Wednesday, May 18

Session I – Markets and Pricing
Chair: Gilad

13.40 – 14.20 *"Substitution Effect and Lottery Demand"* (co-authored with I. Filippou and F. Zapatero)
Presenter: Pedro
Discussant: Rajesh

In this paper we examine the role of option trading in strategies with lottery-like payoffs. We find that the evolution of option trading during the recent period mitigates the significance of the returns of lottery stocks. Consistently with theoretical information based models, we find that embedded leverage (main determinant of option trading volume) is the driver of this phenomenon as investors tend to substitute lottery options with lottery stocks when the moneyness, implied volatility and stock illiquidity are high. This finding can partially be explained by momentum and reversals.

14.20 – 15.00 *"Credit Risk Analysis with Creditor's Option to Extend Maturities"* (co-authored with R. Ikeda)
Presenter: Yoske
Discussant: Julian

We present a Merton (1974)-type structural model of credit risk in which the borrower firm refinances its debt, there is cost for bankruptcy, and the creditor has an option to extend the date of maturity of debt if the firm defaults. We show that a solution exists in such a model and in that solution the creditor has incentive to extend maturity to avoid bankruptcy cost. We solve the model numerically and argue that such maturity extension option for the creditor can have substantial impact on the debt and stock values of the firm.

Session II – R&D and innovation
Chair: Rajesh

15.20 – 16.00 *"Competition, Duplication and Learning in R&D: an Analysis with Two-Armed Bandits"*
Presenter: Kaustav
Discussant: Panos

There is both evidence and some literature on the fact that competing researchers tend to duplicate their effort, when the social planner would prefer they diversify and work on different approaches to the same research question. We address this problem in models of strategic experimentation in continuous time. I consider two such models to show the conditions under which the finding of duplication is robust to the structure of the particular model. The first model has two arms (to be interpreted as approaches or technologies) only one of which has a chance of yielding a positive payoff to the first researcher to succeed. The second model has two independent arms; one arm is safe in the sense that it is known to finally lead to the prize; the other has a chance of getting to success much faster but it could also lead to failure. Players or researchers have different abilities in the different arms. The paper falls in the literature ontwo-armed bandits; unlike most papers in this area we have heterogeneous players and payoff externalities.

16.00 – 16.40 *"Does Financial Innovation Enhance or Inhibit Real Innovation"* (co-authored with S. Eswar)
Presenter: Lora
Discussant: Kevin

We present evidence that financial innovation plays a role in increasing the level of real, innovative activity. We focus on manufacturing firms' innovation performance, measured by patent-based metrics, and employ an exogenous change in the market for over-the-counter (OTC) derivatives in 1987. This innovation has a larger effect on firms with lower exposure to currency fluctuations, irrespective of their investment opportunities. We find that firms with high exposures have lower ability to put up collateral, which leads to lower derivatives usage. Firms with lower exposures, on the other hand, have a greater ability to furnish collateral, which leads to higher derivatives usage, and higher levels of innovation. Overall, our results suggest that derivatives may not reduce financial constraints for the most-constrained firms. Their usage by less-constrained firms, however, does lead to more innovation.

Session III – Investment decisions and financial intermediation
Chair: Kevin

17.00 – 17.40 *"Voluntary Adoption of IFRS by UK Unlisted Firms and Investment Decisions at the Firm- and Group- Level"* (co-authored with P. Andre)
Presenter: Fani
Discussant: Mari

Many unlisted firms are part of large conglomerate groups. For these firms, decisions about reporting practices are made at the group level (Beuselinck et al., 2014) and therefore one should expect the economic consequences of those decisions to occur not only at the firm level but also at the group level. Consistent with this hypothesis, our results indicate that the identity and characteristics of the parent firm are important determinants of subsidiaries' decision to adopt IFRS; and that IFRS adoption increases investment efficiency at the subsidiary level. Moreover, we find that IFRS adoption by subsidiaries is associated with portfolio and financing restructuring at the group level. However, while large groups adopt IFRS to increase their debt capacity and avoid takeovers, small groups appear to adopt IFRS as part of their expansion strategy and in an attempt to attract more equity financing.

17.40 – 18.20 *"Securitization with Financial Distress: the Impact on Corporate Borrowers"* (co-authored with A. Gallo)
Presenter: Min
Discussant: Grzegorz

In this paper, we test whether the benefits that banks derive from their own (simple format-) securitization activities are transferred to corporate borrowers when banks are under idiosyncratic liquidity shock. We hypothesize that, when banks experience unexpected liquidity problem, liquidity that some banks may raise from securitization will allow them to lend to borrowers in a more stable manner: less severe decrease in the loan amount, less dramatic changes in the loan conditions represented by covenants, and a more continuous relationship with their borrowers. Using the data on US syndication loan market in the pre-crisis and pre-Basle II period, we test these effects based on simple format-securitization activities. By focusing on the early period, we avoid the influence of regulatory cliff-effects on banks' decision to securitize. We find that corporations are indeed more likely to borrow from securitizing banks than from non-securitizing banks when both types of banks are under liquidity shock. We also find that borrowers are imposed less strict covenants when their loan is originated by securitizing banks. We find very weak or no evidence that the lending relationship is more persistent with securitizing banks. Overall, our results support that banks' securitization has implicit benefits to corporate borrowers when it is based on a simple structure as it used to be before the build-up of complicated securitization that led to the crisis. The results in this paper reinforce the current debate on revitalization of the securitization market conditional on that its structure is kept simple, standard and transparent (SST) and that the loopholes in banking prudential regulation are reduced.

Thursday, May 19

Session IV – Risk management, governance and disclosure
Chair: Mari

9.00 – 9.40 *"No Pressure No Diamonds: the Role of Shareholder Activism on CSR Transparency"*(co-authored with M. Rodrigue and E. Trevisan)
Presenter: Giovanna
Discussant: Maria

This paper investigates whether shareholder activism on CSR leads to a change in corporate CSR disclosure. Such change is ex-ante not obvious because, by regulation, shareholders proposals on CSR are not binding managers to act, typically receive low support, and they are often perceived as interference in daily business activities. Drawing on social movement theory, we conceptualize how shareholders put pressure on firms via use of their voice, challenge corporate activities and bring transformation in corporate practice. We analyze the content of 2,089 CSR-related shareholders proposals filed during the period 2006-2012 and separately identify proposals that specifically request improved CSR transparency from proposals demanding other CSR related initiatives. Using propensity score matching to reduce the bias of confounding variables and choosing our control group from the pool of firms that are targeted by CSR proposals and thus under similar, although not identical, pressure, we show that shareholder activism leads to greater CSR disclosure. Overall, our study contributes to the literature by examining an underexplored accounting outcome of activism: CSR transparency.

9.40 – 10.20 *"Environmental and Social Disclosures and Firm Financial Risk"* (co-authored with M. Benlemlih, A. Shaukat, and Y. Qiu)
Presenter: Grzegorz
Discussant: Giovanna

We examine the link between a firm's environmental (E) and social (S) disclosures and measures of its risk including total, systematic, and idiosyncratic risk. While we do not find any link between a firm's E and S disclosures and its systematic risk, we find a negative and significant association between these disclosures and a firm's total and idiosyncratic risk. These are novel findings and are consistent with the predictions of the stakeholder theory and the resource based view of the firm suggesting that firms which make extensive and objective E and S disclosures promote corporate transparency that can help them build a positive reputation and trust with its stakeholders, which in turn can help mitigate the firm's idiosyncratic/operational risk. These findings are important for all corporate stakeholders including managers, employees, and suppliers who have a significant economic interest in the survival and success of the firm.

10.40 -11.20 *"The Value of Integrated Corporate Risk Management"* (co-authored with A. Isin, and S. Gyoshev)
Presenter: Kevin
Discussant: Gilad

In this paper we examine market-level assessment of corporate cash and hedging policies. We show that investors perceive cash holdings as the chief component of firm value, in particular for financially constrained firms and for firms with better governance measures. Moreover, we document an economically significant value generation through integrated cash and hedging policies but fail to find direct association between hedging and firm value. We show that i) the economic value of hedging is strongly connected to the firm-level liquidity management strategies and ii) investors perceive corporate cash and hedging policies as complementary tools as part of a long-term firm-wide risk management strategies.