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Report on the 11th Financial Market Liquidity Conference*

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The *11th Financial Market Liquidity Conference* was held on 26–27 November 2020, due to the coronavirus pandemic – for the first time in its history – in online form. Similar to previous years, the conference was organised jointly by the Financial Research Centre operating within the Department of Finance of the Institute of Finance, Accounting and Business Law of Corvinus University of Budapest (CUB) and the Momentum Game Theory Research Group of the Institute of Economics Centre for Economic and Regional Studies. In addition to the Foundation of the Department of Finance, as a gold sponsor, CFA Society Hungary, KELER CCP, MSCI, Morgan Stanley and OTP Bank acted as key sponsors. Almost 300 persons registered for the conference, including roughly 100 university students. Actors from domestic and international academia as well as corporate partners were among the conference participants. As in previous years, the two-day conference ran in parallel sessions, except for the presentations by the four guest speakers. 22 universities were represented at the conference through the speakers, joined by banking experts and research analysts, with half of the participants from Hungary and half from abroad. A total of 40 presentations were delivered.

The conference was opened by *Gyula Vastag,* CUB's Vice-Rector for Research. This was followed by the keynote presentation of the first plenary session, delivered by *Jonathan A. Batten*, Professor of Finance, RMIT University, Melbourne, who explored the potential impacts of climate change on the financial markets after the coronavirus crisis. The presentation was structured along three main lines: (1) it presented the price dynamics necessary for successful emission trading; (2) how we should treat the pricing and portfolio management of green and alternative investments, with special regard to socially responsible investment portfolios; and (3) how we should take into consideration the broader social consequences of the transition from carbon-intensive industries. According to the speaker, the past year demonstrated that investors are able to realise significant profits on investments in securities of companies with a strong environmental or strategic CSR focus. Through the change in investors' risk preferences, climate

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change has an effect on governments, corporations and private individuals. Investments tend to shift toward safe-haven assets (foreign currencies, commodities and other financial instruments). Risk management becomes increasingly expensive, as volatility increases the costs of managing financial risk, particularly in the case of products of an insurance nature, such as financial options and related derivatives. On the other hand, Batten believes that these costs can be offset by taking strategic positions, and he outlined several objectives, such as: developing long-term strategies to overcome short-term volatility; cooperation and development of partnerships to mitigate the regional impacts of de-globalisation and climate change; improving the insurance and risk markets, particularly in terms of trading in climate risks; and elaboration of plans for corporate and personal transformation.

The plenary was followed by the presentations of parallel sessions. The Thursday morning sessions dealt with macroeconomic, asset pricing and corporate finance issues as well as with presentations describing the relation between trading on financial markets and information. The *Information and Trading* session commenced with a noteworthy presentation by *James M. Steeley*, Professor at Brunel University, London, on market microstructure analysis. The analysis by Steeley et al. showed that investors with partial information behaved differently on the market compared to fully informed investors. In the research, they created "laboratory" markets and analysed 9,859 limit orders and 3,474 transactions. They supplied the six informed and two liquidity traders with continuously updated market information during the three-minute trading sessions, repeated several times. No short selling was permitted, trading took place anonymously and bids could be changed free of charge. Informed traders were divided into three types, each of which – depending on their type – received a price signal. The price of the instrument was modified with the sum of the three types of price signals. Liquidity traders were penalised if they failed to achieve the trading target. The speaker highlighted the fact that those orders are more rewarding that allow investors to adopt a „hiding" strategy, i.e. to make decisions by hiding the (partial) information they know. This explains why an investor makes a bid contrary to the price signal, and also confirms the conclusions of market analyses, according to which the bid types correlate with each other, i.e. the type of the previous bid has an effect on the type of the current bid.

The Information and Trading session was closed by the chair of the session, *Zsuzsa R. Huszár*, Visiting Professor at CEU and at the Business School at the National University of Singapore (NUS). In her interesting and very enlightening presentation, Huszár demonstrated the role of transaction costs and market compensation in the behaviour of short sellers, i.e. the relatively well-informed traders. Together with her co-authors, she examined whether the market maker compensation schemes and trading cost have any influence on surveying market prices. They examined four BATS trading platforms: BZX Equities, EDGX Equities, as quote-driven markets and

BYX Equities and EDGA Equities, as inverted markets. They used daily transaction and trading data between 2010 and 2015, and in order to measure short selling they examined the ratio of short sales compared to the total volume of trades. The speaker explained that the trend of chasing short trades in low-cost markets is a clear indicator of return, and that measuring liquidity in new emerging trading platforms is a challenge, and thus relying on traditional data suppliers may prove to be misleading.

In the early afternoon parallel sessions, the presentations concerned the problems of interconnectedness in the financial markets, social innovation and questions of financial liquidity. On Thursday, four presentations were delivered during each of the morning and afternoon sessions.

The plenary closing the first day of the conference featured a presentation by *Thomas Walker*, Professor of Finance at Concordia University, Montreal. Working with his fellow researchers, Walker examined whether natural disasters have any effect on banks solvency via the regulatory capital ratio, the accounting capital ratio and individual bank characteristics. Their analysis covers the data of 9,928 banks located in 149 countries, in the period of 2000–2017. There are three channels through which the effect of natural disasters may filter through to banks: 1) through mortgage loans, the collateral of which – customers’ real estate – may be destroyed, and thus the debt becomes non-performing; 2) through indirect effects, representing direct damages to the buildings of financial institutions; and 3) through the higher minimum reserve requirement, which may hinder banks in lending and thus curb economic growth. According to the results, the volume of damages incurred as a percentage of GDP has significant negative relation to bank solvency. Based on individual characteristics, the impact is the largest at those banks where the damage caused is relatively large compared to GDP and for those with low market capitalisation. The results are of major importance for banks’ risk management departments.

Friday was opened by the presentations of parallel sessions. Three presentations were delivered in each of the two parallel sessions both in the morning and early afternoon. In the morning sessions, the speakers discussed green finance and bond markets. These sessions were followed by one of the most awaited presentations of the 2020 conference, delivered by this year’s second keynote speaker, *Mariassunta Gianetti*, Professor at the Stockholm School of Economics. In her exciting and instructive presentation, she presented whether market discipline may help to achieve a more environmentally and socially sustainable economy, and she also discussed to what extent such market discipline works. In the research presented, 6,919 enterprises were analysed in the period 2007–2016. Results show that the environmental and social (E&S) risk of corporations increased when the ownership share of institutional investors with strong E&S preferences decreased, and sales declined in countries with strong E&S preferences. As a summary of the presentation, Gianetti emphasised that market discipline works, but is conditional upon E&S-conscious investor behaviour, and she stressed that during the assessment the impact of negative news on the environmental and social governance of companies is amplified by investor boycotts and selloffs.

The presentations in the afternoon sessions focused on the banking sector and economic theories. The Friday afternoon session on banking was opened by one of the conference's guest speakers, *Rafael Schiozer*, Professor of Finance at the Brazilian FGV-EAESP, researcher at the Brazilian National Research Council and a regular speaker at the Liquidity Conference. His main area is the examination of financial stability and banking sectors. This year's presentation was about the developments in the cost of bilateral currency hedge transactions between Brazilian firms and banks in the light of the creditor relationship between them. The key driver of the research was that apart from intermediation banks provide a wide range of services. These include hedge transactions, enabling exporters and importers to protect themselves against fluctuations in foreign currency exchange rate; however, the cost of this is extremely high in developing countries. According to the Brazilian results, the existence of a creditor relationship alone has no effect on the cost of hedging, but it reduces the spread, if the loan is provided in USD. Firms are more likely to transact in derivatives with banks that they have a loan relationship with, and a stronger relationship between the bank and the firm further increases the likelihood of this. He also highlighted a regulatory change, as a result of which it has become more costly for banks to provide importers with foreign exchange transactions. Under an existing intense relationship between the bank and the firm, a lower spread can be negotiated during the cost shock.

In the closing plenary session of the 2020 Liquidity Conference, the final keynote address was given by *Paul Shrivastava*, Professor and Chief Sustainability Officer and Director of the Sustainability Institute at the Pennsylvania State University. In the presentation, Shrivastava analysed the relationship between the wellbeing economy and finance in the Anthropocene. He first outlined the socio-economic trends of the past decades and stressed the importance of a long-term and global perspective. The speaker also presented the new role of wellbeing economy policies in balancing sustainability and profitability in an era where the impact of human activity on the Earth's ecosystems is significant and global. Shrivastava concluded his presentation with a characterisation of „wellbeing" universities, explaining that such universities focus on four main areas: research, education, community knowledge transfer and student life. In his opinion, universities must implement fundamental changes, as now, for example in the field of research, a model operates in which researchers produce outputs rather than actual solutions to world problems. He believes that in the future university research will be integrated research, proposing solutions for real problems.

The conference was closed by *Barbara Dömötör,* Associate Professor of the Department of Finance at the Corvinus University of Budapest and Chair of the Conference Organisation Committee, who expressed the hope that next year it will be possible to organise the conference already similar to previous years. She also thanked the speakers for their work and the audience for their online participation, and she announced that the 12th Financial Market Liquidity Conference will be held on 11–12 November 2021 and that registration for the conference has been opened (http://afml.uni-corvinus.hu).