The Virtual 7th Finance Workshop at Bilkent University

June 10-11, 2021

Date: Thursday, 10 June 2021

14:00 – 14:10	Welcome Remarks
14:10 - 15:00	**Dynamic Equilibrium with Costly Short-Selling and Lending Market** Keynote Speaker: Süleyman Başak
15:00 - 15:45	**Tax Expense Surprise and Emerging Market Equity Returns** Presenter: Doruk Günaydın
15:45 - 16:00	Break
16:00 - 16:45	**Mutual Fund Herding in Industries** Presenter: Onur Tekel
16:45 - 17:30	**Has the Last Super Cycle in Crude Oil Price Ended? A Maximum Drawdown Approach using Fractional Brownian Motion** Presenter: İbrahim Ünalmış
17:30 - 18:15	**Economic policy uncertainty and bank stability** Presenter: Gamze Öztürk Danışman

Date: Friday, 11 June 2021

14:00 - 14:45	**Trade Transparency and Management Earnings Forecasts** Presenter: Çelim Yıldızhan
14:45 - 15:30	**Why Do Firms Borrow from Foreign Banks?** Presenter: Ümit Yılmaz
15:30 - 15:45	Break
15:45 - 16:30	**Going Private and Innovation** Presenter: Tolga Demir
16:30 - 17:20	Topic TBA Keynote Speaker: Işıl Erel

Abstracts

Dynamic Equilibrium with Costly Short-Selling and Lending Market

Adem Atmaz[1§] Suleyman Basak[2 §] Fangcheng Ruan[1]
[1]Purdue University, Krannert School of Management; [2]London Business School; Centre for Economic Policy Research (CEPR)

We develop a tractable model of costly stock short-selling and lending market within a familiar dynamic asset pricing framework. The model addresses the vast empirical literature in this market and generates implications that support many of the empirical regularities. In the model, investors' belief disagreement leads to the presence of stock lenders and short-sellers. To borrow stock shares, short-sellers pay shorting fees to lenders. Our main results for a costly-to-short stock in equilibrium are as follows. The shorting fee increases in belief disagreement. The stock price is positively, while its risk premium is negatively related to its shorting fee. The stock volatility is increased due to costly short-selling. More notably, the short interest increases in shorting fee and predicts future stock returns negatively. Higher short-selling risk can be associated with lower stock returns and less short-selling activity.

Tax Expense Surprise and Emerging Market Equity Returns

Doruk Günaydın
Sabancı University

This study investigates the relation between tax expense surprise and expected equity returns in emerging markets. Utilizing a broad sample of equities from 27 emerging countries, we find a strongly positive link between tax expense surprise and the cross-sectional expected stock returns. Univariate portfolio analyses in the overall sample show that equities in the highest tax expense surprise quintile earn 8.52% higher risk-adjusted annual return than equities in the lowest tax expense surprise quintile. This relation remains robust to alternative definitions of tax expense surprise and even after controlling for other anomalies related to financial and tax variables in a regression framework. We document that tax expense surprise strongly predicts expected stock returns in emerging markets.

Mutual Fund Herding in Industries

Onur Tekel; İlkay Şendeniz-Yüncü
Middle East Technical University

This study examines whether mutual funds herd in industries and whether herding has a significant impact on industry valuations. Our sample consists of the monthly portfolio holdings of all stock-weighted mutual funds, i.e. 37 mutual funds, for the December 2015 – December 2019 period. We employ LSV (1992) and Sias (2004) herding measures to find out whether mutual funds herd in industries. Our findings indicate that when we use

LSV measure, the overall industrial herding among mutual funds become statistically significant. We do not observe a significant overall industry herding, when Sias measure is used. The analysis results on the contribution of buy and sell herding to the overall herding show that the impacts vary depending on the herding measure. The analysis whether investor flows lead industry herding reveals that the industry herding is not driven by fund flows. The results of our analysis whether industry herding is driven by single stock herding show that the single stock herding is not the only leading factor, but its impact is significant especially when Sias herding measure is used. Our findings also provide that style investing is not a main driver of industry herding. Moreover, our findings indicate strong negative relationship between industry herding and returns.

Has the Last Super Cycle in Crude Oil Price Ended? A Maximum Drawdown Approach using Fractional Brownian Motion

M. Salcı-Bilici[1]; Fatma Pınar Erdem[2]; Ibrahim Ünalmıs[3]; C. Vardar-Acar[4]

[1]Ministry of Treasury and Finance; [2]Central Bank of the Republic of Turkey; [3]TED University; [4]Middle East Technical University

Super cycle phenomena in oil prices have been studied in the literature extensively. Our purpose in this paper is to contribute to this literature by identifying whether the last super cycle in oil prices has ended or not by comparing model simulations with observed historical data. We propose to use fractional Brownian motion model to conduct simulations as it has certain desirable properties over other continuous time stochastic models and time series methods. Simulation results indicate that the expected duration of maximum drawdown is 124 months and the magnitude of the expected maximum drawdown of log return of real oil prices is 2 units. However, observed data show that maximum drawdown and its duration is 1.57 unit and 92 months respectively. Our interpretation of this result is that there is not enough evidence to conclude that the last super cycle has ended. Our results have implications for policy makers in oil exporting and importing countries as well as fund managers.

Trade Transparency and Management Earnings Forecasts

Deniz Anginer[1]; Stephen Baginski[2]; Xue Han[3] ; CelimYildizhan[4]

[1]Simon Fraser University; [2]University of Georgia; [3]San Francisco State University; [4]Koç University

Employing a plausibly exogenous shock that increased the extent to which private information is revealed in debt markets – implementation of the Trade Reporting and Compliance Engine (TRACE) - we document a change in longer-run management earnings forecast policy. We find that managers decreased forecast frequency over the three-year period post-TRACE. The decline was greater for bad news management earnings forecasts, when the pre-disclosure information environment was weaker and for firms that were closer to credit default. These findings, taken in conjunction with prior findings of increases in earnings forecasting activity in response to declines in the strength of the information environment, suggest that the inverse relation between changes in the strength of the information environment and management earnings

forecasting activity is symmetric. The finding that managers are also willing to curtail management earnings forecast activity when the informational benefits of forecasting are reduced is significant given the actual and perceived costs of doing so. Our results also suggest that prior research understates the informational benefits of TRACE, per se, because of the decline in management earnings forecasting pursuant to TRACE.

Why Do Firms Borrow from Foreign Banks?
Ümit Yılmaz
Ozyegin University
I examine U.S. firms' motives for participating in cross-border syndicated loans with foreign banks. Firms borrowing from foreign lead arrangers pay higher loan spreads compared to firms borrowing from local banks, controlling for firm and loan characteristics and using matched sample analyses. These firms experience an increase in foreign income and international M&A activity after the loans, which suggests that global expansion of operations is an important reason why a firm borrows beyond borders. I also find that loan spreads increase with the geographic and cultural distance between borrowers and foreign lenders, consistent with higher information acquisition and monitoring costs.

Going Private and Innovation
Tolga Demir[1] ; Ali Mohammadi[2]
[1]Bilkent University; [2]Copenhagen Business School
In this paper, we investigate how going private affects corporate innovation activities. We compare the innovation activities of firms that went private to the innovation activities of firms that received a going-private offer but stayed as public for reasons unrelated to innovation. Using patent-based metrics, we find that the scale of innovation grows after going private. The most important innovations after going private have higher quality relative to the most important innovations before going private. Firms that go private also produce more influential patents in the following years after going private. In line with the predictions of agency theories, our results suggest that going private has a significant positive impact on the innovative performance of listed firms. We also find that, in public-to-private transactions, being acquired by a private equity (PE) firm does not bring an additional performance boost in terms of innovation in comparison to being acquired by a non-PE firm.

Economic policy uncertainty and bank stability

Gamze Öztürk Danışman
Kadir Has University

We examine the influence of economic policy uncertainty on bank stability post-2007-2008 global financial crisis. We rely on the economic policy uncertainty (EPU) index introduced by Baker et al. (2016). We use 176,477 quarterly observations for US commercial banks over the period from 2011Q1 to 2020Q3 and find consistent and robust evidence that bank stability decreases as the level of economic policy uncertainty increases. We specifically control for demand-side effects which indicates that the decrease in bank stability not only originates from borrowers' and customers' conditions but also from a change in bank behavior. A deeper investigation shows that the negative impact of policy uncertainty on bank stability is stronger for larger banks, and weaker for highly capitalized banks as well as for more liquid banks. Our findings have important implications particularly for the COVID-19 policy implementations.