The 24th Annual Conference on Pacific Basin Finance, Economics, Accounting, and Management

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National Chiao Tung University
Hsinchu, Taiwan

Conference Venue: 1st floor, Microelectronics and Information Systems Research Center, Kuang-Fu Campus, NCTU

The 24th Annual Conference on Pacific Basin Finance, Economics, Accounting, and Management

Conference Organizers:

Rutgers University, USA

National Chiao Tung University, Taiwan

Foundation of Pacific Basin Financial Research and Development, Taiwan

Conference Co-Organizers:

Executive Master of Business Administration (EMBA), National Chiao Tung University, Taiwan

Department of Information Management and Finance, National Chiao Tung University, Taiwan

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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

Conference Agenda: Day 1

Saturday, 11th June 2016		
9:00a.m. – 9:05a.m.	Opening Remarks by **Professor Cheng Few Lee, Rutgers University, USA** (International Conference Hall)	
9:05 a.m. – 9:20a.m.	Welcoming Remarks by **Dr. Sin-Horng Chen , National Chiao Tung University, Taiwan (Senior Vice President of National Chiao Tung University)** (to be invited) (International Conference Hall)	
9:20 a.m. – 9:30a.m.	Welcoming Remarks by **Professor Nabil R. Adam, Rutgers University, USA** (International Conference Hall)	
9:30a.m. – 10:15a.m.	First Keynote Speech: **Professor Terry Marsh, University of California, Berkeley, USA** **Investor Segmentation, Liquidity and Return Premiums** (International Conference Hall)	
10:15a.m. – 10:30a.m.	Tea Break	
10:30a.m. – 11:15a.m.	Second Keynote Speech: **Professor Cheng Few Lee, Rutgers University, USA** **Evolution of Financial Econometrics and Statistics for the Last Half Century** (International Conference Hall)	
11:15a.m. – 11:30a.m.	Tea Break	
11:30a.m. – 1:00p.m.	BREAKOUT SESSION I	
	Session 1	Futures, Options and Risk Management (M-116)
	Session 2	Corporate Finance (A) (M-115)
	Session 3	Financial Accounting (A) (M-105)
	Session 4	Asset Pricing (A) (M-104)
	Session 5	Corporate Finance (B) (M-103)
	Session 6	Risk Management (A) (M-102)
1:00p.m. – 2:30p.m.	Lunch	
2:30p.m. – 4:00p.m.	BREAKOUT SESSION II	

	Session 7	Corporate Finance (C) (M-116)
	Session 8	Working Capital and Bank Management (M-115)
	Session 9	Investment Analysis and International Finance (M-105)
	Session 10	Security Analysis and Portfolio Management (M-104)
	Session 11	Risk Management (B) (M-103)
	Session 12	Auditing (M-102)
4:00p.m. – 4:15p.m.	Tea Break	
4:15p.m. – 5:45p.m.	BREAKOUT SESSION III	
	Session 13	Corporate Finance (D) (M-116)
	Session 14	Asset Pricing (B) (M-115)
	Session 15	Financial Accounting (B) (M-105)
	Session 16	International Finance and Economics (M-104)
	Session 17	Bond and Stock Valuation (M-103)
	Session 18	Financial Accounting (C) (M-102)
7:30p.m. – 9:30p.m	Conference Dinner	

Conference Agenda: Day 2

Sunday, 12th June 2016		
9:00a.m. – 9:45a.m.	Third Keynote Speech: **Professor Kose John, New York University, USA** **Risk, Innovation and Institutions** (International Conference Hall)	
9:45a.m. – 10:30 a.m.	Fourth Keynote Speech: **Professor Nabil R. Adam, Rutgers University, USA** **Big Data and Machine Learning in Finance and Economics** (International Conference Hall)	
10:30a.m. – 10:45 a.m.	Tea Break	
10:45a.m. – 12:15 p.m.	BREAKOUT SESSION IV	
	Session 19	Real Estate and Pension (International Conference Hall)
	Session 20	Corporate Finance and Investment Analysis (Conference Room 1)
	Session 21	Asset Pricing and Bank Management (Conference Room 4)
12:15p.m. – 2:00p.m.	Lunch	
2:00p.m – 8:00p.m.	Trip to Taipei	

SESSION 1: FUTURES, OPTIONS AND RISK MANAGEMENT
ROOM NUMBER: M-116

Chairperson: Phillip A. Cartwright, PSB Paris school of Business59, France

1. **Do Spot Prices Predict Future Futures Prices? Evidence on the Explanatory Power of Spot Food Commodity and Energy Prices for Futures Contracts Prices**

Phillip A. Cartwright, PSB Paris school of Business59, France

Nataljia Riabko, FranceAgriMer, France

Abstract: Futures prices reflect the price that both the buyer and the seller agree will be the price of a commodity upon delivery. Therefore, these prices provide direct information about investor's expectations about the future price of the commodity of interest. This purpose of this research is two-fold. First, following earlier investigations, an effort is made to understand the extent to which the spot energy (oil) price contains information content in the current period useful for predicting the forward-looking variable. The working hypothesis is that both own-commodity spot prices and spot energy (oil) prices are significant predictors of future commodity prices at alternative leads (lags).Second, the research investigates the predictive accuracy and biasedness of futures prices predictions from reverse regressions using in-sample criteria as well as from the performance of the models based upon ex post forecasts generated by alternative time series models. Ex post forecasts are generated for 5 and 10-step daily horizons and 4 and 8-step weekly horizons. The weekly models perform markedly worse than the daily models.

Discussant: Yam-Wing Siu, Hang Seng Management College, Hong Kong (ywsiu@hsmc.edu.hk)

2. **Alternative Methods to Estimate Implied Variance: Review and Comparison**

Jow-Ran Chang, National Tsing Hua University, Taiwan

Yibing Chen, Chinese Academy of Sciences, China

Cheng-Few Lee, Rutgers University, USA

John Lee, Center for PBBEF Research, USA

Yaqing Xiao, Rutgers University, USA

Abstract: The main purposes of this paper are to review and compare: (i)alternative methods for estimating implied variance in terms of Black-Scholes Model; (ii) to estimate implied variance in terms of CEV model; and (iii) we present several Excel Program to estimate the implied variance in terms of both Black-Scholes model and CEV model.
In this paper, we first review several alternative methods to estimate implied variance. Then we show how the MATLAB computer program can be used to estimate implied variance based upon the Black-Scholes model. In addition, we also discuss how the approximation method derived by Ang et al. (2013) can be used to estimate implied variance and implied stock price per share. Real world data are used to compare the estimation results using three typical alternative methods: regression method proposed by Lai et al, MATLAB computer

program approach and approximation method derived by Anget al. Finally, we also discuss the implied variance estimation in terms of CEV model.

Discussant: Phillip A. Cartwright, PSB Paris school of Business59, France (phillip.cartwright@gmail.com)

3. **Volatility Trading Strategies: the Application to the S&P 500 Equity Index Options**

Hui Hong, Jiangxi Normal University, China

Abstract: Options are found with mispricing, where the likely source comes from the volatility of underlying assets. Volatility trading strategies allow investors to make use of option mispricing if it happens to exist. This article examines the profitability of trading the volatility in time-varying market conditions, with a particular focus on evaluating the authenticity of risk-adjusted returns. While significant profits are available on strategies that involve writing put options to exploit the mispricing, our findings cast doubt on whether these profits can be genuinely attained practically. After bid-ask spreads are included, we find that the profitability is significantly reduced. Furthermore, the implementation of the trades is generally difficult owing to margin requirements as investors have to set aside a large proportion of their wealth into margin accounts and also face a high likelihood of margin calls. Overall, the profitability of volatility trading tends to hinge on the capability of investors to capture the volatility risk premium and to wisely time its trades.

Discussant: Yaqing Xiao, Rutgers University, USA (xiaoyaqing1988@hotmail.com)

4. **Volatility Forecast by Volatility Index and its Use as a Risk Management Tool under a Value-at-Risk Approach**

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

Abstract: This paper examines the predicting power of the volatility indexes of VIX and VHSI on the future volatilities of their respective underlying indexes (or called realized volatility, s30, h) of S&P500 Index, SPX and Hang Seng Index, HSI. Our findings suggest that volatility indexes, on average, have overestimated the future volatility of their respective underlying indexes. Since the values of volatility indexes are derived from the index options, overall speaking, it implies that options sold in these two markets are overpriced. This could be explained by the thriving business of derivatives warrants and callable bull/bear contracts in Hong Kong where there are numerous retail investors who can only be the buyers of these instruments. Issuers, who are price-setters of these instruments, would overprice them. Upon the issuances of these option-like instruments, they use index options to hedge their position, if necessary, and may bid up the volatilities of index options as long as the volatilities of these index options are lower than the implied volatilities those derivatives warrants and callable bull/bear contracts they have sold. Further analysis indicates that realized volatility is not an ideal volatility for pricing options, even though it is an ex-post data, as it would underprice the options by 2.21% and 1.91% of the spot price of SPX and HSI respectively during the whole sample period. A new benchmark (fair volatility, sf) that considers the premium of option and the cost of dynamic hedging the position is proposed. This benchmark series can be used to evaluate volatility forecast technique especially in relation to option

pricing. Amid of the generally overpricing of options as indicated by the volatility indexes, on some occasions, it could underprice the options by 4.85% and 3.60% of the spot price of SPX and HIS respectively.

Discussant: Hui Hong, Jiangxi Normal University, China (hui.hong1982@yahoo.com)

SESSION 2: CORPORATE FINANCE (A)
ROOM NUMBER: M-115

Chairperson: Sahn-Wook Huh, University (SUNY) at Buffalo, USA

1. **Resultant Corporate Risk Following a Divestiture Announcement: A South African Study**

Luthando Lulu Mzilikazi, University of Cape Town, South Africa

Abstract: This study evaluates the direction and the extent of the change of parent firm risk following a divestiture (sell off and spin off) announcement of firms listed on the Johannesburg Stock Exchange (JSE). We employ the relatedness of assets theory as a framework with which we aim to substantively contribute to divestiture-risk research in the South African context. The market model and Chi square regression testing procedures are performed on STATA to test the risk differential of 20 announcements observed for the period between 2001 and 2014 for a +90 and -90 day window of the announcement date. To ensure the robustness of our results, we use four risk proxies to test the risk differential. We document that parent firms resulted in higher corporate risk post a divestiture announcement. Moreover, we empirically prove that parent firms that employed spin off restructuring decisions experienced more potent changes in parent firm risk following a divestiture announcement than firms that employed a sell offs divestiture as indicated by the results of three risk proxies analysed in this study.

Discussant: Wei Wang, Cleveland State University, USA (w.wang24@csuohio.edu)

2. **Impact of Merger and Acquisitions on Stock Returns: A Case of Financial Sector Firms of Pakistan**

Muhammad Usman, SZABIST, Pakistan

Amir Rafique, COMSATS, Pakistan

Abstract: Mergers and acquisition are not only related to accounting measures of performance of firms but it also affects the wealth of shareholders either positively or negatively. According to Hubris hypothesis, the merger and acquisition announcement brings negative effect to shareholders wealth and decreases the abnormal return in post period. The present study took this analysis separate for long and short run period. To capture immediate effect on shareholders return study used Market Model to calculate abnormal returns and employed the t-test on it to check the significant differences in two sample data set. Out of 12 cases of M&A eight mergers showed negative abnormal returns for post period with statistical significance at 1% level, two at 5% and two acquiring firms reduced returns were not statistically significant. Overall on the basis of most of M&A results, the study concluded consistent results with earlier studies. The long run analysis employed by using Ohlson (1995) model for firm value with introducing dummy variable for the pre and post period. The results indicated coefficient of dummy for merger was -0.52 with statistical significance at 1% level which is demonstrating negative effect on share price which ultimately reduces the returns. The study concluded that merger and acquisition announcement bring negative effect on shareholders return either for short run or long time period.

Discussant: Luthando Lulu Mzilikazi, University of Cape Town, South Africa
(MZLLUL001@myuct.ac.za)

3. **Intellectual Property News and Informed Trading: Evidence from Granted Patents and their Economic Value**

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

Sahn-Wook Huh, University (SUNY) at Buffalo, USA

Abstract: We construct high-frequency-based informed trading measures, as well as three measures related to intellectual property news that represent the quantity, quality, and value of granted patents. We then provide evidence that informed trading increases in and after the quarter during which firms are granted more, better-quality, and higher-valued patents. Our finding that intellectual property news predicts informed trading up to two quarters ahead also suggests that it takes time for the stock market to fully reflect such information. Our results are robust to a series of tests, and the causal relations are corroborated by difference-in-differences tests and 2SLS regressions. Our findings can be attributable to the trading behavior of aggressive transient institutional investors.

Discussant: Amir Rafique, COMSATS, Pakistan (raja_kiyani@yahoo.com)
(ulrich.schaefer@wiwi.uni-goettingen.de)

4. **CEO's Inside Debt and Dynamics of Capital Structure**

Eric R. Brisker, University of Akron, USA

Wei Wang, Cleveland State University, USA

Abstract: Debt-type compensation (i.e., inside debt) exacerbates the divergence in risk preference between the CEO and shareholders that in turn affects the firm's capital structure decisions. An excessively risk-averse CEO uses debt that falls short of the shareholders' desired level, and is eager to lower the debt ratio when the firm is over-levered but reluctant to enhance the debt ratio when the firm is under-levered. We find that higher CEO inside debt ratio is associated with lower firm debt ratio, faster leverage adjustments toward the shareholders' desired level for over-levered firms but slower adjustments for under-levered firms. The CEO inside debt ratio most conducive to optimal capital structure dynamics is lower than 10 percent.

Discussant: Sahn-Wook Huh, University (SUNY) at Buffalo, USA (swhuh@buffalo.edu)

SESSION 3: FINANCIAL ACCOUNTING (A)
ROOM NUMBER: M-105

Chairperson: Bharat Sarath, Rutgers University, USA

1. **It's in the Way That You Use It: Combining Measures of Asset Growth and Gross Profit**

Jun Chen, Auckland University of Technology, New Zealand

Joseph Mohr, University of South Florida, USA

Ronald Rutherford, University of South Florida, USA

Abstract: Recent literature has focused on asset growth and profitability (measured as GP/TA) as factors in predicting future returns. We construct a measure that combines both asset growth and scaled gross profit in a single measure, by deducting the change in capital expenditures from gross profit. We demonstrate that our measure of profitability controls for the agency problem from managerial decisions in investment. Our results are also robust to the scaling issues raised by Ball et al (2014). Further, our measure produces superior results in the full universe of CRSP stocks, but inferior results when applying to a subset of the 500 largest nonfinancial firms. It is consistent with the factor that those largest firms are less affected by the agency problems, leading to the failure of our new measure in predicting future returns among this subsample. In sum, our new measure does reflect the pricing of agency issues.

Discussant: Kevin Ow Yong, Singapore Management University, Singapore (kevinowyong@smu.edu.sg)

2. **Book-Tax Differences, CEO Overconfidence, and Bank Loan Contracting**

Hsin Tsai Liu, National Taiwan University, Taiwan

Abstract: We assess information embedded in the difference between the reported book income and the taxable income (the book-tax differences, BTDs hereafter) from debtholders' point of view. Using bank loan contracts of U.S. publicly traded companies over year 2001-2012, we find that a firm with larger book-tax differences pays more interests for its bank loan than does a firm with smaller book-tax differences. Moreover, we find that banks reduce the use of financial covenants while increase the use of general covenants for the borrowing firms which have larger book-tax differences. In addition, banks are more likely to shorten loan maturity and require their lending to be collateralized for a borrowing firm with larger book-tax differences. Taken together, our findings suggest that larger book-tax differences imply the concerns regarding financial reporting quality, thereby increasing information risk and agency costs of debts. Thus, banks tend to take price and non-price protection against borrowers.

We further find that the effects of BTDs on loan contracting are stronger if CEOs of the borrowing firm are classified as overconfident as prior studies document that CEO overconfidence is associated with more misreporting (Schrand and Zechman, 2012), less

accounting conservatism (Ahmed and Duellman, 2013), and more agency costs of debts (Yang et al., 2013), further increasing banks' concerns on information risks and agency costs.

Discussant: Jun Chen, Auckland University of Technology, New Zealand (jun.chen@aut.ac.nz)

3. Impact of Accounting Information and Its Quality on Government Grantmaking Decisions

Walid BenAmar, Qiu Chen, and Shujun Ding, University of Ottawa, Canada

Abstract: When making grants to nonprofit organizations, governments value both accountability and reliability of organizations. However given constrained budgets, program ratios and administrative ratios that respectively capture nonprofits' accountability and reliability are difficult to improve simultaneously. We examine how governments balance their preference for higher program ratios and higher administrative ratios. We find that governments focus on the reliability of organizations in delivering services and tend to reward grants to nonprofit organizations with higher administrative ratios. However, higher program ratios are not consistently preferred by governments in their grantmaking decisions. We then examine how governments react to low-quality ratios, as prior research finds that both program and administrative ratios are subject to intentional manipulation as well as unintentional errors. Our findings indicate that governments can identify low quality ratios and punish organizations that have low quality ratios by reducing the likelihood of awarding them grants and by lowering the amount of money offered.

Discussant: Hsin Tsai Liu, National Taiwan University, Taiwan (htliu@ntu.edu.tw)

4. Regulatory Pressure and Income Smoothing by Banks in Response to Anticipated Changes to the Basel Accord

Chu Yeong Lim and Kevin Ow Yong, Singapore Management University, Singapore

Abstract: We examine the effects of the revised Basel II rules on bank managers' discretionary behavior. Specifically, we ascertain whether bank managers engage in more income smoothing and whether they defer loan loss provisioning as a result of increased regulatory pressure from anticipated changes to the Basel Accord. We predict that the revised rules will increase regulatory pressure on the corporate banking business which is likely to be more affected than the retail banking business by these changes. Corporate banking managers may react by reducing risk-taking activities or by increasing income smoothing activities. We find evidence of greater (less) income smoothing in the corporate banking business of low-capital (high-capital) banks during the Basel II period. We also find that corporate banking managers of these weaker banks recognize loan loss provisions in a less timely manner. In contrast, we do not find these effects for retail banking businesses. Finally, we find that the market reacts negatively to Basel II regulatory announcements initially but the adverse market reaction reduces over time. Overall, our study provides evidence of unintended consequences arising from the changes to banking rules as proposed under Basel II.

Discussant: Qiu Chen, University of Ottawa, Canada (qiu.chen@telfer.uottawa.ca)

SESSION 4: ASSET PRICING (A)
ROOM NUMBER: M-104

Chairperson: Kevin Tseng, University of Kansas, USA

1. **Investor Network: Implications for Information Diffusion and Asset Prices**

San-Lin Chung, National Taiwan University, Taiwan

Wen-Rang Liu, National Taiwan University, Taiwan

Kevin Tseng, University of Kansas, USA

Abstract: We study the information diffusion of firms in investor networks. Using a unique investor account-level dataset from the Taiwan Stock Exchange from 2005-2011, we identify the information diffusion of firms as their centralization in investor networks. Consistent with the theory of investor information networks, we find that central investors trade earlier and are more profitable than peripheral investors. More importantly, we find that centralized firms (i.e., firms with more central investors'networks) experience less delay in prices, and therefore demand lower price delay premiums than peripheral firms. These results suggest that investor networks speed up the incorporation of new information into asset prices.

Discussant: Min-Teh Yu, National Chiao Tung University, Taiwan (mtyu@nctu.edu.tw)

2. **Liquidity Spillovers across Asset Classes**

Christina Zafeiridou, University of Michigan, USA

Abstract: Liquidity spillovers — i.e., the transmissions of liquidity shocks from one asset to another —are an important yet not fully understood feature of price formation in financial markets. In this paper, I examine liquidity spillovers across four asset classes traded in U.S. futures markets: Oil, Treasuries, Eurodollar, and S&P500. Using a reduced-form VAR, I find significant evidence of liquidity spillovers across these assets, especially during periods of financial and macroeconomic turmoil. My findings also suggest that these spillovers are driven by liquidity supply channels (as opposed to information channels): when liquidity providers face higher funding constraints, liquidity spillovers across assets increase.

Discussant: Kevin Tseng, University of Kansas, USA (tseng@ku.edu)

3. **Small-Cap versus Large-Cap and Value versus Growth: China Evidence**

Shu-Min Yang, Feng Chia University, Taiwan

Chuan-Hao Hsu, National Taiwan University, Taiwan

Abstract: When we use a portfolio of Chinese firms sorted on either size or value-growth proxies (such as including book-to-price, earnings-to-price, and dividend-to-price), we document presence of size effect on returns but there is no value premium in the China stock

market. However, a portfolio based on the double sort of size and dividend-to-price ratio shows value premium for the small-cap stocks. Our value-premium results based on the stochastic dominance analysis are robust across sub-period analysis, business cycles, and different sampling method.

Discussant: Christina Zafeiridou, University of Michigan, USA (czafei@umich.edu)

4. Supply Market Condition and the effect of Equity Market Timing on Capital Structure-Evidence from China

Yang Zhao and Min-Teh Yu, National Chiao Tung University, Taiwan

Abstract: This paper uses the unique Chinese securities account system to construct a more effective measurement of equity market timing to test whether equity market timing has a persistent effect on capital structure. Our empirical results show that previous measurements of equity market timing are inadequate and an effective market timing variable must eliminate synchronous effects of both debt and equity markets. Since the theory of equity market timing has a persistent effect on capital structure has experienced a lot of challenges, our equity market timing measurement can avoid above challenges and find a persistent effect of market timing on capital structure. Moreover, consistent with MM theory, existing literatures always assume capital supply to be perfectly elastic. We clearly point out that equity market timing theory actual lyrelaxes the above assumption and the source of the persistent effect of equity market timing on capital structure is supply market condition.

Discussant: Shu-Min Yang, Feng Chia University, Taiwan (af902608@gmail.com)

SESSION 5: CORPORATE FINANCE (B)
ROOM NUMBER: M-103

Chairperson: Yaw M. Mensah, Rutgers University, USA

1. **Job Security and CEO Compensation**

James S. Ang, Florida State University, USA

Wei Chen, Xiamen University, China

Abstract: We analyze a sample of 2,914 hiring contracts and show how job security plays a role in pay negotiation. We find significant impact of job security using both firm and industry-level measures across US firms. In general, CEO candidates and the board members would trade pay for job security. We find this pay for job security also follows a hierarchy order; when firms are unable to grant a higher pay, CEOs will seek for alternatives to compensate their job risks, including a severance agreement, a shorter grant vesting period, and an incentive plan metric that is easier to achieve. Moreover, job security has no value among risk-takers, and this value increases with CEO's risk aversion. By examining the impact of job security under different market condition, we find that this pay concession disappears when the CEO labor market is more favorable to the CEOs.

Discussant: Jun Lu, Central University of Finance and Economics, China (lujun@cufe.edu.cn)

2. **Conflict-Induced Forced CEO Turnover and Firm Performance**

Jing Zhang, Concordia University, Canada

Saif Ullah, Concordia University, Canada

Thomas Walker, Concordia University, Canada

Kuntara Pukthuanthong, University of Missouri, USA

Abstract: We examine operational and stock performance changes around forced CEO turnovers caused by conflicts between corporate boards and CEOs over the strategic direction of the firm, and whether changes in performance can be explained by board, CEO, or firm characteristics. While the existing corporate governance literature emphasizes oversight as the main role of board of directors and identifies the CEO as the leader who sets the strategic direction of the firm, in cases of conflict-induced forced CEO turnover, it is the board that sets the strategic direction. Our paper is the first to provide evidence regarding the implications of conflict-induced forced CEO turnovers. We find that conflict-induced forced CEO turnovers tend to be preceded by significant declines in a firm's operating and stock performance and that corporate performance improves after turnovers. In addition, we find that long-term incentives, outsider CEOs and directors, and reductions in operating segments improve firm performance.

Discussant: Wei Chen, Xiamen University, China (weimikechen@gmail.com)

3. Culturally Preferred Leadership Styles, Government Budget Transparency and Perceived Rule of Law: An International Analysis

Yaw M. Mensah, Rutgers University, USA

Yanxia Qi, China University of Petroleum- Beijing, China

Abstract: Evidence provided by the GLOBE study (2004) has shown that different cultures have definite preferences for different leadership styles. This study examines whether the cultural preference for specific leadership styles has implications for the development of the rule of law and for transparency in government budgetary reporting. Our results show that, while the Performance-Oriented leadership style is positively related to the rule of law, the Self/Group-Protective was positively associated with greater budget transparency. No consistent relationships were found for the Team-Oriented and Participative leadership styles. The most surprising and unexpected findings were that Autonomous leadership had a negative relationship with economic development (measured by GNP per capita), while Humane leadership had a strong positive relationship. One major implication of this study is that the movement towards both greater rule of law and greater transparency in government budgeting may be facilitated by changes in cultural preferences for certain leadership styles.

Discussant: Saif Ullah, Concordia University, Canada (Saif.Ullah@Concordia.ca)

4. Board Independence and Corporate Innovation

Jun Lu, Central University of Finance and Economics, China

Wei Wang, Cleveland State University, USA

Abstract: We investigate the effects of board independence on corporate innovation in a sample of U.S. public firms and find that board independence generally improves innovation. Further investigation reveals that, first, this effect is concentrated in firms that are larger in size, have larger boards of directors, and are in the traditional industries. Second, this effect is mostly driven by firms with outsider-dominated boards. We further examine incentive compensation and tolerance for failure as possible mechanisms. We show that firms with outsider-dominated boards use more equity based compensation as a way to promote corporate risk-taking; these firms also exhibit more tolerance for failure as CEO compensation is less responsive to short-term performance.

Discussant: Yaw M. Mensah, Rutgers University, USA (mensah@business.rutgers.edu)

SESSION 6: RISK MANAGEMENT (A)
ROOM NUMBER: M-102

Chairperson: Chuang-Chang Chang, National Central University, Taiwan

1. **Pricing No-Negative-Equity-Guarantee for Equity Release Products under a General Framework**

Chuang-Chang Chang, National Central University, Taiwan

Abstract: We investigate stochastic house price returns, interest rates and mortality rates in the pricing of no-negative-equity guarantees (NNEGs) with the aim of identifying the risks involved in equity-release products, placing particular focus on the jump effect on house price returns. We propose an ARMA-GARCH jump model based on UK house returns data with significant jump persistence, autocorrelation and volatility clustering. Interest rate and mortality rate dynamics are respectively assumed to follow the CIR model (Cox et al. 1985) and the CBD model (Cairns et al. 2006) with the risk-neutral valuation framework for NNEG pricing being derived using the conditional Esscher transform technique (Bühlmann et al. 1996). Our numerical analyses reveal that the jump effect on house price returns, interest-rate risk and mortality-rate risk can affect the costs of NNEGs, with the impact being as significant as that for interest-rate risk. We also identify the model risk in the pricing of NNEGs by comparing various house price return models, including the Black-Scholes, Merton Jump, ARMA-GARCH, ARMA-EGARCH, Double Exponential Jump Diffusion and ARMA-GARCH Jump models.

Discussant: Hussein A. Abdou, University of Huddersfield, UK (h.abdou@hud.ac.uk)

2. **The Interactive Effect of Organizational Structure and Risk-shifting on the Derivative Use and Reinsurance Decisions in U. S. Property-Liability Insurance Industry**

Vivian W. Tai, National Chi Nan University, Taiwan

Yi-Hsun Lai, National Yunlin University of Science and Technology, Taiwan

Abstract: This study examines if insurers shift risk to policyholders when they are in trouble. The risk-shifting behavior is said to be pronounced if insurers turn to reduce the use of derivatives and/or reinsurance when their risk-taking exceed a threshold. This study also inspects whether the extent of agency conflicts due to different organization forms in the P/L insurance industry can influence the extent of firm's risk-shifting. Using the sample of the U.S. property and liability (P/L) insurers over the period of 2000 to 2009, we find that stock insurers in trouble with high leverage, high underwriting risk or high investment risk tend to use a lower level of both derivatives and reinsurance while troubled mutual insurers with high investment risk and total risk choose to shift risk to reinsurers by buying more reinsurance. Finally, we find that derivatives and reinsurance seem to play as complementary tools rather than substitution tools for insurers with high risk-shifting incentives. Overall, our empirical results support that the presence of risk-shifting behavior for troubled U.S. P/L insurers and the choice between the use of derivatives and reinsurance is influence by risk-shifting incentive and organizational structure.

Discussant: Chuang-Chang Chang, National Central University, Taiwan
(ccchang@cc.ncu.edu.tw)

3. The Impact of Multi-Layer Governance on Risk Disclosure: Evidence from MENA Banks

Ahmed A. Elamer, Collins G. Ntim, and Hussein A. Abdou, University of Huddersfield, UK

Abstract: This paper examines the impact of multi-layer governance (MLG) mechanisms, consisting of board and ownership structures, Sharia supervisory board (SSB) and country-level governance characteristics on the level of risk disclosure by banks. Using one of the most extensive datasets on MLG and risk disclosure to-date from 14 countries in the Middle East and North Africa (MENA) region over the period of 2006 to 2013, we find a positive and statistically significant link between our MLG measures and risk disclosure. Specifically, we find that governmental ownership, family ownership, SSB, board size, non-executive directors and control of corruption, are positively related to the level of risk disclosure by banks, whilst CEO duality, political stability and absence of violence are associated negatively with the level of risk disclosure, but statistically insignificant. Our empirical findings are largely in line with the predictions of our multi-theoretical framework that incorporates insights from agency, signalling, legitimacy, and resources dependence theories. Our findings are robust to alternative firm- and country-level controls, alternative MLG mechanisms and risk disclosure proxies, alternative estimation techniques, and endogeneity problems.

Discussant: Yi-Hsun Lai, National Yunlin University of Science and Technology, Taiwan
(bbgopher@yahoo.com.tw)

SESSION 7: CORPORATE FINANCE (C)
ROOM NUMBER: M-116

Chairperson: David Pecha, The Hong Kong Polytechnic University, Hong Kong

1. **Stock Price Informativeness on the Sensitivity of Merger Investments to Q**

Wenjing Ouyang, University of the Pacific, USA

Samuel H. Szewczyk, Drexel University, USA

Abstract: This study finds that a firm's stock price firm-specific information increases the sensitivity of merger investments to Tobin's Q. That is, firms are more likely to take large merger investments when informative stock prices are high and less likely to do so when informative stock prices are low. This relation is robust to diverse measures of stock price informativeness. When controlling for other related variables including managerial inside information, this main result still holds. Firms with more informative stock prices achieve better performance after merger investments. Overall, these results suggest that managers learn new information from stock prices in making merger investment decisions.

Discussant: Feifei Zhu, Radford University, USA (fzhu2@radford.edu)

2. **The Efficiency of Compensation Contracting in China: Do Better CEOs Get Better Paid?**

Kwan Hung (Jack) Fung and David Pecha, The Hong Kong Polytechnic University, Hong Kong

Abstract: Over recent years, China adopted a multitude of material reforms of its quickly developing stock markets. The reforms of Chinese corporate governance code and accounting system, among others, largely try to emulate similar systems already in place in the developed markets. We investigate whether these reforms succeeded in their goals of improving the performance of the Chinese stock markets by investigating how efficiently companies contract with their CEOs. Executive compensation has long been in the spotlight as a major corporate governance instrument that helps align the interests of executives with those of shareholders and provides management with stronger incentives to create firm value. Proper evaluation and remuneration of the CEOs ability by the board is essential for the functioning of this mechanism. Using Data Envelopment Analysis to measure CEO ability we do not find any evidence that CEO ability matters in compensation contracting decisions – it does not lead to either higher pay, stronger pay-for-performance sensitivity, or a higher likelihood of equity grants. This is surprising, since we find evidence that higher ability CEOs achieve superior firm performance. In contrast, we find that powerful CEOs underperform, while they enjoy large abnormal pay. Taken together, the results suggest that China still suffers from agency problems that do not allow it to fully utilize the benefits of 'western style' market reforms.

Discussant: Wenjing Ouyang, University of the Pacific, USA (wouyang@pacific.edu)

3. CEO Pay-for-performance Relation: Asymmetric or Symmetric?

Chii-Shyan Kuo, National Taiwan University of Science and Technology, Taiwan

Shih-Ti Yu, National Tsing Hua University, Taiwan

Abstract: The optimal contacting theory suggests that CEO pay package provides a symmetric relation between CEO pay and firm performance (Dechow 2006). However, the extant empirical evidence on this issue still reveals lack of consensus. In this study, we revisit the controversial CEO pay-for-performance relation by investigating how CEO pay-performance sensitivities vary across different levels of CEO pay. We adopt an innovative approach, quantile regression (QR) model, to address the issue.

The main reasons we choose QR approach are two-folds. First, one major advantage of using QR in this setting is to avoid the criticism of arbitrary sample splitting criteria used in prior studies. More importantly, QR model can address a crucial and relevant question: does stock return affect CEO pay differently for CEO with high pay than for those with median or lower paid CEOs? In other words, the QR approach can provide us with a more comprehensive picture of the pay sensitivities across different levels of CEO pay.

Second, the standard least squares approaches focus mainly on the estimated conditional mean relation, given some set of covariates. One major drawback of such approaches lies in the conditional distribution is assumed to be homogenous. By contrast, the QR needs no specific assumption regarding the conditional distribution. Rather, we can use QR to prove or disprove the conditional distribution to be homogenous by comparing whether the coefficient estimates at some quantiles significantly differ from one another.

This study extends prior studies on the pay sensitivity in several ways. First, Sung and Swan (2009) examine what role talent, marginal product of effort and cost of risk play in interpreting the levels of CEO pay. But, how the effects of these elements on pay sensitivities vary with different levels of CEO pay remain unanswered. This study fills this gap by using QR technique to investigate whether the pattern of CEO pay sensitivities moving along different levels of CEO pay is consistent with the prediction under the Sung and Swan (2009) analytical framework.

Second, Shaw and Zhang (2010) focused their investigation mainly on CEO cash pay. Further, Leone, Wu and Zimmerman (2005) also considered equity pay in addition to cash pay, when examining CEO pay sensitivity. However, their findings runs against the theory (Dechow 2006). This study extends theirs by testing different components of CEO pay, including CEO bonus pay, cash pay, and equity pay to examine whether the pattern of managerial incentive provided by various portions of pay contract, individually and collectively, is consistent with theory.

Third, this study applies a new approach to address the pay sensitivity issue. To our knowledge, this study is among the first attempts to examine the non-uniform relation between CEO pay and share returns using QR. To examine the non-linear pay sensitivity, prior studies have employed researcher-determined, arbitrary standards to divide the sample into several groups before performing a conventional optimization method to fit the data. By contrast, we introduce QR model where we can observe how the pay sensitivity changes across different levels of CEO pay. The key advantage of this analysis framework is to allow data themselves to determine whether the conditional distribution is homogeneous thereby bypassing the difficulties of exogenously imposed data-splitting rules.

Discussant: David Pecha, The Hong Kong Polytechnic University, Hong Kong (12900921r@connect.polyu.hk)

4. **Debt Structure and Firm Leverage Adjustments**

Kai Chen, SUNY Oneonta, USA

Wenlian Gao, Central University of Finance and Economics, China

Feifei Zhu, Radford University, USA

Abstract: This paper examines the impact of debt structure characteristics on firm leverage adjustments. Results show that debt maturity impedes leverage adjustments whereas debt concentration accelerates adjustments, suggesting that both the interest conflicts between debtholders and equity holders and those among different groups of debtholders have implications for the dynamics of leverage. Their effect is more notable in overlevered firms and in the period of financial crisis. Further evidence indicates that the negative impact of debt maturity is stronger in firms with more public debt and lower in firms with more bank loans.

Discussant: Shih-Ti Yu, National Tsing Hua University, Taiwan (styu@mx.nthu.edu.tw)

SESSION 8: WORKING CAPITAL AND BANK MANAGEMENT ROOM NUMBER: M-115

Chairperson: Hsuan-Chu Lin, National Cheng Kung University, Taiwan

1. **The Impact of National Culture on Working Capital Management**

Wen-Lin Wu, Feng Chia University, Taiwan

Abstract: National culture might explain variations in working capital management, as proxied by the cash conversion cycle. Using 81,585 firm-year observations across 46 countries during 1998–2010, this study confirms that working capital management is associated positively with power distance but negatively with individualism and masculinity. According to the results of several interactions, these effects become even more notable for firms in emerging markets, that engage in fewer international activities, that belong to a non–high-tech sector, and that reside in countries with less effective regulatory enforcement or English common law. In general, these findings reinforce the importance of national culture for determining the effects of firm- and country-level factors on working capital management policies.

Discussant: Yili Lian, Pennsylvania State University, USA (yxl50@psu.edu)

2. **The Optimal Cash Holdings to Determine Excess Cash: A Theoretical and Empirical Analysis**

Hsuan-Chu Lin and She -Chih Chiu, National Cheng Kung University, Taiwan

Abstract: In this study, we propose an optimal cash holding model which examines the tradeoff between illiquidity and opportunity cost concerns as the benchmark to determine corporate excess cash. Through an optimization process, the optimal cash holdings suggested by our illiquidity-opportunity tradeoff model (IOT model) are endogenously determined. Different from many prior studies, the IOT model not only contains the value of cash, through market-based conception, but also adopts the modified Black-Scholes-Merton default probability of illiquidity.We then compare the IOT model with the Opler, Pinkowitz, Stulz, and Williamson (1999) model(the OPSW model),which is a widely-used benchmark to determine excess cash, by using data for U.S. public firms from 1984to2014.The empirical results show that with regard to financial management the IOT model could be a better alternative to determine excess cash, even in light of different corporate characteristics and performance measures. Our conclusion suggests that while exploiting the value of marginal cash has attracted the attention of many recent studies, exploring the issue of optimal cash holdings is still important in the literature.

Discussant: Wen-Lin Wu, Feng Chia University, Taiwan (wlwu313@gmail.com)

3. **CEO Inside Debt and Bank Loan Syndicate Structure**

Liqiang Chen and Hong Fan, Saint Mary's University, Canada

Abstract: This paper investigates the effects of a borrowing firm's CEO inside debt holdings on the structure of the firm's syndicated loans. When a CEO has a higher level of inside debt, syndicates have a larger number of total lenders and are less concentrated, and lead arrangers will retain a smaller portion of the loan. In addition, CEO inside debt have a lesser effect on the syndicate structure when lead arrangers have a prior lending relationship with a borrowing firm or the CEOs are close to retirement, and have a greater influence on syndicate structure when borrowing firms have low information transparency.

Discussant: Hsuan-Chu Lin, National Cheng Kung University, Taiwan (hsuanchu@mail.ncku.edu.tw)

4. **Bank Competition and the Cost of Bank Loans**

Yili Lian, Pennsylvania State University, USA

Abstract: I comprehensively study the effect of bank competition on the cost of bank loans using U.S. bank loan data from 1995 to 2010. The cost of bank loans is analyzed with regard to loan spreads and covenant intensity. I show that loan spreads and covenant intensity are negatively related to bank competition. I also find that non-investment grade firms benefit more from bank competition than investment grade firms do. The results suggest that lenders give favorable loan terms to borrowers in competitive loan markets.

Discussant: Liqiang Chen, Saint Mary's University, Canada (Liqiang.Chen@smu.ca)

SESSION 9: INVESTMENT ANALYSIS AND INTERNATIONAL FINANCE
ROOM NUMBER: M-105

Chairperson: Yi Liu, University of North Texas, USA

1. **Is Sustainable Competitive Advantage an Advantage for Stock Investors?**

Yi Liu and Tomas Mantecon, University of North Texas, USA

Abstract: Investing in stocks of companies with sustainable competitive advantage, the moat, does not earn higher raw returns. These companies tend to be larger, financially stronger, and have lower book-to-market ratios (growth stocks). After controlling for size, book-to-market ratio and other risk factors, sustainable competitive advantages is a positive factor affecting cross-section of stock returns. Firms with sustainable competitive advantage also seem to be shielded from mean reversion of higher profitability better than non-wide moat firms.

Discussant: Chor-yiu Sin, National Tsing Hua University, Taiwan (cysin@mx.nthu.edu.tw)

2. **Higher Co-moments and Expected Returns: Evidence from the China and UK Stock Markets**

Keith S. K. Lam and Liang Dong, University of Macau, Macau

Abstract: This study investigates the role of higher co-moments on stock returns in two important stock markets: China and the UK. Our cross-section results show that higher co-moments play different roles in the two markets. In China, investors price only coskewness risk, while UK investors price both coskewness and cokurtosis risks. Our results also show that China investors use a shorter one- to two-year window period to evaluate the coskewness risk, while UK investors utilize a longer five-year window period to estimate the higher co-moment risks. This role difference of higher co-moments may be caused by differences in the market infrastructure and stage of development in the two markets, which may also represent the main differences between developing and developed stock markets.

Discussant: Yi Liu, University of North Texas, USA (Ian.Liu@unt.edu)

3. **Does the Major Market Influence Transfer? Alternative Effect on Asian Stock Markets**

Luke Lin, National Kaohsiung First University of Science and Technology, Taiwan

Wen-Yuan Lin, Beijing Normal University, China

Abstract: This paper is based on the time-varying regression model proposed by Chow et al. (2011) to simultaneously analyze the influence of China and the United States on eight Asian stock markets. In addition, the model used by this paper is highly conducive to a full investigation of the periods preceding and following the occurrence of the major events of the Asian financial crisis, the subprime mortgage crisis, China's accession to ASEAN, and the ebb and flow of China and US influence on the countries under analysis. The study finds an

emergence of China market influence and investigates the current shift in global market influence, in addition to providing important information regarding the significant impact exerted by China on the Philippine market.

Discussant: Liang Dong, University of Macau, Macau (yb47002@umac.mo)

4. The Effectiveness and Determinants of Foreign Exchange Intervention in Japan: A Simultaneous Censored Regression Approach

Cheng-Few Lee, Rutgers University, USA

Chor-yiu Sin, National Tsing Hua University, Taiwan

Shih-Ti Yu, National Tsing Hua University, Taiwan

Abstract: By using a simultaneous equation system approach, this paper investigates the effectiveness and the determinants of the foreign exchange market intervention in Japan. We regard the Japanese authorities' market intervention a variable that is censored from below at zero; and the latent variable is a linear model with determinants such as the current yen per dollar exchange rate. This paper models a simultaneous equation system with market intervention and exchange rate as the endogenous variables with a conventional structural Tobit model. The identification issue of this simultaneous equation system will be discussed in detail. The results are compared with those in Ito (2003, 2005) who do not consider the censoring. We find the foreign exchange intervention is effective during Year 1995 to Year 2004.

Discussant: Wen-Yuan Lin, Beijing Normal University, China (joker0709@gmail.com)

SESSION 10: SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT
ROOM NUMBER: ROOM NUMBER: M-104

Chairperson: Todd P. White, University of New Mexico, USA

1. **The Effects of Firms' Information Environment on Analysts' Herding Behavior**

Ryan D. Leece, University of Alabama at Birmingham, USA

Todd P. White, University of New Mexico, USA

Abstract: We find financial analysts herd to a greater degree in firms with more opaque information environments as measured by the incidence of short-term institutional investors present. The S-statistic, a measure of forecast bias, and forecast timing and quality metrics are used to measure analyst herding behavior. The results are consistent with the notion that opaque information environments are more conducive to analysts engaging in reputational herding behavior where more capable analysts act first and less capable analysts follow. Additionally, analysts are more likely to issue forecast revisions subsequent to management earnings guidance in less opaque environments. Robustness tests indicate our operational measure of opacity is not subsumed by other measures of the information environment, namely information asymmetry.

Discussant: Mondher Bellalah, University de Cergy, France (Mondher.Bellalah@gmail.com)

2. **Convergence of Trading Strategies in Continuous Double Auction Markets with Boundedly-rational Networked Traders**

Junhuan Zhang, King's College London, UK

Peter McBurney, King's College London, UK

Katarzyna Musial, Bournemouth University, UK

Abstract: This paper studies the convergence of trading strategies among financial market artificial traders connected to one another in a social network and trading in a continuous double auction marketplace. This question is addressed by means of an agent-based software simulation model called the Social Network Artificial stock market (SNACK). Six different canonical network topologies (including no-network) are used to represent the connections between artificial traders. Traders learn from the trading experience of their connected neighbours by means of reinforcement learning. The results show that the proportions of traders using particular trading strategies are eventually stable. Which strategies dominate in these stable states depends to some extent on the particular network topology of trader connections and the type of traders.

Discussant: Todd P. White, University of New Mexico, USA (tdw2062@unm.edu)

3. **Stock Market Return Predictability: Does Network Topology Matter?**

Harnchai Eng-Uthaiwat, Chulalongkorn University, Thailand

Abstract: This paper provides new evidence of stock market return predictability. In particular, we introduce the concept of network structure to capture the interrelationships among returns of stocks in S&P500 during 1990-2014. After controlling for the commonality and interconnectedness aspects of the network structure, the patterns of connections could still change over time and these changes are found to be associated with the fluctuation in market returns. Consistent with this observation, our empirical evidence shows that a measure of the network topology is a strong predictor of the subsequent excess market returns. Furthermore, this network measure exhibits superior in-sample and out-of-sample predictability to some well-known indicators, such as average correlation, average variance and stock market variance, during our sample period.

Discussant: Junhuan Zhang, King's College London, UK (junhuan.zhang@kcl.ac.uk)

4. Pricing Contingent Claims in an Economy with Incomplete Information and Short Sales

Mondher Bellalah, University de Cergy, France

Abstract: Financial models are based on the standard assumptions of frictionless markets, complete information, no transaction costs, no taxes and borrowing and short selling without restrictions. Short-selling bans around the world after the global financial crisis become more and more important. This paper bridges the gap by providing for the first time in the literature a model accounting explicitly and simultaneously for information costs and short sales in the pricing of contingent claims. Our analysis can be used to solve several pricing problems in financial economics and provides explanations of some empirical anomalies in the empirical finance.

Discussant: Harnchai Eng-Uthaiwat, Chulalongkorn University, Thailand
(harnchai.e@gmail.com)

SESSION 11: RISK MANAGEMENT (B)
ROOM NUMBER: M-103

Chairperson: Lars Tegtmeier, University of Applied Sciences Merseburg, Germany

1. **Pricing Mortgage Insurance Contracts under Housing Price Cycles with Jump Risk: Evidence from the U.K. Housing Market**

Shih-Kuei Lin, National Chengchi University, Taiwan

Ming-Chi Chen, National Chengchi University, Taiwan

Wan-Ru Yang, National University of Kaohsiung, Taiwan

Ming-Che Chuang, National Chengchi University, Taiwan

Abstract: Previous studies have investigated the determinants of housing price cycles in the housing market; however, we observed the phenomenon of housing price jumps in the 2007 subprime crisis. This paper presents a discussion on the housing price cycle and abnormal price jumps to describe the behavior of housing prices in the United Kingdom (U.K.). The empirical results show that the impact factors of housing cycles are market risk and the switching factor. Furthermore, the impact factors of jump risks include the bursting of the housing bubble and financial crises. Therefore, in this paper, we employ the Markov switching model with jump risks (MS-J) to value the MI contracts and analyze the influences of housing price cycles and jump risks on MI premiums. The results of sensitivity analysis show that more volatile housing price index returns, as well as longer periods of higher volatility in housing prices, raise MI premiums. Moreover, the MI premium is positively related to the absolute value of the average jump amplitude, the volatility of jump amplitude, and the shock frequency of abnormal events.

Discussant: Li-Hsun Wang, Wenzao Ursuline University of Languages, Taiwan
(97027@mail.wzu.edu.tw)

2. **Global Risk Factors in the Returns of Listed Private Equity**

Jörg Döpke and Lars Tegtmeier, University of Applied Sciences Merseburg, Germany

Abstract: We study macroeconomic risk factors driving expected stock returns of listed private equity. Based on listed private equity indices divided into different styles and regions over the period from January 2004 to December 2014 and a set of country indices, we estimate the macroeconomic risk profiles and the corresponding risk premiums. Using a Seemingly Unrelated Regressions (SUR) model to estimate factor sensitivities, we document that listed private equity indices exhibit stock market β's higher than one. A one factor asset pricing model using the world stock market returns as the only possible risk factor is rejected based on the GMM orthogonality conditions. By contrast, using the change in a currency basket, the G-7 industrial production growth, the G-7 term spread, the G-7 inflation rate and a recently proposed indicator of economic policy uncertainty as additional risk factors, this multifactor model is able to price the cross section of expected listed private equity returns.

The risk-return profile of these assets differs from country equity indices. Consequently, listed private equity should be treated as a separate asset class.

Discussant: Ming-Che Chuang, National Chengchi University, Taiwan (mingerch@gmail.com)

3. **Corporate Philanthropy and Default Risk**

Li-Hsun Wang, Wenzao Ursuline University of Languages, Taiwan

Chu-Hsiung Lin, National Kaohsiung First University of Science and Technology, Taiwan

Erin H. Kao, Ling Tung University, Taiwan

Hung-Gay Fung, University of Missouri-St. Louis, USA

Abstract: Our study examines the effect of charitable activities on default risk when firms set up philanthropic foundations. We show that charitable firms lower their default risk, which is proxied by value-at-risk and expected shortfall measures. Charitable firms are found to have higher credit ratings, engage less in earnings management, and have higher worker productivity, which all contribute to lower default risk.

Discussant: Lars Tegtmeier, University of Applied Sciences Merseburg, Germany (lars.tegtmeier@hs-merseburg.de)

SESSION 12: AUDITING
ROOM NUMBER: M-102

Chairperson: Gaoguang (Stephen) Zhou, Hong Kong Baptist University, Hong Kong

1. **Capitalized Development Costs and Audit Fees**

Nan-Ting Kuo, Nankai University, China

Cheng-Few Lee, Rutgers University, USA

Abstract: Our study explores the association between capitalized development costs and audit fees. International Accounting Standard No. 38 stipulates the discretion to capitalize the development costs of internally generated intangible assets. We find a positive association between capitalized development costs and audit fees and this positive association is mitigated for countries with stronger legal protection of investor rights. Our results suggest that the country-level institutional environment affect show auditors perceive the practice of development cost capitalization. Auditors tend to perceive it as the result of earnings management in countries with weak protection of investor legal rights but as a signal of clients' lower business risk in countries with very strong protection of investor legal rights. Our study helps to understand how auditors perceive the interaction between institutional regimes and their clients' financial reporting choices.

Discussant: Ling Tuo, Lawrence Technological University, USA
(ltuo@ltu.edu)

2. **Privacy-preserving Information Sharing within an Audit Firm**

Alexander Kogan and Cheng Yin, Rutgers University, USA

Abstract: This paper explores the possibility of sharing firm-level information within an audit firm in a privacy-preserving manner and demonstrates the benefits of doing this, under the assumption that the same audit firm serves multiple clients competing in the same industry. We observe significant improvements from sharing contemporaneous information from peer companies both in estimation accuracy and error detection performance. Additionally, we introduce an empirical approach for utilizing contemporaneous accounting information from peer companies without violating clients' confidentiality. We find that auditors can achieve comparable level of benefits from only sharing estimation residuals (errors) with that from sharing prediction or actual accounting numbers both in estimation accuracy and in error detection performance. In such manner, we provide a privacy-preserving information sharing scheme within an audit firm by using auditors self-generated estimation residuals.

Discussant: Nan-Ting Kuo, Nankai University, China (kuonantin@hotmail.com)

3. **Auditors' Perception of Progress and Obstacles of IFRS Implementations in China: Evidence from the Field**

Min Cai, China Guangfa Bank Co.,Ltd and Sun Yat-sen University, China

Theodore T. Y. Chen, Hong Kong Shue Yan University, Hong Kong

Gaoguang (Stephen) Zhou, Hong Kong Baptist University, Hong Kong

Abstract: Prior archival studies examine whether various factors affect IFRS implementation in China and yield mixed results. To gain more insights and thus enrich our understanding on this matter, we carry out this study based on a survey and in-depth interviews with experienced auditors. Our study reveals that the implementation of IFRS has achieved its goals, including improved reporting quality, lower cost of capital, attracting more foreign investors, and promoting corporate governance performance, although some auditors question the causality. Our study also identifies several factors that adversely affect the successful implementation of IFRS. Qualitative feedbacks from interviews further provide insights on how these factors affect IFRS implementation. Our findings provide important implications for other emerging countries with similar institutional backgrounds as China.

Discussant: Cheng Yin, Rutgers University, USA (cy193@scarletmail.rutgers.edu)

4. How Industry Peer Firms Influence the Voluntary Disclosure Strategy?

Ling Tuo, Lawrence Technological University, USA

Ji Yu, State University of New York at New Paltz, USA

Yu Zhang, Lawrence Technological University, USA

Abstract: This paper investigates how industry peer firms tend to influence the specific firm's voluntary disclosure strategy. Through examining the empirical example of management earnings forecasts between 2005 and 2012 and implementing the 2SLS regressions, we find that the specific firm's disclosure frequency, disclosure horizon and the disclosure of bad news are significantly influenced by its peer firms' disclosure behaviors. Specifically, the increase in the peers' disclosure frequency, disclosure horizon and disclosure of bad news tend to encourage the specific firm to increase its disclosure frequency, disclosure horizon and disclosure of bad news. Moreover, certain firms (such as firms with S&P credit rating, higher profit, larger size or higher market-to-book ratio) tend to be more sensitive to their peer firms' voluntary disclosure strategy. Finally, we find that the specific leader-follower relation doesn't exist in the peer effects of disclosure strategy and thus the signaling theory, litigation risk and CEO reputation are more major reasons than herding theory and free rider theory in explaining this phenomenon. This paper contributes to accounting literature by providing new evidence in explaining the managerial incentive behind the voluntary disclosure.

Discussant: Gaoguang (Stephen) Zhou, Hong Kong Baptist University, Hong Kong
(Stephenzhou@hkbu.edu.hk)

SESSION 13: CORPORATE FINANCE (D)
ROOM NUMBER: M-116

Chairperson: Sheng-Syan Chen, National Taiwan University, Taiwan

1. **Tournament Incentive and Corporate Social Responsibility Performance**

Xuezhou (Rachel) Zhao, The Hong Kong Polytechnic University, Hong Kong

Gaoguang (Stephen) Zhou, Hong Kong Baptist University, Hong Kong

Abstract: VPs competing for promotion to CEO creates tournament incentive, which in turn affects their decisions. This study examines whether and how tournament incentives affect CSR performance based on a sample of U.S. firms. We find robust evidence that that higher pay gap between CEO and VPs is associated with lower CSR performance after controlling for CEO incentives and other determinants. The effect is significant. One standard deviation increase pay gap measure is associated with 0.08 standard deviation decrease of CSR performance measure. Our finding is consistent with the notion that managers with strong tournament incentive are less likely to invest in CSR. Further analyses show that VPs' incentive to reduce CSR is constrained by certain governance mechanisms such as board size and board independence. Our study has implications for board of director and institutional investors who employ CSR performance as investment criteria.

Discussant: Sheng-Syan Chen, National Taiwan University, Taiwan (sschenfn@ntu.edu.tw)

2. **Discretionary Pension Assumption Choices, Corporate Governance Effectiveness and Financial Statement Manipulation in Taiwan**

Juichia Lin, National Chiao Tung University, Taiwan

Edward M.Werner, Rutgers University, USA

Abstract: This study provides the first empirical evidence in the Taiwanese setting showing that aggressively chosen pension assumptions are significantly associated with weaker corporate governance. In this setting, our findings indicate that the opacity inherent in pension accounting guidance is likely exacerbated by poor corporate governance. Our findings show that the deviation between control rights and cash flow rights, the number of board seats held by the ultimate controller, and board independence are significantly related to more aggressive expected rate of return on pension assets assumption choices. In addition, institutional shareholders appear to play an important monitoring role, which can mitigate opportunistic pension rate assumption choices.

Discussant: Xuezhou Zhao, The Hong Kong Polytechnic University, Hong Kong (rachel.x.zhao@polyu.edu.hk)

3. **New Product Strategies and Firm Performance: CEO Optimism**

Sheng-Syan Chen, National Taiwan University, Taiwan

Chih-Yen Lin, Fu Jen Catholic University, Taiwan

Yun-Ching Tsai, National Taiwan University, Taiwan

Abstract: We examine the role of CEO optimism in explaining firm performance associated with new product introductions. New product introducing firms with high levels of CEO optimism experience better announcement-period abnormal returns and long-term stock performance than introducers with moderate or low levels of CEO optimism. Changes in abnormal operating performance following new product announcements are also more favorable for firms with high-optimism CEOs than for firms with moderate-optimism or low-optimism CEOs. The results hold after controlling for other potential explanatory factors and accounting for endogeneity. The evidence highlights the importance of CEO optimism in assessing the valuation effect of corporate product strategies.

Discussant: Juichia Lin, National Chiao Tung University, Taiwan (jamesntu@gmail.com)

SESSION 14: ASSET PRICING (B)
ROOM NUMBER: M-115

Chairperson: Wonnho Choi, Seoul National University, Korea

1. **Consumption-based Capital Asset Pricing Models: Issues and Controversies**

Wonnho Choi, Seoul National University, Korea

Abstract: This paper discusses the issues and controversies surrounding consumption-based capital asset pricing models (CCAPMs). While CCAPMs provide a chance to explain the phenomena observed in stock markets, their viability is jeopardized owing to the weak predictability of the equity premium and risk-free rate puzzles. Even given market frictions and market incompleteness, CCAPMs must test their validity constantly in the face of the formidable challenges of rival models. Measurement error with respect to time aggregation is also regarded as a major threat, causing the low volatility of consumption and eventually resulting in chaining itself to weak return predictability. In addition, the dual choice problem of portfolio and consumption rooted in CCAPMs guides us into how investors accumulate wealth through the financial market to reach the zenith of expected utility. This paper offers insights as well as understanding into the behavior of an agent and market phenomena in the context of a consumption-based economy.

Discussant: Hong-Yi Chen, National Chengchi University, Taiwan (fnhchen@nccu.edu.tw)

2. **Downside Risk and Stock Returns: An Empirical Analysis of the Long-Run and Short-Run Dynamics from the G-7 Countries**

Cathy Yi-Hsuan Chen, Humboldt-Universität zu Berlin, Germany and Chung Hua University, Taiwan

Thomas C. Chiang, Drexel University, USA

Wolfgang Karl Härdle, Humboldt-Universität zu Berlin, Germany

Abstract: This paper presents a fractionally cointegrated vector autoregression (FCVAR) model to examine various relations between stock returns and downside risk. Evidence from major advanced markets supports the notion that downside risk measured by value-at-risk (VaR) has significant information content that reflects lagged long-run variance and higher moments of risk for predicting stock returns. The evidence supports the positive tradeoff hypothesis and the leverage effect in the long run and for some markets in the short run. We find that US downside risk accounts for 54.36% of price discovery, whereas the own effect from the country itself contributes only 27.06%.

Discussant: Wonnho Choi, Seoul National University, Korea (wonnho@lycos.co.kr)

3. **Economic Value Added (EVA) and Price to Earnings Ratio (P/E) as Portfolio Separation Criteria**

Clarence Ryan, Jonathan Raharja, Fransisca Tharia, and Adrian Teja, Prasetiya Mulya University, Indonesia

Abstract: This paper investigates the performance of portfolio created by two distinct valuation approaches, Economic Value Added (EVA) as an absolute valuation concept and Price to Earnings Ratio (P/E) as a relative valuation concept. The idea is high EVA stock per se may not provide abnormal return if the stock price already reflect the superior performance. Based on this idea, we created 8 equally weighted portfolios using EVA and P/E as our selection tools within 4 years investment horizon. The first portfolio consisted of stocks with the first highest EVA and low P/E, the second portfolio with the first highest EVA and high P/E until the eighth portfolio with the fourth highest EVA and high P/E. We found that the winner portfolio is the fourth portfolio with second highest EVA and high P/E stocks. This portfolio presented the highest positive abnormal return and risk-adjusted return, while the 6 other portfolios generated negative return. Monte Carlo simulation also proved that those portfolio selection criteria could generate significant return for the next 4 years.

Discussant: Cathy Yi-Hsuan Chen, Humboldt-Universität zu Berlin, Germany
(cathy.chen@hu-berlin.de)

4. **Internet Search, Fund Flows, and Fund Performance**

Hong-Yi Chen, National Chengchi University, Taiwan

Hsuan-Chi Chen, University of New Mexico, USA

Christine W. Lai, National Taiwan Normal Univeristy, Taiwan

Abstract: We use Google search volume index as the direct measure of the investor attention to investigate how attention-grabbing information affect the fund flow, survival probability, and future performance for newly issued funds. Investor attentions attributed by marketing efforts and word-of-mouth are taken into consideration and examined separately. We find the evidence of attention-grabbing buying that investors tend to buy new funds which have recently caught their attention, while the attention-grabbing buying induced by online buzz can substitute fund flows from the traditional marketing efforts. In addition, new funds with higher internet search volume can avoid the merger or the liquidation, indicating that attention-induced inflows can sustain new funds in the competitive fund market. Consistent with the overconfidence hypothesis, we find no evidence that the online search is smart enough to yield a superior future performance.

Discussant: Clarence Ryan, Prasetiya Mulya University, Indonesia
(clarenceryanb@gmail.com)

SESSION 15: FINANCIAL ACCOUNTING (B)
ROOM NUMBER: M-105

Chairperson: Li Li, Montpellier Business School, France

1. **The Role of Word Choice in the Earnings Press Release by French Listed Companies**

Li Li, Montpellier Business School, France

Jean-François Gajewski, University Savoie Mont-Blanc, France

Abstract: This paper examines the narrative form of the quarterly earnings press release by French listed companies. We focus on the linguistic style in this financial publication, especially the degree of optimism. We start by analyzing whether the tone of an earnings press release can be an indicator of the firm's future performance. We then study the reaction of French capital markets to the tone of the press release. The empirical results show a positive relationship between the tone and future performance. We also observe that cumulative abnormal returns are positively related to the degree of optimism. These findings thus suggest that the degree of optimism may be an indicator of future performance. Furthermore, French capital markets react positively to the degree of optimism, even after firm size and the variation in sales are controlled for. Last, investors are more sensitive to the pessimistic degree than the optimistic degree in a financial announcement.

Discussant: Hong Fan, Saint Mary's University, Canada (Hong.Fan@smu.ca)

2. **Role of Earnings Announcement in Uncertainty Reduction and Its Market Implication**

Bharat Sarath and Yushi Wang, Rutgers University, USA

Abstract: This paper constructs a new measure of accounting information quality based on the rate of decrease of implied option volatility around earnings announcements. Relying on the pattern documented in earlier studies about an increase in implied volatility before an earnings announcement followed by a decline, we conjecture that the change will be faster for firms whose financial statements are more transparent or easier to analyze. We validate out measure by comparing it with other measures of earnings quality and by an analysis of volume around earnings announcements.

Discussant: Li Li, Montpellier Business School, France (l.li@montpellier-bs.com)

3. **Firm-Specific Labor Unions and Tax Aggressiveness**

Francis Chansog Kim, State University of New York at Stony Brook, USA

Raymond M. K. Wong, City University of Hong Kong, Hong Kong

Lawrence H.W. Lei, Hang Seng Management College, Hong Kong

Abstract: Prior study finds that labor unions have a monitoring role in constraining management's aggressive financial and tax decisions of their associated firms. While industry-wide labor union coverage is commonly used in prior study to explore the role of

labor unions, we show that firm-specific labor unions, which represent a different bargaining power of the employees, do play an important role in determining firms' financial reporting decisions. Specifically, we examine whether and how the firm-specific labor union coverage impacts firms' tax aggressiveness decisions over and above industry-wide labor union coverage. As hypothesized, we find that firm-specific labor unions influence the associated firms to be more tax aggressive, which results in higher levels of residual cash flows. We also find that industry-wide labor unions influence the associated firms to be less tax aggressive, which is consistent with prior findings. We perform further analyses and find that the results are more pronounced for the firms with greater industry-wide labor unions representation. These results demonstrate that the inclusion of and interaction between the firm-specific and industry-wide labor unions matter in determining corporate's tax aggressiveness decisions.

Discussant: Bharat Sarath, Rutgers University, USA (bsarath@andromeda.rutgers.edu)

4. Monetary and Nonmonetary Incentives for Tax Planning in Chinese SOEs

Hong Fan and Liqiang Chen, Saint Mary's University, Canada

Abstract: This study investigates the unique incentives for tax planning in Chinese SOEs, especially with regard to how CEOs influence the tax planning process. Chinese CEOs in SOEs are rewarded by two means for their performance: (a) Similar to CEOs in Western countries, Chinese CEOs are rewarded by compensation; and (b) CEOs may also be rewarded by promotion. By studying the largest 194 SOEs listed on the Shanghai and Shenzhen Stock Exchanges for the period between 2002 and 2014, we hypothesized and found that cash effective tax rates (cash ETRs) were positively associated with compensation and also positively associated with the promotion of the CEOs. This suggests that monetary rewards (i.e., compensation) and nonmonetary rewards (i.e., promotion) both motivate CEOs in SOEs to pay more taxes to the majority shareholder (i.e., the Chinese government), and it could be an example of the majority shareholder taking unfair advantage of the minority shareholders (tunneling). We also found that Chinese SOEs cross-listed in Hong Kong or other Western stock exchanges paid fewer taxes on average compared to Chinese SOEs only listed on the Shanghai or Shenzhen when the CEOs' compensation and/or promotion was similar. This suggests stronger corporate government enforcement could mitigate the tunneling induced by compensation and promotion.

Discussant: Lawrence H.W. Lei, Hang Seng Management College, Hong Kong (lawrencelei@hsmc.edu.hk)

SESSION 16: INTERNATIONAL FINANCE AND ECONOMICS
ROOM NUMBER: M-104

Chairperson: Charmen Loh, Rider University, USA

1. **Controlled Currency Regime and Pricing of Exchange Rate Risk- Evidence from China**

Xiuping Hua, Nottingham University Business School, China

Wei Huang, University of Hawaii at Manoa, USA

Ying Jiang, Nottingham University Business School, China

Abstract: Extant research finds that exchange rate pegs do not alleviate firms' exposure to exchange rate risk in emerging markets. We further study whether exchange rate risk exposures under a pegged/controlled floating currency regime can be priced in asset returns using unique data on exchange rate regime changes in China. We find a negative stock market reaction to the announcement of changes from a pegged exchange rate to a controlled floating regime that subsequently led to currency appreciations, suggesting a negative stock valuation effect of expectation of increased exchange rate risk exposure. The time series exchange rate movement becomes significantly correlated with stock returns only under the controlled floating regime. More important, foreign exchange rate risk is priced in equity returns under the controlled floating regime but not under the strictly pegged regime. The pricing is stronger for firms with higher sensitivity to international trade and credit expansion, the two main economic channels that transmit the exchange rate risk exposure to risk premiums. The results imply that currency hedging for a firm with foreign exchange exposure is warranted under a controlled floating currency regime.

Discussant: Chew Soon Beng, Nanyang Technological University, Singapore (ASBCHEW@ntu.edu.sg)

2. **The Impact of Governance, Wealth, and the Debt Market on Global Stock Market Integration**

Charmen Loh, Rider University, USA

Abstract: This paper examines why some markets are highly integrated, while others are largely insulated from the rest of the world. Using a sample of 41 countries, it finds that stock market integration is significantly associated with produced capital, intangible wealth, and economic freedom. We also find that countries with higher sovereign credit rating and greater total debt are associated with high stock market integration. Taken as a whole, this study finds support for the notion that it is the institution – the host country's willingness and ability to safeguard foreign capital – that is the primary driving force for foreign investments.

Discussant: Wei Huang, University of Hawaii at Manoa, USA (weih@hawaii.edu)

3. **Firm-specific Return Volatility and Price Informativeness: Evidence from China**

Xiaoya Ding, University of San Francisco, USA

Abstract: This paper provides new international evidence on whether firm-specific return volatility proxies for price informativeness. I find that firm-specific return volatility is positively correlated with private information measured by institutional ownership. My primary results are that, in the whole sample, both local and foreign institutional ownership are positively associated with firm-specific stock return variation, and the relation between foreign institutional ownership and firm-specific return volatility is much stronger than that of local institutional ownership. I further decompose the whole sample into subsamples using state ownership, which has been documented to have an asymmetric effect on the informational advantage of local and foreign institutional investors. I find that only local institutional ownership is significantly and positively related to firm-specific return volatility among State-owned firms, whereas foreign institutional ownership is more closely correlated with firm-specific return volatility in non-State-owned firms. Moreover, the relation of local institutional ownership and firm-specific return variation is weaker in SOEs with higher board independence and better audit quality. Therefore my findings support the notion that firm-specific return volatility measures the private information impounded into stock prices.

Discussant: Charmen Loh, Rider University, USA (loh@rider.edu)

4. **Factors Affecting Export Competitiveness of Singapore's Manufacturing Sector: A Regression Analysis**

Chen Jia Hong, Hung Mingchou, Iek Wan Ying Teresa, and Chew Soon Beng, Nanyang Technological University, Singapore

Abstract: This paper examines the export competitiveness of the manufacturing sector in Singapore. More specifically, we examine how the existence of import content of exports, productivity gains and profit margins affect the competitiveness of Singapore's manufacturing exports. Using proxies such as price of exports, price of imports, unit business costs, and net operating surplus over manufacturing output, we analyze our results empirically and seek to show the significance of these variables in affecting the export competitiveness in the unique case of Singapore. Since price of exports and price of imports are both expressed in Singapore dollars (SGD) and this captures the exchange rate, we can assess the impact of a stronger SGD on the export competitiveness of Singapore's manufacturing sector. Traditional economic notions according to Mundell-Fleming model have predominantly assumed that the appreciation of local currency would stimulate imports and harm exports, vice versa. However, in the case of Singapore where there is a high import content in exports, our paper reveals that exports are not adversely affected by an appreciation of SGD. This is attributed to the direct causal relationship between import prices and export prices that helps to minimize the effects of a higher cost of export production brought about by appreciation, with lower import costs. Furthermore, the impacts of productivity growth and profit margins on export competitiveness are very small, supporting the notion that Singapore exporters are price takers. This implies that other than maintaining a strong Singapore currency, keeping a sustainable profit margin is imperative to a healthy manufacturing economy in Singapore, and it can be done by ensuring domestic costs do not escalate above productivity growth.

Discussant: Xiaoya Ding, University of San Francisco, USA (sding2@usfca.edu)

SESSION 17: BOND AND STOCK VALUATION
ROOM NUMBER: M-103

Chairperson: Yili Lian, Pennsylvania State University, USA

1. **Do Bondholders Receive Benefits from Bank Interventions?**

Yili Lian, Pennsylvania State University, USA

Abstract: I examine the effect of bank interventions over bond performance surrounding loan covenant violations. By studying abnormal bond returns of nonfinancial firms with covenant violations from 1996 through 2008, I show that bondholders benefit from bank influence over the governance of violators. Both short-term and long-term abnormal bond returns are significantly positive after covenant violations. I find that cross-sectional abnormal bond returns are positively related to the probability of bank interventions. In addition, I show that forced CEO turnover is positively associated with the probability of bank interventions. Firms with forced CEO turnover tend to have superior bond performance. I conclude that bank interventions have positive effects on the value of bondholders.

Discussant: Woan-lih Liang, National Chiao Tung University, Taiwan (wlliang1974@gmail.com)

2. **Numerical Computation for Stock Loan Valuation with Stochastic Interest Rates**

Hui Jin and Lan Tao, Hangzhou Dianzi University, China

Abstract: For the purpose of stock loan valuation, a stock price model is established under the stochastic interest rate model, and then the bivariate process of stock price is approximated by a bivariate birth-death process. More specifically, the logarithmic process of stock price is approximated via moment matching, while the process of interest rate is approximated based on the Ehrenfest processes approach. Furthermore, a numerical approach using the uinformizaion procedure is developed to compute the transition probabilities of stock price, which in turn leads to the stock pricing and calculation of loan-to-value ratios. Numerical results demonstrate the validity of the numerical approach with speed and the rationality. Given the maturity of stock loan, the loan-to-value ratios almost remain stable.

Discussant: Yili Lian, Pennsylvania State University, USA (yxl50@psu.edu)

3. **The Dynamics of Stock-Bond Return Relations and Stock Market Volatility: Evidence from Wavelet Analysis**

Fu-Lai Lin, Da-Yeh University, Taiwan

Yu-Fen Chen, Da-Yeh University, Taiwan

Sheng-Yung Yang, National Chung Hsing University, Taiwan

Abstract: This paper adopts continuous wavelet analysis to investigate the time variation features of stock-bond return relations across different frequencies from 1988 to 2014. We

also examine whether the time variation features of stock-bond return relations can be linked to two dimensions: fundamental factors and stock market uncertainty. The empirical results show that the relations between stock and bond vary across different frequencies over time. In addition, no matter whether annual frequency or quarterly frequency is observed, stock and bond returns have the same sign sensitivity to short rate and the slope of term structure, while their sensitivity to stock market volatility is positive. Moreover, the impact of crisis on long-term stock-bond relation is significantly negative while the impact on short-term relation is significantly positive. Hence, depending on which factors dominate, the realized correlation can be either positive or negative. The findings provide economic implications to investors who determine portfolio allocations as well as the policy makers who conduct macroeconomic policy and monitor financial markets by observing changes in these state variables.

Discussant: Hui Jin, Hangzhou Dianzi University, China (jinhui@hdu.edu.cn)

4. The Relationship between Innovation and Institutional Ownership

Hsiu-yun Chang, Aletheia University, Taiwan

Woan-lih Liang, National Chiao Tung University, Taiwan

Yanzhi Wang, National Taiwan University, Taiwan

Abstract: This paper reexamines institutional ownership and corporate innovation, a relationship proposed by Aghion, Van Reenen, and Zingales (2013). Using an updated sample of U.S. firms between 1990 and 2008, we confirm that higher institutional ownership leads to more innovation, including more citations received by patents of a firm, higher patent generality and originality. Nevertheless, we find that the impact of institutional ownership on innovation greatly decreases after 2000, meaning that institutional investors decrease their strength in support of innovation. We conclude that institutional investors are doing so because the patents are much costly after late 1990s.

Discussant: Fu-Lai Lin, Da-Yeh University, Taiwan (fllin@mail.dyu.edu.tw)

SESSION 18: FINANCIAL ACCOUNTING (C)
ROOM NUMBER: M-102

Chairperson: Lin-Hui Yu, National Taiwan University, Taiwan

1. **Causes and Consequences of "Discretionary" Goodwill Impairments**

Rosemond Desir, University of St. Thomas, USA

Ray J. Pfeiffer, Jr., Texas Christian University, USA

Jeffrey R. Casterella, Colorado State University, USA

Julia Kokina, Babson College, USA

Abstract: Empirical research since the enactment of SFAS 142, "Goodwill and Other Intangible Assets,"(now, Accounting Standards Codification [ASC] section 350-20)provides evidence that managers use the discretion afforded under the new rule to manage earnings through discretionary goodwill impairments. In this paper, we examine a group of firms with discretionary goodwill impairments to understand in more detail the goodwill impairment choices that managers make under current accounting rules. First, we explore whether there exist contextual factors that inhibit managers' use of discretion. While we find that there are significant associations between these factors and managers' reporting choices, we also find evidence that firms with discretionary goodwill impairments experience poor stock return performance both in the short and long term compared to firms with nondiscretionary impairments. In light of the FASB's recent discussions on amortization versus impairment of goodwill, these findings are important for our understanding of managers' impairment reporting choices and the subsequent market's reaction to these choices.

Discussant: Jia-Chi Cheng, Yuan Ze University, Taiwan (jccheng@saturn.yzu.edu.tw)

2. **The Effect of Fair Value versus Historical Cost Reporting Model on Analyst Behavior**

Chunlai Ye, Texas A&M International University, USA

Lin-Hui Yu, National Taiwan University, Taiwan

Abstract: This paper examines how the reporting models—the fair value and the historical cost models—affect analyst behavior. Using a sample of US and UK real estate firms reporting their net operating assets at historical cost and fair value, respectively, we examine how the two reporting models affect the degree of differential opinions regarding future prospects and the amount of effort to generate reports for analysts. We predict and find that analysts have less differential opinions for UK firms reporting fair value estimates than for US firms reporting historical costs. We, however, do not find that a change of fair value reporting regime from the partial fair value reporting model (UK domestic standards) to the full fair value reporting model (IFRS)has an incremental effect on the degree of differential opinions. In addition, we find that analysts exert more effort to follow firms under the fair value reporting model. We also provide evidence to suggest that when both the income statement and the balance sheet are reported under the full fair value model, financial statements become more straightforward and it takes less time for analysts to issue reports.

Finally, we do not find that the fair value versus historical costs has a differential effect on analyst forecast optimism.

Discussant: Rosemond Desir, University of St. Thomas, USA (rosemond.desir@stthomas.edu)

3. **Customer-Supplier Links: Spread and Detection of Corporate Misconduct**

Xin Cheng and Simi Kedia, Rutgers University, USA

Abstract: In this paper we examine and find that firms are more likely to begin misconduct if their current customers or suppliers are cheating. The effects are both statistically and economically significant. This higher likelihood of engaging in misconduct could be to preserve the value of their relationship specific investment that loses value if the cheating customer gets discovered. We find some support for this Relationship Hypothesis. We also examine if firms learn about wrongdoing from their cheating customers and find some support for this Learning Hypothesis. Lastly, we examine if discovery of a cheating customer increases the likelihood of firm's detection. We find that recent detected customer is associated with a higher likelihood of detection and a significantly lower time to detection providing strong support for the *Detection Hypothesis*.

Discussant: Lin-Hui Yu, National Taiwan University, Taiwan (linhuiyu@ntu.edu.tw)

4. **Institutional Ownership Stability and Quality of Financial Reporting**

Nan-Ting Kuo, Nankai University, China

Fang-Chi Lin, TamKang University, Taiwan

Jia-Chi Cheng, Yuan Ze University, Taiwan

Abstract: This study investigates the heterogeneous monitoring incentives of institutional investors as measured by investment time horizons on different stocks and its effect on firms' financial reporting quality. We employ four alternative measures proposed by Elyasiani and Jia (2008) and Bohren et al. (2005) as a proxy for the stability of institutional ownership, respectively. We find that firms with stable institutional investors have strong monitoring incentives, thus lead to avoid adopting aggressive accounting policies. Specifically, they have lower level of discretionary accruals including both income-increasing and income-decreasing earnings management, higher accruals quality and earnings persistence, fewer financial restatements, and more accounting conservatism. These results help explain the inconclusive effect of institutional ownerships on firms and its effects on a firm's information quality through financial reporting practices. We can find similar results after controlling for endogeneity problem, using alternative measures of variables and reduced samples, and employing different regression models. Thus, we conclude that a reliable measure of institutional ownership influence must take into consideration of institutional investment horizons.

Discussant: Xin Cheng, Rutgers University, USA (xc117@scarletmail.rutgers.edu)

SESSION 19: REAL ESTATE AND PENSION
ROOM NUMBER: International Conference Hall

Chairperson: Yoshihiko Tsukuda, Tohoku University, Japan

1. Upswings of Hong Kong Real Estate Prices in Post-Crisis Surge: Quantitative Easing and REIT Markets Developments

Yoshihiko Tsukuda, Tohoku University, Japan

Junji Shimada, Aoyama-Gakuin University, Japan

Tatsuyoshi Miyakoshi, Hosei University, Japan

Kui-Wai Li, City University of Hong Kong, Hong Kong

Abstract: This paper examine whether the quantitative easing policy conducted in Japan, EU and the US raised the real estate prices in Hong Kong through the development in the Hong Kong REIT market. The empirical results show that the quantitative easing policy affected the price of real estate, and the H-REIT prices led to a rise in office price after a lag of two periods. This finding appears in a carry trade senior, which seems to be a plausible senior. Moreover, this finding is sharper in the high grade office price than in the low grade office price. These findings imply that the quantitative easing policy spillover did not restrict only to the money market, but also markets in the real sectors immediately through the development in the REIT market. Also, the quantitative easing served as inflow of hot money that had a greater spillover effect on higher office grade than the lower office grade.

Discussant: Fang-Chi Lin, TamKang University, Taiwan (kango5477@gmail.com)

2. Asset Allocation for Pension Fund of China: A Mean-Variance Model with CVaR Constraints

Yibing Chen, National Social Security Fund and Chinese Academy of Sciences, China

Xianhua Wei, Chinese Academy of Sciences, China

Jianping Li, Chinese Academy of Sciences, China

Yong Shi, Chinese Academy of Sciences, China

Abstract: In this paper, we first review some important aspects of asset allocation for some typical large Social Security Reserve Funds (SSRFs) in the world. Then we present the mean-variance model with CVaR constraints. Concerning the real circumstance in China, we apply the model to asset allocation for pension fund. The empirical results show that to maintain purchase power of pension fund, certain proportion should be invested in stock as well as equity investments. We also find that time horizon significantly influence asset allocation of pension fund. If time horizon is longer, more allocation to stock and equity investments help the pension fund to achieve better performance.

Discussant: Yoshihiko Tsukuda, Tohoku University, Japan (Tsukuda@econ.tohoku.ac.jp)

3. **Does Change in Housing Prices Influence Corporate Payout Policy?**

Sara Ding, University of San Francisco, USA

Kose John, New York University, USA

Yang Ni, Shanghai Jiao Tong University, China

Samir Saadi, University of Ottawa, Canada

Abstract: We examine whether corporate payout policy responds to changing investor tastes for non-dividend over dividend-paying stocks following an increase in housing prices. Exploiting the cross-regional dispersion in housing prices growth within the U.S., we find a negative effect of growth in housing prices on local firms' propensity to pay and initiate dividends, as well as on their dividend yield, payout ratio, and net payout. In line with our central hypothesis, we find that such housing effect is particularly strong for small firms, young firms, volatile firms, and low profitability firms. Providing further support to our prediction, we report weaker market reactions to dividend changes when local housing prices increase. Our results are robust to controlling for several firm-specific variables, macro-economic variables, market sentiment, dividend premium, and after addressing potential endogeneity issue. This study is the first to establish a relationship between growth in housing prices and corporate policy decision. It also supports the view that investor's preference and firm's geographic location matter to payout policy.

Discussant: Yibing Chen, National Social Security Fund, China (yibingch@ssf.gov.cn)

4. **The Role of House Money Effect and Availability Heuristic in Investor Behavior**

Chieh-Shuo Chen, National Changhua University of Education, Taiwan

Fang-Chi Lin, TamKang University, Taiwan

Abstract: In behavioral finance literature with regard to cognitive psychology, the house money effect is an example of mental accounting, in which people tend to put money into different mental accounts based on arbitrary classifications, and they treat money spent in the different accounts differently. The house money effect is proposed to describe that people appear to consider large or unexpected wealth gains to be distinct from the rest of their wealth, and are thus more willing to gamble with such gains than they ordinarily would be. On the other hand, the availability heuristic describes that people tend to have a cognitive and systematic bias due to their reliance on easily available or associational information. This study employs these behavioral perspectives in an empirical model regarding the January anomaly to explore investor behavior in Taiwanese stock market with bonus culture and well-known electronics industry. The empirical results indicate that Chinese bonus payments in January induce a strong January effect in the Taiwanese stock market, especially when most listed firms have positive earnings growth in the preceding year, suggesting a house money effect. Moreover, this study further provides some preliminary evidence that the higher January returns due to bonus culture are apparent only in the electronics industry when both Chinese New Year and bonus payments are in January, implying the role of availability heuristic based on the electronics stocks in investor behavior before the impending stock

exchange holidays. Some robust tests show qualitative support. These findings should be helpful in financial decision making for institutional and individual investors.

Discussant: Sara Ding, University of San Francisco, USA (sding2@usfca.edu)

SESSION 20: CORPORATE FINANCE AND INVESTMENT ANALYSIS
ROOM NUMBER: Conference Room 1

Chairperson: Jiong Gong, University of International Business and Economics, China

1. **Taxation and Electronic Commerce: Evidence from China's Retail Sector**

Jiong Gong, University of International Business and Economics, China

Ping Jiang, University of International Business and Economics, China

Xiangyang Zhang, PricewaterhouseCoopers, China

Abstract: This paper studies the issue of tax liability distribution in the retail industry in China. Our data includes three categories of firms: pure e-tailers, hybrid retailers and traditional retailers. We find the tax liability differentials among three types of retailers we examined are substantial. Hybrid retailers with e-tail platforms in general have lower tax burdens than traditional brick-and-mortar retailers in all three types of taxes. But contrary to the conventional wisdom, pure e-tailers actually incur much higher income-tax-ETRs than both the other two types of retailers.

Discussant: Raymond W. So, Hang Seng Management College, Hong Kong (rayso@hsmc.edu.hk)

2. **Does the Professional Manager Blow the Whistle on Founding Families? New Evidence on the Dark Side of Family-Controlled Firm**

Hansoo Choi, Korea Institute of Public Finance, Korea

Changmin Lee, Hanyang University Business School, Korea

Abstract: This paper investigates the relationship between family firm, external governance and corporate fraud. We focus on the judicial and market attitude toward professional top managers, not controlling shareholder, involved in corporate fraud, especially in family-controlled business group in Korea, Chaebol. We find that top managers receive lighter sentences. The probability that a professional manager goes to prison is 35.7%p less than that of a controlling shareholder. Moreover, no top management ever actually goes to prison at an appellate court. The possibility that a professional manager is held pretrial drops by 39.2%p. Secondly, almost 55% of the professional top managers involved in corporate crimes come back to the position in the near future after sentencing decisions. Almost 84% of resurrected professional managers in the market had worked for the Chaebol-affiliated firms at the moment of their corporate crimes. More surprisingly, 87% of returned Chaebol managers take the executive position at their affiliated firm. Our findings suggest a possibility that the ill-functioned legal system and market for professional managers helps large shareholders such as founding families capture them to serves family interests.

Discussant: Jiong Gong, University of International Business and Economics, China (johngong@gmail.com)

3. Return Predictability between Industries and the Market Index in China

Yiuman Tse, University of Missouri – St. Louis, USA

Gaiyan Zhang, University of Missouri – St. Louis, USA

Raymond W. So, Hang Seng Management College, Hong Kong

Abstract: We examine return predictability between industries and the stock market in China. Four industries (out of 13) can in-sample predict the market during the period of January 1993 through December 2015, while the market can predict two industries. Examining the out-of-sample predictability, we show that only two industries lead the market, and the market leads four industries. Combining the in-sample and out-of-sample forecast results, Mining is the only industry that has predictive ability for the market index. Mining also outperforms the market and most industries in predicting the industrial output growth.

Discussant: Changmin Lee, Hanyang University Business School, Korea (changmin0415@gmail.com)

SESSION 21: ASSET PRICING AND BANK MANAGEMENT
ROOM NUMBER: Conference Room 4

Chairperson: Dongcheol Kim, Korea University Business School, Korea

1. **The Forecast Dispersion Anomaly Revisited: Intertemporal Forecast Dispersion and the Cross-Section of Stock Returns**

Dongcheol Kim, Korea University Business School, Korea

Haejung Na, Korea University Business School, Korea

Abstract: Previous studies use cross-sectional forecast dispersion in examining the relation between forecast dispersion and future stock returns and report an anomalous negative dispersion-return relation. This paper examines how intertemporal (or time-series mean) forecast dispersion is distinct in the relation to stock returns from the negative dispersion-return relation. We find that contrary to the standard analyst dispersion effect, there is a strong positive relation between intertemporal forecast dispersion and stock returns. We also find that intertemporal forecast dispersion apparently contains systematic risk components and that such risk is priced in stock returns.

Discussant: Naiwei Chen, Jiangxi Normal University, China
(906218956@qq.com)

2. **The Business Cycle and Profitability of Trading Strategies**

Yuxing Yan, Canisius College, USA

Shaojun Zhang, Hong Kong Polytechnic University, Hong Kong

Abstract: Recent studies show that investor participation in stock market rises during economic expansion and drops in economic recession. When investor participation is high, investors' cognitive and behavioral biases are likely to have a stronger influence on stock prices than when investor participation is low. We consider four trading strategies that are based on well-known market anomalies and examine their profitability under different economic conditions. For all four strategies, the hedge portfolios that are formed in the months when the economy is expanding obtain significant profits, whereas the hedge portfolios formed in recession months are not profitable.

Discussant: Dongcheol Kim, Korea University Business School, Korea
(kimdc@korea.ac.kr)

3. **The Response of UK Equity Risk Premium to Global Monetary Policy Shocks**

Sunil Poshakwale and Pankaj Chandorkar, Cranfield University, UK

Abstract: In the paper we investigate the response of the UK Equity Risk Premium (ERP) to the global monetary policy shocks. In particular, we examine the ERP of two widely watched UK indices the FTSE 100 and FTSE all share to the monetary policy shocks from the US, the

UK, the European Monetary Union and Japan. The shocks in three monetary policy instruments; interest rate, narrow money supply and broad money supply, are measured using Structural Vector Autoregression framework for the sample four countries/economic zone. The UK ERP is also measured with and without dividends. Our results show that monthly variation in the UK ERP can be explained by the interest rate, narrow money supply and broad money supply shocks. In particular, the UK ERP is sensitive to the British, European and Japanese interest rate shocks. However, the UK ERP is sensitive to the narrow money shocks from the US, the UK, the EMU and Japan and only sensitive to the Japanese broad money shocks.

Discussant: Shaojun Zhang, Hong Kong Polytechnic University, Hong Kong (afszhang@polyu.edu.hk)

4. **Control of Corruption, Diversification and Asset Quality of Islamic and Conventional Banks**

Naiwei Chen, Jiangxi Normal University, China

Hsin-Yu Liang, Feng Chia University, Taiwan

Min-Teh Yu, National Chiao Tung University, Taiwan

Abstract: The study examines whether and how control of corruption (CC) influences asset quality of banks directly and indirectly through diversification. A review of banks in three Islamic countries (Indonesia, Malaysia, and Pakistan) from 2006 to 2012 reveals that CC has a positive effect on asset quality of Islamic banks only. In addition, diversification typically has a negative effect on asset quality, but such a negative effect weakens as CC becomes more effective, particularly for Islamic banks. Furthermore, the modifying effect of CC is particularly found in more corrupt countries (Indonesia and Pakistan) as opposed to a less corrupt country (Malaysia).

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