

CERF Fellow Report – Projects Update – Oğuzhan Karakaş

▪ **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 ETF market prices, with cash flows rights but no associated voting rights. Unlike regular ETF shares backed by the underlying securities of the ETF and voted as directed by the sponsor, phantom ETF shares are backed by collateral that is not voted. Introducing a novel measure of phantom shares both of the ETF and corresponding underlying securities, we find that increases in phantom shares are associated with decreases in number of proxy votes cast (for and against), and increases in broker non-votes, the vote premium, 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.
- 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, and University of Virginia.
 - 12th Annual Hedge Fund Research Conference, 27th Finance Forum, 17th Paris December Finance Meeting, 7th Annual Conference on Financial Market Regulation, 2020 Inquire UK Webinar Series, 2020 American Finance Association Meeting, 2020 Financial Management Association Meeting, 2020 Annual Meeting of the Midwest Finance Association, 2019 4nations cup, 2019 Cambridge-Lausanne Exchange Workshop, 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, International Macroeconomics and Finance Workshop in Leukerbad, JFI-Nova SBE Conference on Financial Intermediation and Corporate Finance, 2019 London Quant Group Autumn Seminar, Paris Financial Management Conference, Summer Finance Workshop at University of Dayton, Workshop on Corporate Governance and Investor Activism at Stockholm School of Economics, and Virtual Asset Management Seminar Series by Georgia State University.
- My co-authors and I are planning to submit this paper soon 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 is forthcoming 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.

- **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.

- I will present the first results of the project at the Corporate Finance Webinar on April 14th, 2021:
 - <https://sites.google.com/view/corporatefinancewebinar>
- My co-authors and I are working on further analyses and the first draft of the working paper.

▪ **Curb your Enthusiasm: Competition and Voting Premium**
(with Cem Demiroğlu, Cansu İskenderoğlu, and Mahdi Mohseni)

Abstract: We examine the impact of product market competition on the market value of shareholder voting rights (i.e., voting premium) for the US public firms. We estimate voting premium using a new technique exploiting option prices. Voting premium reflects private benefits consumption and associated managerial inefficiencies. Exploiting exogenous shocks to competition from quasi-natural experiments and controlling for firm-fixed effects, we find that competition decreases the voting premium. The negative effect of competition on the voting premium is more pronounced for smaller firms in high import penetration industries. Overall, our results suggest that product market competition can help in curbing managerial slack.

- I presented the first results of my project with research title of “Competition and the Value of Voting Rights” at the CERF/Cambridge Seminar in Cambridge, UK on November 8th, 2018, with the presentation title of “Curb your Enthusiasm: Competition and Voting Premium.”
- We have updated the voting premium data from 2015 to 2019, which would help us analyze the recent (tariff and/or currency) shocks to competition.
- My co-authors and I are working on further analyses and the first draft of the working paper.