

The 7th **CERF** Cavalcade  
 Wednesday 20<sup>th</sup> May 2020, 2.30pm



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14.30-14.40	Welcome and Introductions - A word from the CERF Director Bart Lambrecht
14.40-14.55	<p><i>Determinants on ETF Launching Decisions</i></p>  <p><a href="#"><u>Xinrui (Cindy) Zheng (CERF Scholar)</u></a></p> <p>Abstract:. This paper studies the decision to launch an exchange-traded fund (ETF). Using U.S. data, I find that ETF launches are more likely to be driven by investor demand, rather than based on past performance. The likelihood of ETF launches is positively related to profit maximization motives by fund families through both revenue generation and cost reduction. Furthermore, both economies of scale and scope are present in the ETF initiations: families with smaller scope face the pressure to expand the breadth of offerings, while more established families benefit from specialization. Smaller-sized families have a propensity to follow the market leader, although are less likely to launch in markets with higher switching costs or dominated by the three largest families. Finally, a time-to-event analysis shows that ETFs launched by larger families, those charging higher fees, and whose initiations are not driven by capital flows into the families are more likely to survive for longer.</p>
14.55-15.10	<p><i>Raging Bulls vs Big Bears: Hedge Fund Activism and the Disclosure of Large Short Sales</i></p>  <p><a href="#"><u>Pedro Saffi (CERF Fellow)</u></a></p> <p>Abstract:. This paper examines events when activist hedge funds and large short sellers target the same stock, using data on European activism campaigns and disclosures of large short sales positions. The probability of a firm being targeted by activists increase if large short sellers are present, but the presence of activists does not increase the likelihood of large short positions. Successful activist campaigns only generate abnormal profits in the absence of large short sellers in target firms. An equal-weighted portfolio that buys all stocks with an unresolved campaign but without any large short sellers in the previous quarter has an abnormal return equal to 30.6% annually, while a portfolio of targeted stocks with large short sellers does not generate significant abnormal returns.</p>
15.10-15.25	<b><i>Selection bias in corporate governance: Evidence from business combination laws</i></b>

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[Scott B. Guernsey \(CERF Research Associate\)](#)

Abstract:. We study selection biases in staggered difference-in-differences research designs that exploit variation created by state antitakeover laws. In particular, we highlight that the inclusion of firms that reincorporate or first-time incorporate into a state that has already adopted a business combination law (BCL) yields an “ex-post” selection bias as the takeover protection afforded by these laws is non-randomly assigned. Further, we show that the decision to first-incorporate into a state that has previously enacted a BCL is associated with lower prior firm performance, and hence evidence of a negative selection effect. We use a number of techniques to address this econometric issue including, for example, first difference regressions that split BCL treatment between firms that were incorporated in the state before the passage of the respective laws (i.e., quasi-random assignment) and firms that enter the treated sample after the respective laws’ adoption (i.e., non-random assignment), as well as matched samples that only assign increased antitakeover protection to firms located in BCL states in the year before the respective law’s adoption. We document that prior findings of an average negative or insignificant relation between BCLs and firm operating performance are reversed after accounting for this ex-post selection bias. We explain the positive performance implications of BCLs after accounting for an ex-post selection bias via the bonding hypothesis of takeover defenses. Under this hypothesis, empowering firms with the ability to protect stakeholder interests against the disruption caused by takeovers reduces uncertainty in stakeholder investments, improving contracting arrangements and increasing long-term operating performance. As evidence for the bonding channel, we document that the improvements in operating performance for firms quasi-randomly assigned BCL treatment are more pronounced in those companies that are more reliant on stakeholder relationships (e.g., creditors, customers, suppliers, and employees) and that are more innovative (e.g., higher levels of R&D spending and innovative ability, and with more intangible and knowledge capital).

15.25-15.40

***The real impact of social networks***



[Bang Dang Nguyen \(CERF Fellow\)](#)

Abstract:.

15.40-15.55

***Union Debt Management***

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[Elisa Faraglia \(CERF Fellow\)](#)

Abstract:. We study the role of government debt maturity in currency unions to identify whether debt management can help governments hedge their budgets against spending shocks. We first use a detailed dataset of debt portfolios of five Euro Area countries to run a battery of VARs, estimating the responses of holding period returns to fiscal shocks. We find that government portfolios, which in our sample comprise mainly of nominal assets, have not been effective in absorbing idiosyncratic fiscal risks, whereas they have been very effective in absorbing aggregate risks. We then setup a formal model of optimal debt management with two countries, a benevolent planner, distortionary taxes and aggregate and idiosyncratic shocks. The theoretical model validates our empirical findings: nominal bonds are not optimal to insure against idiosyncratic shocks. Our key finding is that governments should introduce in their portfolios also inflation indexed long term debt since this allows them to take full advantage of fiscal hedging. Looking at the data, we find a sharp rise in issuances of inflation index bonds in France and in Italy since the beginning of the Euro. We show that bonds linked to French inflation were able to absorb both aggregate and idiosyncratic fiscal risks.

15.55-16.10

***A remedy for microstructure noise***



[Oliver Linton \(INET\)](#)

16.10-16.30

Questions and Closing of the Cavalcade