Tagung 2019

Am 26. und 27. April 2019 wurden in Mannheim folgende Vorträge gehalten und diskutiert:

1. Common Ownership and Bank Business Models
Thomas Gehrig, Universität Wien (joint with Maria Chiara Iannino, St. Andrews)

We document a significant build-up of common ownership in European systemically significant institutions by large global investors after the Great Financial Crisis. Especially investment funds like Blackrock, State Street and Vanguard significantly increased their parallel holdings in selected European SIFIs (tenfold). We find investment patterns that go beyond passive index tracking and ask the question about the characteristics of the preferred targets. We also find that the build-up is largely related to short-term investors as characterized by larger amounts of portfolio churning as opposed to the classical long-term investors (e.g. pension funds or life insurance companies), who did increase their holdings at much smaller pace.
Does this increase in concentrated holdings affect strategic decisions and, hence, bank business models? Does it affect bank resiliency? In order to address this question we relate various measures of common ownership with measures of bank resiliency, such as z-score (individual banking risk) and SRISK (systemic risk). We find that banks with high SRISK are particularly likely targets of international investors. We explore to what extent the self-regulatory options of exploiting internal risk based models do render those financial institutions particularly attractive to international investors. We hypothesize that IRBA-models allow for particularly high (short-term) payout policies and, hence, explain the preference of short-term investors for bank business models that minimize "excess capitalization". We also try to identify to what extent implicit too-big-to-fail guarantees for national champions contribute to our empirical findings, and to what extent large owners exert influence on management in concert.

2. Paying for a Chance to Save Money: Two-Part Tariffs in Name-Your-Own-Price Markets
Martin Spann, Ludwig Maximilian Universität München

Prior theoretical research has shown that a Name-Your-Own-Price (NYOP) seller can profit from charging each prospective buyer a non-refundable fee for the opportunity to place a bid, akin to an entry fee to the seller's store. We examine the profitability of such two-part tariffs in NYOP markets using incentive-compatible laboratory experiments. Our results show that a two-part tariff can be profitable for a NYOP seller, but the profitability is strongly moderated by the buyers' ability to jointly optimize their entry and bidding decisions. We find that when buyers are provided with a decision aid that partly offsets their cognitive limitations by calculating the payoff consequences of different candidate bids for them, the profitability of using a two-part tariff vanishes. Overall, our results suggest two-part tariffs increase NYOP profit in a standard information-poor setting in the short run, but they are not as profitable as theory would suggest when the bidders get more information or experience.

3. The Value of Board Commitment
Tim Baldenius, Columbia University (joint with Xiaojing Meng and Lin Qiu, both at NYU Stern School of Business)

Boards of directors learn about their firms' environments through information gathering effort and through communicating directly with the CEO, but the nature of communication within the boardroom is largely a black box. While prior studies typically model it as cheap talk, we investigate the effects if the board can commit to a report-contingent decision rule prior to receiving the CEO's report. All else equal, such commitment improves communication. However, board composition and incentives are endogenous constructs. We show that if the CEO has precise private information, he may be less willing to communicate with a board that can commit, but is optimally antagonistic, than with one that has to rely on cheap talk, but is optimally friendly. If the CEO has noisy private information, shareholders may be better o_ without board commitment: by assigning an antagonistic bias to a board that relies on cheap talk, the shareholders can turn the inherent communication handicap into a powerful incentive instrument to elicit board effort. Our results shed light on the endogeneity issues that afflict empirical research on boards.

4. Enforcement of financial reporting: Designing enforcement mechanisms
Alfred Wagenhofer, Universität Graz

This presentation considers multiple enforcement mechanisms and asks: Does strengthening one of them always improve compliance, and do the mechanism complement each other? To answer these questions, I study two settings in the area of capital markets regulation and specifically financial reporting, based on Ewert and Wagenhofer (2019) and Schantl and Wagenhofer (2019). (1) In a model with a manager who can manage earnings, a strategic auditor, and an enforcement institution, it is shown that enforcement and auditing are complements in a weak enforcement regime but can become substitutes in a strong regime. Although stronger enforcement always mitigates earnings management, the effects on financial reporting quality and audit quality are ambiguous and depend on the circumstances. (2) The second model studies strategic interactions between public enforcement and private litigation. Such interactions arise due to the monitoring role of private litigation and the information produced by routine public enforcement. Using an economic model with a manager, a strategic public enforcer, and an investor the main results are as follows. Strengthening private litigation unambiguously improves deterrence, whereas strengthening public enforcement can exacerbate misconduct due to crowding-out of private litigation. Thus, strengthening one enforcement mechanism can have undesirable economic consequences.