TWENTY-FIRST ANNUAL CONFERENCE OF THE MULTINATIONAL FINANCE SOCIETY
(As of June 8, 2014)

June 29 - July 1, 2014
Corinthia Hotel Prague
Kongresova 1
Praha 4, 14069
Czech Republic

KEYNOTE SPEECH

Sunday June 29, 2014 (8:00 - 8:45 p.m.) **Suite 2 - 3rd Floor**

Professor Roni Michaely
Cornell University, USA

TAXATION AND PAYOUT POLICY AND OWNERSHIP STRUCTURE

Theory suggests a large effect of dividend taxation on payout. However, as a whole, empirical evidence finds the effect to be much smaller than theory implies. We use a large dividend tax reform and a comprehensive proprietary data on firms' ownership structure and owners' holdings, income, and tax preference to explain this puzzling finding. We show that when there is no separation of ownership and control, dividend taxation has a first order effect on payout policy. The impact of changes in dividend taxation becomes insignificant as the number of owners increases. Differential tax preferences of owners and managers is one factor. However, even when owners and managers have the same tax preferences, disperse ownership significantly reduces the impact of dividend taxation, due to conflicting objectives of owners and managers. Our results explain why previous evidence on the impact of dividend taxation has been so elusive. Taxation has a first order impact on payout policy, but disperse ownership mutes its impact substantially.

RECEPTION

Sunday June 29, 2014 (8:45 - 9:45 p.m.) **Suite 2 - 3rd Floor**

SESSION 1 **Monday 8:30 - 10:15** **Tiber**

BEHAVIOURAL ISSUES
Session Chair: Peter Jørgensen - Aarhus University, Denmark

(MC14~342) - "Value versus Growth Investing: Why Do Different Investors Have Different Styles?"
Henrik Cronqvist - China Europe International Business School, China
Stephan Siegel - University of Washington, USA
Frank Yu - China Europe International Business School, China

Discussant: Minh Hai Ngo - University of Trier, Germany

We find that several factors explain an investor's style, in the sense of the value versus growth orientation of the investor's stock portfolio. First, an investor's style has a biological basis -- a preference for value versus growth stocks is partially ingrained in an investor already from birth. Second, investors who a priori are expected to take more financial risk (e.g., men and wealthier individuals) have a preference for growth, not value, which may be surprising if the value premium reflects risk. Finally, an investor's style

(MC14~406) - "Social Ties in the Making of an M&A Deal"
Gul Demirtas - Sabanci University, Turkey

Discussant: Carlo Chiarella - Universita Commerciale L. Bocconi, Italy

This paper investigates how social ties between targets and acquirers affect merger outcomes. I use merger-related SEC filings and news articles to detect if a social tie between directors or executives of merging firms is effective during the making of the deal. When there is a social tie, abnormal announcement returns accruing to the combined entity and to the acquirer firm are reduced by 2.4 and 2.8 percentage points, respectively. This adverse effect is mainly driven by deals in which the social tie is distant. Irrespective of the closeness of the tie, acquirer-target social ties significantly decrease the likelihood of receiving competing bids in the private takeover process. Moreover, connected deals, particularly those involving close ties, are associated with lower financial advisory fees and a shorter negotiation period. Interestingly, although close ties do not affect merger outcomes for shareholders; such ties help target directors by increasing their retention probability.

SESSION 20 **Monday 2:00-3:45** **Rhone**

CREDIT SCORING AND MODELLING
Session Chair: Yukihiro Yasuda - Tokyo Keizai University, Japan

(MC14~274) - "Sovereign Debt Ratings and Treasury Bond Yields: The Before and After of the Financial Crisis"
Ana Monte - Escola Superior de Tecnologia e Gestão (Instituto Politécnico de Bragança), Portugal
Helena Moutinho - Escola Superior de Tecnologia e Gestão (Instituto Politécnico de Bragança), Portugal
Leinivy Tavares - Escola Superior de Tecnologia e Gestão (Instituto Politécnico de Bragança), Portugal

Discussant: Francis In - Monash University, Australia

The rating agencies are often among those accused of taking part in the sovereign debt instability that followed the financial crisis of 2008. This work intends to empirically analyse the influence of changes in the Portuguese sovereign debt rating, as attributed by the three main international rating agencies (Moody's, S&P e Fitch), in the performance of mid to long-term treasury bond yields (2, 5 and 10 years) over the period between February 2003 and May 2012. Using simple and multiple linear regression models, estimated through the OLS method, and through the application of Chow's test, the statistical evidence shows that the changes in sovereign debt rating have a negative and significant impact on the performance of treasury bond yields for all maturities studied and this influence is higher for the period after the sovereign debt crisis.

(MC14~354) - "Rating Agencies' Monitoring Service - Evidence from the Sovereign CDS Market"
Thomas Kremser - WU Vienna, Austria
Daniela Kremslehner - WU Vienna, Austria
Margarethe Rammerstorfer - WU Vienna, Austria

Discussant: Ana Monte - Escola Superior de Tecnologia e Gestão (Instituto Politécnico de Bragança), Portugal

Abstract This paper investigates the reaction of credit default swaps spreads to changes in rating class, outlook, and watchlist entries for sovereigns. We find a stronger response to negative outlook and watchlist changes than for actual rating class downgrades, which shows that negative outlook and watchlist changes reveal more information. Consistently, we are able to predict future negative outlook changes and negative watchlist entries from abnormal CDS movements. Abnormal credit default swaps spread responses are analyzed with an unrestricted market model, which allows a sound interpretation of the reaction while controlling for market movements. Additionally, we compare the reaction of high and low quality obligors to credit rating agencies' announcements with respect to timing and magnitude. We find more significant reactions for low quality sovereigns with higher magnitudes before and at the announcement day, indicating higher sensitivity to rating changes compared to high quality obligors.