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Report on the 12th Annual Financial Market Liquidity Conference*

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The *Annual Financial Market Liquidity Conference,* one of the most important international financial conferences in Hungary, was held for the 12th time at the Corvinus University of Budapest (CUB). Similarly to previous years, the conference, held on 11–12 November 2021, was organised jointly by the Department of Finance of the Institute of Finance, Accounting and Business Law of CUB and the Momentum Game Theory Research Group of the Centre for Economic and Regional Studies. In addition to the Foundation of the Department of Finance, as the gold sponsor, KELER CCP, Morgan Stanley and OTP Bank acted as key sponsors. Due to the continuation of the coronavirus outbreak, the conference was held in a hybrid form for the first time in 2021, allowing the more than 150 registered participants to join online, while also offering the possibility to attend in person at the university. The conference alternated between plenary presentations and parallel sessions focusing on different topics. The parallel sessions on the first day covered the following topics: savings and households, market microstructure and machine learning, theory, risks, market efficiency, ESG investments and sustainability. Topics of the parallel sessions of the second day: asset pricing and ESG investments, fintech, theory and experiments, market microstructure and corporate finance, bonds and financial institutions, and bankruptcy prediction. Four of the 53 presentations in total were keynote speeches, and another seven were given by invited experts. More than half of the speakers were from abroad.

The first presentation at the opening plenary session of the AFML Conference was given by *Mariassunta Giannetti*. A professor at the Stockholm School of Economics, she shed light on how the announcements by the US Federal Reserve System (Fed) affect the trading of large mutual funds in the event of a financial shock. Giannetti spoke about the experience of mutual fund data over the period January 2003 to December 2019, and the six months before and after the appearance of

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Covid-19. In the latter period, the impact of both the coronavirus and the Fed's crisis management programme (SMCCF – Secondary Market Corporate Credit Facility) were felt. In the event of financial turmoil, investment funds trade to minimise the negative price effects of forced sales. Giannetti showed that the Fed's intervention in the bond market had broadly and quickly stabilised the market by allowing large bond funds to concentrate their crisis management trading on ineligible bonds, which also led to a rapid recovery in their prices.

The second speaker in the plenary session was *Luc Renneboog*, professor of finance at Tilburg University, on sustainable finance. He sought to answer three fundamental questions: 1) What are the fundamental forces that drive companies to behave responsibly and not just maximise profit? What is the reason for differences between countries? 2) Does corporate social responsibility (CSR) create value? 3) Does shareholder activism on CSR or socially responsible investment (SRI) create value? Regarding the first question, the CSR ratings of 23,000 companies in 114 countries show that the legal origin of the countries is more important, for example, than the other characteristics of the company or country (concentration of ownership or political institutions). Turning to the second question, the speaker said that CSR can also be seen as an agency problem and a waste of corporate resources. Well-managed companies, which suffer less from agency problems (e.g. less cash abundance), have higher levels of corporate social responsibility. Finally, based on data from a large international socially responsible activist fund, Renneboog explained that companies successfully committed to social responsibility achieve a 5-percentage-point higher stock return than their unsuccessful counterparts.

The final presentation of the *Savings and Households Session* was given by *Hubert János Kiss*, associate professor at the Institute of Economics, Corvinus University of Budapest, who sought to answer the question of *how patience in making savings decisions is related to education*. A step-by-step questionnaire was used to assess the preferences of a representative sample of the Hungarian population for holding securities and saving for retirement. He divided respondents into education groups and then used regression models to analyse the effect of education. The results show that the more educated someone is, the less patient they are with their investment decisions. This can be explained by the fact that the highly educated are more confident in their own abilities and future potential, so it is less important for them to think about the distant future and to save for this time horizon.

At the end of the theoretical session, *László Á. Kóczy*, senior research fellow at the Centre for Economic and Regional Studies and associate professor at the Budapest University of Technology and Economics, gave a presentation. He examined the European energy crisis and the potential impact on gas supply security from the opening of Nord Stream 2, i.e. the doubling of direct interconnection capacity between Russia and Germany. Kóczy modelled the European gas market in a graph-

theoretic approach to the gas pipelines connecting countries. It sought to find the optimal supply for Europe as a whole, taking into account transmission capacities and winter/summer seasonality. The main question was what would happen if a pipeline dropped out of the system, e.g. due to sabotage, technical failure or any other reason. He captured this risk using a risk measurement technique borrowed from finance (*"expected shortfall"*). He assumed there was an equal chance of failure for any edge, so he disregarded the different lengths of the pipelines and the territorial political context. The results show that in the event the Ukrainian gas corridor is closed, the opening of Nord Stream 2 would mainly help the northern and neighbouring countries, but the southern countries would suffer severely from the failure. Since Eastern Europe's gas supply is already very fragile, the rapporteur criticised EU decisions to reject proposals to expand the southern gas pipelines. In his opinion, these would be necessary to increase the security of supply and would be in line with the principle of seeking optimal solutions for the Energy Union as a whole.

In the afternoon session on Risks, *Rose Liao*, professor of finance at Rutgers University, discussed *the impact of gender quotas on banks' stand-alone and systemic risks*. In a sample of banks in 39 countries, 70 per cent of the banks meet the legal quota within three years. The results show little impact of the rule on banks' *stand-alone* risk, but an increase in systemic risk after the introduction of the quota can be detected. The increase in risk is concentrated at banks where the quota was not met before the reform, typically in countries with fewer female managers and less equality. In the case of banks forced to recruit, newly appointed female directors tend to have less experience and are more likely to be insiders. The results are consistent with the fact that some banks circumvent the reform by appointing insiders for strategic reasons, which in turn leads to a deterioration of the board's control function.

The next invited speaker for the *Risk Session* was *James M. Steeley*, professor of the Department of Economics and Finance at Brunel University London. The speaker, a researcher on financial markets and investment, explored the question of *how the behaviour of market participants varies depending on how much information they have about the value of a risky asset*. The results contrast with the theses of the *Expected Utility Theory* – which is often used in both empirical and theoretical models to model investor behaviour in a risky environment – and find less stable risk preferences. The speaker reported on an experiment involving 172 subjects and 6,250 forecasts in which *participants were asked to determine the expected value of a risky asset while the amount of information available to them about the value of the asset was constantly varied*. The payment was proportional to the accuracy of the forecast. The experiment showed that less information indicates risk-seeking

behaviour, while more information indicates risk-averse behaviour, i.e. agents pay for less risk with the expected profits.

Thomas Walker, professor at Concordia University, gave a presentation in the block on ESG investments and sustainability. During his talk the audience could learn about *the role of cultural and political factors* in the different transmission rates of Covid-19 in different countries, in the mortality rates and in the macroeconomic shocks of the pandemic. The topical and relevant presentation pointed out that *the socio-political factors are significant predictors of the resilience of countries* to pandemics. The results show that in individualistic societies, the spread of the virus is slower and the number of infections is lower, while corrupt governance is associated with a faster virus spread. In countries with a stable legal system and cultures that think in the long term, the unemployment caused by the coronavirus is lower and a stable political environment leads to better preparedness in uncertain situations.

The evening plenary session started with a presentation by *Yakov Amihud*, professor at the Stern School of Business, New York University. The researcher on financial market microstructures and corporate finance gave an online presentation on his study linking the world of large institutional investors with that of the average small investor. *"This paper ties Wall Street with Main Street..."* he said highlighting the impact of the illiquidity of shares on the cost of capital and expected return. The results show that illiquidity increases the cost of capital and reduces capital investment, research and development and inventories, regardless of the financial position of the firm. Thus illiquidity encourages firms to engage in less capital-intensive processes. Consequently, illiquid firms are less exposed to fixed costs due to the higher marginal productivity of capital, higher labour flexibility on assets, and lower operating leverage.

The plenary session and the first day closed with a presentation by *Avanidhar Subrahmanyam*, professor at the University of California Los Angeles (UCLA), who also joined the conference online, on the analysis of *the spillover effects of liquidity shocks across assets* on empirical data. This effect has already been documented in literature, but studies have often used regressions whose identifiability is open to criticism, or analysed systemic liquidity shocks that naturally involve multiple instruments. The main novelty presented by the speaker is that he has found a non-systemic event, i.e. an event type for which it is concurrently true that it means only a liquidity shock, carries no other (e.g. pricing) information, and also only affects one stock. This event type is the two-step spinoff with an initial public offering (IPO). At the time, during the IPO, only 20 percent of the spin-off is listed, and then the date for listing the remaining 80 percent is announced. A second-round listing in such a case is only a liquidity shock, as the information is already built into the expectations at the time of the announcement. The speaker shared the experience

of 64 such events observed on the New York Stock Exchange between 1986 and 2017. The liquidity shock to the spin-off is clear in such a case, and the spillover effect to similar firms in the industry can be examined. The liquidity shock also improved the liquidity of similar companies, and institutions bought more of them. Higher liquidity makes securities more valuable; an effect that was also observed for similar firms not directly affected by the liquidity shock. Subrahmanyam interpreted this to mean that the liquidity and price of the shares of the spin-offs also carry additional public information for similar firms. For this reason, the increase in liquidity also reduces information asymmetry in similar firms.

The second day opened with an online presentation by *Jonathan Batten* entitled *Insider Trading and Market Manipulation*. The presentation highlighted why the banking sector is called "the rotten heart of finance". Three case studies were presented to the audience. In the first case, Batten illustrated how a chat room named "Cartel" was able to manipulate exchange rates. Secondly, he discussed the misuse of LIBOR determination and how the scandal had affected the global financial market. Finally, we heard the details of an insider trading case. An employee of the Australian Bureau of Statistics leaked non-public information about the Australian dollar to a friend who worked as a trader at a bank, making a profit of 5 million dollars in one year. With all these examples, Batten wanted to show that a *top-down* regulatory authority is too exposed to market supervision, which has serious limitations.

Batten's opening presentation was followed by three parallel sessions, of which the Fintech block was closed by *Zsuzsa Huszár*. In the early part of 2021, there was a lot of media coverage in the US about the surge in retail stock trading in the wake of the Covid-19 pandemic. The speaker sought similar trends in the Chinese market and wondered whether the number of internet searches was in line with capital market movements. The study is relevant because this Asian market is dominated by retail trading, and the number of hours the average person spends online per day is much higher than in the Western world. Using statistics from the Baidu search engine, Huszár shared the results of her analysis of the IT sector, the pharmaceutical industry, and the wine market which is very popular in China. Based on her panel regression model, she found that the shares of companies that attracted a lot of interest performed better in the long run, but this effect was negligible due to trading costs and transaction fees. The speaker drew attention to the dangers of purely popularity-based trading and its role in encouraging diversification.

The conference was closed by *Barbara Dömötör*, associate professor at the Department of Finance, Corvinus University of Budapest, and chair of the conference organising committee. She announced that the 13th Annual Financial Market Liquidity Conference will be held on 10 and 11 November 2022, for which registration is now open (http://afml.uni-corvinus.hu).