firn
Financial Research Network

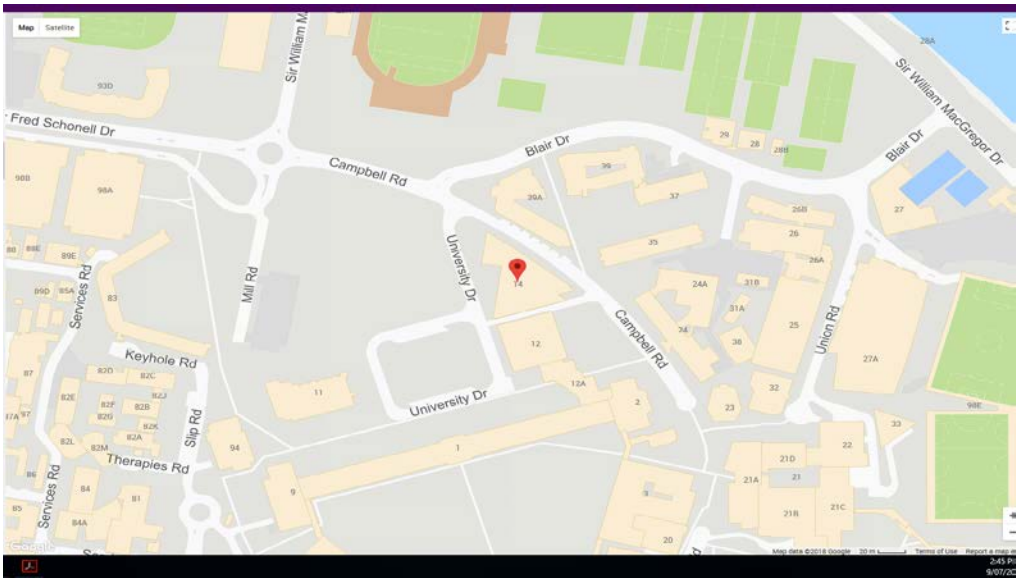
The University of Queensland Australia
UQ Business School

FIRN Women – UQ research workshops with Michelle Lowry and Robert Faff

This event will showcase the research of some talented FIRN early career female academics. The two day event will also feature a keynote address from Michelle Lowry. We encourage all FIRN members to come to Brisbane and support this event and join us for networking opportunities.

Date: 2pm 10th July to 5pm 12th July

Venue: The University of Queensland St Lucia Campus, Sir Llew Edwards Building 14, Room 132



Registration is essential: https://firnlowry.eventbrite.com.au

Travel & Accommodation: Attendees are responsible for making their own travel and accommodation arrangements. Below are some suggested hotels in order of proximity to campus:

1. Inn on the Park (Closest to UQ) – travel to campus via bus) https://www.innonthepark.com.au/
2. Mantra Southbank (Convenient for Southbank for restaurants etc. – travel to campus via CityCat) https://www.mantra.com.au/queensland/brisbane-and-surrounds/south-bank/accommodation/hotels/mantra-south-bank/. Note: it is recommended to ask for a room facing the river.
3. Rydges Southbank (Convenient for Southbank for restaurants etc. – travel to campus via CityCat) https://www.rydges.com/accommodation/brisbane-qld/brisbane-south-bank/

Conference Program

Tuesday 10th July
2pm: Welcome and Opening remarks
2.10pm: Pitch sessions (10 minute presentation + 10 questions)
Individual Consumption Response to Credit Supply Shock: Evidence from online cash loan platform Emma Li, Deakin Commodity Futures Speculation in China Di Mo, RMIT An Examination of the Legitimacy of the Aggregate View of the Corporation Bronwyn McCredie, QUT Are Busy Directors Related to Accounting Conservatism in the Banking Industry? Shawgat Kutubi, Charles Darwin
3.30pm: Coffee Break
3.50pm: Pitch sessions (10 minute presentation + 10 questions)
Distracted Auditors Emma Zhang, Monash Riding the Regulation Wave: the cost of private equity regulation Sarah Osborne, QUT Linguistic Complexity and Cost of Equity Capital Ayesha Scott, AUT
6.30pm Speakers dinner with Robert Faff and Michelle Lowry (presenters only) Popolo, South Bank

Day 2

Wednesday 11th July
10:30am: Keynote address
Mutual Fund Investments in Private Firms Prof Michelle Lowry, Drexel University
12pm Conference Lunch
Genies café, UQ Building 80
1pm Paper presentations (20 min presentation + 10 min questions)
Investment-related Anomalies in Australia: Evidence and Explanations Angel Zhong, RMIT Consumption and Savings Response to Income Tax Exemption Policy: Evidence from India Mandy (Man) Zhang, Sydney Central Hub: Advisor Network Position and M&A Activities Jodie (Huizhong) Zhang, QUT
2.30pm: Coffee Break
3pm: Paper presentations (15 min presentation + 10 min questions)
Do banks learn from other financial markets? Evidence from loan contract design Van Vu, Newcastle CEO Pay-Gap Pays in Banks Mamiza Haq, UQ
4pm Concluding remarks

Abstracts
Keynote Address: Michelle Lowry
Mutual Fund Investments in Private Firms
Paper 1: Emma Li, Deakin
Title: Individual Consumption Response to Credit Supply Shock **Abstract:** This paper exploits a detailed new dataset with comprehensive panel financial and consumption information from each cash loan borrower to investigate the relationship between the access to the credit and the consumption response from each borrower. In particular, we test whether consumption among borrowers with high level of addiction is more sensitive to a given change of credit. We use an exogenous credit supply shock to the cash loan borrowers and show that expanding credit access is positively associated with increased individual borrowers' consumption, especially on addiction related consumptions such as spending on the game-related products.
Paper 2: Di Mo, RMIT
Title: Commodity Futures Speculation in China **Abstract:** The burst of stock market bubbles recently along with renewed regulations stirred Chinese investors away from stocks into the rapidly emerging commodity markets. Enormous inflows of capital raised concerns about the impact of speculative activities in these markets. Using a broad sample of 30 commodities from 2004 to 2017, this paper investigates whether the increased presence of speculators in recent years destabilize the commodity futures market in China. Our findings suggest that speculative activities in the most heavily traded commodities, on an aggregate level, do not cause increase in the volatility of the broad market nor do they elevate the cross-market correlations with traditional assets. However, we find evidence that speculation increases the volatility of commodities in a dynamic long-short setting. In this setting, we show that increased presence of speculators cause the correlations to increase with stocks and macroeconomic activities, but decrease with bonds. Our findings suggest additional regulations on passive long-only or other index-like investors are unwarranted. These investors add liquidity and facilitate the price discovery and risk transfers in these markets.
Paper 3: Bronwyn McCredie, QUT
Title: An Examination of the Legitimacy of the Aggregate View of the Corporation **Abstract:** Capitalising on Australia's imputation system, this study examines the legitimacy of the 'aggregate' view of the corporation (Avi-Yonah, 2014), a prevailing view held by most corporations that justifies aggressive tax planning strategies as a competitive requirement or duty of directors, and argues that tax aggressive behaviour does not necessarily translate into a higher return for shareholders. The results of this study confirm this assertion with returns to shareholders (both capital growth and income streams), positively related to the level of income tax, thereby contesting the aggregate view of a corporation which predicts a negative response. This relationship however, in terms of capital growth only, appears to be decreasing in magnitude and significance.

Paper 4: Shawgat Kutubi, Charles Darwin
Title: Are Busy Directors Related to Accounting Conservatism in the Banking Industry? **Abstract:** We extend the literature on busy directors' (directors with multiple directorships) by examining their impact on accounting conservatism. We used earnings conservatism and timely loan loss recognition as the proxy for accounting conservatism in banks' financial reporting. Using earnings conservatism, our findings reconcile the opposing views of the theory on this matter and indicate the existence of nonlinear (an inverse U-shaped) relationship between busy directors and earnings conservatism. We conclude that earnings conservatism increases with directors' busyness up to a certain point and starts decreasing as directors' busyness crosses an optimal threshold. This is because the reputation effect dominates the over-boarding effect at low levels of busyness and vice versa at higher levels of busyness. However, using timely loan loss recognition as a proxy for accounting conservatism, we find evidence in favour of non-linear (a U-shaped) relationship between directors' busyness and timely loan loss recognition and this is because the over-boarding effect (earnings management effect) dominates the reputation effect (prudence effect) at low levels of busyness and vice versa at higher levels of busyness. This is a unique finding in bank earnings management literature which confirms that public equity banks follow conservative reporting and earnings management simultaneously. Further, we conduct robustness test of our findings in terms of ownership structure, busy chairmen and insolvency risk of banks. Our findings are also robust to the inclusion of country-specific time effects and to alternative variants directors' busyness.
Paper 5: Emma Zhang, Monash
Title: Distracted Auditors **Abstract:** An auditor is unlikely to allocate equal or time-invariant amounts of effort to all clients in the portfolio. This study exploits exogenous attention shocks to assess the value of auditors. When an audit office is temporarily distracted, some of its clients experience a sharp decline in auditor attention (i.e., the treatment firms), while others do not (i.e., the control firms). The treatment clients experience a 0.002 more negative CAR than the control clients, especially if the distraction is strong or the clients are relatively unimportant to the audit office. In the longer term, auditor distraction causes higher levels of earnings management, crash risk, stock return volatility, and directors' workload. We conduct several robustness checks including analyzing a positive shock to auditor attention that makes an auditor less distracted.
Paper 6: Sarah Osborne, QUT
Title: Riding the Regulation Wave: the cost of private equity regulation **Abstract:** Private equity has developed into a major player in the global economy. Regulatory reform of alternative asset classes continues to be a topic of misperception and apprehension among investors, fund managers, and governments alike. There exists an efficient policy design problem, wherein having a self-regulatory market and explicit regulation with the potential to unnecessarily restrict trade creates market inefficiency and increases costs without achieving a reduction in systematic risks. This paper provides comparative arguments on both the regulation and deregulation of the private equity asset class in response to market changes including the financial crisis, political and government changes and international trade, and seeks to fill the gap in the academic literature between regulatory reform and private equity investment. We conclude that greater consultation is needed between regulators and industry, and that greater

regulation does not solely reduce systematic risk and increase efficiency. Similarly, deregulation does not lead to increased systematic risk and reduced efficiency. To empirically test this we run a Heckman two-step regression over three time periods to evidence the difference between financial and strategic target firm's abnormal returns. We find a range of external factors beyond industry self-regulation (information asymmetry) and law reform contributes to market trends.

Paper 7: Ayesha Scott, AUT

Title: Linguistic Complexity and Cost of Equity Capital

Abstract: The availability of accurate information ensures markets can accurately price stocks and efficiently allocate capital. However, while information might be available, if it is poorly written investors will struggle to effectively interpret it. It follows that clear, readable, information should reduce uncertainty, as the implications of that information are easier to establish. As a result, investors should view firm as less risky. We use three popular measures of readability, focusing on the text complexity of the Management Discussion & Analysis section of 10-K annual reports between 2000 and 2016. We test these against firms implied cost of capital using both analyst and cross-sectional estimated forecasts for earnings. We conclude that issuing less readable MD&A is associated with a significantly higher cost of equity, finding a one-standard deviation improvement in writing can reduce the cost of capital by 0.5 to 1%. This relationship is robust to a battery of controls and robustness tests.

Paper 8: Angel Zhong, RMIT

Title: Investment-related Anomalies in Australia: Evidence and Explanations

Abstract: This paper documents the existence of five investment-related anomalies in the Australian market. Cross-sectional stock returns are negatively related to each of asset growth, net operating assets, inventory growth and investment-to-assets, and positively related to asset tangibility. While the investment-return relation is theoretically motivated by investment-based models and q-theory, there is only support for this rational explanation in relation to the inventory growth effect. Limits to arbitrage appear to be a factor in the asset-tangibility effect, where the mispricing can be traced to the over-pricing of stocks with high levels of goodwill.

Paper 9: Mandy (Man) Zhang, Sydney

Title: Consumption and Savings Response to Income Tax Exemption Policy: Evidence from India

Abstract: The Indian government raised the income tax exemption limit for long-term savings instruments (e.g., mortgage debt principal repayment) by US$833 in July 2014. We estimate household consumption and savings response to the policy change using a unique matched administrative panel data of housing mortgage payments and consumer debit and credit card spending transactions. In response to the higher income tax exemption limit, about 31% of households holding a mortgage increase the mortgage principle repayment by US$323. Households are able to increase mortgage principal payment by reducing their consumption by US$193. Relative to annual income, private savings for the treatment group increase by about 1.87% on average.

Paper 10: Jodie (Huizhong) Zhang, QUT
Title: Central Hub: Advisor Network Position and M&A Activities **Abstract:** This paper examines whether acquiring firms benefit from advisor network centrality, which measures the extent and strength of a financial advisor's connections with its peers in the M&A market. We find that a centrally positioned financial advisor helps acquiring firms garner higher announcement abnormal returns and purchase targets at a lower price. The results hold when we employ a difference-in-differences technique that relies on variation generated by an exogenous shock to advisor networks, as well as an instrumental-variable approach. The effect of advisor network centrality on acquirer abnormal returns varies in the cross-section, with the effect stronger when there is greater information asymmetry surrounding the target firm. Overall, our findings suggest that highly centrally positioned financial advisors leverage "who they know" to enhance the value of acquiring firms.
Paper 11: Van Vu, Newcastle
Title: Do banks learn from other financial markets? Evidence from loan contract design **Abstract:** We find that banks charge higher loan rates and impose stricter non-price loan terms for borrowers with higher short selling activity and higher option implied volatility skewness. We further find a stronger influence of financial market information for borrowers with opaque information environment. Firms with a higher level of short selling and implied volatility skewness are also more likely to choose bank loans over public bonds. Overall, our results indicate that banks take into account expectation of bad news imbedded in equity short selling activity and in option implied volatility skewness when designing loan contracts.
Paper 12: Mamiza Haq, UQ
Title: CEO Pay-Gap Pays in Banks **Abstract:** We provide novel evidence that greater Chief Executive Officer's (CEO) pay compared to other top executives' pay (known as "pay-gap") relates to lower bank risk-taking. Our findings are exclusive to banks and are consistent with the CEO power proposition, which contends that bank CEOs lessen risk to protect their undiversified both human capital and financial wealth in their banks. We corroborate this proposition through linking larger pay-gaps to increased CEO power and low CEO turnover-performance sensitivity. Our assessment of potential risk-taking channels substantiates that banks with larger pay-gaps exhibit conservative funding, more traditional banking activities, improved disclosure quality, greater analyst following, reduced forecast dispersion, and low excess pay to external auditors. Our results remain robust to three popular techniques to address endogeneity: instrumental variable, quasi-natural experiment, and propensity score-matching. Overall, CEO pay-gap appears to benefit important bank stakeholders as it reduces bank risk-taking and improves bank performance