-trade ratio is associated to low expected returns.

ESSFM 2016 Asset Pricing Informal Evening Sessions

20.30 – 21.00

Room: Thun

“Key Investors in IPOs”

Sergei Kovbasyuk (Einaudi Institute for Economics and Finance)

Co-authors: David C. Brown (University of Arizona)

Abstract: We statistically identify institutional investors who persistently hold the most under-priced US IPOs. As a group, these key investors' holdings are strongly related to IPO under-pricing and offer price revisions, more so than any other variables. Key investors are better informed than other investors; their trades predict future returns and their participation more strongly relates to under-pricing when they specialize in the IPO firm's industry. We find no direct evidence that key investors' participation is motivated by underwriters' earning kickbacks. However, a significant fraction of the economic benefits of under-pricing accrues to non-key investors, allowing for agency-based explanations for under-pricing.

21.00 – 21.30

Room: Bern

“Variance Risk Premia on Stocks and Bonds”

Presenting author: Paul Whelan (Copenhagen Business School)

Co-authors: Philippe Mueller, Petar Sabtchevsky and Andrea Vedolin (all London School of Economics)

Abstract: We study equity and bond variance risk premia (VRP) and their joint dynamics. Using thirty years of options and high-frequency futures data we document a set of novel facts: First, investors are willing to pay (approximately) the same premium to avoid bond market volatility versus equity market volatility. Second, while there is strong co-movement between short term bond VRP, long term bond VRP more closely resemble the VRP on equity. Third, the conditional correlation between stock and bond market VRP often switches sign and ranges between -45% and +80%; we show this is explained by both business cycle variation and periods of financial distress. Finally, (i) short maturity bond VRP predicts excess returns on short maturity bonds; (ii) long maturity bond VRP and equity VRP predict excess returns on long maturity bonds and equity; and (iii) in a horse race long maturity bond VRP drives out the predictive content of equity VRP for equity excess returns.

ESSFM 2016 Asset Pricing Informal Evening Sessions

21.00 – 21.30

Room: Thun

"Equity Market Contagion and the Global Trade Network"

Presenting author: Nikolai Roussanov (University of Pennsylvania)

Co-authors: Christoph Meinerding and Christian Schlag (both Goethe University Frankfurt), and Ivan Shaliastovich (Wisconsin)

Abstract: We investigate the transmission of shocks in the global equity markets through the global trade network. Using data on international trade disaggregated at the good level, we identify economic links between importer and exporter countries. Equity market shocks transmit to trade partner stock markets with a delay of one to three months in both directions, leading to a form of cross-country momentum. The effect of trade links is concentrated in downstream industries that produce more differentiated and less easily substitutable goods.

21.30 – 22.00

Room: Bern

"Fee Fight: Evidence from BATS Europe"

Presenting author: Barbara Rindi (Bocconi University)

Co-authors: Marios Panayides (University of Pittsburgh) and Ingrid Werner (The Ohio State University)

Abstract: This paper evaluates the effects on share volume and market quality of a sequence of changes in the make-take fees of BXE and CXE, the two trading platforms run by BATS Europe.

In January 2013 CXE reduced the absolute value of its make fee whilst BXE reduced both its make and take fees. Two more changes in fees were subsequently introduced by BATS Europe to attract volume. In April 2014 CXE introduced volume-based premium on liquidity maker fees and offered a discount package to liquidity takers. In January 2015 CXE replaced the discount package for liquidity takers with a volume-based discount on the liquidity

taker fee. Furthermore, the 2015 CXE fee discounts were based on total volume aggregated across both lit and dark BATS trading platforms. We derive predictions for how changes in trading fees affect market quality both in a single limit order book market and in a market where a limit order book faces competition from an alternative trading venue. We then test the empirical predictions by using BATS and Thomson Reuters data. For each event, we build a stratified sample of 120 LSE listed firms 120 firms listed in other European markets and gather transaction level data for an 8-month window around each event date. We use diff-in-diff analysis to compare BXE and/or CXE with either the Primary market (PRIM) or a competing venue - Turquoise (TQ). We find that the fee changes have significant effects on market shares and market quality on BXE and CXE, and that the changes in volume and market quality support our theoretical hypotheses. In addition to the direct effects of the fee changes on BXE and CXE, we document indirect effects on market shares and market quality of competing venues.

21.30 – 22.00

Room: Thun

“The Federal Reserve and Market Confidence”

Presenting author: Nina Boyarchenko (Federal Reserve Bank of New York)

Co-authors: Valentin Haddad (UCLA) and Matthew Plosser (Federal Reserve Bank of New York)

Abstract: We discover a novel monetary policy shock that has a widespread impact on aggregate financial conditions. Our shock can be summarized by the response of long-horizon yields to Federal Open Market Committee (FOMC) announcements; not only is it orthogonal to changes in the near-term path of policy rates, but it also explains more than half of the abnormal variation in the yield curve on announcement days. We find that our long-rate shock is positively related to changes in real interest rates and market volatility, and negatively related to market returns and mortgage demand, consistent with policy announcements affecting market confidence. Our results demonstrate that Federal Reserve pronouncements influence markets independent of changes in the stance of conventional monetary policy.