



ANNUAL FINANCIAL MARKET LIQUIDITY CONFERENCE

17TH-18TH NOVEMBER, 2016
CORVINUS UNIVERSITY OF BUDAPEST, HUNGARY

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7th Annual Financial Market Liquidity Conference, 2016
Budapest, Hungary
17th-18th November, 2016

CONFERENCE PROCEEDINGS

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GREETINGS

I warmly welcome all the participants of the 2016 Annual Financial Market Liquidity (AFML) Conference. It is the seventh time that we are bringing together academics and practitioners to discuss state-of-the-art results in the broad field of financial market liquidity. These topics include:

- Market Liquidity and Funding Liquidity;
- Liquidity Aspects of Systemic Risk;
- Game Theoretic Aspects of Liquidity and Financial Risk;
- Global Liquidity (both Public and Private) and Regulations;
- Leverage and Macroeconomic Determinants;
- Market Microstructure with Emphasis on Liquidity;
- Asset Pricing and Management with Illiquid Assets;
- Illiquid Alternative Investments and Asset Innovations.

All the conditions are met to build and refresh your network, since more than 140 participants have registered, and the lectures will also be visited by more than 20 selected students.

Many people have contributed to this event. First of all, I would like to thank the speakers, poster session participants and the chairs for coming, and our sponsors for providing the resources.

I wish to thank the members of the scientific committee: Zsuzsa R. Huszár, László Á. Kóczy, Imre Kondor, Niklas Wagner; and the local organizing committee: Edina Berlinger, Zsolt Bihary, Barbara Mária Dömötör, Dániel Havran, László Á. Kóczy, Gábor Kondor, Anita Lovas. Our assistants Judith Andaházy, Zsuzsa Fried, and Tibor Kozák also did an excellent job in taking care of ongoing tasks and challenges.

I trust everybody will contribute to the friendly and interactive atmosphere.

Enjoy the seventh AFML Conference and Budapest.

Kind regards,

Péter Csóka

Chair of the Organizing Committee

Associate Professor

Corvinus University of Budapest

Corvinus Business School

Department of Finance

Financial Research Centre

Senior Research Fellow

Game Theory Research Group

CERS, Hungarian Academy of Sciences

P.S.: See you also at the 8th AFML Conference on 16-17 November 2017, Budapest!

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KEYNOTE SPEAKER**SAUNDERS, Anthony**

*Tobias Berg; Anthony Saunders; Sascha Steffen;
Daniel Streitz: Mind the Gap: The Difference between
U.S. and European Loan Rates*

We analyze differences in the pricing of syndicated loans between U.S. and European loans. For credit lines, U.S. borrowers pay significantly higher spreads, but also lower fees, resulting in similar total costs of borrowing in both markets. For term loans, U.S. firms pay significantly higher spreads. While European firms across the rating spectrum issue terms loans, only low quality U.S. firms rely on term loans. U.S. issuers perform worse after loan origination compared to European issuers, which explains 30% of the spread differential. Increasing loan supply by institutional lenders in the U.S. since 2003 eventually fully removed the term loan pricing gap.

SAUNDERS, Anthony

is the John M. Schiff Professor of Finance, and from 1995-2006 served as Chairman, Department of Finance, Stern School of Business, New York University. Professor Saunders received his PhD from the London School of Economics and has taught both undergraduate and graduate level courses at NYU since 1978. Throughout his academic career, his teaching and research have specialized in financial institutions and international banking. He has served as a visiting professor all over the world, including INSEAD, the Stockholm School of Economics, and the University of Melbourne. He is currently on the Executive Committee of the Salomon Center of the Study of Financial Institutions, NYU.



INVITED SPEAKERS

AKTAS, Nihat

Nihat Aktas; Christodoulos Louca; Dimitris Petmezas: CEO Overconfidence and the Value of Corporate Cash Holdings

Cash holding is more valuable when firms are managed by overconfident CEOs. Economically, having an overconfident CEO on board is associated with an increase of \$0.36 in the value of \$1.00 cash holding. The positive effect of CEO overconfidence on the value of cash concentrates among firms that are financially constrained and exhibit high growth opportunities. These results are consistent with the costly external finance hypothesis. In particular, cash saving is value-increasing for firms with overconfident CEOs because it alleviates underinvestment problems that the firms with overconfident CEOs face due to perceived costly external financing.

AKTAS, Nihat

holds the Chair of Mergers and Acquisitions at WHU Otto Beisheim School of Management since September 2013. His research and teaching interest is in the broad area of finance with a focus on mergers and acquisitions, corporate valuation, and cash management. He previously worked at Skema Business School (France), EMLYON Business School (France), and Louvain School of Management (Université catholique de Louvain). Being interested in empirical corporate finance in general, Professor Aktas is the coauthor of several research articles published in peer-reviewed international journals including the Journal of Financial Economics, Journal of Financial and Quantitative Analysis, Economic Journal, Journal of Corporate Finance, and Journal of Banking & Finance. His research has been featured on the programs of various international conferences, such as the American Finance Association and European Finance Association, and quoted in widely read international media, such as the Financial Times and The New York Times. He was a visiting researcher at the Anderson School of Management (UCLA, Los Angeles) in 2001–2002.



BATTEN, Jonathan A.

Jonathan A. Batten; Igor Lončarski; Peter G. Szilagyi: Revisiting Price - Volume and Volatility Relationships in the U.S. Stock Markets

According to the Standard and Poors website “The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The S&P 500 index includes 500 leading companies and captures approximately 80% coverage of available market capitalization”. However, close to 40% of the index value comprises the top 30 stocks (mostly those included in the Dow Jones Industrial Average, while just three technology stocks (MSFT, APPL and GOOG) account for about 10% of the S&P 500 market value. This study investigates the price-volume and volatility relationships in three key U.S. indices (the S&P 500, Dow Jones Industrial Average 30, and the NASDAQ Composite), whose indices are based on different groups of stocks, but whose values represent stocks with significantly different degrees of market capitalisation and turnover. The NASDAQ and the S&P 500 are especially important given their role as market benchmarks to index funds. The study establishes the effect on volatility of market size and contemporaneous trading, while also shedding insights into existing theories associated with price-volume relationships.

BATTEN, Jonathan A.

is Professor of Finance in the Department of Banking and Finance at Monash University, Australia. Prior to this position he worked as a Professor in Finance at the Hong Kong University of Science & Technology and Seoul National University, Korea. He is the managing editor of *Emerging Markets Review*, *Journal of International Financial Markets Institutions and Money*, co-editor of *Finance Research Letters*, and on the editorial boards of a number of other journals including the *Journal of Banking & Finance*, *Journal of Multinational Financial Management* and *International Review of Financial Analysis*. He is the current President of the Eurasian Business and Economics Society (EBES). His current research interests include: Financial market development and risk management; spread modelling arbitrage and market integration; and the investigation of the non-linear dynamics of financial prices.



HUSZÁR, Zsuzsa R.***Zsuzsa R. Huszár; Zorka Simon: The Liquidity Implications of the Securities Lending Market for Treasuries: An Analysis of the European Debt Crisis***

In the fixed income literature, extensive research developed about the existence of convenience yields. In the US Treasury context, the on-the-run and off-the-run phenomenon is well documented by showing that off-the-run securities are less liquid and investors demand a liquidity premium for these assets (Jordan and Jordan, 1996; Krishnamurthy, 2002). In this study, we suggest that the automated and transparent securities lending market has a secondary liquidity implications for fixed income securities, especially for treasuries which are highly sought after for collateral and funding purposes. Specifically, we examine the negative yield phenomenon on AAA-rated German government bonds in relation with securities lending activities from July 2006 to August 2010. We document non-negligible lending income from the securities lending for most of the issues but with significant cross-sectional variation. Last, we show that the negative yields at the initial auctions are consistent with rational investor behaviour as investors price in the expected securities lending income.

HUSZÁR, Zsuzsa R.

is an Assistant Professor in the Department of Finance at the National University of Singapore and an affiliated researcher at the Institute of Real Estate Studies (IRES) and at the Risk Management Institute (RMI) at NUS. Since she earned her PhD in Finance at the University of Kentucky in 2007, she studies short selling and pricing efficiency, financial liquidity risk, and regulatory implications in the residential mortgage market. In her current work, she focuses on short sale regulations and the pricing implication of the equity lending market around the world. She has presented her research at top conferences, such as the American Finance Association meeting and the American Real Estate and Urban Economics Association Meeting and published in top finance and real estate journals, including the Journal of Financial Economics, Real Estate Economics and the Journal of Real Estate Finance and Economics. Her paper, “The good news in short interest”, has received the 2010 Fama-DFA price for the best paper published in JFE in 2010 in the areas of capital market and asset pricing.



SIMON, Zorka: see pp. 36.

KALOTAY, Andrew***Andrew Kalotay: Creating a Live Yield Curve in the Illiquid Muni Market***

Tax-exempt municipal bonds (commonly known as ‘munis’) are unique to the US. In spite of its substantial size, the muni market is illiquid and lacks a robust live benchmark yield curve. Commonly available yield curves, provided by several vendors, are specified by the yields of 5% callable bonds. The yields are typically obtained by surveying major market participants. Callable yield curves are fundamentally different from yield curves in other markets. Moreover, they are often defective: they fail to be arbitrage-free, and their implied optionless curves are unrealistic. Analysts tend to use these callable curves as if they were optionless, a practice with unfortunate consequences. There is a current initiative, sponsored by the Associated Press, to create a live muni yield curve using market quotes for selected actively traded bonds. An appealing aspect of the AP curve is the transparency of the methodology. Preliminary indications are that this new yield curve could become a superior alternative to those currently available.

KALOTAY, Andrew

is a leading authority on the valuation and management of bonds with embedded options. He is a prolific contributor to the literature on topics ranging from advance refunding to the tax management of tax-exempt municipal bonds. His firm licenses fixed income valuation software and provides debt management advisory services. He is the current chairman of the FTSE Americas Bond Index Advisory Committee. Before establishing Andrew Kalotay Associates in 1990, Dr. Kalotay was with Salomon Brothers. Prior to Wall Street, he was at Bell Laboratories and AT&T. On the academic side, he was the founding director of the graduate Financial Engineering program at Polytechnic University (now part of NYU). Dr. Kalotay holds a BSc and MSc from Queen’s University and a PhD from the University of Toronto, all in mathematics. He was inducted into the Fixed Income Analyst Society’s "Hall of Fame" in 1997.



KASERER, Christoph***Christoph Kaserer; Wenting Zhao: Do Mutual Funds Improve Stock Market Liquidity – and ETFs Harm it? New Evidence from the German Stock Market***

This paper studies the impact of liquidity-motivated trading by equity funds' on overall stock market liquidity. By using a unique volume-weighted spread for the German stock market we find strong evidence that liquidity-motivated trading by actively managed mutual funds, as measured by their net cash flows, improves stock market liquidity. A one standard deviation increase of funds' net cash flows reduces the weighted spread of small and medium caps up to 45 basis points. This is an economically important effect. Moreover, the strongest liquidity contribution is observed exactly when it is most needed, i.e. during times of crisis. In addition, we find evidence that this beneficial liquidity service is mostly driven by high-skilled fund managers. Finally, we find no or even a negative impact for ETFs, which is not surprising given the creation/redemption mechanism governing their in- and outflows.

KASERER, Christoph

is a full professor of finance at Technische Universität München (TUM). His area of expertise is corporate finance, banking, and asset management. Christoph published his research in leading international academic journals. He is also active as an expert for the German Government as well as for public and private institutions. Christoph is also regularly invited to parliamentary hearings as an expert witness. Before joining TUM, he became Full Professor of Financial Management and Accounting at Université de Fribourg, Switzerland, in 1999. From 2005 to 2010 he was the Dean of TUM School of Management. According to recently published university rankings TUM School of Management is the top management school in Germany.



KIER, Dimba***Dimba Kier: Management of Liquidity in the Current Regulatory Environment***

The talk will cover the approach to funding and liquidity management and the regulations in this area.

KIER, Dimba

is head of EMEA Liquidity Planning within Corporate Treasury at Morgan Stanley. He has over 12 years of experience within the financial services industry covering the areas of liquidity and funding risk management, currency risk and capital. Prior to this, he received a BSc in Economics and Finance from Loughborough University and is also qualified as a Chartered Management Accountant.



MANTEGNA, Rosario N.***Rosario Nunzio Mantegna; Federico Musciotto; Luca Marotta; Jyrki Piilo: Price discovery and market liquidity at NASDAQ Nordic OMX exchanges***

We investigate the process of price discovery of several financial assets traded at the Nasdaq Nordic OMX exchanges. Specifically, we empirically investigate the dynamics of the order book of financial assets belonging to the categories of stocks, warrants, equity warrants, and index fund units. By investigating the mean cancellation time of the limit orders submitted to the market we infer about the presence of high frequency trading for a specific financial asset traded in the market. We verify that the presence of high frequency order submission is not always associated with high liquidity. We perform a cross sectional analysis of the order submission and cancellation procedure to detect characteristics of the multivariate nature of high frequency order submission. A discussion of the relationship between high frequency order submission activity and asset liquidity is provided for different categories of financial assets.

MANTEGNA, Rosario N.

is professor at Palermo University, Palermo, Italy. His research concerns interdisciplinary applications of statistical physics. Rosario received his PhD in physics from Palermo University in 1990. He started to work in the area of the analysis and modeling of social and economic systems with tools and concepts of statistical physics as early as 1990 and he is one of the pioneers in the field of econophysics. He has introduced and investigated proximity based networks in 1999. He coauthored the first book on econophysics and has coordinated several research projects, including Marie Curie Host Fellowship, COST, EU STREP, INET and national ones. Rosario is member of the Observatory of Complex Systems of Palermo University, of the Center for Network Science of Central European University, and is also honorary professor at University College London, London, UK.



SZENTES, Balázs***Anne-Katrin Roesler; Balazs Szentes: Buyer-Optimal Learning and Monopoly Pricing***

This paper analyzes a bilateral trade model where the buyer's valuation for the object is uncertain and she observes only a signal about her valuation. The seller gives a take-it-or-leave-it offer to the buyer. Our goal is to characterize those signal structures which maximize the buyer's expected payoff. We identify a buyer-optimal signal structure which generates (i) efficient trade and (ii) a unit-elastic demand. Furthermore, we show that every other buyer-optimal signal structure yields the same outcome as the one we identify, in particular, the same price.

SZENTES, Balázs

is a professor at the London School of Economics. After receiving his PhD in Economics from Boston University in 2002, he held positions at the University of Chicago and at the University College London. Professor Szentes has co-authored various contributions in top journals in economics and game theory, in particular in contract theory and auction theory. He was many times invited to give talks at seminars and conferences, last time to the World Congress of the Game Theory Society. He is member of the editorial board of the Review of Economic Studies and he was also editor of the American Economic Review.



WAGNER, Niklas***Axel Buchner; Christoph Kaserer; Niklas Wagner:
Private Equity Funds: Valuation, Systematic Risk and
Illiquidity***

We derive a novel model of the cash flow dynamics and equilibrium values of private equity funds. Based on intertemporal capital asset pricing results for an investor with logarithmic utility, the model explains the typical life cycle patterns of systematic fund risk, expected returns and fund value. Given our model, we also consider the effects of market illiquidity. Model calibration for a sample of European funds illustrates that sample funds have an average risk-adjusted excess value of 14 percent relative to committed capital, which amounts to estimated illiquidity costs of 1.4 percent annually. We show how equilibrium expected fund returns, systematic risk, and illiquidity discounts decrease over fund lifetime. As compared to venture capital funds, buyout funds on average exhibit lower systematic risk, faster payback, lower life cycle maximum values, but higher initial excess values.

WAGNER, Niklas

is Professor of Finance and Financial Control at the University of Passau, Germany. After receiving his PhD in Finance, he held postdoctoral appointments at the Haas School of Business, U.C. Berkeley, and at Stanford GSB, thereafter finishing his habilitation doctoral degree at TU Munich. Professor Wagner has co-authored various contributions in finance, covering research in the areas of asset management, empirical asset pricing, applied financial econometrics as well as derivatives and risk management. Professor Wagner has co-edited book volumes on derivatives and risk management, currently is an associate editor of *Economic Modelling*, *Emerging Markets Review*, *Finance Research Letters*, the *Journal of International Financial Markets, Institutions and Money*, and the *International Review of Financial Analysis*, and is Editor-in-Chief of *Studies in Economics and Finance*.



SPEAKERS

BĘDOWSKA-SÓJKA, Barbara

Barbara Będowska-Sójka: Smart beta strategy based on liquidity measures

In emerging markets models that account for liquidity risk outperform those models that incorporate only market risk factors. The aim of our study is to examine the relationship between beta risk measure and liquidity measures. Liquidity is very difficult to define and even more difficult to estimate. In the literature there are a plenty of liquidity measures considering different aspects of liquidity. Two of them are taken into account in our paper, Amihud (2002) illiquidity measure and LOT of Lesmond et al. (1999). The former is the price impact measure, whereas the latter treat the zero returns as an indicator of the information value for the informed trader. We calculate both beta risk factors and liquidity measures for the most and the less liquid stocks quoted on the Warsaw Stock Exchange within 15 years sample period of daily data consisting of prices and trading volumes. Beta measures are estimated within unobserved component model and then modeled with Markov-switching in order to obtain two states of systematic risk. Investments in stocks are then mapped according to their betas and their liquidity in order to find if there exist any straightforward smart beta strategy based on these factors.

BĘDOWSKA-SÓJKA, Barbara

is an assistant professor at the Department of Econometrics at Poznań University of Economics where she received her PhD in Economics in 2005. Her main research interests are in financial market microstructure, financial econometrics, volatility modeling and forecasting. She also focuses on the measures of volatility and liquidity based on the high frequency data.



BERLINGER, Edina***Edina Berlinger; Gergely Daróczi; Tamás Vadász:
Identification of Systemically Important Financial In-
stitutions with Core-Periphery Models***

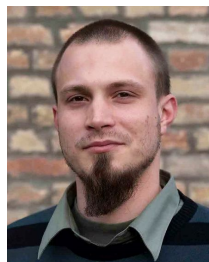
In this research, we apply a core-periphery model to the Hungarian inter-bank lending market between 2003 and 2016. We show that this network is sparse with low clustering and is characterized by a so-called “dissortative mixing” meaning that small banks tend to trade with large banks but rarely among themselves. Therefore, most banks do not lend to each other directly but through core banks acting as “intermediaries of intermediaries”, which leads to a highly hierarchical structure where core banks can be considered as SIFIs. We calculate coreness measures for each bank in various periods and investigate the relationship between these measures representing the bank’s position in the network and the loan conditions (loan amount, interest rate, maturity) the bank receives as a borrower. We also examine the effects of the global financial crisis which induced severe structural changes in the network’s topology.

BERLINGER, Edina

is an associate professor at Corvinus University of Budapest and she is also the Head of Department of Finance. Her expertise covers asset pricing and risk management and especially the financial management of student loan systems. She has participated in several research and consultancy projects including design and implementation of student loan schemes as World Bank consultant and a research fellowship at the Collegium Budapest in complex systems. She received her PhD in Economics (2004) from Corvinus University.

**DARÓCZI, Gergely**

is a PhD candidate in Sociology at Corvinus University of Budapest with a strong interest in data analysis problems, mainly using R for the past 10 years. He is the founder of the Hungarian R meetup, technical co-founder of an R-based reporting web application at rapporteur.net, and currently the Director of Analytics of CARD.com in Los Angeles.



VADÁSZ, Tamás: see pp. 40.

BIANCHI, Sergio***Sergio Bianchi; Manuel Gámez; Augusto Pianese:
Liquidity and Self-Similarity in the Distributions of the
log price variations***

Self-similarity is implicit in the standard modeling of financial markets, when a Brownian motion or an α -stable process are assumed for the dynamics of prices. Irrespective of the self-similarity parameter, one rationale for the price process to be self-similar is based on the idea that the different investment horizons to whom the operators look at when they take their trading decisions, cancel the diversities in the perception of the risk, once the price variations are properly standardized. Thus, the short position of an intra-day trader experiencing a large-sigma event related to the timeframe of his dataset can match the long position of the long-term trader, who can judge negligible the variation, given his timeframe. In this interpretation of the market mechanism, high liquidity should be observed when such condition of scale invariance holds. Vice versa, when some catastrophic event occurs, the scale invariance is usually disrupted, since the increasing uncertainty induces investors to move abruptly towards shorter horizons or not to increase their exposure. This can increase the level of illiquidity in financial markets. Equipped with this financial interpretation, the paper analyzes how the extent of self-similarity changes through time and relates this behavior to the level of liquidity which characterizes the main financial markets.

BIANCHI, Sergio

is a Full Professor of Mathematics and Mathematical Finance at University of Cassino (Italy) and International Affiliate Professor at The Department of Finance and Risk Engineering of the New York University (USA). Author of more than sixty papers on the mathematical modeling of stock markets and reviewer for about twenty international academic journals, his current research interests include: financial market modeling and risk management; asset pricing; multifractional stochastic models; self-similarity and liquidity; non-linear dynamics of financial prices.



BOYARCHENKO, Nina***Tobias Adrian; Nina Boyarchenko; Or Shchar:
Dealer Balance Sheets and Liquidity Provision***

Do regulations decrease dealer incentives to intermediate trades? Using a unique dataset of dealer-bond-level transactions, we construct the interdealer intermediation chain for the US corporate bond market. Unlike prior studies, the transactions that we observe are uncapped in size, are updated at the end of each business date, and include the identity of the dealer counterparties to the transaction. We propose a new metric of liquidity that captures the “passability” of the trading network of dealers intermediating between original sellers and ultimate buyers. The granular nature of our data allows us to link changes in liquidity of individual corporate bonds to changes in dealer inventories. Finally, we study the relationship between dealers’ balance sheet constraints and their liquidity provision in the corporate bond market.

BOYARCHENKO, Nina

is a financial economist in the Research Group of the Federal Reserve Bank of New York. Her current research interests are in fixed income, financial stability and macroprudential regulation. She holds a joint PhD in Finance and Economics from the University of Chicago, Booth School of Business and Department of Economics, as well as a B.S. in Applied Mathematics from University of Texas at Austin.



BUSCH, Matias Ossandon

Matias Ossandon Busch: Banking Globalization, Local Lending and Labor Market Outcomes: Micro-level Evidence from Brazil

This paper estimates the effect of a foreign funding shock to banks in Brazil triggered by the collapse of Lehman Brothers in September 2008. Using an identification of the bank lending channel similar to Khwaja and Mian (2008) we find robustly that bank-specific shocks to Brazilian parent banks negatively affected lending by their individual branches in Brazilian municipalities. This intrabank channel of financial contagion triggers a number of real economic consequences in Brazilian municipalities: more affected regions face a restriction in aggregated credit and report a weaker job market performance in the post-crisis period. This analysis documents for the first time the full transmission mechanism of the global financial crisis from bank-specific foreign funding shocks to local labor markets in emerging countries. This evidence represents valuable policy information for regulators concerned with the stability and well-functioning of banking sectors worldwide.

BUSCH, Matias Ossandon

is a PhD student and research fellow at the Halle Institute for Economic Research and at the Otto-von-Guericke University Magdeburg . He holds a MSc in Economics and Public Policy from the Adolfo Ibañez University and a MSc in International Economics from the University of Tübingen. His research focuses on international banking, cross-border financial contagion and the evaluation of policy and regulatory interventions in the banking sector, with a special focus on developing countries.



CAI, Fang***Fang Cai; Song Han; Dan Li; Yi Li: Institutional Herding and Its Price Impact: Evidence from the Corporate Bond Market***

Among growing concerns about financial stability risks posed by institutional investors, herding has been considered as an important risk amplification channel. In this paper, we examine the extent to which major institutional investors of corporate bonds - mutual funds, insurance companies and pension funds - herd in their trading and quantify the price impact of such herding behavior. We find that, relative to what is documented for the equity market, the level of institutional herding across all types of investors is much higher in the corporate bond market, particularly in lower-rated bonds. In addition, institutions have become increasingly likely to sell in herds over time, a trend purely driven by mutual funds. We also show that institutional herding is associated with bonds' performance and rating changes, and is not only intratemporal, but also intertemporal. Such persistence in herding is largely driven by institutions imitating others' trading behavior in the previous quarter. Finally, we document an asymmetry in the price impact of herding. While buy herding facilitates price discovery, sell herding results in transitory yet significant price distortions. The price destabilizing effect of sell herding is particularly strong for high-yield bonds, small bonds, and illiquid bonds, and during the global financial crisis.

CAI, Fang

is a Principal Economist in the Division of Financial Stability at the Federal Reserve Board. Before she was an economist and senior economist in the Division of International Finance. Her research interests include financial markets, capital flows, institutional investment behavior and financial vulnerabilities. She received her PhD in Finance from the University of Michigan.



CsÓKA, Péter***Péter Csóka; P. Jean-Jacques Herings: An Axiomatization of the Proportional Rule in Financial Networks***

The most important rule to determine payments in real-life bankruptcy problems is the proportional rule. Such problems are characterized by network aspects and default may occur as a result of contagion. Indeed, in financial networks with defaulting agents, the values of the agents' assets are endogenous as they depend on the extent to which claims on other agents can be collected. These network aspects make an axiomatic analysis challenging. This paper is the first to provide an axiomatization of the proportional rule in financial networks. Our most central axiom is non-manipulability by identical agents. The other axioms are claims boundedness, limited liability, priority of creditors, impartiality, and continuity.

CsÓKA, Péter

is an Associate Professor at the Corvinus University of Budapest, Department of Finance and a senior research fellow at the game theory research group of the Hungarian Academy of Sciences. He received his PhD in economics from Maastricht University in 2008. His research topics include risk measures, risk capital allocation, various aspects of liquidity, and financial networks. He has papers published in journals like *European Journal of Operational Research*, *Games and Economic Behaviour*, and *Journal of Banking and Finance*.



DÖMÖTÖR, Barbara***Edina Berlinger; Barbara Dömötör; Ferenc Illés: Anticyclical Margining***

In order to reduce the procyclical effect of margining, the regulation prescribes an anticyclical margin buffer to be applied in the risk management of central counterparties. An augmented margin is to be used under normal market circumstances, which is allowed to be reduced under market stress. The aim is to prevent the large volatility of the margin, and to avoid taking extra burden on the trading partners in times of financial distresses. On the other hand the prudent risk management requires an appropriate coverage of the position which should be maintained in case of a long crisis, as well. We compare the effect of different margining strategies by simulating the operation of a hypothetical clearing house based on real-world stock market data, and we are looking for the best anticyclical margining method evaluated according to its effects on the loss distribution.

BERLINGER, Edina

is an associate professor at Corvinus University of Budapest and she is also the Head of Department of Finance. Her expertise covers asset pricing and risk management and especially the financial management of student loan systems. She has participated in several research and consultancy projects including design and implementation of student loan schemes as World Bank consultant and a research fellowship at the Collegium Budapest in complex systems. She received her PhD in Economics (2004) from Corvinus University.

**DÖMÖTÖR, Barbara**

is an Assistant Professor of the Department of Finance at Corvinus University of Budapest (CUB). She received her PhD in 2014 for her thesis modelling corporate hedging behaviour. Prior to her recent position she worked for several multinational banks treasury. Her research interest focuses on financial markets, financial risk management and financial regulation.

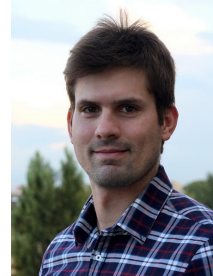


FARKAS, Miklós; VÁRADI, Kata***Miklós Farkas; Kata Váradi: Individual investors exposed***

In this paper we show that banks may influence the aggregate position of individual investors through the menu of offered contracts. More specifically, we analyze exchange traded call and put knock-out warrants. In a simple model, we demonstrate that if investors allocate their funds randomly between calls and puts then their aggregate position will depend on the relative leverage of the offered call and put warrants. By construction, the leverage of calls will be higher than the leverage of puts after recent contractions in the underlying. Hence, investors, on average, will behave as if they are betting on price reversals, even though they allocate their funds randomly. Using unique, proprietary data, we find empirical evidence supporting the above theoretical predictions.

FARKAS, Miklós

is a PhD candidate at Central European University in Budapest, Hungary. He holds a master degree in economics from the same university. During his studies he was a visiting PhD student at Columbia Business School in New York for 3 months. His research focuses on credit rating agencies and retail structured products issued by banks. Miklós will be attending the academic job market this winter.

**VÁRADI, Kata**

is an Associate Professor at the Department of Finance, Corvinus University of Budapest since 2013. Kata graduated in Finance in 2009 from Corvinus University of Budapest, and was awarded a PhD degree in 2012 for her thesis on the analysis of the market liquidity risk on the Hungarian stock market. Her research areas are market liquidity, fixed income securities, and networks in healthcare systems. Besides doing research, she is active in teaching as well. She is teaching mainly Corporate Finance, Investments, Valuation, and Multinational Financial Management.



FLÅM, Sjur Didrik***Sjur Didrik Flåm; Teemu Pennanen: Indifference Pricing, Order Markets, and Call Auctions***

Suppose traders use indifference pricing in an order market. Prior to normal trade, to open the market, they take part in a sealed-bid call auction. We inquire: How might such an auction serve efficiency?

FLÅM, Sjur Didrik

was 1986-2016 professor at the Economics Department, University of Bergen, Norway. He is now affiliated with the Informatics Department at the same university. He has his PhD in applied mathematics 1984 from the University of Delaware, US. He has done extensive consulting for business and government. He is associate editor of *Journal of Convex Analysis*, and has published in top journals of economics and mathematics. His research interests revolve around finance, game theory, insurance, and optimization.



JAWED, Mohammad Shameem***Mohammad Shameem Jawed; K. Kiran Kumar; Vijay Kumar Gupta: Free-Float, Stock Liquidity and Ownership Structure: Evidence from Changed Public Float Regulation in India***

This paper studies the impact on the stock liquidity and ownership structure by sale of equity by promoters. The sale was mandated by SEBI in 2010, where 285 firms with more than 75% promoter holding (90% for PSUs) had to dilute their holdings in order to comply with the changed minimum public shareholding regulation for continued listing. Considering the event as a quasi-natural experiment, the paper tests the impact of this exogenous shock to free-float of stocks on liquidity and ownership structure and the liquidity-ownership interplay in the impacted stocks. The paper mainly restricts to the Free-float and Adverse selection theories of liquidity. We find that volume based liquidity of stocks increase after the dilution, while price impact measures show significant improvements only in firms that choose OFS as the method of equity dilution. The post regulation ownership level of FIIs, MFIs, corporate bodies and individual investors saw a significant increase while the dispersion reduced significantly for FIIs, insurance and Indian promoters. Also, the non-promoter block-holding decreased while the promoter block-holding increased significantly. The change in liquidity was found to be positively and significantly related to change in institutional ownership level and negatively to the insider block-holding.

JAWED, Mohammad Shameem

is a PhD student at Indian Institute of Management Indore, India. Prior to joining the PhD program he worked for 5 years, as a consultant, at SunGard Financial Software Solutions & Services. His research interests are broadly focused on corporate governance perspectives of equity market regulations, market liquidity, risk and firm performance.

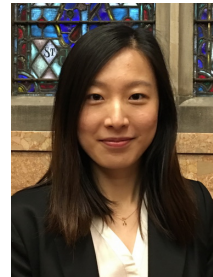


JIANG, Yue***Yue Jiang: Liquidity and Endogenous Volatility of Asset Returns***

The paper develops a mechanism that connects liquidity risk of the banking sector and the volatility of asset returns. The volatility of asset returns is modeled as an endogenous choice of risk by banks. Subject to liquidity shocks, banks may be forced to liquidate assets in secondary market. Fire sale of assets in the secondary market induces strategic complementarity in banks' risk taking behavior. When banks take risk on their long term assets, the assets have volatile returns and the secondary market price is depressed. Their risk-taking behavior exerts a negative externality on other banks because in the presence of limited liability, other banks also choose high return risk as a response to the fire sale discount and the deterioration of their pay-offs. So the expectation of the asset return volatility can be self-fulfilling. Financial regulations such as liquidity requirement is shown to have different effects in stabilizing the financial system according to different levels of secondary market liquidity. The model supports the implementation of a counter-cyclical liquidity requirement.

JIANG, Yue

is a 6th year PhD at the Boston University. Before joining the PhD program, She studied economics and finance in the Hong Kong University of Science and Technology for my undergrad. She is currently working on a paper about financial stability and risk taking behaviors of banks. Her research interests focus on financial stability, endogenous volatility, financial regulations at both theoretical and empirical fronts.



KAHLERT, Dennis***Dennis Kahlert: Market Liquidity Risk Premia in Eurozone Government Bonds' Yield Spreads***

This paper is about market liquidity risk premia in Eurozone sovereign bond spreads between 2008 and 2015. By calibrating an arbitrage-free reduced form model to the cash- and derivatives markets of each member state, we disentangle credit and market liquidity spread components in government bonds and investigate their dynamics across the Euro Area. Short-term (2Y), medium-term (5Y) and long-term (10Y) government debt is in scope of the analysis. Furthermore, the relationship between government bonds and credit default swaps (basis) is examined by cointegration analysis, where we find evidence that short-term deviations from long-term equilibria are due to temporary illiquidity premia inherent in government bond spreads. Moreover, we show that the bond markets are more important for price determination than the credit default swap markets although significant spillover from the derivatives to the cash markets is present. Finally, the paper applies regression analysis to the liquidity driven bond/CDS basis to examine the proportion of systematic and idiosyncratic determinants of market liquidity premia. We conclude that these premia are largely determined by market-wide liquidity proxies such as the pfandbrief/bund spread and the banks' funding spread whereas unconventional monetary policy and idiosyncratic factors play a minor role.

KAHLERT, Dennis

is research assistant at the Chair of Finance and Financial Control and doctoral candidate at the Faculty of Business Administration and Economics at University of Passau, Germany. He received a BSc in Business Economics and a MSc in Finance from Frankfurt School of Finance and Management. Prior to joining the faculty, he worked on risk management related projects during the subprime and sovereign debt crisis for commercial and investment banks. His research interests are in asset pricing, risk management and sovereign risk.



KINATEDER, Harald***Harald Kinateder; Jonathan A. Batten; Niklas Wagner: Out-of-Sample Equity Premium Prediction: The Role of Liquidity and Uncertainty Predictors***

The paper studies the out-of-sample predictability of the US equity premium. Since decades, there is an ongoing debate about equity premium prediction. However, research in this area mostly focuses on fundamental and macro variables with little attention paid to liquidity and uncertainty variables. This paper fills this gap by analysing whether liquidity and uncertainty predictors produce statistically as well as economically significant out-of-sample predictions. Moreover, we apply a novel market liquidity measure based on the concept of self-affinity that uses deviations in scale invariance to measure illiquidity. Overall, the results reveal that only our novel market liquidity measure and a recently developed macroeconomic uncertainty proxy provide statistically significant as well as consistent out-of-sample forecast results. A representative investor who forecasts the equity premium with our novel liquidity measure realizes an average annualized certainty equivalent return of about six percent over the entire sample from January 1990 to December 2014.

KINATEDER, Harald

is a postdoctoral research fellow at the University of Passau. He obtained his doctoral degree in Finance in 2012 from the same institution. His research areas include quantitative risk management, SME financing, and asset pricing, among others. He has published in several journals including the Journal of Risk, Journal of Risk Finance, and Physica A.



LEDUC, Matt V.

Matt V. Leduc; Stefan Thurner: Matching and Resilience in Financial Networks

When banks extend loans to each other, they generate a negative externality in the form of systemic risk. They create a network of interbank exposures by which they expose other banks to potential insolvency cascades. In this paper, we show how a regulator can use information about the financial network to devise a transaction-specific tax based on a network centrality measure that captures systemic importance. Since different transactions have different impact on creating systemic risk, they are taxed differently. We call this tax a Systemic Risk Tax (SRT). We show that this SRT induces a unique equilibrium matching of lenders and borrowers that is systemic-risk efficient, i.e. it minimizes systemic risk given a certain transaction volume. On the other hand, we show that without this SRT multiple equilibrium matchings can exist and are generally inefficient. This allows the regulator to effectively ‘rewire’ the equilibrium interbank network so as to make it more resilient to insolvency cascades, without sacrificing transaction volume. Moreover, we show that a standard financial transaction tax (e.g. a Tobin-like tax) has no impact on reshaping the equilibrium financial network because it taxes all transactions indiscriminately. A Tobin-like tax is indeed shown to have a limited effect on reducing systemic risk while it decreases transaction volume.

LEDUC, Matt V.

is a Research Scholar at the International Institute for Applied Systems Analysis (IIASA), Austria. He works in the Advanced Systems Analysis (ASA) program. He obtained his PhD from Stanford University, where he worked on network game theory. He has also been a visiting post-doctoral fellow at ETH Zurich and a visiting research fellow at Cambridge University (Department of Economics/INET Institute). Dr. Leduc’s research focuses mainly on game theory, the economics of networks and network science.



LIU, Bin***Bin Liu: Does liquidity explain pricing of idiosyncratic volatility?***

Han and Lesmond (2011) find that liquidity adjusted idiosyncratic volatility is not priced in the stock returns. We use a comprehensive Australian dataset covering the pre and post U.S. Financial crisis periods to re-examine the relation between returns and liquidity adjusted idiosyncratic volatility. We find that both idiosyncratic volatility and liquidity-adjusted idiosyncratic volatility are priced for equally weighted stock returns, but neither is priced in value-weighted stock returns. Han and Lesmond's (2011) statement that "IVOL loses its pricing ability when the bid ask bounce effect is controlled" is not conclusive, as both company size and level of stock liquidity influence the pricing idiosyncratic volatility.

LIU, Bin

is Lecturer in Finance in the Faculty of Business at University of Wollongong. Prior to this position he worked in the School of Economics, Finance and Marketing at RMIT University. He has strong research interest in asset pricing, behavioural finance, corporate governance and stock market volatility. Currently, he is an associate editor of Global Review of Accounting and Finance.



MA, Kebin

Zhao Li; Kebin Ma: A Theory of Endogenous Asset Fire Sales, Bank Runs, and Contagion

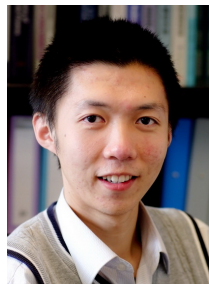
In a global-games framework, we endogenize asset fire sales, bank runs, and contagion by emphasizing a lack of information: investors can be uncertain whether banks selling assets to fend off runs are insolvent or simply illiquid. However, it is this uncertainty that leads to asset price collapses and runs in the first place. We show that a balanced-budget asset purchase program promotes financial stability by breaking down this vicious cycle. By contrast, increasing capital can exacerbate fire sales in the presence of adverse selection, because runs on well-capitalized banks signal high risks. We also derive implications regarding regulatory disclosure policies.

Fabio Castiglionesi; Zhao Li; Kebin Ma: Bank Information Sharing and Liquidity Risk

This paper proposes a novel rationale for the existence of bank information sharing schemes. We suggest that banks may voluntarily disclose borrowers' credit history in order to maintain asset market liquidity. By entering an information sharing scheme, banks will face less adverse selection when selling their loans in secondary markets. This reduces the cost of asset liquidation in case of liquidity shocks. The benefit, however, has to be weighed against higher competition and lower profitability in prime loan markets. Information sharing can arise endogenously as banks trade-off between asset liquidity and rent extraction. Different from the previous literature, we allow for borrower's non-verifiable credit history, and show that banks still have incentives to truthfully disclose such information in competitive credit markets.

MA, Kebin

joined WBS as an Assistant Professor of Finance in 2014. His research focuses on banking, financial stability and regulation. Before joining WBS, he visited Universitat Pompeu Fabra as a Marie-Curie research fellow, and The World Bank as a short-term consultant. Kebin's work has been presented at AFA, EFA, FIRS, and conferences organized by CEPR, Fed and FDIC. Kebin holds a PhD in Finance from Tilburg University.



MENDOZA, José***Hans Degryse; José Mendoza; Gunther Wuyts: The impact of Clearing fees on Market Quality***

This paper studies empirically the impact of post-trading fees on market quality. As such, it links the two stages in the trading cycle. We use a natural experiment: a 25% average reduction by LCH.Clearnet's clearing fees. After this fee reduction, we find an improvement of various spread measures by 8 to 12%. But at the same time, depth decreases by around 14%. Resiliency decreases as well. Results imply that small trades benefit from the post-trade fee reduction, while larger trades face higher trading costs. Further, there is no effect on trading volume and volatility. Finally, we also find no impact on adverse selection.

MENDOZA, José

is a PhD Candidate in Finance at KU Leuven since 2014. His main research interest are situated in the fields of market microstructure, market efficiency and post-trading. Furthermore, his research focuses on the impact that the organization of the post-trading structure, has on the trading itself. He obtained an Engineering in Computer Science degree from Simón Bolívar University and an AM in Quantitative Finance from Solvay Brussels School.



MONOSTORINÉ GROLMUSZ, Viola

Viola Monostoriné Grolmusz: Evaluation of Directional Forecasts

Although forming expectations about the future based on our currently available information is a necessity in economics, we know little about the preferences of professional forecasters. In this paper, I aim to identify professional forecasters' loss functions from observations of forecasts and realizations of a binary variable, together with variables contained in the forecasters' information set. Using time series that provide sufficient variability, it is possible to identify a set in which the parameter summarizing the forecaster's loss function lies. This parameter captures the relative cost of overestimating versus underestimating the forecast target. In my novel application, I use analyst stock (buy/hold/sell) recommendations to estimate a parameter c that captures the analyst's relative cost from overpredicting versus underpredicting the stock performance. I find that the estimated intervals for c usually do not include values closest to one, meaning that we can rule out the case where analysts are extremely reluctant to suggest a buy strategy. This is in line with the frequent statement from the analyst recommendations literature, that optimism relative to the consensus is rewarded in analyst recommendations.

MONOSTORINÉ GROLMUSZ, Viola

is a PhD student at Central European University, Department of Economics. Her field of research is related to applied econometrics, economic forecasting, and directional forecasting in particular. Her recent research project is aimed at identifying professional forecasters' loss functions from observations of forecasts and realizations of a binary variable, together with variables contained in the forecasters' information set. She earned her Master's degree in Economics at Central European University in 2014.



NIEDERMAYER, Andras***Andras Niedermayer; Artyom Shneyerov; Pai Xu:
Foreclosure Auction***

We develop a novel theory of real estate foreclosure auctions, which have the special feature that the lender acts as a seller for low and as a buyer for high prices. The theory yields several empirically testable predictions concerning the strategic behavior of the agents when the seller has an informational advantage. Using novel data from Palm Beach County (FL, US), we find evidence of asymmetric information, with the lender being the informed party. Moreover, the data are consistent with moral hazard in mortgage securitization: banks collect less information about the value of the mortgage collateral.

NIEDERMAYER, Andras

studied Economics at the University of Bern, holds a Master of Science in Economics from the London School of Economics and a PhD in Economics with summa cum laude from the University of Bern and was a post-doctoral research fellow at Northwestern University. He is a PostDoctoral Research Fellow and lecturer in Advanced Microeconomics and Market Microstructure for PhD and Master's students at the University of Mannheim and has published in journals such as the International Economic Review and the International Journal of Industrial Organization.

Andras' interests include Applied Microeconomic Theory, Auction Theory and Econometrics, Market Microstructure and Intermediation, and Computational Economics and Finance. Andras is the recipient of a Swiss National Science Foundation Grant for Young Researchers and a NET Institute Summer Research Grant.



PASCUAL, Roberto***Bidisha Chakrabarty; Pamela C. Moulton; Roberto Pascual: Trading Upgrades and Short Sale Bans: Uncoupling the Effects of Technology and Regulation***

We examine the market quality effects of technology upgrades juxtaposed with short sale bans. Between 2011 and 2013, the Spanish Stock Exchange launched a smart trading platform (SIBE-Smart), imposed two short sale bans, and introduced colocation to facilitate high speed trading. We find that the SIBE-Smart introduction leads to reduced market quality. Although colocation improves some dimensions of liquidity, it does not attract additional high speed trading. Our results indicate that the effects of the two technology enhancements cannot overcome the negative effects of the short sale bans and overall market quality declines significantly. These results are in contrast to existing studies that attribute enhanced market quality to increased fast trading resulting from technological inducements. We conclude that the beneficial effects of technological upgrades that attract fast trading, improving liquidity and price efficiency, are negated in the presence of regulatory restrictions.

PASCUAL, Roberto

has a PhD in Economics by Universidad Carlos III de Madrid, Spain (2001). He has been Associate Professor at the Business Department of the University of the Balearic Islands (UIB) since 2006. He is currently teaching Financial Economics and Financial Markets to undergraduate students and Market Microstructure courses in PhD/MBA programs at the Pomeu Fabra University (Barcelona, 2009-present) and the Autonomous University (Barcelona, 2009-2016). He has been Visiting Fellow at New York University (2003), Université Libre de Bruxelles (2008), and Yale University (2012). His main area of expertise is Empirical Market Microstructure, covering topics such as high-frequency trading, circuit breakers, liquidity provision in order-driven markets, market-making costs, and limit-order book dynamics. His research has been published in academic journals such as the Journal of Financial Markets, Journal of Banking and Finance, Journal of Financial Econometrics, Energy Economics, and Quantitative Finance. His research has merited the most important Spanish research awards and the Josspeh de la Vega Prize of the Federation of European Securities Exchanges (2004).



ROBERTSON, Matthew

Matthew Robertson: Effort-Signalling under Different Preferences for Risk

This paper extends the novel literature that aims to integrate aspects from both adverse selection and moral hazard models to provide a unified model of securitization under asymmetric information. An equilibrium in which an originator, who underwrites and securitizes assets, signals her choice of underwriting effort to investors via a retention strategy is characterized before two qualitative properties of this equilibrium are stated. These qualitative properties are concerned with how the introduction of a positive lower bound on the originator's choice of retention, akin to the Skin in the Game rule, affects both the originator's retention strategy and her private effort incentives. In particular, imposing such a lower bound increases signalling costs, by requiring that the originator holds a strictly greater level of retention to signal high effort, and improves incentives for the originator, in that it makes a choice of high underwriting effort relatively more likely. Moreover, the conventional assumption of risk neutrality is relaxed and it is shown that the aforementioned qualitative properties of equilibrium continue to hold in an environment of risk aversion.

ROBERTSON, Matthew

is a PhD candidate in Economics at the University of Strathclyde since 2014. His research interests are focused on microeconomics, including both theory and applications, and game theory, with specific focus on models with asymmetric information.



SAYASENG, Saysi***Saysi Sayaseng: Example of effective reforms on crisis Management. The case of South Korea***

The study aims to present changes in systemic risks of the Asian Financial Institutions from the event of Asian Financial Crisis in 1997 to the Global Financial Crisis in 2008. The analysis will focus on the special context of South Korea on the effective management of financial crisis and lesson learnt. The South Korea experiences was considered as one of the most remarkable resolutions in the commercial banking industry. The study seek to outline the changes in policies reforms, market structures and the overall systemic risks. Such effective reforms may serve as a benchmark model for other markets in responding to future financial crisis and act as early warning detections using statistical visual to explain the results.

SAYASENG, Saysi

is a PhD student at the Department of Finance at Corvinus University of Budapest. She completed her Master's Degree in Finance at the Monash University in 2010. Her working experiences prior to starting the PhD studies include Commercial Banking experiences with the ANZ Bank and a senior financial controller of a Non-Profit Organisation for Rural Development Project in Laos. Her researches are essentially focused on the Asian Financial Institutions and Banking Systems.



SCHARNOWSKI, Stefan***Stefan Scharnowski: The Effects of Post-Trade Transparency in Equity Markets: Evidence from MiFID Large Trade Disclosure Rules***

Exploiting annual stock-specific adjustments to large trade reporting delays permissible under the Markets in Financial Instruments Directive (MiFID), this is the first paper to study the effects of reporting obligations of over-the-counter block trades on market quality in public limit order books. We find that post-trade transparency regulations in today's equity markets matter. While the rules are effective at limiting reporting delays, an increase in post-trade transparency leads to a decrease in liquidity in public limit order books. There is also some evidence that more restrictive reporting obligations lead to lower volatility of open-close returns. Altogether, it appears that current regulations with respect to delayed trade reporting may be excessively restrictive.

SCHARNOWSKI, Stefan

is a PhD student at the University of Mannheim, where he also obtained a master with a major in finance. Additionally, he conducts parts of his research at the Research Center SAFE at Goethe University Frankfurt. His research interests are primarily in empirical market microstructure.



SIMON, Zorka

***Zorka Simon; Joost Driessen; Theo E. Nijman:
Much ado about nothing: A study of differential pricing
and liquidity of short and long term bonds***

The paper provides comprehensive evidence on the pricing differences of short and long maturity nominal bonds. Long maturity bonds are popular assets among investors with long investment horizon. However, modelling and examining the long end of the nominal term structure has attracted little attention in the academic literature. This paper aims to fill this gap by studying the differential pricing of short and long maturity bonds, especially focusing on segmentation in yields and liquidity. By using data on German nominal bonds between 2005 and 2015, we aim to answer the following question: Are yields of long-maturity bonds distorted by demand pressure of clientele investors, regulatory effects, or default, flight-to-safety or liquidity premiums? We find that although there are statistically significant differences in the pricing and drivers of short and long maturity bonds, the corresponding economic effects are rather small. This means that long yields are not extensively distorted by demand pressure, default or liquidity premiums, therefore there is little evidence for substantial yield segmentation. Additionally, we present evidence for some degree of liquidity segmentation across short and long maturities, with equally small economic effects. The results have important policy implications for the European insurance and pension regulatory framework, (Solvency II): if long maturity bond yields are not distorted, they might be appropriate for the valuation of long-term liabilities.

SIMON, Zorka

is a Post-doctoral Researcher at the Chair of International Finance of the University of Mannheim. She earned her PhD in Finance in 2016 from Tilburg University. She is also a junior research fellow of Netspar. Her research areas include empirical asset pricing, sovereign debt pricing, as well as liquidity and credit risk. Her most recent research considers the effect of regulatory changes and monetary policy on long-maturity sovereign bonds and the interaction between market liquidity and repo market utilization of sovereign bonds in the Eurozone.



SŁOŃSKI, Tomasz***Józef Rudnicki; Tomasz Słowski: The price effects and liquidity change? The evidence of the stock split from Warsaw Stock Exchange?***

This paper is aimed at investigating the link between different liquidity measures and the stock price change, i.e. analyzing how liquidity level can impact stock price using inter alia the Amihud illiquidity ratio. Treating our prior research as a starting point that confirms liquidity improvement following stock split (Rudnicki, Słowski 2011 and Rudnicki 2012) we focus on price implications consequent upon liquidity changes. We try to identify the link between determinants of price effect and liquidity categorized as activity or friction measures (Lyroudi et al. 2006). We use traditional activity measures and observe the transaction structure by type of investors trading in the stock. Simultaneously, employing friction measures (bid-ask spread) we strive to investigate how stock splits impact changes in investors' activity. Taking into account existing differences between capital markets conclusions drawn, confirm prior studies, e.g. Guo (2008), prove that stock split cause enhanced investors' activity and increased liquidity. Outcome of the study on impact of stock split on variables: number of shares traded on a daily basis, mean and average value of one transaction as well as share of small transactions in the total number of shares traded confirm the findings of Desai (1998).

SŁOŃSKI, Tomasz

is Professor in Institute of Financial Management, Wrocław University of Economics (Poland), where he holds the chair of Public and International Finance. He delivers courses on corporate finance, mergers and acquisition, enterprise risk management. His current scientific research is focused on the evaluation and risk management of renewable energy projects as well as the cost of equity measurement with respect to company size. He is a co-founder of the Society of Firm's Appraisals in Poland.



TIMOTITY, Dusán

Mihály Ormos; Dusán Timotity: Intertemporal mental accounting in market microstructure: The role of heuristic-driven, contrarian investors in PIN estimations

We introduce a novel market microstructural model including informed, uninformed and heuristic-driven investors, which latter behave in line with intertemporal mental accounting studied in behavioral finance. We show that heuristic-driven investors follow contrarian investment strategy; furthermore, their presence in the microstructure affects asset prices through modifying the bid-ask spread. Therefore, we propose a novel liquidity-related measure, the probability of heuristic-driven trading (PH) that captures the phenomenon. We also run a cross-sectional analysis of asset returns incorporating PH in order to empirically test its relationship with the expected return, and analyze the results compared to existing findings on the effects of information asymmetry on asset prices, as measured by the probability of informed trading (PIN). We find that even if controlling for the Fama-French three and five factor models, the PIN, and other proxies of liquidity such as the Amihud liquidity measure, the PH remains a significant factor in determining asset prices: a ten percent increase of PH yields a 4.5 percent jump in annual asset returns on average.

ORMOS, Mihály

is Professor of Finance at the Department of Finance at the Budapest University of Technology and Economics (BUTE). He earned his PhD and habilitation at BUTE. His main area of research is asset pricing and behavioral finance. His current works concentrate on risk and risk-measures that better capture the price variations in financial markets both in high and normal resolution applying behavioral approach. Professor Ormos has published his research results among others in *Journal of Banking and Finance*, *Quantitative Finance*, *Finance Research Letters*, *Economic Modelling* and *Economic Systems*. He serves *Eastern European Economics* as contributing editor.



TIMOTITY, Dusán

is a Lecturer of Finance at the Budapest University of Technology and Economics, Department of Finance. His field of research is related to capital asset pricing including downside risk models, empirical finance with focus on conditional heteroscedasticity and behavioral finance. His recent research project is aimed at establishing a relationship between market microstructure, irrational investor behavior, and asset returns. He holds an MSc in Finance from Budapest University of Technology and Economics, where he has completed his PhD curricula in 2016.



Uzsoki, Máté***Gyöngyi Bugár; Máté Uzsoki: Simulating and Back-testing Portfolio Allocation Decisions***

In the proposed presentation it is intended to show the results of a Work-in-Progress. The aim of the underlying research is to check the validity of different risk estimation models in evaluating the ex-ante performance of investment portfolios. It has a crucial importance in determining the minimum capital requirements for trading book portfolios exposed to market risk as well as in regulatory monitoring the performance of internal risk models of banks. The recently published new standards of Basel III provide a revised framework for gauging market risk with a shift from Value-at-Risk (VaR) to Expected Shortfall (ES), a new risk measure for better capturing tail risk. In the study different two-asset portfolios will be traced out by selecting various couples of company shares from among the FTSE 100 constituents. The estimation of the marginals and that of the dependency structure of the return distributions is based on a real-data set. It comprises the daily closing prices of the FTSE 100 constituents for the time period stretching from January 2000 until December, 2015. As a profitability measure, the expected return is used, and the risk is gauged by Expected Shortfall. The dependence structure is modeled relying on various copula models.

Uzsoki, Máté

is a PhD student at University of Pécs. His main research area is risk estimation. His current research is focused on Expected Shortfall and backtesting various models on market data with an ex-ante approach. He earned his bachelor and masters degrees in economics at University of Pécs, combined with a software engineering degree from Budapest University of Technology and Economics.



VADÁSZ, Tamás

Tamás Vadász: Fire-sale spillovers in a liquidation game with asset commonalities

In this paper we study fire-sale spillovers induced by a deleveraging financial sector. The research objective is to understand the effects of multiple illiquid, common asset holdings when banks are forced to sell assets at depressed prices due to some funding friction. In the presence of asset commonalities, the liquidation decision induces a non-cooperative game, which we call the 'liquidation game'. We show in a simple and intuitive model that for a significant, interesting subset of parameters the liquidation game exhibit similar characteristic to a prisoners' dilemma: the only equilibrium is in which banks liquidate too much from the common asset, and suffer too large, avoidable fire-sale losses. Numerical analysis of the equilibrium reveals that, counter-intuitively, the equilibrium outcome deteriorates as markets become ex-ante more liquid. Furthermore, we show that the market is more susceptible to fire-sale spillovers if the level of diversification, measured as the relative size of investment in asset commonalities, is in the intermediate range.

VADÁSZ, Tamás

is a Finance PhD student at Warwick Business School, University of Warwick. He has received his MSc in finance from Corvinus University of Budapest. Prior to returning to the academia he worked as a consultant in the banking sector. His main research interest include game-theoretical aspects of banking and financial stability, and the role of endogenous information on financial markets.



VARGA, György***György Varga: Liquidity Premium in Domestic Brazilian Government Bonds***

This article investigates the return differential between liquid and illiquid Brazilian Government bonds to find out if there is a liquidity premium among this asset like the evidence for the United States. The result does not show positive or negative significant premium.

VARGA, György

has a B.S. in Economics (UFRJ), an M.S. in Economy from EPGE/Fundação Getúlio Vargas and a PhD in Economics from EPGE/Fundação Getúlio Vargas. Mr. Varga is currently a Partner at FCE Consultoria, where he conducts research and provides consulting and training in Applied Finances. His experience includes Brazilian and multinational banks and teaching at many Brazilian institutions. He has several articles published in scientific magazines. His interests include topics related to fixed income, derivatives, equity, and mutual funds.



WESTHEIDE, Christian***Christian Westheide: High-Frequency Trading and Fundamental Price Efficiency***

We study the impact of high-frequency trading (HFT) on fundamental price efficiency, using the measure proposed by Bai et al. (2016). This measure captures how well current stock market valuations predict earnings in future years. We estimate the effect by exploiting the staggered start of HFT participation in a panel of international exchanges. Our results document a negative impact of the presence of HFT on fundamental price efficiency. These findings are consistent with theoretical models of HFTs' ability to anticipate informed order flow resulting in decreased incentives to acquire fundamental information. These findings may indicate that HFT may lower the information content of prices, which in turn may have a detrimental effect on the efficiency of the real resource allocation.

WESTHEIDE, Christian

is an Assistant Professor of Finance at the University of Mannheim and a Postdoctoral Researcher at the Research Center SAFE (Goethe University Frankfurt). He completed his doctorate in Economics and degrees in Economics and Computer Science at the University of Bonn. His research is mainly in financial market microstructure and has recently been concerned with the role of designated market makers and the increasing fragmentation in today's equity markets. Much of his current research is driven by changing market rules and regulations and their effects on the interaction of differently informed and motivated market participants.



POSTER PRESENTERS

BAVIERA, Roberto

Roberto Baviera; Emanuele Nastasi: A closed formula for illiquid corporate bonds and an application in the European market

We propose a simple closed formula for illiquid corporate coupon bond prices when liquid bonds with similar characteristics (e.g. issuer and maturity) can be found in the market. The key model parameter is the time-to-liquidate the position, i.e. the time that an experienced bond trader takes to liquidate a given position on a corporate coupon bond. This model well describes a quite common situation, for example in the financial sector, where an issuer, besides liquid benchmark bonds, has also some other bonds that either have been placed to a very limited number of investors in private placements or have had a limited issue size. We show in detail an application in the European market.

BAVIERA, Roberto

is a researcher and a professor of Financial Engineering at Politecnico di Milano; his main research interests are in the Fixed Income and Commodity markets. After a PhD thesis (in Physics) titled "Information in Finance" he has been researcher at HEC (Paris) at the Département Finance for two years and then trader and structurer in interest rates derivatives at major Italian investment banks for 8 years. Then, for more than 4 years, he has been specialist consultant on complex financial risks in leading banking institutions and insurance companies in Europe.



CSÓKA, Péter; ERB, Tamás; KISS, Hubert János

Péter Csóka; Tamás Erb; Hubert János Kiss: How does a bank's beliefs about liquidity types affect the emergence of bank runs

One of the most important recent findings in the bank run literature is Ennis and Keister (2009) who show through historical examples and in the Cooper-Ross (1998) model (which is a generalization of the Diamond-Dybvig (1983) model), that once a bank run is underway, the ex-post efficient freeze point may be too late and given the ensuing payoffs patient depositors may find it optimal to run. Hence, suspension of convertibility as proposed by Diamond and Dybvig (1983) does not always work. We modify the Ennis and Keister (2009) setup in a substantial way: we do not assume that the share of impatient depositors among the depositors to be served when a bank run is underway is the same as their original share among all depositors. We allow any feasible belief about the liquidity types of the depositors who have not decided yet. We study how these beliefs change the findings of Ennis and Keister (2009) about the optimal freezing, point and the rescheduling of payments.

CSÓKA, Péter: see pp. 18.

ERB, Tamás

is currently a Lecturer at the Corvinus University of Budapest, Department of Finance. His research interest includes market microstructure, market and funding liquidity, and asset-liability management. He earned his MSc degree in Economics at the Corvinus University of Budapest in 2013. In the same time, he studied Actuarial and Financial Mathematics at the Eötvös Loránd University. After finishing his Masters Studies, he went on to pursue PhD studies in Economics at the Corvinus University of Budapest.



KISS, Hubert János

earned an MSc degree in Economics at the Corvinus University of Budapest (Hungary). After working two years at the Government Debt Management Agency, he went on to pursue MA and PhD studies in Economics at the Universidad de Alicante (Spain). He wrote his PhD thesis about bank runs. After obtaining the PhD degree in 2009, he worked two years at the Universidad Autónoma de Madrid (Spain) and then returned to Hungary to become an assistant professor at the Eötvös Loránd University. He is also a researcher at the Game Theory Research Group in the Centre for Economic and Regional Studies, Hungarian Academy of Sciences. His research interest includes bank runs, behavioral and experimental economics.



DASZYŃSKA-ŻYGADŁO, Karolina***Karolina Daszyńska-Żygadło: Are Manufacturing Companies in Europe Creating Additional Value through Sustainability?***

The research problem of the paper is measuring impact of corporate sustainability performance on value of the company. Sustainable value approach was chosen as value-based assessment approach of sustainability performance while all other existing assessment approaches are burden-based. It integrates environmental, social and economic factors. It aims at measuring the value created or destroyed by the company with the usage of particular set of resources, the value is referenced to the benchmark's value creation that could potentially be realized with the same set of resources. Simultaneously, sustainable value added reflects the value that could be generated if resources were relocated from inefficient to efficient users, assuming overall constant level of resources and all forms of capital being perfectly substitutable (weak form of sustainability). Empirical study was conducted on the sample of manufacturing companies from EU-15 countries, results show that in majority of companies that were creating sustainable value in the period of 2001-2003 (ADVANCE project results) were continuing doing so in the period of 2004-2012 (own study), the same applied to value destructing companies.

DASZYŃSKA-ŻYGADŁO, Karolina

holds position of assistant professor in the Public and International Finance department at Wrocław University of Economics. Her research fields are: corporate valuation, financial planning and corporate sustainability. In 2015 her book on scenarios approach in corporate valuation was published in Poland. Along with research and teaching she deals with business consulting and mentoring, especially for early stage business ideas and start-ups.



DÖMÖTÖR, Barbara; MISKÓ, Judit Anna***Barbara Dömötör; Judit Miskó: Changes in own funds requirements for market risk***

Based on the consequences of the latest crisis, financial regulation aims to keep a better check on the risk of financial institutions. In order to be more prudent, the regulation forces banks to be prepared not only for normal market circumstances, but also for market stresses. This study investigates the effect of the new rules referring to the own funds requirement of market risk, focusing on the introduction of stressed Value-at-Risk. The regulatory changes are presented, and the capital requirement of single stocks and stock portfolios are compared based on the different calculation methods: the standard method and the internal models. We show the gap between the results of the two models that explains why banks avoid choosing the more sophisticated and risk sensitive internal models.

DÖMÖTÖR, Barbara

is an Assistant Professor of the Department of Finance at Corvinus University of Budapest (CUB). She received her PhD in 2014 for her thesis modelling corporate hedging behaviour. Prior to her recent position she worked for several multinational banks treasury. Her research interest focuses on financial markets, financial risk management and financial regulation.

**MISKÓ, Judit Anna**

is a university student, she received her Bachelor's degree in finance and accounting from Corvinus University of Budapest (CUB). She studies corporate finance at CUB and law at Eötvös Loránd University. Her main interests lie in financial law and prudential regulation of banks.



ERCAN, Harun; SAYASENG, Saisi

***Harun Ercan; Saisi Sayaseng; Ilhami Karahanoglu:
Comparison of the Vulnerability of the Turkish Bank-
ing vs. European Banking: Does Turkey fit in a cluster
between the EU countries?***

This study aims to illustrate Turkey's Banking Sector's position after possible participation in the EU. The study explains in which cluster Turkey should be grouped according to the some financial ratios of the banking sector provided by Turkish Banking Association. By this analysis, vulnerability of the Turkish Banking sector will be compared to the EU countries. It is also aimed to evaluate if the Turkish Banking Sector will be clustered in a developing countries group or not. This study by using Ward's method employs the Hierarchical Cluster Analysis to identify the clusters in EU Banking Sector between 2008 and 2014. Leverage, ROA, Tier 1, Capital requirement, Equity/Asset ratios have been selected as the variables to observe the similarities of the countries. The ratios of the each member state have been collected from Eurostat and Turkish Banking Authority.

***Harun Ercan; Saisi Sayaseng: Measuring the
Efficiency by using Stochastic Frontier Approach:
The Asia Pacific Banking Sector Analysis***

The study aims to analyze differences in the efficiency of the Asian Financial institutions during the period of post financial crisis between 2010 and 2015. We estimate the efficiency using production function method in a parametric approach on the financial institutions in Asia Pacific incorporating one output and 3 inputs variables into the model. In this analysis 36 banks have been evaluated while total loans are taken as output; interest expenses / deposits ratio, personnel expenses / number of employees' ratio and operational assets / total assets ratio are taken as input variables. This paper uses stochastic frontier approach (SFA) to evaluate the performance of a bank by measuring its efficiency. The results suggested that majority of banks within the Asian Pacific Region operate at inefficiency. Only certain bank seemed to be technically efficient comparing to the rest of its peer in the region.

ERCAN, Harun

is a PhD student at the Department of Finance at Corvinus University of Budapest. He completed his Master's Degree in International Economics, Banking and Finance at the Cardiff University in 2013. His working experiences prior to starting the PhD studies include Ministry of Finance as an expert and Development Bank of Turkey as a financial risk expert. His researches are essentially focused on the Crises, Financial Markets and Banking Systems.

**SAYASENG, Saysi**

is a PhD student at the Department of Finance at Corvinus University of Budapest. She completed her Master's Degree in Finance at the Monash University in 2010. Her working experiences prior to starting the PhD studies include Commercial Banking experiences with the ANZ Bank and a senior financial controller of a Non-Profit Organisation for Rural Development Project in Laos. Her researches are essentially focused on the Asian Financial Institutions and Banking Systems.



HEVÉR, Judit; CSÓKA, Péter***Judit Hevér; Péter Csóka; Carlo Acerbi: The effect of systemic liquidity on market liquidity: a general equilibrium approach***

Acerbi and Scandolo (2008) formalizes liquidity risk on the portfolio level to incorporate liquidity in the theory of coherent risk measures. In their theory, the value of an illiquid portfolio is defined by the marginal supply-demand curve (MSDC, corresponding to the order books) of the assets and a given liquidity policy (constraints imposed by an investor). Expanding their theory with no-arbitrage pricing arguments enables us to formalize a causal effect of systemic liquidity on market liquidity. We will use a general equilibrium model with transaction costs (using MSDCs) to formalize how liquidity circulates in the economy with and without extra capital requirements.

HEVÉR, Judit

is a PhD student at the Department of Finance at Corvinus University of Budapest. She earned her Master's Degree in Mathematical Finance at Corvinus University of Budapest in 2010. Before starting her PhD studies, she worked as an analyst for OTP Bank, Strategy Department. Her field of research is related to liquidity, market impact and portfolio valuation.



CSÓKA, Péter: see pp. 18.

ACERBI, Carlo

received a PhD in Theoretical Physics from the International School for Advanced Studies (SISSA - ISAS), Trieste, Italy, before turning to Finance in 1997. In the past he worked as a Risk Manager and a Financial Engineer for Italian banks, and as a senior expert in the risk practice of McKinsey & Co. He currently leads the research team on Liquidity Risk at MSCI. His main areas of interest in finance are risk management and derivatives pricing. He is the author of several papers in renowned international journals, focusing in particular on the theoretical foundations of financial risk and the extension of portfolio theory to illiquid markets. He is a member of the board of 'The Journal of Risk', an Executive Fellow of the Essex Business School and a honorary professor at Corvinus University of Budapest.

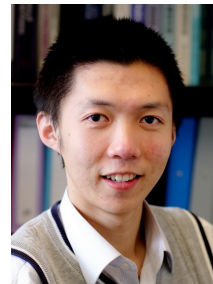


MA, Kebin; VADÁSZ, Tamás***Kebin Ma; Tamás Vadász: Endogenous cash hoarding, runs, and liquidity requirement***

Traditional view and common sense would dictate that *ceteris paribus* a bank with higher cash is more stable, therefore a bank run should be perceived less likely by investors. This creates incentives for banks to hold liquid assets, and implies that optimal level of cash should reflect current market conditions. In the presence of information asymmetries however, higher cash may be seen by investors as a signal of deteriorating market conditions, and may, counter-intuitively, induce bank runs. This endogeneity issue is studied in our paper using global games methodology. We demonstrate that with endogenous cash holding the uniqueness of equilibrium induced by the global-game machinery breaks down. We characterize the set of emerging equilibria which has indeed the property that higher cash levels may induce more bankruptcies. Liquidity regulation may constrain the set of equilibria even up to a singleton, but the welfare effects are ambiguous.

MA, Kebin

joined WBS as an Assistant Professor of Finance in 2014. His research focuses on banking, financial stability and regulation. Before joining WBS, he visited Universitat Pompeu Fabra as a Marie-Curie research fellow, and The World Bank as a short-term consultant. Kebin's work has been presented at AFA, EFA, FIRS, and conferences organized by CEPR, Fed and FDIC. Kebin holds a PhD in Finance from Tilburg University.

**VADÁSZ, Tamás**

is a Finance PhD student at Warwick Business School, University of Warwick. He has received his MSc in finance from Corvinus University of Budapest. Prior to returning to the academia he worked as a consultant in the banking sector. His main research interest include game-theoretical aspects of banking and financial stability, and the role of endogenous information on financial markets.



MATSUK, Zoriana

Zoriana Matsuk: Modeling of Relationship between the Major Macro-Financial Indicators and Securities Market Liquidity

The securities market goes beyond Ukraine and this opens additional opportunities for growth of liquidity, but forces to consider movement of capital between different countries in the analysis of the interdependence between macro financial indicators and liquidity of the securities market. There is a relationship between macro financial indicators and capitalization of the securities market. Based on the analysis of the factors of securities market, the author tried to build econometric model that would describe the liquidity of the securities market. Author used the following macro-financial indicators: the budget deficit, the ratio of assets of the state budget to its liabilities, the ratio of public debt to GDP, the ratio of debt servicing costs to revenues, the ratio of revenues to GDP, the ratio of foreign exchange earnings to debt investments in long-term assets to total investment. These indicators were chosen primarily due to their high correlation with the index of stock market capitalization to GDP. To formalize the identified patterns the method of least squares (OLS - method) was used in order to identify quantitative relationships between the liquidity of the securities market and macro-financial indicators of development. As the result of studying and modeling the author came to conclusion about the value and the important role of financial factors in the development of the securities market. These macro-financial indicators concerning the budget, GDP and investments in long-term assets play the most important role in revival rate of capitalization of the securities market.

MATSUK, Zoriana

is an Associate Professor at the Department of Finance, Ivano-Frankivsk National Technical University of Oil and Gas (Ukraine). Prior to this position she worked financial analytic at Asset Management Company "IC-Holding". She graduated in Financial Market in 2007 from Kiev National Economic University after Vadym Hetman - Research University and was awarded a PhD degree in 2011. Her research area is institutional and infrastructural provision of financial services development in the securities market. Besides doing research, she is active in teaching as well. She is teaching mainly Financial Market, Securities Market and Financial Services Market.



OUATTARA, Aboudou***Aboudou Ouattara: Impact of the transition to continuous trading on emerging financial market's liquidity : Case study of West Africa regional Exchange market (BRVM)***

In this paper, we discuss the relevancy of the decision to move this emerging market to a continuous quotation mode. The analysis is based on data collected from daily trading report and available databases. The results bring two main contributions. On the managerial level, the results question the relevancy of the decision and its procedure. They raise the debate on the effective modalities for the establishment of a financial platform compatible to the WAEMU zone development requirements. It concludes that this strategy alone is not sufficient to significantly improve market's liquidity, and it does not guarantee market efficiency. It is appropriate to consider further actions. Theoretically, it contributes to financial theory debate on the link between quotation mode and the market liquidity.

OUATTARA, Aboudou

is assistant professor in Finance and head of research department at Centre Africain d'Etudes Supérieures en Gestion. He received a PhD in Management with a major in Finance at Paris Dauphine university (France) since 2015. His thesis was on psychological time preferences. His lectures are related to financial market, asset pricing and portfolio management.



PRACTICAL INFORMATION

Conference Venue

Corvinus University of Budapest, Main Building

Registration, Plenary Sessions: Lecture room III (ground floor)

Parallel Sessions: Lecture room III (ground floor), room 2001 (second floor, counting the ground floor as zero), room 3005 (third floor), room 25 (ground floor).

8 Fővám tér

Budapest

1093

Hungary

Venue of Gala Dinner (by invitation or by registration)

Hungarian Academy of Sciences

9 Széchenyi István tér

Budapest

1051

Hungary

Time Zone

Central European Time (CET) is used in Hungary, Budapest is 1 hour ahead of Greenwich Mean Time (GMT).

Currency and Credit Cards

Hungarian Forint (HUF or Ft) is the currency of Hungary; the exchange rates are approximately EUR 1 = HUF 310 and USD 1 = HUF 280. Credit cards (Visa, Mastercard) are widely accepted (in all taxis and hotels, most shops) and there are ATMs on the campus and in the neighbourhood.

Transportation

Budapest has a dense network of metros, trams and buses. Tickets should be purchased from a vending machine before boarding. Travelcards for 24 or 72 hours or 7 days are also available. <http://www.bkk.hu/en/tickets-and-passes/prices/>. Taxis are regulated, prices are fixed. Reliable Taxi companies include Főtaxi 2222222, City 2111111, Taxi2000: 2000000, Tele5 5555555, 6x6 6666666.

Electricity

European type (Schuko) 2 pin sockets with 230V 50Hz are used.

Emergency number: 112

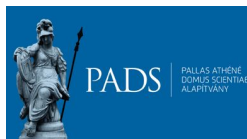
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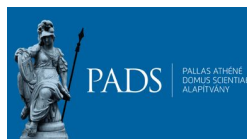
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