Annual Report

2014

Centre for Finance
University of Gothenburg

RESEARCH AND INNOVATION
FOR SUSTAINABLE GROWTH

Annual Report 2014

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University of Gothenburg

Visiting address:
Vasagatan 1, D5

Postal address:
Box 640
405 30 Göteborg, Sweden

Tel: +46-31-786 52 40
Fax: +46-31-786 51 14
cff@handels.gu.se
www.cff.handels.gu.se

Research 2014 – Annual Report

Centre for Finance research catalogue

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1. Research at CFF

In 2010 the Centre for Finance (CFF) received a grant from VINNOVA to establish one of Sweden's three new research centers within finance. The Centre is also financed by the business community, the University of Gothenburg and the School of Business, Economics and Law.

CFF's mission is to contribute to a sustainable financial system through:

- Excellent research focusing on financial intermediation, specifically the interaction between financial institutions and business/households.
- An open and creative interdisciplinary research environment.
- Close interaction with practitioners, education and society at large.

CFF's vision is to advance the understanding and practice of financial intermediation and to be the leading Nordic research center in this field, with expertise in great demand. It is also to provide a highly regarded and exciting arena for collaboration among researchers, students, financial practitioners and policy makers.

CFF is one of the interdisciplinary (across faculties) research centres within the University of Gothenburg. The objective of the research centres is to provide an organizational structure that enables interdisciplinary research. During 2014, roughly 20 people were actively involved in research projects at the Centre. Affiliated researchers come from the departments of Business Administration, Economics, Mathematics, and Psychology.

A more detailed report on past and present research activities, published works, participation in conferences and current research projects is given below in Sections 2-4.

VINNOVA Evaluation

The first major evaluation by VINNOVA took place during the spring of 2014. The evaluation team was impressed by both the quality and quantity of CFF's research production and seminar series. The evaluation team also provided some very important suggestions for improvements.

Based on the suggestions in the evaluation report CFF will i) use every opportunity to position itself as an internationally competitive research centre, ii) host a high quality international conference annually, iii) make strategic recruitments and seminar invitations, and iv) engage more actively with our stakeholders. We will also address the gender deficit in a proactive way.

Focus on Financial Intermediation

The VINNOVA evaluation team also suggested that CFF should focus its research efforts on Financial Intermediation since the most promising research projects are within this field.

Financial intermediaries are firms that borrow from consumers/ savers and lend to companies that need resources for investment. Thus, financial intermediaries are central institutions for economic growth since the investment and financing processes are organized around them. However, before the financial crisis in 2008, there was a widespread view that financial

intermediaries could be ignored because they had no real effect. Our view is that the investment and financing decisions, the working of capital markets, corporate finance decisions, and financial consumer choices cannot be understood without studying financial intermediaries.

Ongoing research projects at CFF address questions such as:

i) What are the determinants of trust in a bank?
ii) How will new regulation for financial institutions affect systemic risk?
iii) Is algorithmic trading to the detriment for quality of financial markets?
iv) Do bonus systems for finance professionals affect the behavior of asset markets?

Highlights 2014

- CFF-AP2 conference November 17 “Credit Markets in Transition”.
  Academics and practitioners met and discussed changes in credit markets in the aftermath of the financial crisis. The speaker list included David Lando and Lasse Pedersen from Copenhagen Business School as well as former Swedish Minister for Financial Markets, representatives from Sveriges Riksbank, and Goldman Sachs.

- Erik Hjalmarsson's article “Rise of the Machines: Algorithmic trading in the Foreign Exchnage Market” was published in Journal of Finance (vol 69, p 2045–2084). Erik´s coauthors are Alain Chaboud, Ben Chiquoine and Clara Vega.

- Two new faculty members: Adam Farago joined CFF as an Assistant Professor. Adam holds a PhD from Stockholm School of Economics. His main research interests are Asset Pricing, Portfolio Choice, and Behavioral Finance. Naoaki Minamihashi has joined CFF as a research fellow. Naoaki holds a PhD from Boston University and has three years’ experience at the Bank of Canada. Naoaki’s main research interests are Financial Intermediation and Institutions, Financial Regulation, and Industrial Organization.

- CFF researchers gained access to Wharton Research Data Services (WRDS), Compustat, and CRSP.

- # Published works during 2014

Journal articles

Andersson, M., Gärling, T., & Hedesström, M. (2014). A social-psychological perspective on herding in stock markets. ***Journal of Behavioral Finance*** *15,* 226–234.

Bielecki, T.R., Cousin, A., Crépey, S., & Herbertsson, A. (2014). Dynamic Hedging of Portfolio Credit Risk in a Markov Copula Model. ***Journal of Optimization Theory and Applications*** 161, 90-102.

Bielecki, T.R., Cousin, A., Crépey, S., & Herbertsson, A. (2014). A Markov Copula Model of Portfolio Credit Risk with Stochastic Intensities and Random Recoveries. ***Communications in Statistics - Theory and Methods*** 43, 1362-1389.

Carlsson Hauff, J. (2014). Trust and risk-taking in a pension investment setting. ***International Journal of Bank Marketing,*** *32*, 408-428.

Carlsson Hauff, J., Carlander, A., Gamble, A., Gärling, T., Holmen, M. (2014). Storytelling as a means to increase consumers' processing of financial information. ***International Journal of Bank Marketing,*** *32,* 494-514.

Herbertsson, A., & Frey, R. (2014). Parameter Estimation in Credit Models Under Incomplete Information. ***Communications in Statistics - Theory and Methods*** 43, 1409-1436.

Holmen, M., Wang, P. (2014), Pyramid IPOs on the Chinese Growth Enterprise Market. ***Emerging Markets Finance and Trade,*** forthcoming

Jansson, M., Sandberg, J., Biel, A., Gärling, T. (2014). Should pension funds' fiduciary duty be extended to include social, ethical, and environmental concerns? A study of beneficiaries' preferences. ***Journal of Sustainable Finance and Investment*** *4*, 213-229.

Mavruk, T. (2014). Local bias dynamics and the risk adjusted portfolio return. ***International Journal of Banking, Accounting and Finance*** 3, 91-113.

Mavruk, T . (2014). Local bias across regions. ***Journal of Money Investment and Banking*** 18, 40-54.

Mavruk, T., Carlsson, E. (2014). How long is a long-term investment in the presence of governance mechanisms? ***Eurasian Business Review***, forthcoming.

Peterson, D., Carlander, A., Gamble, A., Gärling, T., Holmen, M. (2014). Lay people beliefs in professional and naïve stock investors' proneness to judgemental biases. ***Journal of Behavioral and Experimental Finance,*** forthcoming.

Books and book chapters

Bielecki, T.R., Cousin, A., Crépey, S., & Herbertsson, A. (2014). A bottom-up dynamic model of portfolio credit risk - Part I: Markov copula perspective. In Takahashi, A., Muromachi, Y., Takashi Shibata (Eds.), ***Recent Advances in Financial Engineering*** 2012, (pp. 25-49) World Scientific

Bielecki, T.R., Cousin, A., Crépey, S., & Herbertsson, A. (2014). A bottom-up dynamic model of portfolio credit risk - Part II: Common-shock interpretation, calibration and hedging issues. In Takahashi, A., Muromachi, Y., Takashi Shibata (Eds.), ***Recent Advances in Financial Engineering*** 2012, (pp. 51-73) World Scientific

Lindblom, T., Sjögren, S., Willesson, M. (2014). (Eds) ***Financial Systems, Markets and Institutional Changes.*** Hampshire England: Palgrave Macmillan.

Lindblom, T., Sjögren, S., Willesson, M. (2014). (Eds) ***Governance, Regulation and Bank Stability***. Hampshire England: Palgrave Macmillan.

Sandberg, J., Jansson, M., Biel, A., & Gärling, T. (2014). Understanding beneficiaries' attitudes: Should fiduciary duty include social, ethical and environmental concerns? In J. Hawley, A. G. F. Hoepner, K. L. Johnson, J. Sandberg & E. J. Waitzer (Eds.), ***Cambridge handbook of institutional investment and fiduciary duty*** (pp. 353-363). Cambridge: Cambridge University Press.

3. Presentations at scientific conferences, symposiums, workshops etc, 2014

Carlander, A. 28th Congress of Applied Psychology, Paris, France, July.
Paper: *Trust-mediated effects of personal services on trust.*

Elliot, V. The Wolpertinger Conference, Milan, Italy, September.
Paper: *Funds Transfer Pricing in Swedish Savings Banks – A Survey*

Fang, D. Midwest Economics Association Annual Meeting, Evanston, US, March.
Paper: *Skewing the Odds: Strategic Risk Taking in Contests*

Fang, D. Royal Economic Society Annual Meeting, Manchester, UK, April.
Paper: *Skewing the Odds: Strategic Risk Taking in Contests*

Fang, D. European Financial Management Association Annual Conference, Rome, Italy, June.
Paper: *A Theory of the Size and Investment Duration of Venture Capital Funds*

Fang, D. World Finance Conference, Venice, Italy, July.
Paper: *A Theory of the Size and Investment Duration of Venture Capital Funds*

Fang, D. Econometric Society European Meeting, Toulouse, France, August.
Paper: *Skewing the Odds: Strategic Risk Taking in Contests*

Farago, A. Extreme Events in Finance conference, Paris, France, December.
Paper: *Asymmetries and portfolio choice*

Gamble, A. 28th Congress of Applied Psychology, Paris, July.
Paper: *Trust-mediated effects of personal services on satisfaction with banks*

Gärling, T. Behavioural Finance Research Group Conference, Queen Mary University of London, UK, June.
Paper: *A review and conceptual analysis of emotions in financial markets*

Lindblom, T. Wolpertinger Annual Meeting, Milan, Italy, September.
Paper: *Funds Transfer Pricing in Banks - Implications of Basel III*

Moursli, R. PhD Workshop in Corporate Governance, Helsinki, Finland, August.
Paper: *The Effects of Board Independence on Busy Directors and Firm Value: Evidence from Regulatory Changes in Sweden*

Moursli, R. The Swedish House of Finance National PhD workshop, Stockholm, November.
Paper: *The Effects of Board Independence on Busy Directors and Firm Value: Evidence from Regulatory Changes in Sweden.*

Moursli, R. The Royal Economic Society PhD meeting, London, January 2015.
Paper: *The Effects of Board Independence on Busy Directors and Firm Value: Evidence from Regulatory Changes in Sweden.*

Nguyen, D. Corporate Finance Day, Paris, October. Paper: *Distribution of takeover gains: A comparison between the US and other major markets.*

Nguyen, D. Nordic Corporate Governance Network, Stockholm, June. Paper: *The premium puzzle in acquisition of US firms*.

4. Ongoing research projects

Financing innovation: Should you bet on the chef or the recipe? (Einar Bakke is research leader)
Using a Nordic Data Set of Venture Capital Exits we examine a twist on the classic analogy of whether to "bet the horse or the jockey". By using the intuition that the quality of human capital and know-how and investment stage ultimately will affect whether investors should invest based on the technology (patent) or the technologists (the know-how) to maximize chances of high Exit Returns. We are also interested in investors rent extraction by investment and exit stage as well as the use of angel financing.

Are You Willing to Lend Me Money to Burn? Capital Structure and Contest Financing (Dawei Fang is research leader)
In many high-tech industries, firms often compete by burning money---such as by engaging in price wars or by improving product quality without charging higher price---in order to capture the market; the one that burns more money wins the competition. We model this competition as an all-pay auction in which firms can potentially relax their capital constraints by raising external capital. In contrast to the pecking order theory, we find that equity is preferred by the competing firms to bank loans. More surprisingly, we find that banks are sometimes unwilling to finance a competing firm even if banks know that the firm is the strongest competitor, with the lowest marginal bidding cost. Our theory explains why many high-tech firms are financed by private equity rather than by banks.

Chinese Split Share Structure Reform: A 1-vs-n Bargaining. (Dawei Fang is research leader)
The Chinese split share structure reform involves the holders of non-tradable shares, typically the state, proposing a compensation package to the holders of tradable shares in exchange for the flotation rights of their shares. The proposal has to be approved by a super-majority of holders of tradable shares. I model this process as a 1-vs-n bargaining with one-sided incomplete information and find a nonlinear relationship between the compensation ratio and the ownership structure of the tradable shares. An increase in blockholders' holding of tradable shares increases the compensation ratio when their holding is small but decreases it when their holding is large. These results are consistent with the empirical findings from the nonparametric regressions.

Tournament Structure and Asset Pricing: Theory and Experiment (Dawei Fang is research leader)
We investigate the effects of tournament structures on fund managers' trading behavior and asset pricing by both theory and experiment. We consider three different tournament structures: (i) winner-takes-all tournaments, in which fund managers compete for top rankings (this represents mutual fund tournaments for future capital inflows); (ii) beat-the-market tournaments, in which fund managers aim to outperform the average performance of the fund industry; (iii) elimination tournaments, in which fund managers aim to avoid bottom rankings (this represents the "sticks" used by some mutual fund families that the bottom ranked fund manager will be fired). The theoretical predictions from the general equilibrium model are as follows: (i) in winner-takes-all tournaments, a) there are both herding and anti-herding behavior, b) trading volume is high, and c) when managers have sufficient amount of cash, asset price exceeds its fundamental value while when managers have too little cash, asset price falls below its fundamental value; (ii) in beat-the-market tournaments, a) tournament-

incentivized managers behave as if they are wealth-maximizers, b) trading volume is hard to predict, and c) asset price equals the fundamental value; (iii) in elimination tournaments, a) fund managers herd, b) trading volume is hard to predict, and c) asset price is hard to predict. We plan to run the experiment to test our theory and to further investigate the effects of tournament structures on market behavior in 2015.

Disappointment Aversion in Portfolio Choice and Asset Pricing (Adam Farago is research leader)

Standard models in finance assume that investors think about risk as a symmetric concept, treating gains and losses equally. However, it has been well documented in various experiments that both individual and professional investors prefer avoiding losses to acquiring gains. Disappointment aversion preferences provide a theoretical framework suitable for modeling this asymmetric treatment of risk. For disappointment-averse agent, outcomes below a certain threshold are disappointing and receive more weight in the utility calculation. The relative overweighting of disappointing outcomes implies that the decision maker has a larger focus on avoiding these losses.

From a partial equilibrium point of view, disappointment aversion alters the investment decision of individual agents: these investors find different investment portfolios optimal than disappointment neutral investors. If enough agents in the economy can be characterized as disappointment-averse, the demands for different assets are affected. Prices and returns of assets reflect these demands.

In subproject one *(Disappointment Aversion, Stock Market Participation and the Demand for Put Options*) I study the portfolio choice of disappointment-averse investors and highlight the importance of the reference point distinguishing disappointing from non-disappointing outcomes. When the reference point is the certainty equivalent, a disappointment-averse investor does not participate in risky asset markets. For any lower reference level, however, the investor always holds some risky securities. The difference is further highlighted with an option in the portfolio. Disappointment-averse investors take long positions in put options, but only if their reference point is lower than the certainty equivalent. This later result shows that asymmetric investor preferences can rationalize the demand for put options.

Subproject two (*Asymmetries and Portfolio Choice*) is joint work with (with Magnus Dahlquist and Romeo Tedongap). Asset returns are asymmetrically distributed and their correlations change in market up- and downturns. In addition, investor attitudes towards risk indicate an asymmetric treatment of losses versus gains. Motivated by these observations, we examine the portfolio choice of a disappointment-averse investor when asset returns have a skew-normal distribution. The investor follows a three-fund separation strategy by allocating wealth to a risk-free asset, a standard mean-variance efficient fund, and an additional fund reflecting return asymmetries. We demonstrate that, compared to standard preferences, disappointment aversion leads to much larger investment in the asymmetry related fund. Our model explains patterns in popular portfolio advice and provides a reason for shifting from bonds to stocks as the investment horizon increases.

Subproject three (*Market Downside Risk, Volatility Downside Risk, and the Cross-Section of Stock* Returns) is joint work with Romeo Tedongap. In an intertemporal equilibrium asset pricing model featuring disappointment aversion and changing macroeconomic uncertainty, we show that besides the market return and market volatility, three disappointment related

factors are also priced. They can be interpreted as a disappointment, a market downside, and a volatility downside factor, respectively. We find that stock returns reflect premiums for bearing undesirable exposures to these factors. The signs of estimated risk premiums are consistent with the theoretical predictions. Economic magnitudes suggest that long/short strategies on associated exposures earn more than 5% per annum.

Emotions in financial markets (Tommy Gärling is research leader)
The role of affect is a focus in current judgment and decision making research. In behavioral finance several studies with this focus have been published. Building on these studies the project aims at developing an affect account of decisions to sell assets. A tenet is that affect is input to the decision making process which is subsequently moderated by cognitive judgments. The impact of this moderating effect increases with sophistication. A primary target of the project is less sophisticated actors in financial markets that may still have an important impact on the behavior of the markets. Several experiments have during the year been conducted yielding results in partial support of proposed hypotheses of how sell decisions are influenced by affects such as hope, fear, elation, and disappointment.

Counterparty credit risk and credit value adjustment (Alexander Herbertsson is research leader)
Since the default of Lehman Brothers and the following credit crises during 2008-2009, market participants have put a lot of focus on counterparty credit risk in their derivatives transactions. Roughly speaking, counterparty credit risk in derivatives can be measured with the concept of credit value adjustment (CVA). CVA is a way to include counterparty credit risk or default risk in the price of the derivative in order to cover for potential losses due to future default events of the counterparty in a derivative transaction.
We have initiated a research project connected to the topic of counterparty credit risk and credit value adjustment with a focus on portfolio modeling and dynamic dependence modeling. The purpose is to better understand the CVA-value and its impact on regulatory capital from a portfolio point of view, especially as function of different model parameters.

The need for speed: Minimum quote life rules and algorithmic trading (Erik Hjalmarsson is research leader)
We study the impact of a minimum quote life rule imposed on the foreign exchange interdealer platform operated by EBS/ICAP. In particular, on June 15, 2009, EBS Imposed a Minimum-Quote-Life (MQL) rule of 250 milliseconds. That is, after this date, any quote post on the trading platform, had to remain active for a minimum of 250 milliseconds. Theoretically, such a rule should have a detrimental impact on market liquidity, making it more costly (risky) to post quotes. This is work in progress, and we analyze the impact of the MQL rule on various measures of market quality.

Convex Incentives in Financial Markets: an Agent-Based Analysis (Martin Holmen is research leader)
This project uses agent-based simulation to analyze how financial markets are affected by market participants with convex incentives, e.g. option-like compensation. We document that convex incentives are associated with (i) higher prices, (ii) larger variations of prices, and
(iii) larger bid-ask spreads. We conclude that convex incentives may lead to decreased stability of financial markets. Our analysis suggests that the decreased stability is driven by the fact that convex incentives push agents towards more extreme decisions. Furthermore, while risk preferences affect agent behavior if they have linear incentives, the effect of risk preferences vanishes with convex incentives.

Funds Transfer Pricing in Banks - Implications of Basel III (Ted Lindblom is research leader)

Funds transfer pricing (FTP) aims at allocating a bank's net interest margin to the financial products the bank provides to its customers. The information generated through the FTP system enables banks to measure and evaluate the financial performance of their business lines and the customer relationship profitability, as well as improving the overall assets and liability management (ALM). The accuracy of profitability measurements as well as the efficiency of ALM stands in a direct relation to how well the net interest margin is divided into its three basic components: the credit spread, the funding spread and the interest rate spread. In a bank that has developed and adopted a highly sophisticated FTP system, all granted loans to and obtained deposits from customers at branch/ business line levels are matched centrally by the treasury with liabilities and assets of the same maturity and term structure on the market. In this system business lines are accountable for the bank's credit risk exposures (as the originator of loans) and the cost efficiency of its operations (including the interest paid on deposits and savings products). In return they are allocated the credit spread and the funding spread. Accordingly the remaining component of the net interest margin, the interest rate spread, is allocated to the treasury, which is accountable for the bank's exposures to interest rate risk (including related operating expenses). As FTP systems in general, this system seems to be less clear-cut when it comes to the accountability for the cost of unexpected liquidity risk. This became evident when Basel III was introduced. Basel III particularly emphasises the ability of the individual bank to manage liquidity shocks in the short and also medium term by introducing a liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR). These ratios will be implemented gradually over the next five years, but in many banks the challenging work of revising their current FTP system has already started. In this study we examine the implications of Basel III in different FTP systems and how banks are adapting their current systems.

Transport Intermediaries: New Node in the Network of Evolving International Trade Finance (Ted Lindblom is research leader)

International trade has in the past few decades become increasingly dependent on international supply chains where corporations divide the production of goods and services among many countries to reduce overall costs. It is now well known to both the business community and policymakers that the financial profile of the weakest link in the international supply chain impacts the integrity of the entire chain. This paper explores the role of supply chain finance in international trade transactions and the potential to lower the cost of financing such transactions by utilizing electronic trade documents and IT-systems adopted by transport intermediaries in the supply chain. The authors especially study the possibility to combine new maritime law and developing e-commerce law and practices with the practical financial needs of exporters and importers in order to fill the credit gap in international trade. The focus of the inquiry is on the emerging practice of creating integrated physical, financial and information supply chains. Specifically, this paper examines in contextual detail the role of micro, small and medium-sized enterprises (MSMEs) which drive a substantial portion of commercial activity in the developing world where a sizeable portion of global manufacturing takes places. Such an examination is necessary because the varying commercial and financial profiles of MSMEs have an impact on the overall nature, robustness and sustainability of international supply chains which fulfil the consumption needs of Europe and North America. The paper investigates if there are strategic areas of opportunity and actions for the transportation and logistics industries to use electronic trade documents and IT-systems to

forge closer relationships with their customers as part of an evolving business relationship and to play a greater role in financially securing international supply chains.

Does managerial risk aversion delay option exercise on irreversible investments? (Taylan Mavruk is research leader)
I examine the extent to which uncertainty delays irreversible investments. A novelty in relation to the existing literature is that I model risk preferences of managers that may induce them to react differently to uncertainty. Managerial risk aversion is an important channel behind the relation between uncertainty and investment as risk-averse managers are more likely to delay an investment in the presence of uncertainty because they dislike losing their flexibility of processing new information. Risk-averse managers may assign a higher value on flexibility, which may cause them to make suboptimal investment decisions. Thus I predict that higher managerial risk aversion should lead to a lower probability of irreversible investments, and thus enhance the negative relation between uncertainty and investment.

Do SEC's 10b5-1 Safe Harbor Rules Need to Be Rewritten? (Taylan Mavruk is research leader)
We examine the profitability of insider trading within the SEC Rule 10b5-1 plans. The plans do work to prevent some informed trading. However, on average, insider trading within the safe harbor plans appears to be motivated by material non-public information. We propose some policy changes to tighten the rule and enable separation of informed and uninformed insider trading.

Individual investor's portfolio choice (Taylan Mavruk is research leader)
We introduce the concepts of "birthplace bias" and "counterfactual bias" to examine individual investors' bias towards their birthplace and to the new location after they move from their birthplace. We also measure the capital invested in the average portfolio of proximity biased investor. We find that the proximity bias phenomenon is largely an urban phenomenon. We also find that individuals who move to a new district tend to increase their local bias, in the new location, overtime while their birthplace bias remains more or less constant. None of the proximity biased portfolios earn abnormal returns. We partly explain this by the familiarity hypothesis, but we cannot rule out "overconfidence". Moreover, we find that the average proximity biased portfolio does not underperform the market. Individual investors who face equal costs may simply prefer the familiar stocks. This implies "indisputable preference" among investors, which supports rationality of the average individual investor.

How Would Hedge Fund Regulation Affect Investor Behavior? Implications for Systemic Risk (Naoaki Minamihashi is research leader)
We estimate an investors' demand model for hedge funds to analyze the potential impact of leverage limits in the industry. Our estimation results highlight the importance of heterogeneous investor preference for the use of leverage, i.e., 20% of investors prefer leverage usage while others do not. We then conduct a policy simulation in which regulators put a cap on allowable leverage, as proposed by the Financial Stability Board in 2012. Simulation results suggest that the 200% leverage limit would lower the total demand (assets under management) for hedge funds by 10%. In particular, the regulation would lead to lower investments in highly leveraged funds and to lower investments in risky strategies, which, in turn, would reduce systemic risk.

The Effect of Bilateral Lending Relationships on Syndicated Loans: Evidence from Japan (Naoaki Minamihashi is research leader)
This project studies the effect of bilateral lending relationships on syndicated loans by matching syndicated loan data with unique bilateral loan data from Japan. We find that past bilateral lending relationships significantly affect the arranger choice of syndicated loans, particularly for informationally opaque firms. Additionally, a firm can secure a larger loan and more participants if the firm's largest bilateral lender becomes its arranger. Finally, those syndicated loans arranged by the largest bilateral lenders are less likely to default. Overall, our empirical results suggest that bilateral lending relationships can be used to mitigate information asymmetry in the syndicated loan market.

Intellectual property regimes and financing of ideas *(Stefan Sjögren is research leader)*
In this research the focus is on the innovative activity that takes place outside incumbents R&D activities. We recognize that different intellectual property law regimes both theoretically and empirically do impact the incentives to innovate and commercialize ideas. We ask how intellectual property law regimes affect the innovative activity and risk capital financing. The general issue is if a strong or a weak intellectual property law regime makes a difference. In particular we do ask if it matters to treat intellectual property in the legal sense or as a regulation of competition. Unlike the earlier studies on legal regimes and finance our aim is to investigate intellectual property law regimes and to characterize patent laws along different dimensions. We find that strong intellectual property law regimes will encourage patent activity and external financing levels up to a certain point. After this point patent activity and/or financing activity will decrease. Patent law can be extended too far and block creativeness thereby preventing those that recognize the value of combining ideas

The role of new entrants in promoting innovation in monopolistic markets *(Stefan Sjögren is research leader)*
New ideas, once commercialized, are important ingredients in economic and social growth. As far as such ideas add to the value of existing assets, owners of these assets will implement new ideas whenever they can. However, if such ideas create value for new assets, and do so at the expense of existing activities and assets, owners of current assets will be less inclined to introduce them. Once a new technology is introduced by a new entrant everybody wins except the current firms and the owner of current technology. We have observed that incumbents do engage in patent trusts (see for example “the allied security trust”) also called defensive patent organizations. These organizations purchase patents for their members, which pay subscription fees. The stated motivation for being a member of these defensive patent organizations is that they protect its members from infringement law suits from non-manufacturing patent purchasing entities, so called patent trolls. The results from our modelling suggest other motives for why incumbents may organize in these patent trusts. We also find that these patent trusts speed up innovative activity in a society by initiating the bidding process, and incentives commercialization.

5. CFF Seminars and Conferences

<u>CFF Research Seminars 2014</u>

January 17
Thomas Noe, University of Oxford
Blood and Money: Kin altruism, governance, and inheritance in the family firm

March12
Matti Suominen, Aalto University
Currency Carry Trades and Funding Risk

March 21
Erik Wengström, Lund University
Risking Other People's Money: Experimental Evidence on Bonus Schemes, Competition, and Altruism

March 28
Darren Duxbury, Newcastle University
The Role of Emotion in Financial Decisions

April 2
Bernt-Arne Odegaard, University of Stavanger
Throttling hyperactive robots - Message to trade ratios at the Oslo Stock Exchange

April 9
Miguel Angel Garcia Cestona, Autonomous University of Barcelona
Banks, corporate governance and human capital of managers

May 7
Øyvind Bohren, Norwegian Business School (BI)
Family management of family firms

May 28
Christophe Spaenjers, HEC Paris
The price of wine

September 4
Linus Siming, Bocconi University
Knighthoods, Damehoods, and CEO Behaviour

September 18
David Robinsson, Duke University
Optimism, Financial Literacy and Participation

September 25
Bo Becker, Stockholm School of Economics (SSE)
Regulatory reform and risk-taking: replacing ratings

October 2
David Smith, University of Virginia
Creditor Conflict and the Efficiency of Corporate Reorganization

October 30
Jungsuk Han, Stockholm School of Economics (SSE)
An Information-based Theory of Financial Fire Sales

November 13
Ulrich Hege, HEC Paris
Extending Comparative Advantage Through Cross-Border Acquisitions

CFF Professional Seminars 2014

May 14
Jan Svensson, CEO Investment AB Latour
Latour; a Mixed Investment Company

May 21
Hans Larsson, Owner and CEO at Linderyd Advisory AB
Banking 2014: Strategy & Valuation – lessons and considerations

October 10
Anders Ström, Founder and Chairman UniBet
Entrepreneurship with internet as a business model. Case study: Unibet

November 12
Sven Nyman, CEO Rational Asset Management AB
The hedge-fund RAM from a Client perspective and some of my thoughts when recruiting

November 19
Jörg-Thomas Dierks, CEO Meda Group
Challenges and Opportunities in Specialty Pharma and some insights from MEDA

December 16
Tomas Billing, CEO Nordstjernan and Chairman NCC
Corporate Governance and the NCC case

AP2/ CFF Conference: Credit Markets in Transition, November 17

Peter Norman, former Swedish Minister for Financial Markets
Credit Markets in Transition

David Lando, Professor Copenhagen Business School
Identifying Liquidity Risk in the Interbank Market

Cecilia Skingsley, Deputy Director Sveriges Riksbank
Towards a More Stable Banking System

Lasse H. Pedersen, Professor Copenhagen Business School and New York University, principal at AQR Capital Management
Understanding Market Liquidity and Funding Liquidity

Michael Bogdan, Goldman Sachs
Bank Disintermediation

Anders Trolle, Assistant Professor Ecole Polytechnique Fédérale de Lausanne and Swiss Finance Institute
Liquidity Risk in Credit Default Swap Markets

Reimo Juks, Advisor Sveriges Riksbank
From Bank-Oriented to Market-Oriented System: Known Unknowns and Some Tentative Solutions

Alexander Herbertsson, Assistant Professor University of Gothenburg
Credit Valuation Adjustment (CVA) in Contagion Models

6. Visiting Researchers

Professor Tamir Agmon, College of Management, Tel Aviv
April–May and September
Invited by Stefan Sjögren

Professor Darren Duxbury, Newcastle University
March
Invited by Tommy Gärling

Professor Shubhashis Gangopadhyay, India Development Foundation and Shiv Nadar University
May and September-October
Invited by Stefan Sjögren

Professor Stefano Herzel, University of Rome
September
Invited by Martin Holmen

Professor Erich Kirchler, University of Vienna
May
Member of CFF's Scientific Advisory Board

Professor Michael Kirchler, University of Innsbruck
April and August
Invited by Martin Holmen

Professor Thomas Noe, University of Oxford
January
Invited by Dawei Fang

Professor Richard Sweeney, Georgetown University
May
Invited by Martin Holmen

Professor Anjan Thakor, Washington University in St. Louis
May
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