THE UNIVERSITY OF MELBOURNE

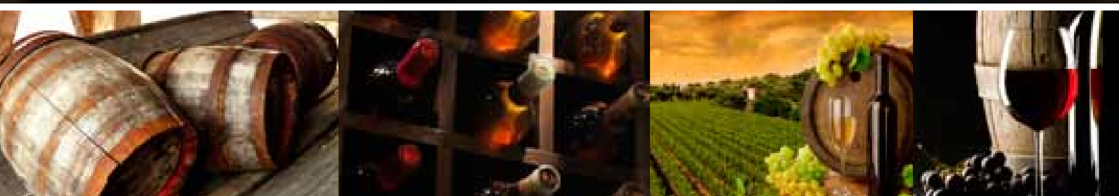
FACULTY OF BUSINESS & ECONOMICS

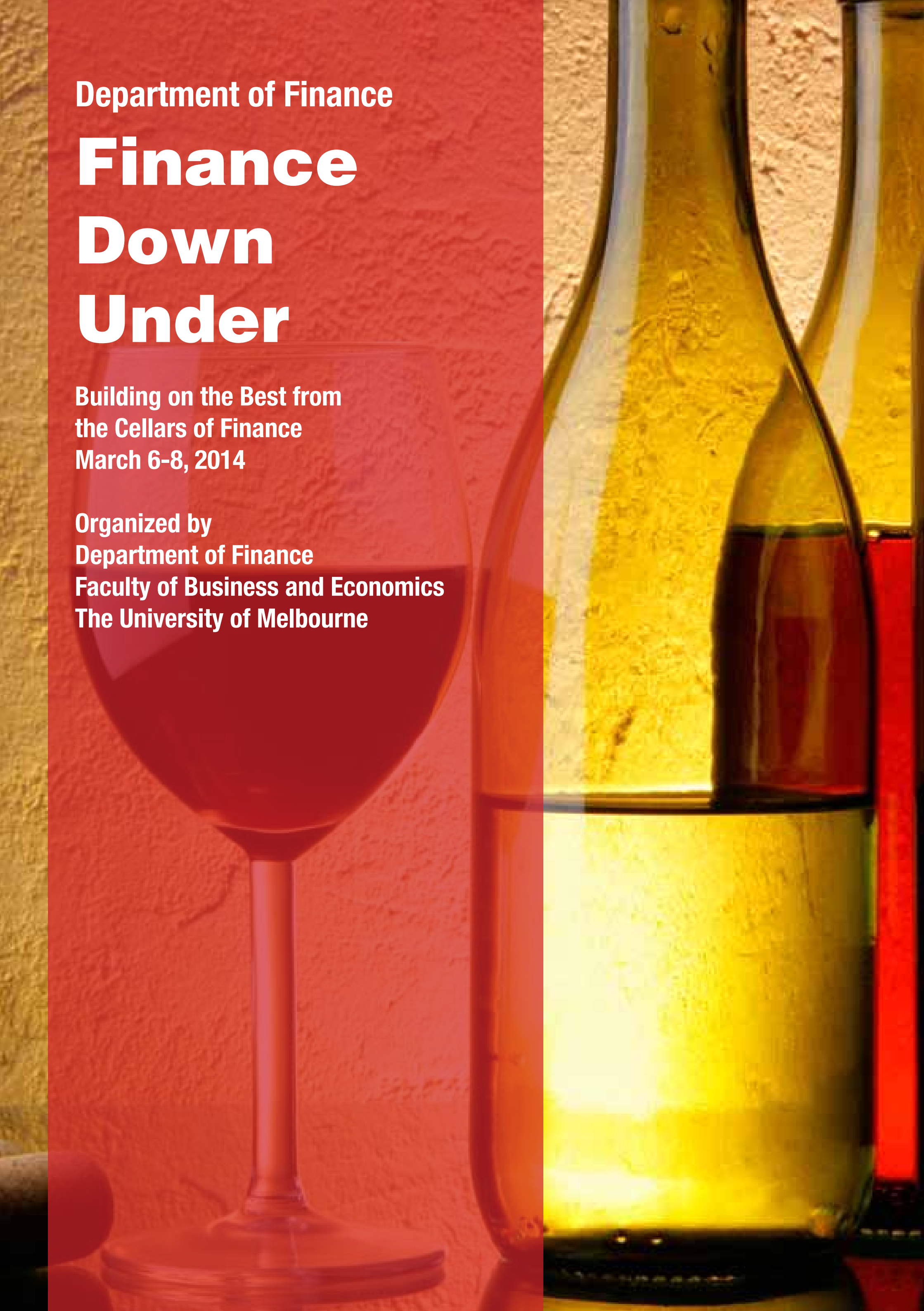
Department of Finance

Finance Down Under

Building on the Best from the Cellars of Finance

March 6-8, 2014





Department of Finance

Finance Down Under

Building on the Best from
the Cellars of Finance
March 6-8, 2014

Organized by
Department of Finance
Faculty of Business and Economics
The University of Melbourne

Welcome to Finance Down Under (FDU) 2014

The Department of Finance in the Faculty of Business and Economics at the University of Melbourne welcomes everyone to its annual Finance Down Under conference.

Submissions again reached record levels in both quantity and quality. Out of several hundred submissions, only twenty papers were selected to the final program. These twenty papers from all areas in finance (Asset Pricing, Investments, and Corporate Finance) received high ratings from the Program Committee, and we have academics from leading universities in the U.S., Europe, Asia, and Australia providing discussions on the accepted papers.

Our unique format includes a special symposium built around 'vintage' work in finance that has withstood the test of time and continued to inspire current research. This year, we have selected two papers for the special session in honour of Myers and Majluf's classic paper "Corporate financing and investment decisions when firms have information that investors do not have". In addition, our keynote speakers—Paolo Fulghieri, Ron Giammarino, and Stewart Myers, our guests of honour—will speak about the impact of the seminal work and related topics.

FINANCE DOWN UNDER 2014:
Building on the Best from the Cellars of Finance

PROGRAM SUMMARY

Thursday, March 6, 2014 (Melbourne Cricket Ground)

6:00 pm – 8:00 pm

Wine Reception (*Jack Ryder Room)*

Welcome Speech: John Handley, *University of Melbourne*

Keynote Speech: Ron Giammarino, *University of British Columbia*

Friday, March 7, 2014 (Melbourne Law School: Woodward Centre, Level 10)

9:30 am – 10:10 am

Registration and Morning Coffee *(Registration Desk)*

10:10 am – 10:45 am

Keynote Speech: Stewart C. Myers, *MIT Sloan School of Management*

10:45 am – 11:15 am

Coffee Break

11:15 am – 12:25 pm

Parallel Sessions I *(Conference Rooms)*

12:25 pm – 2:00 pm

Lunch (*Dining Room)*

2:00 pm – 3:10 pm

Parallel Sessions II *(Conference Rooms)*

3:10 pm – 3:45 pm

Afternoon Tea

3:45 pm – 4:55 pm

Parallel Sessions III *(Conference Rooms)*

6:00 pm – 9:00 pm

Wine Reception (*Eureka 89 - Level 89 Eureka Tower, 7 Riverside Quay)*

Saturday, March 8, 2014 (The Spot Building: Basement Theatre, Level B1)

9:00 am – 10:00 am

Finance Honours Breakfast

10:00 am – 10:35 am

Keynote Speech: Paolo Fulghieri, *University of North Carolina*

10:35 am – 11:45 am

Special Session

12:00 pm – 9:00 pm

Food and Wine Experience (*Mornington Peninsula)*

Best Paper Award and Announcement: John Handley, *University of Melbourne*

	Woodward Conference Room A	*Woodward Conference Room B*	*Woodward Conference Room C*
Parallel Sessions I	**Bonding Risk**	**Information: Control vs. Chaos?**	**Institutional Investors & Governance**
March 7, 11:15 am – 12:25 pm	Local Currency Sovereign Risk Savers and Spenders: Fiscal Policy as a Potential Resolution to the Treasury Bond Premium Puzzle	Corporate News Releases and Equity Vesting Redacting Information at the Initial Public Offering	Portfolio Manager Compensation in the U.S. Mutual Fund Industry Capital Gains Lock-in and Governance Choices
Parallel Sessions II	**Firms in Asset Pricing**	**Coming, Going, or Staying?**	**Networks or Crowds?**
March 7, 2:00 pm – 3:10 pm	Dividend Policy , Investment, and Stock Returns Volatility Risks and Growth Options	CEO Tournaments: A Cross-Country Analysis of Causes, Cultural Influences, and Consequences Does it Pay to Stay? An Examination of Long-Term Advisor Relationships	Hedge Fund Crowds and Mispricing The Convergence and Divergence of Investors' Opinions around Earnings News: Evidence from a Social Network
Parallel Sessions III	**New Assets for Pricing**	**Claims in Conflict**	**Tricks of the Trading**
March 7, 3:45 pm – 4:55 pm	The Financialization of Storable Commodities Risk Premia in Gold Lease Rates	Debt Renegotiation and Investment Decisions Across Countries Dual Ownership, Returns, and Voting in Mergers	A Simple Multimarket Measure of information Asymmetry Trading Fast and Slow: Colocation and Market Quality
	Special Session: Symposium (*The Spot, Basement Theatre)*		
March 8, 10:35 am – 11:45 am	Does Group Affiliation Facilitate Access to External Financing? Evidence from IPOs by Family Business Groups Financial Flexibility and Corporate Cash Policy		

PROGRAM DETAILS

FRIDAY, March 7, 2014, 11:15 am – 12:25 pm

Bonding Risk – ***Woodward Conference Room A***
Session Chair: Liheng Xu, *University of Melbourne*

Local Currency Sovereign Risk
Wenxin Du, *Federal Reserve Board*
Jesse Schreger, *Harvard University*

Savers and Spenders: Fiscal Policy as a Potential Resolution to the Treasury Bond Premium Puzzle
Alex C. Hsu, *Georgia Institute of Technology*

Discussants:
Gregory Bauer, *Bank of Canada*
Michael F. Gallmeyer, *University of Virginia*

Information: Control vs. Chaos? – ***Woodward Conference Room B***
Session Chair: Lyndon Moore, *University of Melbourne*

Corporate News Releases and Equity Vesting
Alex Edmans, *London Business School, Wharton, NBER, CEPR and ECGI*
Luis Goncalves-Pinto, *National University of Singapore*
Yanbo Wang, *INSEAD*
Moqi Xu, *London School of Economics*

Redacting Information at the Initial Public Offering
Audra L. Boone, *Texas A&M University*
Ioannis V. Floros, *Iowa State University*
Shane A. Johnson, *Texas A&M University*

Discussants:
Patrick Verwijmeren, *Erasmus University Rotterdam*
Sturla Fjesme, *University of Melbourne*

Institutional Investors & Governance – ***Woodward Conference Room C***
Session Chair: Zhen Shi, *University of Melbourne*

Portfolio Manager Compensation in the U.S. Mutual Fund Industry
Linlin Ma, *Northeastern University*
Yuehua Tang, *Singapore Management University*
Juan-Pedro Gómez, *IE Business School*

Capital Gains Lock-in and Governance Choices
Stephen G. Dimmock, *Nanyang Technological University*
William C. Gerken, *University of Kentucky*
Zoran Ivković, *Michigan State University*
Scott J. Weisbenner, *University of Illinois and NBER*

Discussants:
Juan Sotes-Paladino, *University of Melbourne*
Felix Meschke, *University of Kansas*

FRIDAY, March 7, 2014, 2:00 pm – 3:10 pm

Firms in Asset Pricing – *Woodward Conference Room A*
Session Chair: Qi Zeng, *University of Melbourne*

Dividend Policy, Investment, and Stock Returns
Seung Mo Choi, *International Monetary Fund*
Shane A. Johnson, *Texas A&M University*
Hwagyun Kim, *Texas A&M University*
Changwoo Nam, *Korea Development Institute*

Volatility Risks and Growth Options
Hengjie Ai, *University of Minnesota*
Dana Kiku, *University of Illinois at Urbana-Champaign*

Discussants:
Bruce Grundy, *University of Melbourne*
Bradley Paye, *University of Georgia*

Coming, Going, or Staying? – *Woodward Conference Room B*
Session Chair: Joshua Shemesh, *University of Melbourne*

CEO Tournaments: A Cross-Country Analysis of Causes, Cultural Influences, and Consequences
Natasha Burns, *University of Texas at San Antonio*
Kristina Minnick, *Bentley University*
Laura T. Starks, *University of Texas at Austin*

Does it Pay to Stay? An Examination of Long-Term Advisor Relationships
David A. Becher, *Drexel University*
Rachel Gordon, *Drexel University*
Jennifer L. Juergens, *Drexel University*

Discussants:
Renée Adams, *UNSW*
Chander Shekhar, *University of Melbourne*

Networks or Crowds? – *Woodward Conference Room C*
Session Chair: Vincent Grégoire, *University of Melbourne*

Hedge Fund Crowds and Mispricing
Blerina Reca, *University of Toledo*
Richard W. Sias, *University of Arizona*
Harry J. Turtle, *West Virginia University*

The Convergence and Divergence of Investors' Opinions around Earnings News: Evidence from a Social Network
Robert Charles Giannini, *Blue Crest Capital Management*
Paul J. Irvine, *Texas Christian University*
Tao Shu, *University of Georgia*

Discussants:
George O. Aragon, *Arizona State University*
Zoran Ivković, *Michigan State University*

FRIDAY, March 7, 2014, 3:45pm – 4:55pm

New Assets for Pricing – *Woodward Conference Room A*
Session Chair: Thijs van der Heijden, *University of Melbourne*

The Financialization of Storable Commodities
Steven D. Baker, *University of Virginia*

Risk Premia in Gold Lease Rates
Anh Le, *University of North Carolina at Chapel Hill*
Haoxiang Zhu, *MIT Sloan School of Management*

Discussants:
Antonio Gargano, *University of Melbourne*
Jeff Harris, *Syracuse University*

Claims in Conflict – *Woodward Conference Room B*
Session Chair: Stefan Petry, *University of Melbourne*

Debt Renegotiation and Investment Decisions Across Countries
Giovanni Favara, *Federal Reserve Board*
Erwan Morellec, *Swiss Finance Institute*
Enrique Schroth, *City University London*
Philip Valta, *HEC Paris*

Dual Ownership, Returns, and Voting in Mergers
Andriy Bodnaruk, *University of Notre Dame*
Marco Rossi, *University of Notre Dame*

Discussants:
Christine Brown, *Monash University*
Thomas Moeller, *Texas Christian University*

Tricks of the Trading – *Woodward Conference Room C*
Session Chair: Carole Comerton-Forde, *University of Melbourne*

A Simple Multimarket Measure of Information Asymmetry
Travis L. Johnson, *The University of Texas at Austin*
Eric C. So, *Massachusetts Institute of Technology*

Trading Fast and Slow: Colocation and Market Quality
Jonathan Brogaard, *University of Washington*
Björn Hagströmer, *Stockholm University*
Lars Nordén, *Stockholm University*
Ryan Riordan, *University of Ontario*

Discussants:
Eric Hughson, *Claremont McKenna College*
Ekkehart Boehmer, *EDHEC*

SATURDAY, March 8, 2014, 10:35 am – 11:45 am

Special Session – *The Spot, Basement Theatre*
Session Chair: Neal Galpin, *University of Melbourne*

Does Group Affiliation Facilitate Access to External Financing? Evidence from IPOs by Family Business Groups
Ronald W. Masulis, *University of New South Wales*
Peter Kien Pham, *University of New South Wales*
Jason Zein, *University of New South Wales*

Financial Flexibility and Corporate Cash Policy
Tao Chen, *The Chinese University of Hong Kong*
Jarrad Harford, *University of Washington*
Chen Lin, *The Chinese University of Hong Kong*

Discussants:
Michelle Lowry, *Pennsylvania State University*
Thomas Bates, *Arizona State University*

SHORT BIOGRAPHY OF KEYNOTE SPEAKERS

Stewart C. Myers

Robert C. Merton (1970) Professor of Finance, MIT Sloan School of Management.

Professor Myers' research is primarily concerned with the valuation of real and financial assets, corporate financial policy, and the financial aspects of government regulation of business. Professor Myers is the author of influential research papers on many topics, including adjusted present value, rate of return regulation, pricing and capital allocation in insurance, real options and moral hazard, and information issues in capital structure decisions. He is the co-author of the classic textbook, *Principles of Corporate Finance*, now in its 11th edition.

Professor Myers is the past president of the American Finance Association and an elected Fellow of the Financial Management Association. He also is a Research Associate of the National Bureau of Economic Research, a principal of the Brattle Group, Inc., and a director of Entergy Corporation.

Professor Myers holds an AB from Williams College and an MBA and a PhD from Stanford University.

Professor Myers' current research focuses on three areas. (1) Theoretical models of the long-run dynamics of capital investment, payout, and borrowing decisions by mature public corporations. The models have important implications for corporate governance as well as corporate finance generally. (2) Efficient allocation of risk capital by banks and other financial firms. (3) Applied work on the valuation of real options. The valuation results indicate that standard tests of capital structure theories are mis-specified, and Professor Myers is designing better tests.

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Ron Giammarino

PHN Professor in Corporate Finance, Director, Phillips, Hager & North Centre for Financial Research, Professor and Chair, Finance Division, University of British Columbia

Professor Giammarino is a Professor of Finance with the Sauder School of Business at the University of British Columbia. He received a Ph.D. and M.A. from Queen's and a B.A. from St. Francis Xavier University. He currently holds the Phillips Hager and North Professorship in Corporate Finance, is a director of the Phillips Hager and North Centre for Financial Research and is Chairman of the Finance Division at UBC.

His research interests include capital structure, bankruptcy, financial regulation, real options and risk dynamics, and ambiguity in corporate finance. He has published related articles in *The Journal of Finance, The Review of Financial Studies, The Journal of Financial and Quantitative Analysis,* and *The Canadian Journal of Economics*. He has been as Associate Editor of the *Review of Financial Studies* and *The Canadian Journal of Administrative Studies* and has served as a director of the Western Finance Association.

http://finance.commerce.ubc.ca/people/giammarino/

Paolo Fulghieri

Macon G. Patton Distinguished Professor and Area Chair of Finance, Kenan-Flagler Business School, University of North Carolina

Professor Fulghieri's research interests are in corporate finance, entrepreneurial finance, and financial intermediation, with a special focus on venture capital and initial public offerings.

As part of his research activity, he has published extensively in leading finance journals such as the *Journal of Finance, Journal of Financial Economics,* and *Review of Financial Studies*. He also is the winner of a best paper award in the *Journal of Banking and Finance*.

He is currently executive editor of *The Review of Corporate Finance Studies*, a new first-tier journal that disseminates significant new research in financial economics. He served as co-editor of *The Review of Financial Studies* from 2006-10.

Professor Fulghieri has taught extensively in corporate finance in the MBA and Executive Education programs at Columbia University, Northwestern University, University of Chicago, and INSEAD, where he was also dean of its PhD program.

He received his PhD and MA in economics from the University of Pennsylvania, and his Laurea in economics from Universita' Commerciale L. Bocconi in Milan.

http://www.kenan-flagler.unc.edu/faculty/directory/finance/paolo-fulghieri

ABSTRACTS

Bonding Risk

Local Currency Sovereign Risk
Wenxin Du and Jesse Schreger

Do governments default on debt denominated in their own currency? We introduce a new measure of sovereign credit risk, the local currency credit spread, defined as the spread of local currency bonds over the synthetic local currency risk-free rate constructed using cross currency swaps. We find that local currency credit spreads are positive and sizable. Compared with credit spreads on foreign currency denominated debt, local currency credit spreads have lower means, lower cross-country correlations, and are less sensitive to global risk factors. Global risk aversion and liquidity factors can explain more time variation in these credit spread differentials than macroeconomic fundamentals.

Savers and Spenders: Fiscal Policy as a Potential Resolution to the Treasury Bond Premium Puzzle
Alex C. Hsu

This paper provides an explanation for the bond premium puzzle: Treasury bond risk premia that match historical averages are obtained in a general equilibrium production economy populated by savers and spenders with constant relative risk aversion around 3. With Epstein-Zin-Weil recursive utilities, the ability to optimize intertemporally raises the stochastic discount factor of the representative saver as the agent's future wealth becomes riskier due to the prospect of switching to the spender type down the road. Government spending and tax rate shocks account for almost all of the model-implied unconditional mean risk premium on 10-year nominal bonds.

Information: Control vs. Chaos?

Corporate News Releases and Equity Vesting
Alex Edmans, Luis Goncalves-Pinto, Yanbo Wang and Moqi Xu

We show that CEOs strategically time the release of corporate news to coincide with months in which their equity vests. These vesting months are determined by equity grants made several years prior and thus unlikely to be driven by the current information environment. We find that, compared to non-vesting months, firms release 12.5% more news during the months in which CEOs' restricted pay is pre-scheduled to vest. We also find a reduction in news releases both one month prior to vesting and two months after vesting. News releases lead to a temporary run-up in stock prices and trading volume, potentially resulting from increased investor attention or reduced information asymmetry. This allows the CEO to cash out at a higher price and in a more liquid market.

Redacting Information at the Initial Public Offering
Audra L. Boone, Ioannis V. Floros and Shane A. Johnson

Despite the importance of information asymmetries in IPO pricing, almost 40% of IPO firms redact information from their filings to keep it confidential. These firms have characteristics consistent with the need to protect proprietary information from competitors. The tradeoff is that redacting information significantly increases IPO underpricing. Redacting firms are more likely to have backing by venture capitalists, which is consistent with the need to implicitly

certify proprietary information not revealed to investors; the presence of venture capital backing substantially mitigates the underpricing. Consistent with the hypothesis that the redacted information provides competitive advantages over rivals, we find that redacting firms are significantly more profitable than their industry peers in the first three post-IPO years. Redacting firm insiders also sell smaller fractions of their shares in the first two years post-IPO, suggesting that proprietary information has significant value and yet is undervalued in the market in that period. Redacting firms earn significantly greater abnormal stock returns than non-redacting firms and redacting insiders catch up to non-redacting insiders in sales of their shares in the third year post-IPO. The results illustrate the tradeoffs firms make in balancing their need for capital, investors' needs for information to price securities, and firms' needs to protect proprietary information from competitors.

Institutional Investors & Governance

Portfolio Manager Compensation in the U.S. Mutual Fund Industry
Linlin Ma, Yuehua Tang and Juan-Pedro Gómez

Using a unique hand-collected dataset of over 4,000 mutual funds, we study the compensation structures of individual portfolio managers in the U.S. mutual fund industry. About three-quarters of the portfolio managers in our sample receive performance-linked pay from investment advisors. Managers with performance-based compensation exhibit superior fund performance, especially when advisors link pay to performance over longer time periods. By contrast, we do not find that alternative compensation arrangements such as pay linked to fund assets or advisor profits are associated with better fund performance. Performance-linked pay is more prevalent among larger investment advisors, non-stakeholder portfolio managers, portfolio management teams, and in-house managed funds. Overall, our study provides novel empirical evidence on portfolio manager compensation in the mutual fund industry.

Capital Gains Lock-in and Governance Choices
Stephen G. Dimmock, William C. Gerken, Zoran Ivković and Scott J. Weisbenner

Capital gains taxes create a disincentive for mutual funds to sell stocks that have accrued gains. Because of differences in the tax status of funds' investors and differences in accrued gains in a stock, capital gains "lock-in" will vary across funds even for the *same* stock. We find that funds are more likely to oppose management when they are locked-in to a position: for votes in which opposing management is value increasing, a fund's capital gains lock-in reduces the likelihood of selling the stock prior to the vote, but increases the likelihood of voting against management. Consistent with this tax lock-in motivation, these findings are concentrated among funds with few tax-deferred investors. Our results thus show one determinant of corporate governance by mutual funds.

Firms in Asset Pricing

Dividend Policy, Investment, and Stock Returns
Seung Mo Choi, Shane A. Johnson, Hwagyun Kim and Changwoo Nam

We propose an asset pricing model in a production economy where cash flows are determined by .rms. dividend and investment decisions. Managers choose extensive and intensive margins in payout policy while facing non-convex costs as firm cash holdings grow. Differences in the

timing of dividend payments by younger growing firms and older mature firms help explain the value and size premiums. Quantitative analysis shows that model-implied dividend policies and investments are consistent with the data, and interactions among productivity shocks, investment, and dividend policies help explain cross-sectional stock returns. We also provide empirical support for the model's testable implications.

Volatility Risks and Growth Options
Hengjie Ai and Dana Kiku

We propose to measure growth opportunities by firms' exposure to idiosyncratic volatility news. Theoretically, we show that the value of a growth option increases in idiosyncratic volatility but its response to volatility of aggregate shocks can be either positive or negative depending on option moneyness. Empirically, we show that price sensitivity to variation in idiosyncratic volatility carries significant information about firms' future investment and growth even after controlling for conventional proxies of growth options such as book-to-market and other relevant firm characteristics. Consistent with our theoretical arguments, we also find that firm' exposure to aggregate volatility, while priced, does not help predict their future growth. Option-intensive firms identified using our idiosyncratic volatility-based measure earn a lower premium than do firms that rely more heavily on assets in place.

Coming, Going, or Staying?

CEO Tournaments: A Cross-Country Analysis of Causes, Cultural Influences and Consequences
Natasha Burns, Kristina Minnick and Laura T. Starks

Using a cross-country sample, we examine CEO tournament structure (measured as the ratio of pay between the CEO and other top executives) and find it to be steeper in the U.S. than in other countries. We find that the tournament structure varies systematically with firm and country characteristics. We expect that attributes of the tournament and its effects are influenced by the cultural, economic and legal environment in which it arises. The hypothesis that cultural values help drive firms' tournament structures is consistent with the Guiso, Sapienza and Zingales (2009) argument and evidence that culture has an effect on preferences and beliefs, and these preferences in turn affect economic outcomes. Our research shows that the cultural values of Power distance, as well as positive perceptions of the effects of income differences and competition are significantly associated with variations in tournament structures. In addition, we test the key implication of tournament theory that the current tournament structure should be related to future firm performance across the 52 countries. We establish support for the primary implication of tournament theory in that tournament structure tends to be positively related to firm value. Moreover, if competition is viewed more favorably in a country coupled with a steeper tournament, firm value is further enhanced. We also find a tendency for firm value to increase under steeper CEO tournaments when a country's residents believe income differentials based on effort are fair outcomes. Our research contributes to the recent and growing literature on the influence of culture on economic outcomes.

Does it Pay to Stay? An Examination of Long-Term Advisor Relationships
David A. Becher, Rachel Gordon and Jennifer L. Juergens

Using an extended history of debt, equity, and merger transactions, we examine the firm-advisor relationship and generally find that it is costly to maintain long-term relations with



financial advisors (underwriters or merger advisors). Firms that retain one advisor over their entire transaction history pay higher underwriting/advisory fees, have inferior deal terms, and lower analyst coverage relative to those that employ many advisors. Using financial deterioration and the firm's information environment as catalysts for why firms may select a single advisor, we observe that even poorly performing firms obtain better terms when they utilize a variety of advisors, but informationally-sensitive firms do not. Our results suggest that only some firms benefit from advisor retention, but for most it does not pay to stay.

Networks or Crowds?

Hedge Fund Crowds and Mispricing
Blerina Reca, Richard W. Sias and Harry J. Turtle

Recent models and the popular press suggest that hedge funds follow similar strategies resulting in crowded equity trades that destabilize prices. Inconsistent with this assertion, we find that hedge fund equity portfolios are remarkably independent. Moreover, when hedge funds do buy and sell the same stocks, their demand shocks drive prices toward, rather than away from, fundamental values. Even in periods of extreme market stress, we find little evidence that hedge funds exert negative externalities on each other or security prices due to crowded trades.

The Convergence and Divergence of Investors' Opinions around Earnings News: Evidence from a Social Network
Robert Charles Giannini, Paul J. Irvine and Tao Shu

We collect a unique dataset of Twitter posts to examine the change in investor disagreement around earnings announcements. We find that investors' opinions can either converge (reduced disagreement) or diverge (increased disagreement) around earnings announcements. While the convergence of opinion is associated with lower earnings announcement returns, the divergence of opinion is associated with higher earnings announcement returns. Consistent with recent theory, both the convergence of opinion and the divergence of opinion are associated with greater volume reaction to earnings news.

New Assets for Pricing

The Financialization of Storable Commodities
Steven D. Baker

I construct a dynamic equilibrium model of storable commodities populated by producers, dealers, and households. When financial innovation allows households to trade in futures markets, they choose a long position that leads to lower equilibrium excess returns on futures, a more frequently upward-sloping futures curve, and higher volatility in futures and spot markets. The effect on spot price levels is modest, and extremely high spot prices only occur in conjunction with low inventories and poor productivity. Therefore such "financialization" of commodities may explain several recently observed changes in spot and futures market dynamics, but it cannot directly account for a large increase in spot prices.

Risk Premia in Gold Lease Rates
Anh Le and Haoxiang Zhu

Gold is an important global reserve asset, widely held by the official sector and private investors. In this paper, we study a measure of the opportunity costs of holding gold, the gold lease rates - interests paid in gold for borrowing gold. Gold lease rates are economically significant in magnitude and display substantial variations over time. Using a term structure model with "unspanned" risk factors, we find that risk premia in gold lease rates are highly time-varying and strongly increasing in the level and slope of gold lease rates, as well as in gold volatility. Expected excess returns of "gold bonds" are mostly positive, suggesting that they are perceived as risky investments.

Claims in Conflict

Debt Renegotiation and Investment Decisions Across Countries
Giovanni Favara, Erwan Morellec, Enrique Schroth and Philip Valta

We develop a model of investment and default decisions that endogenizes levered firms' choices with respect to investment, asset sales, and risk-taking. We show that debtor friendly bankruptcy laws reduce debt overhang, limit asset sales and capital reallocation, and decrease incentives for risk-taking. These predictions are supported by evidence from a panel of 19,466 firms across 41 countries with different bankruptcy codes. The estimated effects are large and economically significant. Our analysis suggests that debtor friendly bankruptcy laws mitigate the distortions in corporate decisions due to conflicts of interests between shareholders and debt holders.

Dual Ownership, Returns, and Voting in Mergers
Andriy Bodnaruk and Marco Rossi

We document that in M&As a significant proportion of targets' equity is owned by financial institutions that simultaneously own targets' bonds ("dual holders"). Targets with larger equity ownership by dual holders have lower M&A equity premia and larger abnormal bond returns, particularly when dual holders stand to benefit more from appreciation of their bond stakes, e.g., when their bond ownership in the target is large and the target credit rating is non-investment grade. Dual holders are more likely to vote in favor of the merger proposal. Our results suggest the presence of coordination of decisions within dual holding financial conglomerates in M&A targets.

Tricks of the Trading

A Simple Multimarket Measure of Information Asymmetry
Travis L. Johnson and Eric C. So

We develop and implement a new measure of information asymmetry among traders. Specifically, we solve for the fraction of traders with an information advantage in a model where agents have access to both equity and option markets. We compute the resulting multimarket information asymmetry measure, MIA, for individual firm-days as a function of unsigned volume totals and without estimating a structural model. Empirically, MIA has many desirable properties: it is positively correlated with spreads, price impact, and absolute order



imbalances; predicts future volatility; is an effective conditioning variable for trading strategies stemming from price pressure; and detects exogenous shocks to information asymmetry.

Trading Fast and Slow: Colocation and Market Quality
Jonathan Brogaard, Björn Hagströmer, Lars Nordén and Ryan Riordan

Using user-level data from NASDAQ OMX Stockholm, we investigate how different network connectivity speeds influence market participant dynamics. We find that collocated traders have an informational advantage relative to non-colocated participants. We use an exchange system upgrade that allows colocated traders to upgrade to an even faster connection to identify a shock to the speed hierarchy. Participants that upgrade reduce their adverse selection costs and improve their inventory management ability, allowing them to increase their market share in liquidity provision. Non-colocated traders incur higher adverse selection costs after the event. Overall, however, the introduction of speed differentiation improves both bid-ask spreads and market depth. Our results suggest that the liquidity improvements are related to the fastest traders' increased market share and their enhanced inventory management abilities.

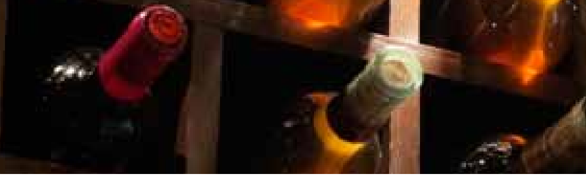
Special Session

Does Group Affiliation Facilitate Access to External Financing? Evidence from IPOs by Family Business Groups
Ronald W. Masulis, Peter Kien Pham and Jason Zein

Although the literature has identified important benefits associated with group affiliation, the channels through which business groups provide support to members remain relatively unexplored. Using a new dataset of ownership structures of 12,602 IPOs from 44 countries, we investigate how family groups create financing advantages for young member firms by facilitating their entry into the equity capital market. Our evidence suggests that internal capital accumulated by a group in the form of retained earnings can enable new members to go public by bridging significant funding gaps associated with costly external financing. Consistent with this channel of group support, we also find that group-affiliated IPOs tend to possess firm characteristics generally associated with serious external financing constraints and that they are better able to go public under weak IPO market conditions and incur lower flotation costs compared to independent firms. After listing, group affiliation continues to benefit IPO firms by enabling them to overcome adverse external capital market conditions.

Financial Flexibility and Corporate Cash Policy
Tao Chen, Jarrad Harford and Chen Lin

Using variations in local real estate prices as exogenous shocks to corporate financing capacity, we investigate the causal effects of financial flexibility on cash policies of US firms. Building on this natural experiment, we find strong evidence that increases in real estate values lead to smaller corporate cash reserves, declines in the marginal value of cash holdings, and lower cash flow sensitivities of cash. The representative US firm holds \$0.037 less of cash for each \$1 of collateral, quantifying the sensitivity of cash holdings to collateral value. We further find that the decrease in cash holdings is more pronounced in firms with greater investment opportunities, financial constraints, better corporate governance, and lower local real estate price volatility.




MAP & TRANSPORTATION

Melbourne Transportation:

From the Melbourne airport to the hotels in the city, it takes 20-30 minutes, which might vary depending on the traffic. You can either take a taxi (fare: $50-60) or SkyBus (fare: $18 for one way/$30 for return). On arrival at Southern Cross Station in the city, SkyBus provides a complimentary hotel transfer service, subject to availability (please visit www.skybus.com.au for details and online ticket purchase).

For your transportation needs within the city area, we highly recommend the public transit system in Melbourne. The "Myki" pass allows travel on trams, busses, and trains. The Public transit is effective and as safe as can be reasonably expected.

Langham Hotel

1 Southgate Ave, Southbank

Quay West Suites

26 Southgate Ave, Southbank

(1) Thursday Welcome Reception

Gate 6A, Melbourne Cricket Ground, Brunton Ave, Jack Ryder Room

Suggested Transportation:
22 minute walk - From the Langham or Quay West, walk north along the Southbank Footbridge (not St. Kilda Rd.), and cross the river. Turn right onto Flinders Walk and walk along the riverside. Continue on Princes Walk and across William Barak Bridge to the MCG. Enter via Gate 6A (between light towers 3 & 4). Use lifts 14 & 15.

Tram – From the Langham or Quay West, walk north along the Southbank Footbridge (not St. Kilda Rd.), and cross the river. Once across the river, turn right, and enter the underground walkway about 20 meters east of the bridge. Continue on the walkway until you pass under the train station and arrive at the intersection of Flinders St. and Elizabeth St. Walk west (to the left) on Flinders St. to arrive at tram stop 4, "Elizabeth St." stop on Flinders St. (not to be confused with the "Flinders St." stop on Elizabeth St.) Take tram number 70 to stop at William Barak Bridge /Melbourne Park and walk east. Or take tram number 48 or 75 to stop at Clarendon St/Wellington Parade and walk south. Enter via Gate 6A (between light towers 3 & 4). Use lifts 14 & 15.

(2) Friday Conference Sessions

University House at the Woodward (Level 10)
The Melbourne Law School
185 Pelham St.



Suggested Transportation:
From the Langham or Quay West, walk north along the Southbank Footbridge (not St. Kilda Rd.), and cross the river. Once across the river, turn right, and enter the underground walkway about 20 meters east of the bridge. Continue on the walkway until you pass under the train station and arrive at the intersection of Flinders St. and Elizabeth St. You will see the tram stop 1 "Flinders St" on Elizabeth St. Take tram number 19 or 59 to tram stop 9 "Haymarket" (do not take tram number 57). Head east on Pelham St. about 200 meters to arrive at the Melbourne Law School at the intersection of Barry St. and Pelham. The conference is on the 10th floor.

(3) Friday Reception

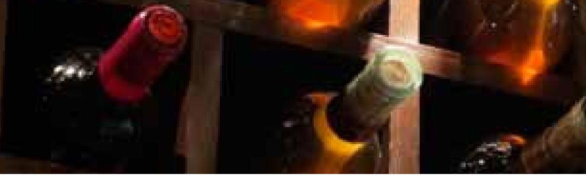
Eureka 89, Level 89 Eureka Tower, 7 Riverside Quay

Suggested Transportation:
From the Melbourne Law School, head west on Pelham St. toward Barry St. Turn left onto Elizabeth St. to arrive at tram stop 9 “Haymarket”. Take any southbound tram to tram stop 1 "Flinders St." Cross the road to Flinders St. Train Station and take the underground walkway and pass under the train station. Walk south along the Southbank Footbridge and cross the river away from the city. Continue straight onto Southgate Ave. At the roundabout turn right onto Riverside Quay. PhD student ambassadors will guide conference members from the law school to the reception. A limited number of taxis will be available if any conference participant has trouble walking. Please inform the conference committee members or a PhD student ambassador if you require a taxi or alternative transportation.

(4) Saturday Conference Special Session

The University of Melbourne
Basement Theatre (Level B1), The Spot Building
198 Berkeley St.

Suggested Transportation:
From the Langham or Quay West, walk north along the footbridge (not St. Kilda Rd.), and cross the river. Once across the river, turn right, and enter the underground walkway about 20 meters East of the bridge. Continue on the walkway until you pass under the train station and arrive at the intersection of Flinders St. and Elizabeth St. Across Flinders St., you will see the tram stop 1 "Flinders St". Take tram number 19 or 59 north to tram stop 9 "Haymarket" (do not take number 57). Head East on Pelham St. about 100 meters. You will recognize "The Spot" by its unique spotted window tint. The Saturday session will be held in the basement theatre.




Stop 9 Haymarket
Stop 3 Lincoln Square
Stop 1 Flinders St
Stop 4 Elizabeth St



SATURDAY WINE TOUR/DINNER INFORMATION

Mornington Peninsula Food and Wine Experience

"Mornington Peninsula is a special place where vines thrive in sheltered undulating valleys nurtured by a maritime cool climate creating elegant, personality-packed award-winning wines - predominantly Pinot Noir and Chardonnay with Pinot Grigio and Shiraz a smaller presence.

Mornington Peninsula's signature wine? It is supple & alluring, coaxing elegant and delicate varietal characters from the locally grown Pinot Noir. Appropriately, the region's wines show great finesse but don't be fooled by any apparent delicacy, as these wines are packed full of intensity, structure & texture.

Less than an hour's drive south-east of Melbourne, the region now hosts 200 small-scale vineyards and more than 50 cellar doors offering visitors a personal warm welcome and taste of the region's diverse and impressive collection of fine wines" http://mpva.com.au

12:00pm
Depart The University of Melbourne by luxury coach

1:00pm
Lunch on the terrace at **Green Olive Organic Farm**

"Our piece of paradise is 27 acres of red fertile soil that allows us to grow and produce premium quality food for our visitors to savor. You can enjoy the surrounds while eating and drinking some of the finest food the Mornington Peninsula has to offer. We grow olives, grapes, herbs and veggies, raise sheep and chooks and turn amazing produce from local farmers into a range of goodies you'll love. Green Olive at Red Hill is a family business – we are; Greg and Sue O'Donoghue, our children Sam and Sophie, two Kelpies (Inca and Rasa), one Maremma (Pisa), 40 sheep, 60 chooks and Indian Runner Ducks!" http://www.greenolive.com.au/

3:00pm
Stop at **Arthurs Seat Lookout** for stunning views across Port Phillip Bay to Melbourne's city skyline

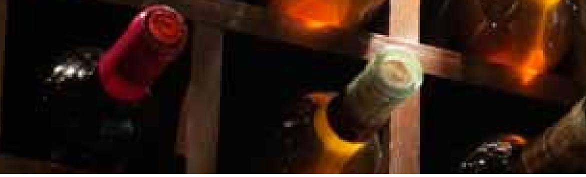
4:00pm
Pre-dinner wine tasting at **Crittenden Estate**

"Garry and Rollo Crittenden are dedicated small scale vignerons with an exciting range of handcrafted wines. Today, their efforts are channelled into producing small batches of wines that elegantly and emphatically speak of their varietal and geographic provenance under the Crittenden Estate, Pinocchio and Geppetto ranges" http://crittendenwines.com.au/

5:00pm
Arrive for dinner at **Tucks Ridge Estate**

"Tuck's Ridge is a small boutique winery located about 1.5 hrs from the Melbourne CBD. It is one of the oldest wineries in the region and benefits from this extended regional history to produce cool climate wines of stunning intensity, quality and longevity" **http://www.tucksridge.com.au/**

7:30pm
Depart for Melbourne

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