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[Risk Management and Regulation"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3066034&partid=22912&did=362558&eid=473700" \t "_blank) , [CEPR Discussion Paper No. DP12422](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=223793&partid=22912&did=362558&eid=473700)

[TOBIAS ADRIAN](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=93743&partid=22912&did=362558&eid=473700), International Monetary Fund, Email: [tobiasadrian@gmail.com](mailto:tobiasadrian@gmail.com)

The evolution of risk management has resulted from the interplay of financial crises, risk management practices, and regulatory actions. In the 1970s, research lay the intellectual foundations for the risk management practices that were systematically implemented in the 1980s as bond trading revolutionized Wall Street. Quants developed dynamic hedging, Value-at-Risk, and credit risk models based on the insights of financial economics. In parallel, the Basel I framework created a level playing field among banks across countries. Following the 1987 stock market crash, the near failure of Salomon Brothers, and the failure of Drexel Burnham Lambert, in 1996 the Basel Committee on Banking Supervision published the Market Risk Amendment to the Basel I Capital Accord; the amendment went into effect in 1998. It led to a migration of bank risk management practices toward market risk regulations. The framework was further developed in the Basel II Accord, which, however, from the very beginning, was labeled as being procyclical due to the reliance of capital requirements on contemporaneous volatility estimates. Indeed, the failure to measure and manage risk adequately can be viewed as a key contributor to the 2008 global financial crisis. Subsequent innovations in risk management practices have been dominated by regulatory innovations, including capital and liquidity stress testing, macroprudential surcharges, resolution regimes, and countercyclical capital requirements.

[From Risk to Opportunity: A Framework for Sustainable Finance"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3066210&partid=22912&did=362544&eid=472128), RSM Series on Positive Change, V 2 (2017)

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From Risk to Opportunity: A Framework for Sustainable Finance presents the switch from traditional finance to sustainable finance. While financial institutions have started to avoid unsustainable companies from a risk perspective (Sustainable Finance 1.0 and 2.0), The frontrunners are now increasingly investing in sustainable companies and projects to create long-term value for the wider community (Sustainable Finance 3.0). Major obstacles to sustainable finance are short-termism and insufficient private efforts. To overcome these obstacles, the booklet develops guidelines for governing sustainable finance.

["The Solution to the Feldstein-Horioka Puzzle"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3065768&partid=22912&did=362529&eid=450000) [ISER Discussion Paper No. 1016](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=305462&partid=22912&did=362529&eid=450000)

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[NICHOLAS FORD](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2521950&partid=22912&did=362529&eid=450000), University of Cambridge - Wolfson College,  [nicholassford@hotmail.co.uk](mailto:nicholassford@hotmail.co.uk)

The purpose of this paper is to set out a surprisingly simple solution to the Feldstein-Horioka Puzzle or Paradox, which is that even though global financial markets appear to be integrated, levels of saving and investment are correlated across countries because financial markets cannot, by themselves, achieve net transfers of financial capital. This is because net transfers of financial capital require the integration not only of financial markets but also of goods markets and because there are substantial frictions in goods markets (e.g., transport, marketing, and distribution costs, technical standards, certification procedures, tariffs and nontariff barriers, etc.).

["Coco Issuance and Bank Fragility"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3066030&partid=22912&did=362529&eid=450000) [CEPR Discussion Paper No. DP12418](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=223793&partid=22912&did=362529&eid=450000)

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[BILYANA BOGDANOVA](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=787739&partid=22912&did=362529&eid=450000), Bank for International Settlements (BIS),  [bilyana.bogdanova@bis.org](mailto:bilyana.bogdanova@bis.org)  
[PATRICK BOLTON](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1940&partid=22912&did=362529&eid=450000), Columbia Business School - Department of Economics, Centre for Economic Policy Research (CEPR), National Bureau of Economic Research (NBER), European Corporate Governance Institute (ECGI), Email: [pb2208@columbia.edu](mailto:pb2208@columbia.edu)  
[WEI JIANG](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=287969&partid=22912&did=362529&eid=450000), Columbia Business School - Finance and Economics, Email: [wj2006@columbia.edu](mailto:wj2006@columbia.edu)  
[ANASTASIA V. KARTASHEVA](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=635027&partid=22912&did=362529&eid=450000), Bank for International Settlements, : [anastasia.kartasheva@bis.org](mailto:anastasia.kartasheva@bis.org)

The promise of contingent convertible capital securities (CoCos) as a 'bail-in' solution has been the subject of considerable theoretical analysis and debate, but little is known about their effects in practice. In this paper, we undertake the first comprehensive empirical analysis of bank CoCo issues, a market segment that comprises over 730 instruments totaling $521 billion. Four main findings emerge: 1) The propensity to issue a CoCo is higher for larger and better-capitalized banks; 2) CoCo issues result in a statistically significant decline in issuers' CDS spread, indicating that they generate risk-reduction benefits and lower costs of debt. This is especially true for CoCos that: i) convert into equity, ii) have mechanical triggers, iii) are classified as Additional Tier 1 instruments; 3) CoCos with only discretionary triggers do not have a significant impact on CDS spreads; 4) CoCo issues have no statistically significant impact on stock prices, except for principal write-down CoCos with a high trigger level, which have a positive effect.

["Theory of Islamic Banking: From Genesis to Degeneration"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3066125&partid=22912&did=362529&eid=450000) History of Economic Ideas, Forthcoming

[ZAHID SIDDIQUE](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2421922&partid=22912&did=362529&eid=450000), National University of Sciences and Technology ,  [zahid.siddique@s3h.nust.edu.pk](mailto:zahid.siddique@s3h.nust.edu.pk)  
[MAZHAR IQBAL](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1605553&partid=22912&did=362529&eid=450000), Quaid-i-Azam University, Email: [mmiqbal@qau.edu.pk](mailto:mmiqbal@qau.edu.pk)

Islamic banking was launched as an alternative of interest based banking. Pioneers of Islamic banking defined profit-and-loss sharing as the desirable alternative. As far modes involving fixed return, they were either not considered by the pioneers or were deemed only permissible but not desirable. But the practice of Islamic banking did not follow this ‘idealist theory’ and relied heavily on ‘undesirable’ contracts. Later on, pragmatic approach to Islamic banking questioned the priority associated with PLS business forms and justified the modeling of Islamic banking using even controversial contracts. The paper shows that these developments in Islamic banking theory were not meant to overcome the problems that hindered the practice of its first best theory but to accommodate Islamic banking transactions according to the needs of interest based system. This academic approach could not result in the alternative of the conventional system rather leads to integration within it. Thus, Islamic banking theorists adopted a strategy that is largely responsible for the current state of affairs in Islamic banking. To take industry out of it, a shift in its approach from accommodationist to transformationist strategy is required.

[How Does the FASB Make Decisions? A Descriptive Study of Agenda-Setting and the Role of Individual Board Members, "](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3065710&partid=22912&did=362390&eid=335816) [Accounting, Organizations and Society, Forthcoming](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=254588&partid=22912&did=362390&eid=335816)

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[ISABEL YANYAN WANG](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=525878&partid=22912&did=362390&eid=335816), Michigan State University, Email: [wang@bus.msu.edu](mailto:wang@bus.msu.edu)  
[DANIEL WANGERIN](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1182880&partid=22912&did=362390&eid=335816), Michigan State University, Email: [wangeri3@msu.edu](mailto:wangeri3@msu.edu)

This study provides descriptive evidence on how the Financial Accounting Standards Board (FASB) sets Generally Accepted Accounting Principles (GAAP). Based on 211 financial accounting standards issued between 1973 and 2014, we summarize the reasons that the FASB adds or removes projects from its agenda, the entities most frequently bringing issues to the FASB’s attention, and commonly recurring topics across different standards over time. We find that reducing diverse practices and inconsistent guidance is the most frequent reason cited by the FASB to take on a project and more than half of the standards are intended to enhance comparability. We find that the SEC, AICPA, and large public accounting firms are identified most frequently by the FASB as the parties bringing issues to its attention. Accounting for financial instruments is the most frequent recurring topic across accounting standards, which potentially explains the growth in fair value measurement in U.S GAAP over time. We analyze the dissenting opinions written by Board members and find some evidence that the stated reasons for disagreements are associated with their professional backgrounds. However, our analyses indicate Board members’ positions on fair value accounting are context-specific and cannot be fully explained by their professional backgrounds.

["The Current State of African Exchanges: Focus on Two Emerging, Three Frontier, and Two Standalone Markets"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3066589&partid=22912&did=362384&eid=326262) Journal of International Trade & Commerce, Vol.13, No.5, pp.159-179

[JOSEPH-KWAKU AHIALEY](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2830632&partid=22912&did=362384&eid=326262), Pai Chai University, Email: [kwaku198@naver.com](mailto:kwaku198@naver.com)  
[HO-JUNG KANG](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2830633&partid=22912&did=362384&eid=326262), Pai Chai University, Email: [hjkang66@pcu.ac.kr](mailto:hjkang66@pcu.ac.kr)

This paper reviews the current state of seven African exchanges and their respective market structure. For more than one and a half decades, the liquidity position of African exchanges does not improve that much even though significant progress has been made in terms of infrastructure such as automation. This review uncovers important differences among these African exchanges’ market structures. While some African exchanges employ the internationally accepted market structures, this cannot be said of others. African exchanges wishing to be globally competitive and attaining high liquidity would have to re-visit their market structure design. Additionally, we point out some areas where further research is required. Specifically, we find that there is little, if no previous works that investigate the effect of market structures on African exchanges in terms of liquidity and price discovery.  
  
["Organic Finance in Action: Practical Tools for a New Paradigm"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3064401&partid=22912&did=362383&eid=325210)

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[RORY RIGGS](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2827850&partid=22912&did=362383&eid=325210), Independent  
[RAJIV SHARMA](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1704248&partid=22912&did=362383&eid=325210), Stanford University, Email: [rajiv.sharma@ouce.ox.ac.uk](mailto:rajiv.sharma@ouce.ox.ac.uk)

The financial services industry, which has ballooned from an 8 to 40% share of all after tax corporate profits created in the American economy over the past 50 years, is undergoing an evolutionary shift. Following a period of sustained growth in assets and power, significant advancements in technology, algorithms and information availability are revising the ways in which long-term investors interact with, and invest in, the capitalist system. We call this new paradigm of long-term investing ‘Organic Finance’, and it refers to a more professional and engaged community of asset owners that are increasingly focused on rooting their investment activities in the real economy. Specifically, Organic Finance asks that asset owners develop the capacity to understand the ingredients and incentives in the financial products they consume, which ensures that the financial derivation inherent in financial products does not negatively distort the risk and return profile of the underlying assets. This paper builds upon the large body of work on risk factors, which highlights the need for investors to clearly understand the underlying risk premia they wish to be exposed to and choose assets accordingly. More specifically, this paper highlights how a missing ‘organic finance factor’, which refers to the distortion/clarity with which a financial product represents the underlying economy, can also drive performance and thus deserves to be included in the factor toolkit. Indeed, we argue that factors apply as much to products as they do to underlying assets. To illustrate, we offer a case study of a newly formed passive investable stock index that uses a ‘systems approach’ to analyze and classify the constituents based on their functional characteristics.

[Style Concentration in Ownership and Expected Stock Returns"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3065191&partid=22912&did=362197&eid=169083)

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[GEORGIOS I. KARALAS](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2825809&partid=22912&did=362197&eid=169083), LSE - Department of Finance, University of Piraeus, [G.Karalas@lse.ac.uk](mailto:G.Karalas@lse.ac.uk)

We examine the relation of expected stock returns with fund style concentration in stock ownership over the period 1997-2015. Concentration is measured by the Herfindahl index H of the shares of different investment styles in the ownership of stocks and represents a measure of investor inattention in stocks. Decile portfolios on H reveal a strong positive association of H with future returns, with the long-short portfolio on H having significant alphas after passing through the five-factor Fama-French (2015) model.   
  
The econometric results confirm the positive association and are robust to the inclusion of known risk-factors as determinants of expected stock returns, the returns of the investment styles themselves, plus a set of style-related control variables and other liquidity, size, or volatility characteristics of stocks. The relation coexists with short-run price and style momentum and long-run style and price reversals of Barberis and Shleifer (2003) and remains present over multi-year horizons of stock returns, being both economically and statistically significant. The results are consistent with the model of Merton (1987), which claims a stock’s excess risk premium over the CAPM premium, is the product of investor participation (which is proxied by H in our framework), idiosyncratic volatility and size. These results also shed light on the small firm effect.

["The Revealed Preference of Sophisticated Investors"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3064974&partid=22912&did=362197&eid=169083) [European Financial Management, Vol. 23, Issue 5, pp. 839-872, 2017](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=95175&partid=22912&did=362197&eid=169083)

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[MARAT MOLYBOGA](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=741096&partid=22912&did=362197&eid=169083), Illinois Institute of Technology

Berk and van Binsbergen (2016) have shown that the Capital Asset Pricing Model (CAPM) best represents the revealed preferences of any investor who can invest in mutual funds (i.e., all investors). This claim seems overly broad, as it applies to all asset classes. However, we show that hedge fund investors' revealed preferences are also best modeled by the CAPM. Because hedge fund investors are sophisticated and can access all assets classes, our finding supports this broad claim. Using the CAPM is rational, as we show that CAPM alpha correlates with managerial skill and predicts performance better than other multi‐factor models.

[Stock Valuation and the Implied Growth Rate"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3065068&partid=22912&did=362434&eid=361778)

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This paper presents a methodology of evaluating stocks based on their growth prospects, rather than the traditional relative valuation criteria. In order to facilitate the implementation of the proposed approach by finance colleagues we have included some applications and an Excel spreadsheet to demonstrate the effectiveness of the proposed valuation methodology. Briefly, the proposed approach considers prices as endogenous to the model and solves for the Implied Growth Rate (IGR) which satisfies the Terminal Value Multiple (TVM). Assuming a pre-established benchmark for IGR and TVM, one can determine whether a stock (or an Index of stocks) is fairly priced. We also suggest a process to obtain the benchmark growth rate for the overall stock market based on empirical results, consistent with standard theoretical models.

["Myopic Market Pricing and Managerial Myopia"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3064362&partid=22912&did=362206&eid=183562) [Journal of Business Finance & Accounting, Vol. 44, Issue 9-10, pp. 1194-1213, 2017](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=93429&partid=22912&did=362206&eid=183562)

[ALEXANDRE GAREL](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2396853&partid=22912&did=362206&eid=183562), Auckland University of Technology, Email: [alexandre.garel@aut.ac.nz](mailto:alexandre.garel@aut.ac.nz)

This paper develops a firm‐level measure of myopic market pricing, which captures the extent to which the market overvalues short‐term expected abnormal earnings relative to longer‐term ones. The empirical analysis shows that myopically priced firms manage earnings more actively and invest less in R&D. The impact of myopic market pricing is concentrated in firms where managers cater more to market pricing, that is, in firms with greater short‐term investor ownership, with CEO compensation that is more sensitive to the firm share price, and with higher equity dependence. Additional tests show that these findings are robust to the consideration of market (under)overpricing. The results suggest that when managers cater to market pricing, market myopia encourages managerial myopia.

["Clawback Provision Adoption, Corporate Governance, and Investment Decisions"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3064359&partid=22912&did=361981&eid=1750743) [Journal of Business Finance & Accounting, Vol. 44, Issue 9-10, pp. 1370-1397, 2017](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=93429&partid=22912&did=361981&eid=1750743)

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[CAROL E. VANN](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2083507&partid=22912&did=361981&eid=1750743), University of South Alabama, Email: [profcevann@gmail.com](mailto:profcevann@gmail.com)

We examine the effect of corporate governance on the likelihood of clawback provision adoption, and its consequences in terms of corporate investment practices and risk‐taking behavior. We find that firms with strong governance (as proxied by board independence, diligence, and size) are positively associated with the firm's adoption of a clawback provision; whereas firms with weak governance (as proxied by management entrenchment, i.e., CEO duality status and tenure) are negatively associated with clawback provision adoption. Using the propensity‐score matching, difference‐in‐differences research design, and inverse Mills ratio to mitigate omitted variables and self‐selection biases, we find that after adopting a clawback provision, firms’ abnormal investment decreases and the firms’ investments are less risky.

["To Switch or Not to Switch: The Role of Asset Growth on Fund Management Structure"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3021310&partid=22912&did=362004&eid=4246) Free Download

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This paper examines how mutual funds respond to constraints imposed by asset growth. We find a fund’s decision to switch management structure to be largely driven by asset growth. However, we find little evidence that changes in management structure are associated with superior fund performance, possibly due to the limited investment ideas of fund managers. Finally, we find that investors respond negatively to funds that change their management structure. Our overall findings are consistent with prior literature on the prevalence of diseconomies of scale in mutual funds and have significant policy implications for regulators in terms of how funds should be regulated as they grow larger.

["Equity in Startups"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3063860&partid=22912&did=361980&eid=1750022)

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Startups have become in less than 50 years a major component of innovation and economic growth. An important feature of the startup phenomenon has been the wealth created through equity in startups to all stakeholders. These include the startup founders, the investors, and also the employees through the stock-option mechanism and universities through licenses of intellectual property. In the employee group, the allocation to important managers like the chief executive, vice-presidents and other officers, and independent board members is also analyzed. This report analyzes how equity was allocated in more than 400 startups, most of which had filed for an initial public offering. The author has the ambition of informing a general audience about best practice in equity split, in particular in Silicon Valley, the central place for startup innovation.

[Analyzing Textual Information to Understand Post-Event Stock Price Behavior"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3060095&partid=22912&did=361792&eid=1669131)

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[TAO TONG](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2782365&partid=22912&did=361792&eid=1669131), University of California, Berkeley, Haas School of Business, Financial Engineering, Students, Email: [taotong@berkeley.edu](mailto:taotong@berkeley.edu)

This report studies the textual information in 8K financial reports (for S&P 500 firms, 2002-2012) using NLP techniques. It further integrates the textual data with the financial data and builds a classification machine learning model to predict post-event returns in short, medium and long term as well as understand the driving factors. For the long run (10 days return), the best classification model is with integrated data which includes index performances and financial health indicators. This model has an overall accuracy of 53%, with positive and negative returns being predicted with 73% and 31% accuracy. For the short run (2 days), we see that the ‘type of event’ matters more rather than text or financial data, with overall accuracy of 52% and accuracies of 64% and 29% for positive and negative returns. A robust prediction accuracy of 53% roughly corresponds to an information coefficient of 0.1.

["Bonds, Stocks, and Sources of Mispricing"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3063424&partid=22912&did=361832&eid=1608015)

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[TARUN CHORDIA](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=16200&partid=22912&did=361832&eid=1608015), Emory University - Department of Finance, Email: [Tarun\_Chordia@bus.emory.edu](mailto:Tarun_Chordia@bus.emory.edu)  
[GERGANA JOSTOVA](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=277062&partid=22912&did=361832&eid=1608015), George Washington University, Email: [jostova@gwu.edu](mailto:jostova@gwu.edu)  
[ALEXANDER PHILIPOV](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=106871&partid=22912&did=361832&eid=1608015), George Mason University - Finance Area, Email: [aphilipo@gmu.edu](mailto:aphilipo@gmu.edu)

Market-wide sentiment and firm-level financial distress jointly drive asset overpricing. The intersection of high sentiment and financial distress characterizes episodes of inflated bond and stock prices, to the extent that these securities are correctly priced otherwise. Overvaluation is attributable to sentiment-driven investors, both retail and institutional, who underestimate the severe implications of financial distress for a firm's future prospects. Anomalous patterns in the cross-section of stock and bond returns emerge as overpricing is corrected.

[Baryonic Beta Dynamics: An Econophysical Model of Systematic Risk"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3062414&partid=22912&did=361768&eid=1548228)

[JAMES MING CHEN](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=68651&partid=22912&did=361768&eid=1548228), Michigan State University - College of Law, Email: [chenx064@gmail.com](mailto:chenx064@gmail.com)

This essay seeks to rehabilitate the capital asset pricing model after a generation of withering attacks by splitting beta, the basic unit of systematic risk, into subatomic (or “baryonic”) components. By analogy to quantum chromodynamics and other aspects of the Standard Model of particle physics, this essay bifurcates beta on either side of mean returns and into distinct components reflecting relative volatility and correlation, as well as cash-flow and discount-rate effects. Splitting the atom of systematic risk answers some of the most troubling anomalies and puzzles in finance, including abnormal returns on small-cap and value stocks, the low-volatility anomaly, and the equity premium puzzle.

["MiFID II and MiFIR: Stricter Rules for the EU Financial Markets"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3061732&partid=22912&did=361679&eid=1515975)

[DANNY BUSCH](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1844898&partid=22912&did=361679&eid=1515975), Radboud University Nijmegen, Email: [d.busch@jur.ru.nl](mailto:d.busch@jur.ru.nl)

On 3 January 2018 – some ten years later – the MiFID regime will be replaced by MiFID II, which comprises, among other things, a directive (MIFID II), the Markets in Financial Instruments Regulation (MiFIR) and a truly impressive number of implementing measures, commonly referred to as level 2 legislation. MiFID may have the reputation of being strict, but MiFID II/MiFIR tightens the reins even more. It is not hard to guess the reason: the financial crisis has also revealed gaps in the MiFID legislation, notably in investor protection, as well as shortcomings in the functioning and transparency of financial markets. This paper is confined to an assessment of the main changes to financial markets regulation.

[Who Bears Interest Rate Risk?"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3062435&partid=22912&did=361679&eid=1515975)

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[SAM LANGFIELD](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1905193&partid=22912&did=361679&eid=1515975), European Central Bank - European Systemic Risk Board Secretariat, : [Sam.Langfield@ecb.int](mailto:Sam.Langfield@ecb.int)  
[FEDERICO PIEROBON](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=450295&partid=22912&did=361679&eid=1515975), European Central Bank (ECB), Email: [fpierobon@sssup.it](mailto:fpierobon@sssup.it)  
[GUILLAUME VUILLEMEY](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2427358&partid=22912&did=361679&eid=1515975), HEC Paris, Email: [vuillemey@hec.fr](mailto:vuillemey@hec.fr)

We study the allocation of interest rate risk using novel data on the balance sheets and derivatives positions of 104 major euro area banks. In aggregate, banks’ exposures to interest rate risk is small, but heterogeneous in the cross-section. In contrast with standard views, net worth is increasing in interest rates for just over half of the sample banks. A key determinant of the sign of banks’ exposures is whether mortgages at country-level are predominantly fixed-rate or floating-rate. Banks use derivatives to reduce their risk exposure by one quarter on average. The residual heterogeneity implies that changes in interest rates have redistributive effects within the banking sector.

["Exploring the Demand for Retirement Planning Advice: The Role of Financial Literacy"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3057597&partid=22912&did=361288&eid=1262077)   
Financial Services Review, 25(4), 331-350

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[KYOUNG TAE KIM](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1880859&partid=22912&did=361288&eid=1262077), University of Alabama, Email: [ktkim@ches.ua.edu](mailto:ktkim@ches.ua.edu)  
[STUART J. HECKMAN](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1833282&partid=22912&did=361288&eid=1262077), Kansas State University, Email: [sheckman@ksu.edu](mailto:sheckman@ksu.edu)

This research extends previous literature on the relationship between financial literacy and financial advice seeking in three ways: (1) we examine financial planner use specifically within the context of retirement planning, (2) we incorporate Huston’s (2010) framework of financial literacy, and (3) we use longitudinal data to investigate the initiation, maintenance, and termination of financial planner use. Results from the 2010 and 2012 National Longitudinal Survey of Youth 1979 (NLSY79) show a positive association between the components of financial literacy and financial planner use for retirement planning.

[Investor Protection and Governance in the Valuation of Emerging Markets Investments"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3061278&partid=22912&did=361396&eid=1239928) Fee Download   
[Journal of Applied Corporate Finance, Vol. 29, Issue 3, pp. 89-100, 2017](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=97175&partid=22912&did=361396&eid=1239928)

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[ASSEM SAFIEDDINE](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=489991&partid=22912&did=361396&eid=1239928), American University of Beirut - Olayan School of Business, Email: [as57@aub.edu.lb](mailto:as57@aub.edu.lb)  
[SHERIDAN TITMAN](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=15836&partid=22912&did=361396&eid=1239928), University of Texas at Austin - Department of Finance, National Bureau of Economic Research (NBER) Email: [Sheridan.Titman@mccombs.utexas.edu](mailto:Sheridan.Titman@mccombs.utexas.edu)

The combination of ineffective corporate governance at the company level and an uncertain legal and regulatory environment can significantly reduce the prices investors are willing to pay when investing in companies in emerging markets. The authors report the findings of their recent survey that asks investment professionals to compare the value of a hypothetical Australian company with that of its identical counterparts located in five emerging markets: Malaysia, Mexico, Saudi Arabia, South Africa, and Iran. The responding investors said they would value the emerging markets investments at discounts from the value of the Australian company that ranged from a low of 13.5% for its Malaysian counterpart to 51.2% for the Iranian company. Moreover, they indicated they would require costs of equity for these investments that were consistent with even larger valuation discounts. The investors' responses to the survey also suggest that corporate governance is especially important in countries with weaker investor protection. Well‐governed companies located in these countries enjoy significant value premiums that can partly offset the negative effect of the poor institutional environments, which suggests there may be a significant payoff for investors that succeed in improving the governance of the companies they invest in.

["The Economics of PIPEs"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3061648&partid=22912&did=361395&eid=1236917) [NBER Working Paper No. w23967](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=209249&partid=22912&did=361395&eid=1236917)

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[MICHAEL SCHWERT](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1516290&partid=22912&did=361395&eid=1236917), Ohio State University (OSU) - Department of Finance, mail: [schwert.6@osu.edu](mailto:schwert.6@osu.edu)  
[MICHAEL S. WEISBACH](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1641&partid=22912&did=361395&eid=1236917), Ohio State University (OSU) - Department of Finance, National Bureau of Economic Research (NBER), Email: [weisbach.2@osu.edu](mailto:weisbach.2@osu.edu)

This paper considers a sample of 3,001 private investments in public equities (PIPEs). Issuing firms tend to be small and poorly performing, so have limited access to traditional sources of finance. To attract capital, they offer shares in a PIPE at a substantial discount to the market price, along with warrants and a collection of other rights. Because of the discount at issuance, PIPE returns decline with the holding period, which itself is a function of registration status and liquidity of the shares issued in the PIPE. Assuming that the PIPE investor sells 10% of volume each day following the issuance, the average PIPE investor holds the stock for 384 days and earns an abnormal return of 21.2%. More risky firms tend to raise capital from relatively risk tolerant investors such as hedge funds and private equity funds. PIPEs issued to more constrained firms have higher holding period adjusted returns but these returns are more volatile. The abnormal holding period adjusted returns earned by PIPE investors appear to be compensation for providing capital to otherwise constrained firms.

[Blockchain and the Future of Optimal Financing Contracts"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3061532&partid=22912&did=361395&eid=1236917)

[KATRIN TINN](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=933164&partid=22912&did=361395&eid=1236917), Imperial College London - Accounting, Finance, and Macroeconomics, Email: [k.tinn@imperial.ac.uk](mailto:k.tinn@imperial.ac.uk),

Blockchain technology makes it possible to create immutable smart contracts that are based on reliable and timestamped records of transactions. These new features imply that contracts for raising external financing could now depend on when, and not just on whether, positive cash flows occur. Such flexibility is bound to become increasingly important in a dynamic moral hazard environment where entrepreneurs can learn from data and make effort choices more and more frequently. This paper develops a theoretical model of contract design in the new blockchain environment, and shows that the optimal contract is a relatively simple and dynamically adjusting splitting rule. Under this type of smart contract, external financing would be as cheap as internal funds and more accessible to agents with no internal funds. In contrast, traditional debt and equity would likely become more expensive, as there would be more frequent effort decisions and learning. Furthermore, debt would become inferior to equity in this new environment, as the blockchain eliminates the need for costly verification, and as more frequent decision making magnifies the negative features of debt contracts.

["Index Membership and Capital Structure: International Evidence"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3060392&partid=22912&did=361391&eid=1225487)

[VIDHAN K. GOYAL](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=28127&partid=22912&did=361391&eid=1225487), Hong Kong University of Science & Technology (HKUST), Email: [goyal@ust.hk](mailto:goyal@ust.hk)  
[DANIEL URBAN](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1751336&partid=22912&did=361391&eid=1225487), Technical University of Munich, Email: [daniel.urban@tum.de](mailto:daniel.urban@tum.de)  
[WENTING ZHAO](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2650853&partid=22912&did=361391&eid=1225487), Technische Universität München (TUM), Email: [wenting.zhao@tum.de](mailto:wenting.zhao@tum.de)

How much do shocks to the information environment in equity markets matter for debt supply and the financing of firms? We find that the use of debt increases by about two to three percentage points following exogenous additions of stocks to an index. The leverage response is primarily in public debt markets: Borrowing costs in these markets decrease, while bond liquidity increases. These results suggest that index additions affect leverage because an increase in public information reduces information asymmetries for lenders and increases their willingness to buy information-sensitive debt. Indeed, stocks added to an index are followed by more equity analysts. Overall, we support the view that information production in equity markets spills over into debt markets.

["'Know When to Hodl ‘Em, Know When to Fodl ‘Em': An Investigation of Factor Based Investing in the Cryptocurrency Space"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3055498&partid=22912&did=361097&eid=1118350) ,[STEFAN HUBRICH](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=231136&partid=22912&did=361097&eid=1118350), T.Rowe Price, Email: [stefan\_hubrich@yahoo.com](mailto:stefan_hubrich@yahoo.com)

It has been known since at least the groundbreaking work of Fama and French (1992) that there are specific attributes, so called factors, that can help predict the returns of individual assets above the return of the broader market. Since these predictive characteristics arise out of sample (with currently observable factor values predicting future returns), investors can earn excess returns with portfolios that are constructed to align with the factors. First introduced in the cross section of returns and focusing on individual equity securities, the efficacy of such factors has since been demonstrated at the asset class level as well, and found to work not only in the cross section but also longitudinally (for individual assets, through time). Factors like value, momentum, and carry have been found to work so broadly across different asset classes, security universes, countries, and time periods, that Asness et al. simply titled their influential 2013 Journal of Finance paper “Value and Momentum Everywhere”. Our paper provides a first application of momentum, value, and carry based factor investing to the cryptocurrencies. We show that these same factors are effective in this relatively new and unexplored asset class, permitting the construction of portfolios that can earn excess returns over the cryptocurrency “market” as a whole.

["Another Law of Small Numbers: Patterns of Trading Prices in Experimental Markets"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2981343&partid=22912&did=361360&eid=1214470) Free Download

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[WAEL BOUSSELMI](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2162270&partid=22912&did=361360&eid=1214470), Université Montpellier, Email: [waelbousselmi@yahoo.fr](mailto:waelbousselmi@yahoo.fr)  
[PATRICK ROGER](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=367837&partid=22912&did=361360&eid=1214470), Strasbourg University - LARGE Research Center - EM Strasbourg Business School  
Email: [proger@unistra.fr](mailto:proger@unistra.fr)  
[MARC WILLINGER](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=445201&partid=22912&did=361360&eid=1214470), LAMETA, University of Montpellier, Email: [willinger@lameta.u-montp1.fr](mailto:willinger@lameta.u-montp1.fr)

Studies in neuropsychology show that the human brain processes small and large numbers differently. Small numbers are processed on a linear scale, while large numbers are processed on a logarithmic scale. In this paper, we report the results of an experiment showing that trading prices on experimental markets are processed differently by participants, depending on their magnitude. Deviations from fundamental values are larger in small price markets than in large price markets. Our experimental design allows us to confirm the result at the individual level. For a given participant, the deviation from the fundamental value is 27.27% on average when she trades on a small price market compared to about 0% on a large price market. Our results show that price magnitude influences the way people perceive the distribution of future returns. This result is at odds with standard finance theory but is consistent with: (1) a number of observations in the empirical finance and accounting literature; and, (2) the use of different mental scales for small and large prices.

["Mental Time Travel and the Valuation of Financial Investments"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3058638&partid=22912&did=361360&eid=1214470) Pensions Institute Paper PI-1403

[DAVID P. BLAKE](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=23455&partid=22912&did=361360&eid=1214470), City University London, Cass Business School, Pensions stitute,  [d.blake@city.ac.uk](mailto:d.blake@city.ac.uk)  
[JOHN PICKLES](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2818967&partid=22912&did=361360&eid=1214470), City, University of London

We portray the valuation of financial investments as mental time travel. In a series of thought investments, a $1 invested in an investment fund is projected forward in time and then discounted back to the present, both exponentially and hyperbolically. These thought investments feature symmetric valuation (in which discount rates match projection rates) and asymmetric valuation (in which discount rates and projection rates differ). They show how asymmetric valuation results in differences between personal value and market value and between a closed-end investment fund’s net asset value and its market value. We explore possible reasons for asymmetric valuation.

["Funding Long Shots"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3058472&partid=22912&did=360771&eid=678442)

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We define long shots as investment projects with four features: (1) low probabilities of success; (2) long gestation lags before any cash flows are realized; (3) large required up-front investments; and (4) very large payoffs (relative to initial investment) in the unlikely event of success. Funding long shots is becoming increasingly difficult—even for high-risk investment vehicles like hedge funds and venture funds—despite the fact that some of society’s biggest challenges such as cancer, Alzheimer’s disease, global warming, and fossil-fuel depletion depend critically on the ability to undertake such investments. We investigate the possibility of improving financing for long shots by pooling them into a single portfolio that can be financed via securitized debt, and examine the conditions under which such funding mechanisms are likely to be effective.

[A US Regulatory Sandbox?"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3056993&partid=22912&did=360441&eid=355344)

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“Fintech” has become an increasingly important part of the financial landscape over the last decade, but financial regulation remains a barrier to entry for many fintech firms. The “regulatory sandbox” model pioneered by the United Kingdom’s Financial Conduct Authority is one way to ease these barriers in a controlled way. This model allows fintech startups to conduct a limited test of their products with fewer regulatory constraints, less risk of regulatory enforcement action, and ongoing guidance from regulators – but the sandbox is also very resource-intensive to administer. It is too soon to come to any definitive conclusion about whether the merits of the sandbox model outweigh its disadvantages: instead, this Article recognizes that notwithstanding any shortcomings of the regulatory sandbox model, there is significant enthusiasm for adopting it, and therefore focuses on how a regulatory sandbox might be designed for the US.Perhaps the biggest design challenge is how to address the United States’ fragmented financial regulatory architecture: for a regulatory sandbox to be valuable to firms operating in the US, the sandbox must be designed to preempt enforcement actions by a range of federal and state regulatory actors. This Article therefore proposes a model whereby a committee of regulators will make decisions about whether to admit a firm to the regulatory sandbox, and any relief granted will preempt enforcement actions by all federal and state financial regulators. After discussing this and other design features of a US regulatory sandbox in detail, this Article also argues that a regulatory sandbox could serve as a sandbox for regulation itself, allowing new types of financial regulatory approaches to be trialed on a small scale.

[The Economics of Credit Rating Agencies"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3055889&partid=22912&did=360110&eid=149244)

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[CHESTER S. SPATT](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=15917&partid=22912&did=360110&eid=149244), Carnegie Mellon University, Email: [cspatt@andrew.cmu.edu](mailto:cspatt@andrew.cmu.edu)

We explore through both an economics and regulatory lens the frictions associated with credit rating agencies in the aftermath of the financial crisis. While ratings and other public signals are an efficient response to scale economies in information production, these also can discourage independent due diligence and be a source of systemic risk. Though Dodd-Frank pulls back on the regulatory use of ratings, it also promotes greater regulation of the rating agencies. We highlight the diverse underlying views towards these competing approaches to reducing systemic risk. Our monograph also discusses the subtle contrasts between credit rating agencies and other types of due diligence providers, such as auditors, analysts and proxy-voting advisors. We discuss the frictions associated with paying for information in the context of credit ratings; while the issuer-pay model has been identified as a major issue because of potential conflict of interests, we argue that it has several advantages over the investor-pay model in promoting market transparency.  
  
We develop a formal reputation model to explore the underlying nature of rating inflation and how the reputational trade-off is affected by various aspects of the rating process such as regulatory constraints, the fee structure, asymmetric information between issuers and investors and the extent of competition among rating agencies. The monograph also uses our illustrative framework to highlight tension between rating accuracy and economic efficiency when ratings influence project value in the presence of feedback effects. We discuss how selective disclosure of ratings by the issuer distorts the distribution of observed ratings. Selection also provides an alternative explanation for why solicited (purchased) ratings exceed unsolicited (complimentary) ratings and helps interpret the greater SEC support for unsolicited ratings in recent years as illustrating the theory of the second best. We explore the impact of greater competition on welfare, building upon a variety of frameworks. Our analysis points to several ways in which ratings matter as well as techniques for documenting such effects.

["Financial Collateral"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3046835&partid=22912&did=360022&eid=16195) [PHILIPP PAECH](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1690659&partid=22912&did=360022&eid=16195), London School of Economics - Law Department, Email: [p.paech@lse.ac.uk](mailto:p.paech@lse.ac.uk)

Financial collateral is a concept that starts from the idea of traditional security interests and is then developed considerably further. Security interests are restricted in their scope of application and typically impose a number of requirements and limitations on the creditor (security taker) and on the debtor (security provider). The purpose of these requirements and limitations for security interests is to contain the negative impact on other creditors of the security taker, in particular through publicity requirements and strict rules on whether and how security was enforceable in case of insolvency of the debtor. These rules are however too inflexible to cater for a number of needs of financial market participants. The latter therefore tend to stretch the boundaries of secured transaction imposed by property and insolvency law. As a result, transactions occur that are akin to security interest in terms of protection of the secured creditor but leave much more flexibility to the parties, in particular in terms of economic use of the asset (see the remarks on fix and floating charges, above). However, creating asset backed positions outside the system of recognised security interests entails elevated legal risk, in particular recharacterisation and avoidance risk, should one of the parties become insolvent. In the last two to three decades the relevant market practice has crystallised and is now commonly called ‘financial collateral’. Legislators in advanced financial markets have recognised this market practice and accordingly removed the legal uncertainty that was associated with it. In the EU, the relevant national statutes are based on the Financial Collateral Directive, commonly called FCD.

[Financialization and Investment: A Survey of the Empirical Literature"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3069157&partid=22912&did=363221&eid=987972) Fee Download   
[Journal of Economic Surveys, Vol. 31, Issue 5, pp. 1332-1358, 2017](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=250627&partid=22912&did=363221&eid=987972)

[LEILA DAVIS](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2676349&partid=22912&did=363221&eid=987972), Middlebury College - Department of Economics, Email: [ldavis@middlebury.edu](mailto:ldavis@middlebury.edu)

An expanding literature analyses the implications of the post‐1980 expansion of finance in advanced economies – a process summarized as ‘financialization’ – for capital accumulation. This paper surveys the empirical literature on financialization and investment to take stock of where we are and to identify questions for further research. Because ‘financialization’ is widely recognized to be ambiguously defined, I first introduce empirical indicators of financialization in this literature. This categorization elucidates three approaches to measuring financialization in the context of investment. The first two approaches emphasize rising income flows between nonfinancial corporations (NFCs) and finance: first, growth in NFCs’ financial incomes and, second, growth in NFCs’ payments to creditors and shareholders. Rising financial profits are, notably, widely used to suggest financial assets and incomes ‘crowd out’ physical investment. I contend that these flow‐based indicators of financialization capture important relationships between changes in firm financial behaviour and investment, but also raise questions about determinants underlying NFCs’ changing portfolio and financing decisions. The third approach to defining financialization emphasizes the best‐developed behavioural explanation linking financialization to reduced investment: shareholder value orientation. In future research, scope remains for further attention to behavioural drivers of the empirical trends summarizing financialization.

[The Third Dimension of Financialization: Electronification, Intraday Institutional Trading, and Commodity Market Quality"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3068248&partid=22912&did=363273&eid=1052537) Free Download

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We provide the first detailed empirical evidence on the financialization of intraday trading activity in the world’s largest commodity market and show that this development had a first-order positive impact on market liquidity and pricing efficiency. We use a rich regulatory dataset to show that the electronification of U.S. crude oil futures trading in 2006 brought about a massive growth in intraday activity by “non-commercial” institutional financial traders. We exploit differences in the post-electronification growth rates of institutional financial trading in crude oil futures contracts of different maturities to tease out the effect of financialization on key metrics of commodity market quality. We show that increased institutional financial trading reduces the variance of pricing errors, narrows bid-ask spreads, and improves market depth. Our inferences are robust to differences in the nature and volume of non-financial trading. Finally, we provide novel evidence of notable differences between the respective contributions of high-frequency traders (HFTs) vs. other (non-HFT) institutional financial traders to different market quality attributes.

[Economic Growth and Financial Statement Verification"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3068800&partid=22912&did=363312&eid=1107538)  [Journal of Accounting Research, Vol. 55, No. 4, 2017](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=469260&partid=22912&did=363312&eid=1107538)

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We use a proprietary data set of financial statements collected by banks to examine whether economic growth is related to the use of financial statement verification in debt financing. Exploiting the distinct economic growth and contraction patterns of the construction industry over the years 2002–2011, our estimates reveal that banks reduced their collection of unqualified audited financial statements from construction firms at nearly twice the rate of firms in other industries during the housing boom period before 2008. This reduction was most severe in the regions that experienced the most significant construction growth. These trends reversed during the subsequent housing crisis in 2008–2011 when construction activity contracted. Moreover, using bank- and firm-level data, we find a strong negative (positive) relation between audited financial statements during the growth period, and subsequent loan losses (construction firm survival) during the contraction period. Collectively, our results reveal that macroeconomic fluctuations produce temporal shifts in the overall level of financial statement verification and temporal shifts in verification are related to bank loan portfolio quality and borrower performance.

["Conditional Risk"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3070419&partid=22912&did=363992&eid=1460827)

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We present a new direct methodology to study conditional risk, that is, the extra return compensation for time-variation in risk. We show theoretically that the conditional part of the CAPM can be captured by augmenting the standard market model with a conditional-risk factor, which is a specific market timing strategy. Both in the U.S. and global sample covering 23 countries, all major equity risk factors load on our conditional-risk factor, implying that each factor has a higher conditional market beta when the market risk premium is high or the market variance is low. Accordingly, these factor returns can be partly explained by conditional risk. Studying the economic drivers of these results, we find evidence that conditional risk arises from variation in discount rate betas (not cash flow betas) due to the endogenous effects of arbitrage trading.

[False (and Missed) Discoveries in Financial Economics"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3073799&partid=22912&did=363889&eid=1417828)  (**A BIGGISH OOPS**!)

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[YAN LIU](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1418807&partid=22912&did=363889&eid=1417828), Texas A&M University, Department of Finance, Email: [y-liu@mays.tamu.edu](mailto:y-liu@mays.tamu.edu)

We propose a new way to calibrate both Type I and Type II error rates associated with the multiple testing problem that plagues many economically important problems in finance such as performance evaluation. We start with the researcher's prior belief on the proportion of managers that are skilled. Using a double bootstrap method, we then establish a t-statistic hurdle that is associated with a specific false discovery rate, e.g., 5%. We also establish a t-statistic hurdle that is associated with a certain acceptable ratio of misses to false discoveries (Type II error scaled by Type I error). This latter approach is particularly useful because the ratio can be set to reflect the differential costs of Type I and Type II errors. Evaluating current methods within our framework, we find that they lack the power to detect outperforming managers.

[Stock Return Outliers"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3068347&partid=22912&did=363796&eid=1358394) [IVO WELCH](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=418&partid=22912&did=363796&eid=1358394), University of California, Los Angeles (UCLA), National Bureau of Economic Research (NBER), Email: [ivo.welch@gmail.com](mailto:ivo.welch@gmail.com)

Standard deviations and market-betas based on winsorized rates of return predict their own future realizations better than equivalents based on unwinsorized rates of returns. A good prescription is to winsorize rates of return around plus and minus 10- 15%, especially for samples of all CRSP stocks. There is no meaningful predictive gain using stocks’ own means and standard deviations and/or contemporaneous market rates of return; and eliminating or zeroing returns rather than winsorizing them. Winsorizing is better than not winsorizing.  
  
This note then investigates two simple research questions using treated returns:  
  
1. Winsorized log-volatility estimates perform much better than unwinsorized log- volatility estimates in forecasting, and they add marginal predictive power to option-implied volatility forecasts.  
  
2. Annual average stock return predictions with past averages can be very sensitive to winsorization choices (including not winsorizing, which is also implicit in common monthly rates of returns). This evidence suggests that the seemingly second-order innocuous choice of where to winsorize (or not) can unfortunately have important inference consequences.