The 26th Annual Conference on Pacific Basin Finance, Economics, Accounting, and Management

6-7September 2018
Rutgers University, USA

Conference Venue: Livingston Student Center, Livingston Campus (84 Joyce Kilmer Avenue Piscataway, NJ 08854)

The 26th Annual Conference on Pacific Basin Finance, Economics, Accounting, and Management

Conference Organizers:

Rutgers University, USA

Foundation of Pacific Basin Financial Research and Development, Taiwan

Sponsors:

Dean's Office, Rutgers Business School

Department of Accounting & Information Systems, Rutgers Business School

Department of Finance & Economics, Rutgers Business School

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Program Co-Directors:

Cheng-Few Lee, Rutgers University, USA

Bharat Sarath, Rutgers University, USA

Keynote Speakers:

A. Rashad Abdel-Khalik, University of Illinois at Urbana-Champaign, USA

Kose John, New York University, USA

Richard E. Kihlstrom, The University of Pennsylvania, USA

Terry Marsh, Quantal International Inc. and University of California, Berkeley, USA

Louis Scott, Federal Reserve Bank of New York, USA

Yong Shi, Key Lab of Big Data Mining and Knowledge Management, Chinese Academy of Sciences

KheeGiap Tan, National University of Singapore, Singapore

Chunchi Wu, State University of New York at Buffalo, USA

Program Committee Members:

Ivan Brick, Rutgers Business School, USA

Chuang-Chang Chang, National Central University, Taiwan

Sheng-Syan Chen, National ChengChi University, Taiwan

Huimin Chung, National Chiao Tung University, Taiwan

History of the Conference:

Year	Venue/Country	Host Organizer
1993	U.S.A.	Rutgers University, New Jersey
1994	Hong Kong	Hong Kong Chinese University, Hong Kong
1995	Taiwan	Taiwan Institute of Economic Research, Taipei
1996	U.S.A.	Rutgers University, New Jersey
1997	Singapore	Nanyang Technological University, Singapore
1998	Hong Kong	Hong Kong Polytechnic University, Hong Kong
1999	Taiwan	National Taiwan University, Taipei
2000	Thailand	Chulalongkorn University, Bangkok
2001	U.S.A.	Rutgers University, New Jersey
2002	Singapore	Nanyang Technological University, Singapore
2003	Taiwan	National Chiao Tung University, Hsinchu
2004	Thailand	The Consortium of Thai Universities, Bangkok
2005	U.S.A.	Rutgers University, New Jersey
2006	Taiwan	Foundation of Pacific Basin Financial Research and Development
2007	Vietnam	Ho Chi Minh City University of Technology, Ho Chi Minh City, Vietnam
2008	Australia	Queensland University of Technology, Brisbane, Queensland, Australia
2009	Thailand	University of the Thai Chamber of Commerce, Bangkok, Thailand
2010	China	Graduate University of Chinese Academy of Sciences, Beijing, China
2011	Taiwan	Foundation of Pacific Basin Financial Research and Development, Taiwan & National Chiao Tung University, Taiwan
2012	U.S.A	Rutgers University, New Jersey
2013	Australia	Deakin University, Melbourne, Victoria, Australia
2014	Japan	Aichi University, Nagoya, Japan

2015	Vietnam	Saigon Technology University, Hochiminh City, Vietnam
2016	Taiwan	National Chiao Tung University, Hsinchu, Taiwan
2017	Singapore	National University of Singapore, Singapore

Conference Agenda: Day 1

Thursday, 6th September 2018		
8:00a.m. – 9:00a.m.	Registration & Continental Breakfast (LSC Livingston Hall)	
9:00a.m. – 9:10a.m.	Opening Remarks by **Professor Cheng Few Lee, Rutgers University, USA** (LSC Livingston Hall)	
9:10 a.m. – 9:30a.m.	Welcoming Remarks by **Professor Lei Lei, Dean of Rutgers Business School,Rutgers University, USA** (LSC Livingston Hall)	
9:30a.m. – 10:15a.m.	First Keynote Speech:**Dr. Louis Scott,Federal Reserve Bank of New York, USA** ➢ **Financial Applications of Massive Parallel Processing on the New Computing Technology** Chairperson: Ivan Brick, Rutgers University, USA (LSC Livingston Hall)	
10:15a.m. – 10:30a.m.	Tea Break	
10:30a.m. – 11:15a.m.	Second Keynote Speech:**Professor TanKheeGiap, Asia Competitiveness Institute, Lee Kuan Yew School of Public Policy, National University of Singapore, Singapore** ➢ **Potential of Singapore as an Asia Infrastructure Development, Investment and Financing Hub** Chairperson:Darius Palia, Rutgers University, USA (LSC Livingston Hall)	
11:15a.m. –12:00p.m.	Third Keynote Speech:**ProfessorRichard E. Kihlstrom, The University of Pennsylvania, USA** ➢ **"Recursive" Asset Pricing with Non-recursive Preferences"** Chairperson:Ben Sopranzetti, Rutgers University, USA (LSC Livingston Hall)	
12:00p.m. – 1:30p.m.	Luncheon Speech:**ProfessorA. Rashad Abdel-Khalik, University of Illinois at Urbana-Champaign, USA** ➢ **Nonprofits and Interest Rate Swaps' Mania** Chairperson:Bharat Sarath, Rutgers University, USA (LSC Livingston Hall)	
1:30p.m. – 3:00p.m.	BREAKOUT SESSION I	
	Session 1	Financial Accounting (A)(Collaborative Learning Center)

	Session 2	Corporate Finance (A) (LSC 111)
	Session 3	Options & Futures(LSC 201 AB)
	Session 4	Corporate Finance (B)(LSC 202 ABC)
	Session 5	Asset Pricing (LSC Board Room)
3:00p.m. – 3:15p.m.	Tea Break	
3:15p.m. – 5:00p.m.	BREAKOUT SESSION II	
	Session 6	Investment (A)(Collaborative Learning Center)
	Session 7	Accounting and Corporate Finance(LSC 111)
	Session 8	Financial Accounting (B) (LSC 201 AB)
	Session 9	Banking Management(LSC 202 ABC)
5:15p.m. –6:00p.m.	Fourth Keynote Speech:**ProfessorKose John, New York University, USA** ➢ **Bisociation and Creativity In Finance Research** Chairperson: Cheng Few Lee, Rutgers University, USA (LSC Livingston Hall)	
6:30p.m. – 9:00p.m.	Conference Dinner (Club Room)	

Conference Agenda: Day 2

Friday, 7th September 2018		
8:00a.m. – 9:00a.m.	Continental Breakfast (LSC Livingston Hall)	
9:00a.m. – 9:45a.m.	Fifth Keynote Speech:**Professor Chunchi Wu, State University of New York at Buffalo, USA** ➢ **Trend Momentum in Corporate Bonds** Chairperson: Dan Weaver, Rutgers University, USA (LSC Livingston Hall)	
9:45a.m. – 10:30a.m.	Sixth Keynote Speech:**Professor Yong Shi, Key Lab of Big Data Mining and Knowledge Management, Chinese Academy of Sciences** ➢ **Big Data Analysis and One Belt-One Road Initiative** Chairperson: Yangru Wu, Rutgers University, USA (LSC Livingston Hall)	
10:30a.m. – 10:45a.m.	Tea Break	
10:45a.m. – 12:15p.m.	BREAKOUT SESSIONIII	
	Session 10	International Finance(Collaborative Learning Center)
	Session 11	Risk Management (LSC 111)
	Session 12	Cryptocurrency&Investment(LSC 201 AB)
	Session 13	Investment (B)(LSC 202 ABC)
	Session 14	Financial Technology (LSC Board Room)
12:15p.m. – 1:45p.m.	Luncheon Speech:**Dr. Terry Marsh, Quantal International Inc. and University of California, Berkeley, USA** ➢ **Midterm Elections, Resolution of Political Uncertainty, and U.S. Equity Market Premiums** Chairperson:Oded Palmon, Rutgers University, USA (LSC Livingston Hall)	
1:45p.m. – 3:15p.m.	BREAKOUT SESSIONIV	
	Session 15	Financial Accounting(C)(Collaborative Learning Center)
	Session 16	Corporate Finance (C) (LSC 111)
	Session 17	Investment (C) (LSC 201 AB)

	Session 18	Financial Accounting(D) (LSC 202 ABC)
3:15p.m. – 3:30p.m.	Tea Break	
3:30p.m. – 5:00p.m.	BREAKOUT SESSION V	
	Session 19	Corporate Finance&Accounting (Collaborative Learning Center)
	Session 20	Financial Accounting (E)(LSC 111)
	Session 21	Investment (D)(LSC 201 AB)

Louis Scott currently works at the Federal Reserve Bank of New York in the Supervision Department where he is a model lead for a set of internal Federal Reserve System models. He has spent 17 years in investment banking as a Quant and a Risk Manager with Morgan Stanley and UBS, where he was a Managing Director. Prior to moving to investment banking, he was a finance professor at the University of Georgia and the University of Illinois at Urbana-Champaign. He currently teaches in math finance programs as an adjunct professor: these include a course on Interest Rate Derivatives at Fordham University and a course in Cuda C programming for financial models in the Tandon School of Engineering at New York University.He has a B.S. in Engineering from Duke University, an MBA from Tulane University, and a Ph.D. in Economics from University of Virginia.

Dr Tan KheeGiap

Co-Director, Asia Competitiveness Institute (ACI)

Associate Professor of Public Policy

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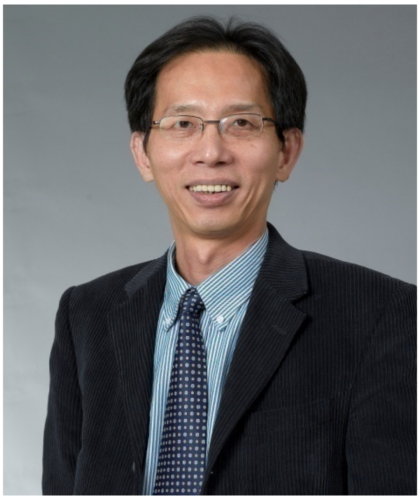


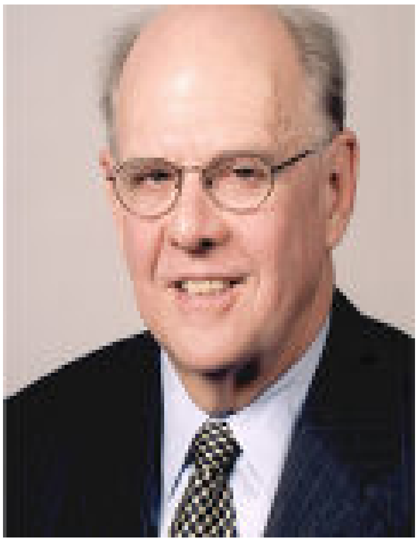
Tan KheeGiap is a Co-Director of the Asia Competitiveness Institute (ACI) and Associate Professorat the Lee Kuan Yew School of Public Policy, National University of Singapore. He is also the Chairmanof the Singapore National Committee for Pacific Economic Cooperation. Upon graduating with a PhDfrom University of East Anglia, England, in 1987 under the Overseas Research Scheme awarded bythe Committee of Vice-Chancellors and Principals of the Universities of the United Kingdom. He joinedthe banking sector as a treasury manager and served as secretary to the Assets and LiabilitiesCommittee for three years, there after he taught at the Department of Economics and Statistics,National University of Singapore, 1990-1993. Dr Tan joined Nanyang Technological University in 1993and was Associate Dean, Graduate Studies Office, 2007-2009.

Dr Tan has consulted extensively with the various government ministries, statutory boards andgovernment linked companies of Singapore government including Ministry of Finance, Ministry ofTrade & Industry, Ministry of Manpower, Housing & Development Board, Civil Aviation Authority ofSingapore, Singapore Tourism Board, Trade Development Board, Maritime Port Authority, Ministry ofInformation, Culture & Arts, Economic Development Board, Ministry of National Development, MediaDevelopment Authority, Ministry of Environment and Water Resources, Singapore Design Council,Ministry of Community Development, Youth & Sports, Singapore Press Holdings, YayasanMendaki,StarHub, CapitaLand and Great Eastern Life. He has also served as a consultant to internationalagencies such as the Asian Development Bank, Asian Development Bank Institute, United NationsIndustrial Development Group, World Bank Group, World Gold Council, ASEAN Secretariat, CentralPolicy Unit of Hong Kong, Kerzner International, Las Vegas Sands and Marina Bay Sands.

Dr Tan is the lead author for more than 20 books, serving as journal editors and published widely ininternational refereed journals. He is the associate editor of the journal Review of Pacific BasinFinancial Markets and Policies (US) and is on the editorial advisory board of the journalCompetitiveness Review (UK). His current research interests include Cost of Living and PurchasingPower Index for World’s 105 Cities, Global Liveable Cities Index, Ease of Doing Business Index andcompetitiveness analysis on sub-national economies of China, India, Indonesia and Association ofSouth East Asian Nations.

Dr Tan was Deputy President of the Singapore Economic Society, 2004. He served in the 2002Economic Review Committee (ERC), served as Chairman of the Task Force on Portable MedicalBenefits (PMB), served as the Deputy Chairman of the IPS Forum for Economic Restructuring (IFER)in 2003 and served as a member of the Resource Panel of the

Government Parliamentary Committeefor Transport and Government Parliamentary Committee for Finance and Trade & Industry andGovernment Parliamentary Committee for Defense and Foreign Affairs since 2007. Dr Tan is currentlyan Independent Director of the publicly listed BreadTalk Group, Boustead Singapore, TEE Land andChengdu Rural Commercial Bank.



Richard E. Kihlstrom

Education

PhD, University of Minnesota, 1968; BA, Purdue University, 1964

Career and Recent Professional Awards; Teaching Awards

Fellow, Econometric Society, 1981

Academic Positions Held

Wharton: 1979-present (Chairperson, Finance Department, 2006-present; Chairperson, Finance Department, 1988-94; named Ervin Miller-Arthur M. Freedman Professor of Finance, 1986; Associate Director, Doctoral Programs, 1986 88). Previous appointments: Northwestern University; University of Illinois; State University of New York at Stony Brook; University of Massachusetts.

Richard Kihlstrom is currently the Miller-Freedman Professor of Finance at the Wharton School of the University of Pennsylvania. He received his BA in Economics from Purdue University in 1964 and his PhD in Economics from the University of Minnesota in 1968. He previously taught at Northwestern University, the University of Massachusetts, Amherst, SUNY, Stony Brook and the University of Illinois, Urbana-Champaign. He has been at the University of Pennsylvania since 1979 and served as Chairman of the Finance Department at Wharton from 1988 to 1994 and again from 2006 to 2010.

His publications have appeared in *Econometrica*, *the Journal of Economic Theory*, *the Review of Economic Studies, the Bell Journal of Economics,the Journal of Political Economy*, *the Quarterly Journal of Economics*, *the Journal of Mathematical Economics*, *the Penn Law Review, the International Economic Review*, *theJournal of Financial Intermediation,theJournal of Economics and Management Strategy, the Journal of Economic Dynamics and Control* and *the American Economic Review*.

He was elected a fellow of the Econometric Society in 1981.

A. Rashad Abdel-Khalik,V. K. Zimmerman Professor of International Accounting,Professor of Accountancyand Director of the V. K Zimmerman Center for International Accounting. University of Illinois at Urbana-Champaign. Earned B. Com. (Cairo University), M.B.A. and M.A. in Economics (Indiana University), and Ph. D. (University of Illinois). Former faculty member at Columbia University, Duke University and the University of Florida.Author ofAccounting for Risk, Hedging and Complex Contracts(Routledge. 2014)andforthcoming book titled BRAZEN: Big Banks, Swap Mania, and the Fallout (World Scientific Publishing Co.). Authored articles in *The Accounting Review;Journal of Accounting Research; ContemporaryAccounting Research;Journal of Accounting, Auditing & Finance;Decision Sciences, Organization Studies, the European Accounting Review; Journal of Accounting and Public Policy,Accounting Perspectives, and ABACUS*. Author or coauthor of severalmonographs and research studies published by the American Accounting Association and the University of Florida.

Life-time member of the American Finance Association; A member of the American Accounting Association since 1972; the AAADirector of Research (1980 – 1982), and Senior Editor of The Accounting Review (1990-1994); the founding Editor of the Journal of Accounting Literature (1982 -1989) and the senior Editor of The International Journal of Accounting(2002 – Present).

Throughout his career, Rashad chaired 29 Ph. D. dissertation committees and was a member of 12others. He also organized research conferences in several countries and made workshop presentations at over 120 international universities.

Kose John is the Charles William Gerstenberg Professor of Banking and Finance at New York University, Stern School of Business. He holds a Ph.D. from University of Florida. He has also taught at the University of Chicago, Columbia University, Temple University andInstitutd'EtudesPolitiques de Paris (Sciences Po). He has won several awards, including the Batterymarch Fellowship in 1983 and the Jensen Prize for the best paper published in 2000 in the *Journal of Financial Economics*. He is on the Nomination Committee for the Nobel Prize in Economics for 2018. He is the author of two books (on futures markets and corporate dividend policy), and the editor of 24 books and special issues in finance Journals on topics such as financial stability, financial distress, and valuation of distressed securities; corporate governance; and investments innovations in finance. He has published over 103 research articles in the major finance and economics journals. His recent research focuses on religiosity, whistleblowing, innovation, banking, financial crisis, corporate governance, top-management compensation, and financial distress, valuation of distressed claims and comparative bankruptcy and governance systems. He served as the president of the Financial Management Association International during 2014-15. He also serves as the program chair of the Association of Financial Economists (AFE) . He has been a mentor and advisor to 105 doctoral students who are finance professors and finance practitioners all over the world.

Chunchi Wu is M&T Chair in Banking and Finance and Professor of Finance at State University of New York at Buffalo. His primary research areas are asset pricing, market microstructure,financial intermediation, and fixed income analysis.His research results have appeared in *Journal of Finance*, *Journal of Financial Economics*, *Journal of Financial and Quantitative Analysis*, *Review of Asset Pricing Studies*, *Accounting Review*, *Management Science*, *Review of Economics and Statistics*, among others. He has served as Associate Editor for a number of finance and economics journals and actively participated in the activity of many professional organizations.

Yong Shi, serves as the Director, Chinese Academy of Sciences Research Center on Fictitious Economy & Data Science and the Director of the Key Lab of Big Data Mining and Knowledge Management, Chinese Academy of Sciences. He has been the Isaacson Professor, the College of Information Science and Technology, University of Nebraska at Omaha, USA. He is the elected member of the International Eurasian Academy of Science (2017), the counselor of the State Council of PRC (2016), and elected fellow of the World Academy of Sciences for Advancement of Science in Developing Countries (2015). His research interests include business intelligence, data mining, and multiple criteria decision making. He has published more than 28 books, over 300 papers in various journals and numerous conferences/proceedings papers. He is the Editor-in-Chief of International Journal of Information Technology and Decision Making (SCI), Editor-in-Chief of Annals of Data Science (Springer) and a member of Editorial Board for a number of academic journals. Dr. Shi has received many distinguished awards including Application Contribution Award of Chinese Society on System Science and System Engineering, 2016; Siwei Cheng Outstanding Research Award, Siwei Cheng Foundation, 2016; the Georg Cantor Award of the International Society on Multiple Criteria Decision Making (MCDM), 2009; Fudan Prize of Distinguished Contribution in Management, Fudan Premium Fund of Management, China, 2009; Outstanding Young Scientist Award, National Natural Science Foundation of China, 2001; and Speaker of Distinguished Visitors Program (DVP) for 1997-2000, IEEE Computer Society. He has also consulted or worked on business projects for a number of international companies in data mining and knowledge management.

Terry Marsh is the CEO of Quantal International and an Emeritus Professor of Finance at U.C. Berkeley. He grew up in the Australia neighborhood of the Pacific Basin where he received a Bachelor of Commerce (Honors) and University Medal from the University of Queensland in Australia! He then moved to the U.S. and received his MBA and Ph.D. degrees from the University of Chicago.

He was a finance professor and former chairman of the Finance Group at U.C. Berkeley until 2005 when he became Emeritus. Before joining Berkeley, Terry was an Associate Professor of Finance at MIT. He received a Batterymarch Fellowship and was a National Fellow at Stanford's Hoover Institution. He has consulted for the New York Stock Exchange, the Options Clearing Corporation, Banamex in Mexico, and was a member of the U.S. Presidential Task Force on Market Mechanisms that investigated the October 1987 stock market crash.

Terry again lived twice in Asia, in Japan: He was a consultant to the Industrial Bank of Japan and New Japan Securities in 1990-1991, and a Visiting Professor of Economics at the University of Tokyo in 1993.

Terry is an Associate Editor of the Journal of Fixed Income, the Journal of Investing, and the Review of Pacific Basin Financial Markets and Policies. He is a Member of the Advisory Board for Studies in Economics and Finance, a Board Member of the Japan Society of Northern California, a Member of the Rosebrook Capital Advisory Board, and a member of Manifold Partners' Scientific Advisory Board.

SESSION 1: FINANCIAL ACCOUNTING (A)

ROOM NUMBER:COLLABORATIVE LEARNING CENTER

Chairperson: James J.C. Lin, National Chiao Tung University, Taiwan

1. **Medicaid and Household Savings Behavior: New Evidence from Tax Refunds**

Emily A. Gallagher, RadhakrishnanGopalan, Jorge Sabat, Washington University in St. Louis, USA

Abstract:Using the tax refund savings decisions of over 57,000 low-to-middle income (LMI)tax filers, we estimate the effect of expanded Medicaid access on the propensity ofhouseholds to save their tax refunds. We instrument a household's probability ofMedicaid eligibility using household demographics, the national income distribution,and changes in the eligibility rules for Medicaid under the Affordable Care Act. Medicaideligibility has no effect on the savings rate of the average LMI household. However,among those experiencing financial hardship, Medicaid eligibility increases boththe propensity to save from the tax refund and the level of liquid assets. Specifically,Medicaid eligibility increases anticipated tax refund savings rates by 3.7-4.1 percentagepoints or roughly $100 for the average household in financial hardship. Our findingsare consistent with uninsured, financially constrained households using defaultand bankruptcy as a way to manage health care expenditure risk (Mahoney, 2015).

Discussant: James J.C. Lin, National Chiao Tung University, Taiwan

2. **The Effect of Local Political Corruption on Earnings Quality**

Hongkang Xu, University of Massachusetts Dartmouth, USA

Mai Dao, The University of Toledo, USA

Jia Wu, University of Massachusetts Dartmouth, USA

Abstract:Our study examines whether political corruption of a local government at judicial district level influences earnings management activities of firmslocated in acorrupt area.Priorstudiessuggest that there is an association between political connections and earnings quality (e.g., Braam et al. 2015; Harymawan and Nowland 2016). Nevertheless, there is little research regarding the impact of local political corruption at judicial district levelon financial reporting quality. Using a sample of publicly listed U.S. firms from 2007 to 2014, we find that firms located in corrupt regions are more likely to manage earnings through accruals management and real activities manipulation(i.e.,sales manipulation and overproduction). An additional analysis indicates that firms located in corrupt regions have less earnings persistence and are more likely to use positive discretionary accruals to meet or beat the consensus analysts' earnings forecast. Taken together, our study extends prior literatureby addressing the concern regarding the influence of local political corruption on firms' earnings quality.

Discussant: JorgeSabat, Washington University in St. Louis, USA

3. **How does Financial Reporting Quality improve Corporate Social Responsibility Efficiency?**

James J.C. Lin and Chen-Yu Wang, National Chiao Tung University, Taiwan

Abstract:In this study, we examine whether financial reporting quality improve corporate socialresponsibility (CSR) in terms of efficiency. We find financial reporting quality serves amitigating role in information asymmetry and agency problem and leads to an improvementon CSR efficiency. Our findings show that financial reporting quality is positively (negatively)associated with CSR among firms with higher likelihood of under-CSR (over-CSR);Meanwhile, we decompose CSR into environmental and social dimensions and find the sameresults in the analysis consistent with our hypotheses.

Discussant: Hongkang Xu, University of Massachusetts Dartmouth, USA

4. **Audit Fees, Nonaudit Fees, and Auditor Independence**

Yu-Cheng Lin,National Kaohsiung University of Applied Sciences, Taiwan

Fang-Chi Lin, National Pingtung University, Taiwan

Abstract:This paper proposes a new method based on threshold regression to test the association between economic dependence and auditor reputation protection. Empirical results suggest that there indeed exists a threshold value which would impair audit quality once nonaudit services surpass it. Moreover, the threshold value has yet plummeted subsequent to the SOX's prohibition of certain nonaudit services designated to mitigate auditors' economic bonding with their clients, suggesting that the effort made by the authorities has been by large ineffective. The results lead us to ponder whether the fee structure and the existing practice of employing auditors at the discretion of the management should be rigorously reviewed to warrant audit quality.

Discussant: Jia-Chi Cheng, Yuan Ze University, Taiwan

SESSION 2: CORPORATE FINANCE (A)

ROOM NUMBER:LSC 111

Chairperson: Han-Hsing Lee, National Chiao Tung University, Taiwan

1. **Inter-Industry Network Risk and Default Prediction**

Mu-Nan Huang, Han-Hsing Lee, and Kun-Feng Lin, National Chiao Tung University, Taiwan

Abstract: Previous literature has documented the cross-industry return and tail riskpredictability, especially during financial crisis. This study investigates the effects ofinter-industry return and tail risk in the context of default prediction using forwardintensity approach of Duan et al. (2012). Controlling for commonly used macro andfirms-specific variables in default analysis, we incorporate industries' position,connectedness and return to examine whether these industry-level variables affectcorporate default probabilities. Overall, our empirical results support that these industryvariables can help explain corporate default probabilities.

Discussant: Hai-Chin Yu, Chung Yuan Christian University, Taiwan

2. **Does Supplier Financing Ease Capital Allocation Inefficiencies?**

Amandeep S. Sahota, University of Strathclyde, UK

Abstract: In this paper, we ask the following question: does trade credit affect efficiency of internal capital markets? Using firm- and segment-level data from the UK over the period 1985-2015 we report three key findingsconsistent with the hypothesis that trade credit, to a certain extent, provide better monitoring and stable access to resources: (i) investment policies of focused firms become more efficient when supplier financing increases, (ii) efficiency of internal capital market within multi-segment firms decreases when supplier financing increases and (iii) we find extending credit to other firms has no effect on issuing firms' internal capital market, and (iv) diversified firms use more supplier financing (as well as extend more credit) than focused firms.

Discussant: Han-Hsing Lee, National Chiao Tung University, Taiwan

3. **Institutional Ownerships, Board Diversity, and Corporate Innovation**

Thi-Thanh Phan and Hai-Chin Yu, Chung Yuan Christian University, Taiwan

Abstract: This work investigates the relationships among institutional ownership, board diversity, and corporate innovation in the US-listed firms. Institutional investors play a crucial role in a firm's operation and exert considerable influence on the efficient monitoring of innovative investment. Theory predicts that institutional ownership has a positive effect on innovation investment. However, we find that this positive relationship was driven only by

active institutions. For those passive institutional investors, this impact is negative. However, a banker on the board can change the impact from negative to positive even though it is passive institutional investors. Firms with female directors, high presence of audit committee, or a large proportion of ethnic minority directors on board have a significant and positive impact on innovation, including on R&D investments and the number of patents. The enactment of Sarbanes-Oxley Act (SOX) in 2002 made information more accurate and transparent to investors and narrows the gap between active and passive institutional investors on innovation spending. Using difference-in-differences analysis, we confirm that passive investors gain more benefits from SOX and positively foster innovation investment.

Discussant: Amandeep S. Sahota, University of Strathclyde, UK

SESSION 3: OPTIONS & FUTURES

ROOM NUMBER: LSC 201 AB

Chairperson: Charles Cao, Pennsylvania State University, USA

1. **Entropic Two-Asset Option**

Tumellano Sebehela, WITS University, South Africa

Abstract:This article extends the Margrabe formula such that it suitable for pricing a Poisson-exchange option. Despite the fact that prices of an exchange option are characterized by jumps, no study has explored those price related jumps of an exchange option. The Poisson process within two-asset option is applicable when there is at least one bid for a target firm. The results illustrate that incompleteness in an exchange option leads to a premium which in turn increases an option whilst hedging strategies reveal a mixed bag type results.

Discussant: KangzhenXie, Seton Hall University, USA

2. **Predicting the Equity Premium with Implied Volatility Spreads**

Charles Cao, Timothy Simin, and Han Xiao, Pennsylvania State University, USA

Abstract:This paper is an empirical investigation of the predictive ability of the call-put implied volatility spread (CPIVS). In out-of-sample tests, the CPIVS outperforms well-known predictors of equity premium such as the dividend yield, stock return variance, term spread, and Cay. Specifically, we find that (1) the CPIVS attracts most investors' attention according to willing-to-pay for predictive information based on utility gains; (2) the prediction is robust and consistent with common risk factors and different portfolios, and (3) the CPIVS can survive in various specifications and is unbiased in finite samples. Furthermore, we attribute the powerful prediction to the forward-looking information within the CPIVS, in the channel of discount rate and cash flow, as well as the moment risk in the market returns.

Discussant: Tumellano Sebehela, WITS University, South Africa

3. **On the Market Timing of Hedging: Evidence from U.S. Oil and Gas Producers**

Liu Hong, University of Arkansas, USA

Yongjia Li, University of Arkansas, USA

KangzhenXie, Seton Hall University, USA

Claire J. Yan, Rutgers University, USA

Abstract:Using a hand-collected data, we find large variations in hedging intensity and

profits among U.S. oil and gas producers while on average they generate significant positive profits. The profits relate positively to the intensity of hedging. Further decomposition shows the profits relate strongly and positively to the market timing component of the hedging. The hedging outcome does not increase equity beta while the pure hedging component tend to decrease equity beta. The oil and gas producers do not profit from interest rate and foreign exchange derivative transactions.

Discussant: Terrence O'Brien, Pennsylvania State University, USA

SESSION 4: CORPORATE FINANCE (B)

ROOM NUMBER:LSC 202 ABC

Chairperson: Jongmoo Jay Choi, Temple University, USA

1. **Evaluating Panel Regression Models in Corporate Finance: Evidence from CEO Pay**

Daniela Osterrieder, Darius Palia, and Ge Wu, Rutgers University, USA

Abstract: The use of panel data in corporate finance is ubiquitous to estimate the impact of choicesmade by managers and/or shareholders on firm value. This study evaluates the properties offive regression estimators when one uses panel data. Specifically, we analyze three existingestimators (namely, the pooled OLS (POLS) estimator, the standard random-effects (RE)estimator, and the standard firm fixed-effects (FE) estimator), and introduce two additionalestimators (efficient firm fixed-effects (EFE) estimator, and the efficient correlated randomeffects(ECRE) estimator). Theoretically and in simulations we find that the EFE and ECREestimators are consistent and have the lowest uncertainty, the FE estimator is consistent buthas high uncertainty, and the POLS and RE estimators are inconsistent. However, when weuse panel data to examine the relationship between CEO pay and firm value, we find theEFE estimator is the most appropriate. For future research, we suggest a J-test to checkwhether the assumptions of the ECRE estimator hold. If they do, one can use either theECRE or the EFE estimators. If they do not, one should use the EFE estimator.

Discussant: Fu-Lai Lin, Da-Yeh University, Taiwan

2. **Outsourcing as A Cooperative Game between the CEO and Labor: Theory and Evidence**

Jongmoo Jay Choi, Temple University, USA

Jose M. Plehn-Dujowich, Saint Mary's College of California, USA

Ming Ju, Louisiana Tech University, USA

Xiaotian Tina Zhang, Saint Mary's College of California, USA

Abstract: We develop a theory of a cooperative power game between the CEO and labor in corporate outsourcing, and test the model's predictions concerning the decision to outsource, division of profit, and post-outsourcing firm performance using a sample of outsourcing deals by U.S. firms. In accord with the model, we find that a firm is more likely to outsource the greater is CEO power, the greater is the firm's production cost, and the more homogeneous is the industry. And the outsourcing decision does not affect the CEO's share of profits, and CEO power is positively related to post-outsourcing performance. Interestingly poor prior firm performance moderates power dynamics between the CEO and labor. The implication is that in addition to the traditional governance mechanisms such as boardinstitutional investors or market discipline, labor can also be an effectivemanagerial monitor when the firm undergoes a major restructuring.

Discussant: Ivan Brick, Rutgers University, USA

3. How Do Hedge Fund Managers Matter? The Effect of Industry Expertise on Hedge Fund Activism

Ivan E. Brick, Rutgers University, USA

Jin Mo Kim, Rutgers University, USA

Yuzi Chen, Nanyang Technological University, Singapore

Jun-Koo Kang, Nanyang Technological University, Singapore

Abstract: In this paper, we examine whether the hedge fund manager's human capital affects hedge fund activism. We find that hedge funds are more likely to choose a target in an industry in which they have executive or director experience. These hedge fund managers are more likely to serve as a director on the target's board than are hedge fund managers with no such experience in the target's industry. Moreover, the targets of these acquirers realize higher abnormal announcement returns and better post-acquisition operating performance. These findings suggest that hedge fund manager's industry expertise is an important source of gains in hedge fund activism.

Discussant: Feng Gao, Rutgers University, USA

SESSION 5: ASSET PRICING

ROOM NUMBER:LSC Board Room

Chairperson: Quentin C. Chu, The University of Memphis, USA

1. **Intertemporal Risk is the Missing Ingredient to Finding a Positive Risk-Return Tradeoff**

DimitriosKoutmos,Worcester Polytechnic Institute, USA

Krishna Paudyal, University of Strathclyde, UK

Abstract: This paper implements a dynamic two-factor variant of the intertemporal capital asset pricing model à la Merton (1973) to investigate the extent to which time series variations in the market risk premium can be described by a set of priced risk factors designed to proxy for intertemporal risk. These factors are changes in industrial production and the yield curve, respectively, and the holding period yield of long-term government bonds. The conditional second moments are described using the asymmetric BEKK methodology of Engle and Kroner (1995) thus allowing for asymmetries in the conditional variances and covariances. This approach does not impose a constant correlation assumption on the covariance matrix and permits a time-varying covariance between the market risk premium and each of the factors for intertemporal risk. We provide international evidence in favor of a positive risk-return tradeoff, which is consistent with the classical notion that investors on aggregate are risk-averse. We argue that intertemporal risk is indeed an important component in explaining the time series variations in the market risk premium and that its omission in asset pricing literature is a likely reason for the conflicting evidence on the sign of the risk-return tradeoff.

Discussant: Quentin C. Chu, The University of Memphis, USA

2. **News Momentum**

Hao Jiang,Michigan State University, USA

Sophia Zhengzi Li, Rutgers University, USA

Hao Wang, Prime Quantitative Research LLC, USA

Abstract: We decompose daily stock returns into news- and non-news-driven components, using acomprehensive sample of intraday firm-level news arrivals matched with high-frequencymovements of their stock prices. We find that, consistent with prior literature, non-news returns precede a reversal. For news-driven returns, however, we find strongevidence of return continuation without subsequent reversals. A strategy of news momentum that buys stocks with high news returns and sells stocks with low news returnsgenerates an annualized return of 40.08% in the following week, with a four-factor alpha of 40.44%, controlling for the market, size, value, and momentum. The strategy'sprofitability is driven by positive serial correlations in individual stock returns, and isparticularly pronounced for overnight and weekend news and among small firms withlow analyst coverage, high volatility, and low

liquidity. These results suggest that investor under-reaction to news, coupled with limits to arbitrage, drives news momentum.

Discussant: DimitriosKoutmos,Worcester Polytechnic Institute, USA

3. The Flow of Inflation Information and the Price Volatility of Maturing TIPS

Quentin C. Chu, The University of Memphis, USA

Pawan Jain, University of Wyoming, USA

Abstract: Treasury Inflation Protected Securities (TIPS) experience a transformation from an inflation hedge security to a fixed nominal rate security during the last coupon payment period. The unique period sets a window to observe the pricing of TIPS when the source of uncertainty affecting the sole future cash flow is the realization of actual consumer price index (CPI) on a TIPS maturity date. Given that the trading of contemporaneous Treasury bills reveals pure discount factors for cash flow on maturity date, the maturing TIPS prices reflect the time series characteristics of the flow of inflation information. Empirical results based on sixteen issues of maturing TIPS document a decrease in the volatility parameter due to the expiration of inflation hedging property three months prior to a TIPS matures. The flow of inflation information continues till ten business days prior to the last CPI announcement before a TIPS matures. The timing of the termination of inflation information flow coincides with the end of CPI survey period.

Discussant: Sophia Zhengzi Li, Rutgers University, USA

SESSION 6: INVESTMENT (A)

ROOM NUMBER: COLLABORATIVE LEARNING CENTER

Chairperson: Thomas C. Chiang, Drexel University,USA

1. **Economic Policy Uncertainty and Momentum**

Ming Gu, Xiamen University, China

Minxing Sun, University of Memphis, USA

Yangru Wu, Rutgers University, USA

Weike Xu, Clemson University, USA

Abstract:We show that a news-based measure of economic policy uncertainty (EPU) significantly forecasts momentum. Momentum is statistically significant following the low EPU period, but nonexistent following the high EPU period. A one-standard-deviation increase in EPU is associated with a 1.11% decrease in risk-adjusted momentum returns. The predictive power of EPU for momentum is robust after controlling for previously documented economic state variables, macroeconomic uncertainty, and time-varying risk factors. Furthermore, a global EPU index forecasts momentum in international equity markets and other asset classes. We provide an explanation of these results from the perspective of a fund-flow-induced trading mechanism.

Discussant: Thomas C. Chiang, Drexel University,USA

2. **Dispersion in Analysts' Target Prices and Stock Returns**

Hongrui Feng and Shu Yan, Oklahoma State University, USA

Abstract:We propose the dispersion in analysts' target prices as a new measure of disagreementamong analysts and a proxy of ex ante stock risk. Consistent with the risk hypothesis,we document a significant positive relation between the target price dispersion and futurestock returns up to 24 months. The next-month return spread between the highest andlowest deciles sorted on the target price dispersion measures can be over 2%. Our findingscannot be explained by the standard risk factors and stock characteristics including thetarget price revision and dispersion in analysts' earnings forecasts. Further supporting therisk hypothesis, the target price dispersion is positively related to future stock risk.

Discussant: Weike Xu, Clemson University, USA

3. **Empirical Investigation of Intertemporal Risk-Return Relation in International Stock Markets**

Thomas C. Chiang, Drexel University,USA

Abstract:This paper tests the risk-return relations by employing risk from conditional volatility, domestic downside risk, world downside risk, and fear. We find a positive and significant intertemporal relation between stock return and risk. The evidence supports the risk-return tradeoff not only from domestic risk but also from external risk. The model is robust with respect to risk with small variations as well as risk feathering from a big shock. The results are robust across 20 different stock markets, different measures of stock returns, and downside risk after controlling the lagged dividend yield.

Discussant: Shu Yan, Oklahoma State University, USA

SESSION 7: ACCOUNTING AND CORPORATE FINANCE

ROOM NUMBER:LSC 111

Chairperson: Re-Jin Guo, University of Illinois at Chicago, USA

1. **Analyst Information Production,Internal Capital Allocation, and Conglomerate Valuation**

Re-Jin Guo and Rong (Irene) Zhong, University of Illinois at Chicago, USA

Abstract: This study examines whether analysts' information production helps inform conglomerate CEOs of the segment investment opportunities, thereby improving the internal capital market (ICM) efficiency and corresponding conglomerate valuation. Utilizing exogenous shocks in the analyst industry resulting from brokerage house mergers, we provide causal evidence of a significant decline in ICM efficiency of diversified firms subsequent to reduced analyst coverage. The decrease in ICM efficiency is more pronounced when conglomerate CEOs confront higher information barriers across divisions, have less firm-specific knowledge and when lost analysts are industry specialists. Further analysis demonstrates a post-event decline in conglomerate valuation, and such a decline concentrates among firms with a large decrease in ICM efficiency. The informational effect of analysts on ICM efficiency is not driven by increased cost of capital or weakened external monitoring from the coverage reduction, and is robust to a wide array of identification strategies. Overall, our study provides novel evidence that analysts serve as an external information source for conglomerate CEOs to alleviate information problems that are difficult to be rectified inside firm operation.

Discussant: Cheng-few Lee, Rutgers University, USA

2. **Inside Debt, Firm Risk and Investment Decision**

Cheng-few Lee, Rutgers University, USA
Chengru Hu, SUNY Canton, USA
Maggie Foley, Jacksonville University, USA

Abstract: The purpose of this paper is to study a differential effect of inside debts on components of firm risk and to study the impact of the reduction of idiosyncratic risk on company investment decisions and valuation. We find that compensating CEOs with inside debts (e.g. pensions and other deferred compensation plans) leads to a reduction in both a firm's systematic risk and idiosyncratic risk, but to disproportionate degrees. CEOs of withlarger inside debt holdings design draftand implement policiesthat, whichlead to a significantly larger reduction in the idiosyncratic component of firm risk and firm investment. We attribute the inside debt induced differential in risk reductions to divergence in CEO valuations of the distinctive risk components, and find supporting evidence that as CEOs subjectively value firm-specific risk higher, which narrows the gap between prices of risk components, the inside debt induced differential risk reduction effect diminishes.

Discussant: Re-Jin Guo, University of Illinois at Chicago, USA

SESSION 8: FINANCIAL ACCOUNTING (B)

ROOM NUMBER:LSC 201 AB

Chairperson: BikkiJaggi, Rutgers University, USA

1. **Applying Financial Technologies in Legacy Information Systems for Regulatory Reporting**

Oliver S.Browne, Mark C. Hutchinson, NenadKrzdavac, and PhilipO'Reilly, University College Cork, Ireland

Abstract: Wedevelop a cutting-edgeRegTech semantic tool (RST) for a Systemically Important Financial Institution (SIFI), which utilises asemanticinterpretation layer over an existing legacy information system (LIS). We find using theRST, based on anindustry-led data standard, allows existing LISs to be extended for new and existing regulatory reportingrequirements.RST is the first use of financial technologies to improve regulatory reporting usinga LIS. This novel solution has the potential to do more at a lower cost to aid SIFIs to meet their reporting requirements while using inference to confirm data quality.We assist in the development of the standard by contributing 62 new terms.

Discussant: BikkiJaggi, Rutgers University, USA

2. **How Does Clawback Policy Affect Risk-taking and Earnings Management in Stock Option Compensation?**

Hao-Chang Sung,Jinan University, Guangzhou, China

Shirley J. Ho, National Chengchi University, Taiwan

Abstract:We study how a clawback policy in executive contracts changes the manager'seffort and earnings manipulation decisions and the compensation structure. We consider clawbacks triggered by poor performance instead of misconducts, and the optimal contracts for two specific compensation forms: linear and stock-stock optioncombination. Our results show that (1) the impacts on earnings manipulation andefforts will depend on the manager's risk aversion degree and the compensation structure. (2) For the linear compensation, after adopting the clawback policy, the optimalcontract will assign the manger with intermediate level of risk aversion a higher levelof constant pay and performance-based reward; while for the manager with highlevel of risk aversion, a lower level of constant pay and a higher performance-basedreward will be offered. (3) For the stock-stock option combination, after adopting theclawback policy, the optimal contract will assign a higher stock-option ratio to compensate the risk averse managers with optimistic beliefs on firm value. Our resultsprovide a new direction for further research by suggesting the linkages between theeffect of clawback policy, the manager's risk aversion degree and the compensationstructure.

Discussant: Oliver S.Browne, University College Cork, Ireland

3. Market Response to IFRS 13 on Fair Value Accounting and its Impact on Firms' Operating Performance: Evidence based on Five European Union countries'

BikkiJaggi and Shaofeng Zheng, Rutgers University, USA

Abstract:This paper evaluates whether implementation of IFRS 13 on fair value of assets and liabilities received positive response from market participants and whether it improved firms' operating performance. First, we examine investors' response when this standard was adopted and then we examine the long-term effect, which is evaluated after two years of adoption. We use cumulative abnormal returns (CARs) around adoption date to evaluate investors' reaction to the adoption of IFRS 13, and evaluate value relevance of fair value accounting by evaluating the association between returns and income in the period two years after adoption of IFRS 13. Additional we examine the impact of adoption on firms' stock prices during the post-adoption period.The operating performance is examined by evaluating Return on Assets (ROA), Return on Equity (ROE) and Tobin's Q during the post-adoption period compared to the pre-adoption period.

Findings on investors' reaction to adoption of IFRS 13 show that investorsreacted positively to the adoption of this standard, probably because of the expectation that adoption of the standard would improve firms' market and operating performance. The results based on the long term market performance also indicate that thestock price was higher after two years of adoption and the positive coefficient of the interaction term between the post-adoption period and earnings indicated that there was an incremental positive return for earnings based on fair value. The results thus suggest that IFRS 13 enhanced value relevance of earnings based on fair value accounting in the first two years of adoption.The results based on the operating performance, i.e. returns on assets and equity and Tobin's Q, however, show that operating performance was lower in the period of 2 years after post-adoption of the standard. These results suggest that though investors have been expecting better operating performance, the results do not show this for two years after adoption of the standard.

Discussant: Hao-Chang Sung,Jinan University, Guangzhou, China

4. The Impact of SOX on the Dual-Class Voting Premium

Feng Gao, Rutgers University, USA
Ivy Zhang, University of Minnesota, USA

Abstract: We examine the impact of the enactment of corporate governance laws on the private benefits ofcontrol, using the Sarbanes-Oxley Act of 2002 (SOX) as a natural quasi-experiment. We find a large declinein the average voting premium of U.S. dual-class firms post SOX. Consistent with SOX increasing firmvalue by constraining insider expropriation, the class with lower voting rights experiences positive returnslarger in magnitude than the higher voting class around the passage of SOX. We also find that the reductionin voting premium is more pronounced for firms targeted by SOX provisions, that is, firms that are requiredto increase their board independence and strengthen their internal controls, and firms facing high litigationrisks. These firms also experience an increase in the efficiency of investment and cash management and anincrease in CEO pay-for-performance sensitivity. Overall, the evidence suggests that SOX is effective incurbing the private benefits of control.

Discussant: Ni-Yun Chen, National Sun Yat-sen University, Taiwan

SESSION 9: BANKING MANAGEMENT

ROOM NUMBER:LSC 202 ABC

Chairperson: Hwei-Lin Chuang, National Tsing Hua University, Taiwan

1. **Simultaneously Capturing Multiple Dependence Features in Bank Risk Integration: A Mixture Copula Framework**

Xiaoqian Zhu, Dengsheng Wu, and Jianping Li, Chinese Academy of Sciences, China

Abstract: We propose a mixture copula frameworkfor integrationof different types of bank risks, which is able to capture comprehensively the nonlinearity, tail dependence, tail asymmetry and structure asymmetry of bank risk dependence. We analysewhy mixture copula is well-suited for bank risk integration, discuss how to construct a proper mixture copula and present detailed steps forusing mixture copula. In the empirical analysis, the proposedframeworkis employed to model the dependence structure between credit risk, market risk and operational risk of Chinese banks. The comparisons with 7 other major approaches provide strong evidence of the effectiveness of the constructed mixture copulasand help to uncover severalimportant pitfalls and misunderstandings in risk dependence modelling.

Discussant: Lucy (Jia) Lu,Liverpool Hope University, UK

2. **Keiretsu Main Bank Relationships, Asymmetric Information, and Syndicated Loan Contracts - Evidence from Japan**

Pekkahietala, INSEAD, France

Hai-Chin Yu, Chung Yuan University, Taiwan

Abstract: This paper investigates the cost arising from the dual information asymmetry between the lead arranger and the syndicate participants and borrowers in syndicated loans in Japan while considering the Keiretsu main bank relationship. In a syndicate, the lead arranger retains a portion of the loan and acts as a monitor and distributor between the syndicate participants and the borrower. One would assume that syndicate participants would charge a higher spread when the lead arranger's share is low and vice versa. Using a two-stage least square (2SLS) IV approach, where the lead arranger's share and spread are determined simultaneously, we are able to study this issue in another system, in which Keiretsu main banks drive most of the bank's activities, including syndication. Interestingly, we find that the coefficients of lead share are positive and statistically significant on syndicated spread. Due to the lead arranger typically needs to provide guarantees before demand discovery takes place; hence, if the participant lenders' demand is low, then the lead bank has to retain a high lead share and lend more. Thus, a higher spread would be required because a negative signal regarding the loan quality is received. Different from Sufi (2007) and Ivashina (2009), who document that a larger lead share is associated with a lower spread from monitoring commitment, we argue that Keiretsu banks do not have to signal monitoring incentives through holdinga high lead share as they can certainly monitor Keiretsu members anyway. Our paper also differs from most of the literature on syndicate structure, in which investment-

grade credit lines are overrepresented. In our work, 80% of the Japanese syndicate borrowers are unrated and the lead arranger choice is essential for them to build reputation and earn a lower spread.

Discussant: Xiaoqian Zhu, Chinese Academy of Sciences, China

3. CEO Overconfidence and Bank Systemic Risk

Edward M. H. Lin, Feng Chia University, Taiwan

Hwei-Lin Chuang, National Tsing Hua University, Taiwan

Min-Teh Yu, China University of Technology, Taiwan

Abstract: This study examines the relationship between CEO overconfidence and banking systemic risk. We employ the CoVaR (Conditional Value-at-Risk) approach to measure a bank's contribution to systemic risk, and compute its MES (Marginal Expected Shortfall) and SRISK (Systemic Risk index) to measure the exposure to banking systemic risk. We use a stock options-based measure for CEO overconfidence and explore how managerial overconfidence could be associated with banking systemic risk. Using data for U.S. banks from 1995 to 2014, we find evidence that banks with overconfident CEOs have a higher contribution and exposure to systemic risk than banks with non-overconfident CEOs. We also find that the impact of CEO overconfidence contributed significantly more to systemic risk during the financial crisis of 2008-2009.

Discussant: Hai-Chin Yu, Chung Yuan University, Taiwan

4. Impact of Board Composition and Monitoring on UK Bank Performance

Lucy (Jia) Lu, Liverpool Hope University, UK

Abstract: This paper examines the effects of board composition and monitoring on the performance in the UK banking sector. The study finds CEO duality, CEO pay and board size to have a positive and significant effect on performance of the UK banks. However, board independence and female directors on board have a negative and significant influence on bank performance. Further analysis using sub-samples divided into pre-financial crisis, during the financial crisis and post crisis reinforce the robustness of our findings. Overall, this paper sheds light on the effects of within-board governance on performance and support the multi-theoretical framework that draws from the insights of agency and stewardship theory.

Discussant: Min-Teh Yu, China University of Technology, Taiwan

SESSION 10: INTERNATIONAL FINANCE

ROOM NUMBER: COLLABORATIVE LEARNING CENTER

Chairperson: Wan-Jiun Paul Chiou,Northeastern University, USA

1. **What Drives Variation in the International Diversification Benefits? A Cross-country Analysis**

Wan-Jiun Paul Chiou,Northeastern University, USA

KuntaraPukthuanthong, University of Missouri, Columbia, USA

Abstract: We show that, as the world becomes increasingly integrated, the benefits of global diversification still remain positive and economically significant over time. Both regression analysis and explanatory power tests show that international integration, measured by adjusted R^2 from a multifactor model, has more profound impact on the diversification benefits than correlation. Our results support Roll (2013)'s argument that R^2, but not correlation, is an appropriate measure of market integration. We examine the impact of market integration determinants such as default risk, inflation, TED spread, past local equity market return, liquidity, and the relative performance of domestic portfolio on the potential diversification benefits.

Discussant: AgyenimBoateng, Glasgow Caledonian University, UK

2. **Collateral and Counterparty Risks in the Repo Market**

Li-Ting Chiu, University at Buffalo-SUNY, USA

Sheen Liu, Washington State University, USA

Chunchi Wu, University at Buffalo-SUNY, USA

Abstract: We propose a dynamic asset pricing model with search frictions and collateral andcounterparty risks to examine the role of these risks in the repo market and the secondarymarket for collateral. We show that collateral and counterparty risks increase expectedloss in repo transactions, discourage trading activity, and reduce demand for collateral.Consequently, funding costs in the repo market and yield spreads increase with theserisks and this effect magnifies in times of stress. We test these hypotheses using aggregatedata and repo deal data in N-MFP and N-Q filings. Empirical evidence strongly supportsthe predictions of the model.

Discussant: Wan-Jiun Paul Chiou,Northeastern University, USA

3. **Sourcing Alpha in Global Equity Markets: Market Factor Decomposition and Market Characteristics**

Subhransu S. Mohanty, St. Francis Institute of Management & Research, India

Abstract: The sources of risk in a market place are systematic, cross-sectional and time varying in nature.Though the CAPM provides an excellent risk-return framework and the market beta may reflect therisk associated with risky assets, there are opportunities for investors to take advantage ofdimensional and time varying return anomalies in order to improve their investment returns. In thispaper we restrict our analysis to return variations linked to market factor anomalies orfactor/dimensional beta using the Fama-French 3 factor, Carhart 4 factor, and Asness, Frazzini andPederson (AFP)'s 5 and 6 factor models. We find significant variations in explaining sources of riskacross 22 developed and 21 emerging markets with data over a long period from 1991 to 2016.Each market is unique in terms of factor risk characteristics and market risk as explained by theCAPM is not the true risk measure. Hence, contrary to the risk-return efficiency framework, wefind that lower market risk results in higher excess return in 19 out of the 22 developed markets,which is a major anomaly. However, although in majority of the markets, the AFP models result inreducing market risk (15 countries) and enhancing Alpha (11 countries), it is also very interesting tonote that, the CAPM is second only in generating excess returns in the developed markets. We areconscious of the fact however, that each market is unique in its composition and trend even over along time horizon and hence a generalized approach in asset allocation cannot be adopted across allthe markets.

Discussant: Li-Ting Chiu, University at Buffalo-SUNY, USA

4. Cultural Distanceand Value Creation of Chinese Cross-border Mergers &Acquisitions

AgyenimBoateng, Glasgow Caledonian University, UK

Min Du, Leeds Beckett University, UK

XiaoGang Bi, University of Nottingham, Ningbo, China

George Lodorfos, Leeds Beckett University, UK

Abstract: This paper examines the effects of culture and the interaction between cultural distance and salient acquirer characteristics on value creation of acquiring firms based on a sample of 397 firms over the period of 1998-2012. The findings indicate that Chinese acquirers experience wealth gains ranging from 0.4458% –1.4869% over a 10 day event window. We also find cultural distance to exert a negative and significant influence on value creation of acquirers. Further evidence shows that large acquirer size, prior experience and high Tobin's q positively moderate the link between cultural distance and value creation. The findings suggest that the effect of culture distance is conditioned by the acquirer size, prior experience and Tobin's q implying that acquirer resources and managerial capabilities are important in dealing with and overcoming CBM&A cultural challenges.

Discussant: Subhransu S. Mohanty, St. Francis Institute of Management & Research, India

SESSION 11: RISK MANAGEMENT

ROOM NUMBER:LSC 111

Chairperson: Ehud I. Ronn, University of Texas at Austin, USA

1. **Estimating the Equity Tail Risk Premium in the Cross Section of Individual Stock Returns: Evidence of Asymmetry and Unrealistic Optimism**

K. Victor Chow, West Virginia University, USA

Jingrui Li, West Virginia University, USA

Ben Sopranzetti, RutgersUniversity, USA

Abstract: Unrealistic Optimism is the phenomenon whereby human beings are unreasonably optimistic about the likelihood and impact of tail events, and they incorporate information selectively to reinforce that bias. Specifically, they update their priors more frequently when presented with favorable information than they do with negative information. Consequently, new information about extreme positive events is processed quickly and efficiently, but new information about extreme negative events is processed with a lag, and when it is finally processed, it is processed with an optimistic bias which prolongs the amount of time that it takes for the negative information to be fully and correctly incorporated. Thus, positive tail risk will be priced efficiently, and negative tail risk will be priced with a lag; specifically, the length of the lag will be related to the severity of the negative tail event. To test these predictions, this paper introduces a novel methodology to directly calculate the tail risk premium for individual stocks, and then uses this measure to examine the characteristics of this premium in the cross section of stock returns. Positive tail risk seems to be efficiently priced, i.e., the existence of a premium for bearing positive tail risk today has no predictive power on future returns. However, same cannot be said of the pricing of negative tail risk. The existence of a premium for bearing negative tail risk today is significantly associated lower returns in the future. Moreover, the greater the premium for bearing negative tail risk today, the more negative and more persistent are the future returns.

Discussant: Oleg Sokolinskiy, Rutgers University, USA

2. **Characterizing the Hedging Policies of Commodity Price-Sensitive Corporations**

RaphaëlHomayounBoroumand, PSB Paris School of Business, France

StéphaneGoutte, Université Paris, France

Ehud I. Ronn, University of Texas at Austin, USA

Abstract: Many corporations face price and quantity uncertainty in commoditiesfor which there exist futures and options contracts which permit corporationsto hedge their risks. Finance theory has demonstrated frictionsin capital markets are equivalent to risk-averse decision-making: Accordingly,taking prices and volatilities as exogenous, decision-makers makeoptimal futures-option hedge decisions based on a trade-off between riskand return. With options quantified as delta-equivalent futures positions,we use data from the CFTC as

well as gold companies, this paper providesan empirical test of how corporations' hedge ratios respond to changingprices and volatilities.

Discussant: Ben Sopranzetti, RutgersUniversity, USA

3. Value at Risk and Expected Shortfall Estimation for Asia-Pacific Markets

Yam-wing Siu, Hang Seng Management College, Hong Kong

Abstract: This paper examines the proportionality of value-at-risk and expected shortfall with respect totime using realized or rms volatility – two commonly assumed *accurate* measures of futurevariability of an underlying. It is found that it would be inappropriate to simply scale up the1-day volatility by multiplying the square root of time (or the number of days) ahead todetermine the risk over a longer horizon of i days. In order to provide reliable value-at-riskand expected shortfall forecasts, we propose a method that uses volatility index for US andsix other markets of Pacific Basin including China. Empirical constants that are used tomultiply the levels of volatility indexes for estimating value-at-risk and expected shortfall ofvarious significance levels for 1 to 22 days ahead for seven market indexes have beenstatistically determined using daily data spanning from 4.75 years to 16 years.

Discussant: Ehud I. Ronn, University of Texas at Austin, USA

SESSION 12: CRYPTOCURRENCY& INVESTMENT

ROOM NUMBER:LSC 201 AB

Chairperson: Jack Clark Francis,Bernard M. Baruch College, USA

1. **National Currency, World Currency, Cryptocurrency: A Fichtean Approach to the Ethics of Bitcoin**

Tobey Scharding, Rutgers University, USA

Abstract:I investigate ethical questions concerning a novel cryptocurrency, Bitcoin, using Fichte's account of the ethics of currency. Fichte holds that nations should require citizens to use national, rather than world, currency in order to fulfill nations' ethical purpose: guaranteeing citizens' basic rights (and access to the material welfare that underwrites them) in perpetuity. After criticizing the extent to which national currency could fail to secure material stability over time, e.g. as a result of unjust regimes, I develop a Fichtean model for ethically evaluating currencies and evaluate the extent to which Bitcoin meets Fichte's standards for ethical currency. I argue that Bitcoin undermines the (monetary) power of nations and, as such, contradicts a key aspect of Fichte's view. While offering citizens a means to defend themselves against unjust regimes, Bitcoin forsakes the general welfare and is, as such, unethical by Fichtean lights.

Discussant: Anandadeep Mandal, University of Birmingham, UK

2. **About Cryptocurrencies**

Jack Clark Francis,Bernard M. Baruch College, USA

Abstract:The U.S. has approximately 1,400 cryptocurrencies. Bitcoins are the most well-known. No cryptocurrency is qualified to be called money in the U.S. because no cryptocurrency has been designated by the U.S. government as being legal tender. Cryptocurrencies are called virtual currencies because they possess some of the qualities of money. The founder of each cryptocurrency introduces it to the market by having an initial coin offering(ICO). Thereafter, the cryptocurrency may be held or traded at approximately 190 cryptocurrency exchanges in the U.S. Very few of these cryptocurrency exchanges are registered with any governmental agency and, as a result, most cryptocurrency exchanges are not as safe as a commercial bank. The author was a Federal Reserve Economist for two years and, as a result, cryptocurrencies are analyzed from the perspectives of a monetary economist.

Discussant: Tobey Scharding, Rutgers University, USA

3. **Determinants and Forecasting of the Joint Distribution of Asymmetric Return Comovements**

Anandadeep Mandal, University of Birmingham, UK

Sunil S. Poshakwale, Cranfield University, UK

Abstract:We examine the characteristics, determinants and predictability of asymmetric return comovements of traditional and real assets. We find that non-macroeconomic variables, especially inflation uncertainty and bond illiquidity significantly influence the return comovements. Next, by including the determinants of return comovements in our model, we obtain a superior forecast of the joint dependence structure. Finally, we show that investors with different risk-appetites are able to enhance their portfolio optimisation choices by utilising the analytical model proposed in the study.

Discussant: Jack Clark Francis,Bernard M. Baruch College, USA

SESSION 13: INVESTMENT (B)

ROOM NUMBER: LSC 202 ABC

Chairperson: NimaEbrahimi, University of Houston, USA

1. **The Risks of Skewness and Kurtosis in Oil Market and the Cross-Section of Stock Returns**

NimaEbrahimi and Craig Pirrong, University of Houston, USA

Abstract: We show that exposure to the risk of kurtosis in oil market drives the cross-section of stockreturns from 1996 to 2014. The average monthly difference between the return of portfolio ofstocks with low exposure and high exposure to the risk of kurtosis is -0.37%, showing that higherexposure to oil's kurtosis risk will be penalized by lower average returns. We are able to confirmthe significance of kurtosis risk within the statistical framework of Carhart 4-factor model. Incontrast to the skewness risk, which is only a significant player in some of the sub-periods, kurtosisrisk is keeping its significance through all sub-periods, as well as after taking market moments intoaccount and within different maturities. The significance of the risk of skewness gets more evidentmoving from shorter to longer maturities. The risk of volatility, which has been shown to be asignificant-priced risk in the cross-section of stock returns in literature, loses its significance aftercontrolling for the third and fourth moments.

Discussant: Steffen Hitzemann, Rutgers University, USA

2. **Firm Leverage and Hedge Fund Holdings: Firm-Level Evidence**

Zazy Khan, University of Verona, Italy

Abstract:Hedge fund targets have experienced an unprecedented surge in leverage followingthe recent financial crisis. Traditional finance theories predict that increasedleverage may impact firm value adversely. To test the implication of such relationship,I examine whether increased leverage in targets affects the activists' decisionto exit. Using US firm-level data from 2000 to 2013, I show that firms' leverageexplains much of the cross-sectional variation in the activist decision of holding thefirm stake. The baseline results hold in the first year of activism when we controlfor the crisis effect. The leverage effect, however, dissipates in the second year suggestingthat activists prefer to restructure the targets' debt prior to their exit. Ifurther explore the venues to which the additional debt is allocated. One-year postactivism increase in payout and capital expenditures indicates positive impact ofdebt increases on targets distribution and investment policies.

Discussant: NimaEbrahimi, University of Houston, USA

3. **Investor Sentiment and the Cross-section of Stock Returns: New Theory and Evidence**

Wenjie Ding, KhelifaMazouz, and Qingwei Wang, Cardiff University, UK

Abstract:We extend the noise trader risk model of Delong, Shleifer, Summer and Waldman (1990) to a model with multiple risky assets to provide a parsimonious theory of the effect of investor sentiment on the cross-section of stock returns. Our model predicts that market wide sentiment leads to relatively higher contemporaneous returns and lower subsequent returns for stocks that are more prone to sentiment and difficult to arbitrage. These predictions are consistent with existing empirical evidence on the relationship between sentiment and cross-sectional stock returns.Guided by our model, we empirically decompose investor sentiment into long- and short-run components.We document anegative relationship between the long-run sentimentcomponent and subsequent stock returns and positive association between theshort-run sentimentcontemporaneousstock returns.

Discussant: Zazy Khan, University of Verona, Italy

SESSION 14: FINANCIAL TECHNOLOGY

ROOM NUMBER:LSC Board Room

Chairperson: Fang-Pang Lin, National Center for High Performance Computing, Taiwan

1. **An Algebraic Graph Theory Approach in Structural study of Trading Networks based on Unified Invoice**

Fang-Pang Lin, National Center for High Performance Computing, Taiwan
Lun-Chi Chen, National Center for High Performance Computing, Taiwan
Cheng-Few Lee, Rutgers University, USA

Abstract: Unified invoice was uniquely introduced in Taiwan in early 50s, which is a form of state lottery managed by the Financial Information Agency of Taiwan and was literally used as an incentive to boost tax revenues. In its first launch, the tax revenue increased to 75% from that of the previous year. Its effectiveness leads to a mandate to use the unified invoice as a standard way to record every domestic business transaction. The introduction of electronic and cyber technologies facilitates the management and operation of the practices of the unified invoice. There are approximately 140 million records of transaction accumulated per year, which can be viewed as a trading network. An understanding of the structure of the trading network might be able to provide us a reference to investigate trading behaviors in Taiwan both in macro and micro scale. In this structural study, a sequence of approximately 400+ million transaction records, from 2010 to 2012, excluding the transactions records from the listed companies in the stock markets, which behavior is well regulated and monitored. We explore with the typical network analysis techniques and then extend it to topological properties of the trading network. The evolution of the trading network based on the order of the sequence is also investigated. The initial result will be used to develop tools for anomalies detection and identify possible local problems.

Discussant: Ted Hong,Beyondbond, Inc.

2. **Predicting Credit Card Delinquencies: An Application of Deep Neural Net**

Ting Sun, The College of New Jersey, USA
Miklos A. Vasarhelyi, Rutgers University, USA

Abstract: The objective of this paper is twofold. First, it develops a prediction system to help the credit card issuer model the credit card delinquency risk. Second, it seeks to explore the potential of Deep Learning (also called deep neural network), an emerging Artificial Intelligence technology, in credit risk domain. With a real-life credit card data linked to 711,397 credit card holders from a large bank in Brazil, this study develops a Deep Neural Network to evaluate the risk of credit card delinquency based on the client's personal characteristics and the spending behaviors. Compared to machine learning algorithms of Logistic Regression, Naïve Bayes, traditional Artificial Neural Network, and Decision Tree, Deep Neural Network has a better overall predictive performance with the highest F scores and AUC. The successful application of Deep Learning implies that Artificial Intelligence

has great potential to support and automate credit risk assessment for financial institutions and credit bureaus.

Discussant: Fang-Pang Lin, National Center for High Performance Computing, Taiwan

3. Machine Learning for Predicting Default of Credit Card Holders and Success of Kickstarters

Michael Lee, Georgia Institute of Technology, USA
Huei-Wen Teng, National Chiao Tung University, Taiwan

Abstract: Applications of machine learning in finance have arouse extensive attentions in recent decades. To predict default of credit card clients and success of kickstarter projects, we apply supervised learning approaches, includingdecision tree, neural networks, boosting, support vector machine, and K-nearest neighbors. We furthermoreinvestigate the numerical performances of inferring the weight of a neural network among back propagation withrandomized optimization techniques, such as randomized hill climbing, simulated annealing, and a genetic algorithm. Finally, principle component analysis and independent component analysis are conducted for dimensionreduction for the neural network. Potential extensions, limitations, and combinations with econometric modelsto improve the prediction power are discussed.

Discussant: Ting Sun, The College of New Jersey, USA

4. Algorithmic Analyst—An Application to Algorithmically Generate Financial Market Reports

Ted Hong, Daniel Lee, and Wen Wang, Beyondbond, Inc.

Abstract: We presents Algorithmic Analyst, an automated application that combines statistical methods with natural language generation and artificial intelligence tools to collect financial data and generate multi-media reports in Chinese and English. Algorithmic Analyst is the first step in our goal to develop an Artificial Intelligence Content as a Service (AI-CaaS) concept. AI-CaaS gathers global capital markets data, performs big data analysis driven by algorithms, produces narratives describing the past and forecasting the future market behavior in various native languages using natural language generation, and distributes them to a global audience.Algorithmic Analyst uses a multi-factor risk model (MFR) to identify risk factors and their associated attributes from a set of over 150 financial market variables. Four major factors are employed in the model: valuation, quality, technical, and macro factors. Self-adjusting to the most recent data, MFR runs daily to rank the factors' predictability. Using the ranking, Algorithmic Analyst computes near-term price movements and generates narrative texts describing the past trends and explaining the forecast results.

Discussant: Yu-Fen Chen, Da-Yeh University, Taiwan

SESSION 15: FINANCIAL ACCOUNTING (C)

ROOM NUMBER: COLLABORATIVE LEARNING CENTER

Chairperson: Agnes Cheng, The Hong Kong Polytechnic University, Hong Kong

1. **Effects of the Leases Exposure Drafton Loan Spreads and Analyst Dispersion**
   Lin Qiu and Joshua Ronen, New York University, USA

   Abstract: We examine whether market perception of firms' future default risk increases, as manifested in market measures of risk, upon issuance of the 2010 exposure draft (ED) proposing capitalization of most operating leases. Employing a difference-in-differences design, we find a significant increase in loan spread and credit default swap (CDS) premia for firms with high operating leases. Expecting that the ED causes analysts to converge in the way they predict the effects of leases on earnings predictions, we also document a decrease in analyst dispersion for firms with high operating leases. Cross-sectional tests show the effect to be more pronounced in firms with lower disclosure reliability and longer lease maturity. Our findings contribute to the debate surrounding differential effects of recognition versus disclosure.

   Discussant: Bharat Sarath, Rutgers University, USA

2. **Voluntary Disclosure by Activist Shareholders**
   Ryan McDonough, Rutgers University, USA
   Jordan Schoenfeld, Georgetown University, USA

   Abstract: Corporate governance theory often models activists as privately informed minority stakeholders who use persuasion over other investors to enact their agendas at a target firm. Consistent with this idea, we find that activists frequently release open letters aimed at other investors that are associated with significant stock price movements, decreased bid-ask spreads, and key activism outcomes such as directorship wins, strategic shifts, and proxy advisor recommendations. Managers commonly respond to activists' letters, thus creating a public debate about the target's future. These findings suggest that activists use open letters to inform other investors and facilitate change at their targets.

   Discussant: Jingyi Du, Rutgers University, USA

3. **Signaling under Threat: Evidence of Voluntary Disclosure in Contested Takeovers**

   Jinqiu Yan, Rutgers University, USA

   Abstract: This paper investigates voluntary disclosure strategies in contested takeovers and the associated economic consequences. Using a difference-in-differences research design, we find that relative to friendly takeovers, target management in contested takeovers provides more earnings guidance and conveys more good news during the takeover. Moreover, voluntary disclosure helps contested targets negotiate better offers and the results are stronger for targets with more information asymmetry. Collectively, targets adopt voluntary disclosure and alter their strategies under the threat of contested takeover to enhance their

bargaining power. Voluntary disclosure by contested targets serves as a resistance tactic that potentially benefits target shareholders.

Discussant: Yan Yan, Fairleigh Dickinson University, USA

4. **Do Accounting Estimates Inform Assessments of Company Failure?**

HeritaAkamah, University of Nebraska-Lincoln, USA
Keith Czerney, University of Missouri-Columbia, USA
Thomas C. Omer, University of Nebraska-Lincoln, USA

Abstract: Accounting estimates are prevalent throughout today's financial statements, yet we know relatively little about the contexts in which they are informative. This study investigates whether accounting estimates that cast doubt on a company's future earnings potentially informs assessments of company failure. We use the deferred tax asset valuation allowance to operationalize accounting estimates and measure company failure using subsequent bankruptcy filings and a broader measure of failure that also considers exchange delistings for financial reasons and poor credit ratings. Using a sample of U.S. public companies from 2004 through 2015, we find an association between accounting estimates and the likelihood of company failure. A going concern opinion does not fully mediate this association, suggesting that accounting estimates convey information incremental to that conveyed in a going concern opinion. Cross-sectional analyses reveal that the mediating effect of a going concern opinion is less when companies are more distressed, have weaker external information environments, and lower quality financial reporting, and when estimates are more conservative. Our research should be of interest to standard setters, as they continue to consider the role of accounting estimates in financial reporting; auditors, as they consider information relevant to going concern assessments; and, academics and investors interested in understanding the information contained in the deferred tax asset valuation allowance.

Discussant: Ryan McDonough, Rutgers University, USA

SESSION 16: CORPORATE FINANCE (C)

ROOM NUMBER:LSC 111

Chairperson: Carl R. Chen, the University of Dayton, USA

1. **Do Well-Connected Boards Invest in Productive R&D Activities?**

Subramanian R. Iyer, University of New Mexico, USA

HarikumarSankaran, New Mexico State University, USA

Yan Zhang, New Mexico State University, USA

Abstract: Prior research finds that well-connected directors and CEOs foster innovative activity by spending more on R&D, that yield patents and patent citations which ultimately result in higher value to stakeholders. These findings do not explain the observation that the R&D expenditures in the U.S. are at an all-time high but contributions of innovation have been on the decline. Since, not all inventions are patentable and not all patents add value, many studies have attempted to estimate R&D productivity based on firm-level production function. We use output elasticity of R&D expenditures, estimated from a firm's production function, and find that as boards become more connected, marginal R&D productivity and market to book value of equity decline. The output elasticity of R&D expenditures allows an estimation of optimal R&D expenditures that is not possible with measures such as patents and patent citations. Our analysis indicates that the decline in productivity and consequently market to book value of equity is caused by overinvestment in R&D by boards with a high level of network centrality, especially in high-tech firms.

Discussant:T. Robert Yu, University of Wisconsin Whitewater, USA

2. **Corporate Innovation: Do Diverse Boards Think Differently?**

Heng An, University of North Carolina Greensboro, USA

Carl R. Chen, the University of Dayton, USA

Qun Wu, the University of Nevada, USA

Ting Zhang, the University of Dayton, USA

Abstract: We find a multi-dimensional index of board diversity to be positively related to both thequantity and quality of a firm's innovation output. Moreover, firms with diverse boards engage inmore exploratory innovation with the development of new technology in unfamiliar areas.Therefore, they create more breakthrough innovations as well as more failed inventions. Thebenefits start leveling off as diversity reaches a high threshold, consistent with diversity havingboth costs and benefits. Furthermore, the benefits are more pronounced for complex firms incompetitive industries. Finally, of six different aspects of board diversity, professional diversitymatters most for innovation.

Discussant: Subramanian R. Iyer, University of New Mexico, USA

3. Family Firms and Innovation Process: Evidence from China

Li LiEng, Missouri University of Science and Technology, USA

Hanqing Fang, Missouri University of Science and Technology, USA

Xi Tian, Nanjing Agricultural University, China

T. Robert Yu, University of Wisconsin Whitewater, USA

Abstract: This paper examines whether the level of innovation activities is different between family firms and non-family firms in China. We employ a process perspective and use dynamic ordinary least squares (OLS) regressions to study innovation activities of Chinese firms. We find that family firms are dependent on prior research and development (R&D) spending but less so relative to non-family firms. Next, we find that R&D investment by family firms is more likely to be motivatedbythe availability of cash flows relative to non-family firms, specifically internal financing rather than external financing. Finally, it appears that that younger family firms are the main driver of our findings.

Discussant: Carl R. Chen, the University of Dayton, USA

SESSION 17: INVESTMENT (C)

ROOM NUMBER:LSC 201 AB

Chairperson: Zhaodong (Ken) Zhong, Rutgers University, USA

1. **Strategic Mutual Fund Starts and Fund Performance**

Yun-Ning Chang, Hong-Yi Chen, and Jing Han, National Chengchi University, Taiwan

Abstract: This study examinesthe influence of star funds on fund families' cash flow and family performance.Empirical results show that,consistent with the spillover effect, afamily and its associated funds can obtain more cash inflowswhen the fund family possesses prominent performance funds.In addition, wefind that starfamilies will utilize the star halo to issue new mutual funds, and the newly issued fundsunder star families can generate more proceeds.However,new funds under star families do not have better performance than new funds under non-star families significantly. This indicates that investors are attracted by the star halo and subsequently investnewfunds under star families;nevertheless, such investment strategy cannot delivergreater returns for investors.

Discussant: Stanislav Sokolinski, Rutgers University, USA

2. **The Performance of F-shares in Taiwan: A Preliminary Evidence**

Chin-Chen Chien, National Cheng Kung University, Taiwan
Hsuan-Chu Lin, National Cheng Kung University, Taiwan
She-Chih Chiu, National Taipei University, Taiwan
Hsing-Ying Lin, National Cheng Kung University, Taiwan

Abstract: This paper investigates the stock and accounting performance of F-shares. We use eight indices to measure stock performance and three indices to measure accounting performance. The findings show that F-shares are more volatile in the listing year. After listing, F-shares are significant in regard to the capacity to use both net assets and assets to generate profits. Meanwhile, the systematic risk for F-shares is slightly lower than the market. F-shares' risk-adjusted excess returns are slightly lower than the market in the listing year and the year following listing. However, the systematic risk-adjusted excess returns of F-shares are slightly higher from the listing after excluding nonsystematic risk. The active risk-adjusted excess returns and expected excess returns of F-shares are also higher than the market in the listing year. The abnormal returns for the F-shares are slightly higher than the market one year after listing. In addition, there is no obvious earnings management for F-shares.

Discussant: Hong-Yi Chen, National Chengchi University, Taiwan

3. **Credit Default Swaps and Analyst Optimism**

Suresh Govindaraj, Rutgers University, USA
Yubin Li, Southwestern University of Finance and Economics, China

Chen Zhao, Southwestern University of Finance and Economics, China
Zhaodong (Ken) Zhong, Rutgers University, USA

Abstract: This paper investigates whether and how the initiation of Credit Default Swaps (CDS) trading affects analyst optimism. First, we show that the increase in forecast accuracy after CDS initiation documented in the prior literature is mainly driven by less optimistic forecasts, rather than less pessimistic forecasts. Second, we find that the dampening effect of CDS on analyst optimism is stronger for firms with negative news and for firms with poorer financial performance, supporting a "correction effect" of CDS on non-strategic optimism. Moreover, we find that CDS also has a "disciplining effect" on strategic optimism that arises from incentives to cultivate relation with management or to please institutional investors. Overall, our evidence shows that the CDS market not only provides important information for analysts, but also alters analysts' reporting incentives.

Discussant: She-Chih Chiu, National Taipei University, Taiwan

4. **Volatility and Welfare in a Crypto Economy**

Fahad Saleh, McGill University, Desautels

Abstract: Proof-of-Work (PoW) blockchains possess at least two undesirable characteristics: exceptional price volatility and welfare impairment. Exceptional price volatility arises because PoW implements a passive monetary policy that fails to modulate cryptocurrency price fluctuations. Welfare impairment arises because PoW compensates those updating the blockchain through seigniorage while facilitating free-entry among them. This paper theoretically formalizes the aforementioned points and also examines an alternative blockchain mechanism, Proof-of-Burn (PoB), that induces arbitrarily low volatility with arbitrarily enhanced welfare. PoB implements an active monetary policy that modulates cryptocurrency price fluctuations. Further, PoB employs a similar incentive structure as PoW but induces welfare gains by supporting cryptocurrency prices with blockchain updating expenses. This paper demonstrates that PoB maintains desirable PoW-characteristics such as free-entry and a deflationary monetary policy but does so without inducing undesirable PoW-characteristics such as exceptional volatility and welfare losses.

Discussant: Fang-Pang Lin, National Center for High Performance Computing, Taiwan

SESSION 18: FINANCIAL ACOOUNTING (D)

ROOM NUMBER:(LSC 202 ABC)

Chairperson: Sung S. Kwon, York University, Canada

1. **A New Measure of Firm-Group Accounting Closeness**

Jonathan Ross, Binghamton University, USA
David Ziebart, University of Kentucky, USA
Anthony Meder, Binghamton University, USA

Abstract: In this study we develop a new measure of firm-group accounting similarity whichcaptures co-movement in accounting fundamentals over time. We calculate themean of (1) the average pair-wise correlation between earnings and cash flowsfor a group of firms and (2) the average pair-wise R^2 from regressing firm *i*'searnings(cash flows) on firm *j*'s earnings(cash flows) within-group. We analyzehow the four most widely used industrial classification schemes perform in relation to our measure. We document that the within-industry information transfercontagion effect is increasing in our measure. We confirm that within-industrysimilarity for the average industry varies widely and is the reason why announcement contagion effects are not observed in certain industries. Lastly, we showthat the number of analysts following an industry increases in our measure of industry closeness. From an investor's standpoint, the new measure enables themto better discern whether the performance of a group of firms is related overtime. From a researcher's standpoint, the new measure enables them to moreaccurately control for industry effects by capturing the fact that within-industrysimilarity varies across industries.

Discussant: Xiangjing Wei, Gannon University, USA

2. **Asymmetric Sensitivity of Executive Bonus Compensation to Earnings and the Effect of Regulatory Changes**

David T. Kwon, Yale University, USA
Sung S. Kwon, York University, Canada
Jennifer Yin, University of Texas at San Antonio, USA

Abstract: In this paper we examine the sensitivity of CEO bonus to earnings in the cases of goodnews and bad news, and compare these relationships in the periods before and after SOX. Wefind an asymmetric sensitivity of bonus to earnings. We also find that the asymmetric sensitivityof bonus to earnings exists before SOX but disappears post SOX. Regulatory changes broughtforth by SOX, including personal certifications of financial reporting by CEOs and CFOs, theclaw back provision, annual evaluation of internal control and disclosure of any materialweakness, and increased level of conservatism in firms and their auditors after SOX, offer analternative mechanism to monitor executives, potentially reducing the ex post settling upproblem. The findings show that regulatory changes affect compensation contracts and haveimplications for regulators, managers, politicians, investors, and academics in their assessment ofthe equitable relationship between executive efforts and executive bonus compensation.

Discussant: Jonathan Ross, Binghamton University, USA

3. **What Factors from Financial Statements Determine Changes in Expectations of Future Earnings?**

Min (Shirley) Liu,CUNY, USA

Abstract: This paper examines what unexpected information extracted from financial statements causes sell-side analysts to change their expectations of future earnings, measured byone-period-ahead earnings forecasts revised fromtwo-periods-ahead earnings forecasts.

In forecasting, analysts usually disaggregate the earnings into operating earnings and financial earnings. Because the latter is relatively simple to forecast, the heart of the earnings forecast is predicting operating earnings. Three proxies for unexpected earnings information are constructed by subtracting the expected values of these three variables from their current values: abnormal changes in profit margins (ABPM), abnormal sales growth (ABG), and abnormal growth in net operating assets (ABNOAG). The expected value of each of these variables equals the weighted value of the three preceding years' value for each variable. If these three earnings surprise indicators have predictive power, then, based on the signals embedded in the indicators, analysts revise their earnings forecasts downward (or upward) depending on whether they were too optimistic (or pessimistic) in the previous period. Further, considering whether the reported earnings information is reliable, analysts make a determination of earnings quality, proxied by the accruals quality (AQ).

Empirical results show that forecast revisions are determined by ABPM, ABG, ABNOAG, and AQ, supporting the above argument. The validation tests show that the same explanatory variables can also explain unexpected earnings and future returns. In light of the evidence, I conclude that ABPM, ABG and ABNOAG have predictive power for future earnings and current period unexpected earnings, and that analysts regard current earnings with better accruals quality earnings as better indicators for future earnings.

Discussant: Sung S. Kwon, York University, Canada

4. **Property-Liability Insurers' Discretionary and Non-discretionary Loss Reserve Error: Relation with Investor Sentiment**

Fang Sun, The City University of New York, USA
Xiangjing Wei, Gannon University, USA

Abstract: We examine whether investor sentiment is associated with loss reserves of property-liability insurers. Using Michigan Consumer Confidence Index as a sentiment proxy, we find investor sentiment is negatively associated with discretionary loss reserve error. Our evidence does not suggest a similar relationship for non-discretionary loss reserve error. Furthermore, stock insurers are more sensitive to investor sentiment than mutual insurers, in terms of discretionary loss reserves. The results are consistent with our hypothesis that property-liability insurers cater to investors' sentiment via discretionary loss reserves. Our study discovers a new rationale for why insurers may use discretion over their loss reserves.

Discussant: Min (Shirley) Liu,CUNY, USA

SESSION 19: CORPORATE FINANCE & ACCOUNTING

ROOM NUMBER: COLLABORATIVE LEARNING CENTER

Chairperson: Hai-Chin Yu, Chung Yuan Christian University, Taiwan

1. **Innovation-Product Connection: R&D 100 Awards, Product Segmentation, and Stock Returns**

Po-Hsuan Hsu, University of Hong Kong, Hong Kong

Yiming Yang, University of Hong Kong, Hong Kong

Tong Zhou, Sun Yat-Sen University, China

Abstract:This paper connects innovation to product market segmentation using a prestigious award for technology breakthroughs in product inventions: the R&D 100 Award. We argue that award-winning outcomes have asset pricing implications because awarded firms can promote their products to high-end markets, which increases profitability procyclical to consumption and results in higher systematic risks. We find that, compared with their matched industry counterparts, award-winning firms are associated with higher product market performance. Moreover, these firms outperform their comparable peers by 3% in annual return and have significantly higher future market betas. To explain these intriguing observations, we develop an investment-based model based on the interaction between growth opportunities, R&D investments, product market performance. Our tractable model also suggests that the award-return relation increases with aggregate consumption growth and R&D investments. Empirical evidence supports all model predictions.

Discussant: Oded Palmon, Rutgers University, USA

2. **Determinants and Impact of Say-on-Pay Vote**

Meera Behera, Seton Hall University, USA

Vikram Nanda, University of Texas, Dallas, USA

Oded Palmon, Rutgers University, USA

Abstract:The paper examines the determinants and impact of Say-on-Pay (SoP) votes,mandated by the Dodd Frank Act. As previous studies have shown, approval rates arerelated positively to past performance and negatively to CEO compensation. SoP votes are affected by firm ownership attributes: consistent with their role in monitoring firms, higher equity ownership byinstitutions and blockholders (especially outsiders) is associated with greater vote sensitivity to performance and CEO pay. Although voting outcomes are not binding, they havematerial effects: poor voting outcomes are followed by a significant improvement in the firm’s subsequent equity performance. Additionally, CEO compensation increments are positively related to vote outcomes. However, CEO compensation increments in the following year do not offset the initial negative relation between CEO compensation and vote outcomes.

Discussant: Tong Zhou, Sun Yat-Sen University, China

3. Management Earnings Forecasts and Accounting Conservatism

Hua Xin,University of Louisville, USA

Joshua Ronen, New York University, USA

BikkiJaggi, Rutgers University, USA

Abstract:In a recent paper, Hui, Matsunaga, & Morse (2009) have argued that managers may prefer using accounting conservatism instead of issuing management earnings forecasts (MFs) that may reduce information asymmetry and also may lower firms' potential legal liability. We examine in this paper whether Hui, et al.'s argument is valid for all three types of earnings forecasts, i.e. Cost of Capital (COC) MFs, Opportunistic (OPP) MFs, and Disclose or Abstain (DOA) MFs, identified by Li et al. (2015). We argue in this paper that accounting conservatism serves as a substitute only for informative forecasts, which are classified as Cost of Capital (COC) MFs, and it does not serve as a substitute for Opportunistic (OPP) MFs and Disclose or Abstain (DOA) MFs, required under section of 1933 Securities Exchange Act because these both types of MFs are used to achieve different objectives. Our findings confirm our claim that conservatism serves as a substitute for informative MFs only.

Discussant: Hao-Chang Sung,Jinan University, Guangzhou, China

SESSION 20: FINANCIAL ACCOUNTING (E)

ROOM NUMBER:LSC 111

Chairperson: Jia-Chi Cheng, Yuan Ze University, Taiwan

1.Characteristics of Institutional Investors and It's Impacts on Accounting

Jia-Chi Cheng, Yuan Ze University, Taiwan

Nan-Ting Kuo, Nankai University, China

Abstract:This study investigates heterogeneous monitoring incentives institutional investors use over time for different stocks and their effect on firms' financial reporting quality. We employ four measures proposed by Elyasiani and Jia (2008; 2010) and Bohren et al. (2005) to proxy for the stability of institutional ownership. We find that firms with stable institutional ownership have strong monitoring incentives and tend toavoid aggressive accounting policies.Specifically, we find they have fewer discretionary accruals,which indicate earnings management;we also find they have higher accruals quality and earnings persistence, fewer financial restatements, and more conservative accounting practices. These results help explain how stability of institutional ownership affects information quality through financial reporting practices. We find similar results after controlling for endogeneity, using alternative variables,using reduced samples, and employing different regression specifications. Our results suggest that a reliable measure of institutional-ownership influence must considerinvestment horizon.

Discussant: Fang-Chi Lin, National Pingtung University, Taiwan

2.Do Heterogeneous Beliefs among Investors Affect Managerial Disclosure Behaviors?

Zhiwei Xu, Rutgers University, USA

Abstract: This paper investigates empirically whetherheterogeneity of belief has a causal effect on managerialdisclosure behaviors via the semi-parametric generalized additive model. Usinga new measurement for heterogeneous beliefs and"three pass regression filter" method andexploiting thepossible exogenous variation inheterogeneityof beliefs around the cutoff of 1000/2000 indexes, we construct a new model. We find that managers are more likely to issue management forecast,increase the number of their forecasts, will issue less precise earnings forecasts that are with longer horizon and tend to cater to optimistic investors' beliefs when they face larger overvaluation due to the combination of heterogeneous beliefs and short sale constraint. We also find that they will take opposite actions when they face higher belief heterogeneity risk arising from low short sale cost. Our conclusions suggest that heterogeneous beliefs and short sale constraint play the important roles in influencing managerial disclosure behaviors as well as support the idea that stock price hassome real impacts on managers' decision.

Discussant: Feng Gao, Rutgers University, USA

3.Income Classification Shifting and Financial Analysts' Forecasts

Shanshan Pan, Michael Lacina, and Haeyoung Shin, University of Houston-Clear Lake, USA

Abstract: Income classification shifting involves opportunistically misclassifying core expenses into non-core items in order to boost core earnings. Recent studies have documented evidence of its existence (e.g., McVay 2006; Fan et al.2010; Barua et al.2010). Managers engage in income classification shifting because they believe they can manage the perceptions of investors and financial analystswho focus on core earnings. We examine financial analysts' earnings forecasts to determine whether analysts can identify income classification shifting and how they respond to shifted income statement components. Financial analysts are sophisticated users of financial statements and play a critical role as information intermediaries between a firm and its investors. Capital market participants are interested in obtaining accurate analysts' forecasts as a proxy of market earnings expectations and for use in firm valuation (Schipper, 1991; Bartov et al. 2002; Brown and Caylor 2005; Graham et al. 2005). We find that analysts respond less to increased core earnings caused by classification shifting. On the other hand, we provide evidence that analysts fail to gauge the full impact of classification shifting on future earnings, leading to more optimistically biased andless accurate analysts' forecastsfor classification shifters.Our results are robust to a battery of additional tests, including a propensity-score matching analysis to address endogeneity.

Discussant: Zhiwei Xu, Rutgers University, USA

4.The Association between the Quality of Accruals and Cash Dividends Conditional on Losses

Ni-Yun Chen, National Sun Yat-sen University, Taiwan
Chi-Chun Liu, National Taiwan University, Taiwan

Abstract: The quality of accruals that contain information about expected cash flows ispositively associated with the payment of cash dividends. However, dividends are lesslikely to be paid following losses. For the loss sample in this study, the results show that the association between the quality of accruals and the payment of dividends ismore significantly positive when compared to the non-loss sample. The resultsindicate that firms with high quality of accruals favor using dividends to signal theirfinancial credibility, particularly in the face of losses. However, firms with low qualityof accruals tend to use those accruals to offset negative earnings, in reality with morenegative earnings in turn decreasing the firms' ability to pay dividends.

Discussant: Shanshan Pan, University of Houston-Clear Lake, USA

SESSION 21: INVESTMENT (D)

ROOM NUMBER:LSC201 AB

Chairperson: Weike Xu, Clemson University, USA

1. **Network Analysis of Asian Bond Market**

Tatsuyoshi Miyakoshi, Hosei University, Japan

Junji Shimada, Aoyama Gakuin University, Japan

Abstract: The Asian financial crisis in 1997-1998 taught us three major lessons. First, the region failed to diversify its sources of corporate financing during the process of financial deregulation in the early 1990s. Domestic financing in the Asian economies at that time relied excessively on commercial banks, but equity markets and, particularly, bond markets remained less developed. Second, mismatches between local and global currency in funding make local borrowers go bankrupt. Third, the immature financial systems in East Asia disturbed that large amounts of savings flowed back to its region as investment. Governments in the region endeavored to cooperate through epoch-making regional financial initiatives such as the Asian Bond Markets Initiatives (ABMI) and the Asian Bond Fund Initiative (ABFI) and developed the Asian Bond Market based on three lessons. ABFI1starts with a foreign currency-denominated government bond (FCY government bond) markets, investors are a member of EMEAP (Executives' Meeting of East Asia-Pacific Central Banks), and a fund manager is Bank of International Settlements (BIS). In 2005, ABFI2 starts in a local currency-denominated government bond (LCY government bond) market, where investors are central banks and private investors, fund managers are private company for each local fund. These initiatives are to hold LCY government bonds mutually in Asian countries through ABFI1 and ABFI2. First, it is significant to assess these initiatives produced by governments and central banks in Asian region: how is LCY Asian bond markets integrated by measuring connectivity of markets. Second, a higher connectedness and a basic property of financial networks, carries both benefits and risks. Such a financial network provides many occasions of getting benefits and improves risk sharing by more easily absorbing shocks. On the other hand, it can lead to contagion because shocks can reach further out in the web of relationships. The purpose of this paper is to assess the achievement of ABFI1 and ABFI2 by using network analysis developed recently during two decades 2001-2017. Also, in a simulated model, this paper is to assess a network of LCY government bond in Asia with a higher connectedness and a basic property of financial networks.

Discussant: Weike Xu, Clemson University, USA

2. **Geopolitical Risk and Investment**

Xinjie Wang, Southern University of Science and Technology, China

Yangru Wu, Rutgers University, USA

Weike Xu, Clemson University, USA

Abstract: Using a news-based index of geopolitical risk (GPR), we find a strong negative relationship between firm-level corporate investment and aggregate geopolitical risk. A doubling in GPR index leads to a 0.126 standard deviation decline in firm investment, which is equivalent to 18.9% of the average level of investment in the sample. Furthermore, we show that the adverse effect of GPR on investment is more pronounced for firms with a higher degree of investment irreversibility. Our results suggest that geopolitical risk depresses investment through the real options channel. When geopolitical risk is high, the option value of delaying investment is high and firms may prefer to wait for uncertainty to be resolved.

Discussant: Tatsuyoshi Miyakoshi, Hosei University, Japan

3. **Gold in Portfolio:A Long-term or Short-term Diversifier?**

Fu-Lai Lin, Da-Yeh University, Taiwan

Sheng-Yung Yang, National Chung Hsing University, Taiwan

Yu-Fen Chen, Da-Yeh University, Taiwan

Abstract: The purpose of this paper is to evaluate the role played by gold in a diversified portfolio comprised of bond and stock. The continuous wavelet transform analysis is applied to capture the correlation featuresbetween gold and other risky assetsataspecific time horizonsto determine whether gold should be included in a diversified portfolio.This paper uses theU.S. stock, bond, and gold data from 1990until 2013 to investigate the optimal weights of gold obtained from the minimum variance portfolio. Empirical findingssuggest thatlittle evidencessupport that gold actsan efficient diversifier in traditional stock and bond portfolio. Gold typically has been a long-term diversifier in the traditional portfoliocomprised of bond and stockonly before the early 2000sand acts as a short-term diversifier in times of crisis periods. The significant dropin the long-term weight of gold indicate that gold losses much of its long-termrolein the diversifiedportfolio. These findings are useful forportfoliomanagers to justify the gold's diversification benefits over different investment horizons.

Discussant: Yangru Wu, Rutgers University, USA

4. **Value Premium, Size and Default Risk**

NusretCakici, Ren Raw Chen, and Sris Chatterjee, Fordham University, USA

Abstract: Prior research (Vassalou and Xing, 2004) uses Merton's (1974) option pricing model to compute default measures for individual firms and concludes that both the size and book-to-market effects are related to default risk. For example, small firms earn higher return than big firms only if they have higher default risk and value stocks earn higher returns than growth stocks if their default risk is high. In this paper we use a more advanced option pricing model (Geske 1979) for the computation of default risk and we provide a more exhaustive test of stock returns based on one-way and 2x2 sorts. We show that long-short hedge portfolios based on the Geske measure of default risk produce more statistically significant returns compared to the Merton measure of default risk. The paper brings new evidence to the debate between the rational and behavioral explanations of value premium.

Discussant: Cheng-Few Lee, Rutgers University, USA