CERF Fellow Report – Projects Update – Oğuzhan Karakaş

- **Proxy Contests and the Value of Voting Rights**
  (with Scott Hirst, and Ting Yu)

Abstract: This paper examines the proxy contests, and the market value of shareholder voting rights (i.e., voting premium). We estimate voting premium using a new technique exploiting option prices. Our sample consists of 1,053 proxy contests for board seats from 1994 to 2017 where targets are U.S. publicly listed firms. We find evidence that voting premium can partially explain the share price reactions around proxy contests, consistent with the value of the vote hypothesis of Dodd and Warner (JFE-1983). We also find that voting premium can help predicting the outcomes of the proxy contests. Specifically, voting premiums around contest announcements increase for contest that are later settled or voted, but remain unchanged for contest that are later withdrawn. Further, the success of the dissidents achieving board seats at the voted contests increases with the voting premium around the record dates.

  - The results of this project were presented at:
    - Corporate Finance Webinar, CERF and F&A Monday Lunchtime Talks, and Winter Doctoral Conference 2021 at CJBS.

  - This paper has received the Best Quantitative Paper Award at the Winter Doctoral Conference.

  - My co-authors and I are working on further analyses with the updated sample and the first draft of the working paper.

- **Phantom of the Opera: ETFs and Shareholder Voting**
  (with Richard Evans, Rabih Moussawi, and Michael Young)

Abstract: The short-selling of exchange-traded funds (ETFs) creates "phantom" ETF shares, trading at market prices, with cash flows rights but no associated voting rights. Unlike regular ETF shares backed by the underlying securities which are voted as directed by the ETF sponsor, phantom ETF shares hedged by the underlying securities, due to market making activities, result in a significant number of sidelined votes of the underlying. We find that increases in phantom shares for the corresponding underlying securities are associated with decreases in the number of proxy votes cast (for and against), and increases in broker non-votes, voting premiums, and value-reducing acquisitions.

  - My co-authors and I have produced a working paper, which can be accessed at the following link:
    - https://ssrn.com/abstract=3345799

  - This paper has been:

- the co-winner of the 4Nations Cup, a contest for financial economics held in May 2019 at the HEC Paris Le Château.
- awarded the Wharton Research Data Services Best Conference Paper Award at the annual meeting of the European Financial Management Association.
- featured at the Harvard Law School Forum on Corporate Governance.
- featured at Bloomberg.

- This paper has been presented at:
    - Auburn University, Boston College, Brigham Young University, Cambridge University, ESCP Europe, Florida State University, Lehigh University, Michigan State University, Paris Dauphine University, University of Alabama, University of Turin, and University of Virginia.
    - 2022 Securities Finance Forum, 2021 European Investment Forum, 2021 International Corporate Governance Society Conference, 2021 İstanbul Finance Seminar Series, 2021 World Finance & Banking Symposium, 2020 American Finance Association Meeting, 2020 Annual Meeting of the Midwest Finance Association, 2020 Financial Management Association Meeting, 2020 Inquire UK Webinar Series, 2020 Virtual Asset Management Seminar Series, 2019 4nations cup, 2019 Cambridge-Lausanne Exchange Workshop, 2019 CERF in the City Workshop, 2019 European Finance Association Conference, 2019 European Financial Management Association Conference, 2019 Global Research Alliance for Sustainable Finance and Investment Conference, 2019 London Quant Group Autumn Seminar, 2019 Paris Financial Management Conference, 7th Annual Conference on Financial Market Regulation, 12th Annual Hedge Fund Research Conference, 17th Paris December Finance Meeting, 27th Finance Forum, International Macroeconomics and Finance Workshop in Leukerbad, JFI-Nova SBE Conference on Financial Intermediation and Corporate Finance, Summer Finance Workshop at University of Dayton, and Workshop on Corporate Governance and Investor Activism at Stockholm School of Economics.

- My co-authors and I submitted this paper to a top finance journal.

- **Staggered Boards and the Value of Voting Rights**
  (with Mahdi Mohseni)

Abstract: This paper examines the impact of staggered boards on the value of voting rights (i.e., the voting premium) estimated using option prices. We find companies with staggered boards have a higher voting premium. Exploiting plausibly exogenous court rulings, we confirm that weakening the effectiveness of staggered boards decreases the voting premium. Given that the voting premium reflects private benefits consumption and associated managerial inefficiencies, our findings are consistent with the entrenchment view of staggered boards. Analyzing the cross-sectional heterogeneity in our sample, we find the entrenchment effect of staggered boards to be particularly pronounced for firms in noncompetitive industries and for mature firms.

- The paper has been published at the ***Review of Corporate Finance Studies***, accessible at the following link:
    - https://doi.org/10.1093/rcfs/cfab004

- This paper has been presented at:
    - Boston College, George Mason University, George Washington University, Ohio State University, Texas A&M University, University of Rochester, and Waseda University.

- **Entrenchment Index (E-Index) Revisited**
  (with Alexandre Garel, Dimitris Petmezas, and Raghavendra Rau)

  Executive Summary: E-index is a well-established corporate governance index with higher values indicating poorer governance. In this paper, we report that the negative relation of E-index with Tobin's Q (a proxy for firm performance) seems to be weakening in the recent periods. Introducing voting premium (estimated using options) helps resolve this observation by (i) identifying the binding/mattering/true E-indices that cause entrenchment, and (ii) controlling for direct/mechanical effect of voting premium on Tobin's Q, which is conflated with voting premium and cash flows that tend to move in opposite directions in entrenchment cases.

  - My co-authors and I are working on further analyses and the first draft of the working paper.

- **ESG and Short Selling**
  (with Pedro Saffi, and Mehrshad Motahari)

  Executive Summary: This paper brings a new perspective by examining short sellers' trading strategies due to ESG news. Short sellers are sophisticated investors that have been shown to forecast underperforming stocks. This superior forecasting ability stems from better interpretation of public information and from incorporation of private information into stock prices. We find that short sellers can anticipate ESG defects. In particular, we find that an increase in the abnormal shorting of a firm's stock is followed by disclosure of negative ESG news. This effect is even more pronounced when the negative news has a higher severity or wider reach.

  - My co-authors and I are working on further analyses and the first draft of the working paper.