

Conference Agenda

	WED 19 Aug	THU 20 Aug	FRI 21 Aug	SAT 22 Aug	
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Daily Overview

Date: Wednesday, 19/Aug/2026

6:30pm - 8:30pm	Welcome Reception Location: Handelsbeurs
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Conference Agenda

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Daily Overview

Date: Thursday, 20/Aug/2026

9:00am - 10:30am

NBB: Collateral in Banking: From Risk to Transmission

Location: LR M0.1 (Floor 0)

Session Chair: **Olivier De Jonghe**, National Bank of Belgium

ID: 1033

Collateral Law and Enforcement Risk: Evidence from Native American Reservations

Leo Leitzinger

Goethe University Frankfurt, Germany

Discussant: **Thomas Lambert** (Rotterdam School of Management, Erasmus University)

Drawing on U.S. Native American reservations, I identify how collateral law and contract enforcement interact to shape credit and real economic activity. I exploit (i) a 2001 Supreme Court ruling that opened a pathway to state-court enforcement of commercial contracts and (ii) the staggered adoption of tribal secured transactions laws (STLs) between 1985 and 2016, which allow movable assets to be pledged as collateral. Using difference-in-differences, I find that reducing enforcement risk via the 2001 ruling increases small-business loan size by 10% where STLs preexisted. STL adoption raises loan size by 11%, with no effect before 2001. STL effects are generally stronger under uniform codes and centralized registries, and gains are disproportionately concentrated in ex ante wealthier reservations. STLs raise wage per worker and income per capita but not total employment. Instead, employment reallocates toward movable-asset-intensive sectors. These results provide micro evidence on the finance–growth link: complementarities between collateral law and enforcement shape how finance affects growth and who benefits across jurisdictions, sectors, and legal designs.

 [EFA2026_1033_NBB_Collateral Law and Enforcement Risk.pdf](#)

ID: 1730

Credit Cycles and Creditor Rights

Martin Kornejew¹, Shohini Kundu², Karsten Müller³

1: Bocconi University; 2: UCLA Anderson; 3: NUS Business School

Discussant: **Mike Mariathasan** (KU Leuven)

Do creditor rights amplify or dampen economic fluctuations? Using a panel of 39 countries from 1978 to 2019, we show that credit expansions in economies with strong creditor protection are followed by smaller output losses, fewer non-performing loans, and a greater reallocation of credit away from unproductive sectors. Firm-level evidence from Delaware's adoption of antirecharacterization laws shows that well-protected creditors cut credit to low-productivity firms while easing borrowing constraints for productive ones. Overall, our findings indicate that stronger creditor rights dampen the output losses of credit booms by facilitating a more efficient reallocation of capital.

 [EFA2026_1730_NBB_Credit Cycles and Creditor Rights.pdf](#)

ID: 456

Collateral and Credit

Hans Degryse¹, Olivier De Jonghe², Luc Laeven³, Tong Zhao⁴

1: KU Leuven and CEPR; 2: NBB and ECB; 3: ECB and CEPR; 4: KU Leuven

Discussant: **Sonny Biswas** (University of Reading)

This paper studies the role of collateral using the near-universe of corporate loans from the euro area credit registry. With detailed information on all types of collateral pledged by firms, as well as the values of individual collateral assets, we examine the effect of collateral values on firm borrowing by directly linking credit amounts to their corresponding collateral values. For the first time, we provide evidence of the feedback loop between real estate values and borrowing for real estate investments. We present two main results. First, we estimate that the elasticity of credit amounts with respect to collateral values is 0.18-0.23. Second, we show that increases in collateral values are followed by greater borrowing for real estate investment and construction purposes, and that these effects are even more pronounced for firms operating outside the real estate sector.

 [EFA2026_456_NBB_Collateral and Credit.pdf](#)

9:00am - 10:30am	FI 01: The Organization of Institutional Investors Location: LR M0.2 (Floor 0) Session Chair: Mariassunta Giannetti, Stockholm School of Economics ID: 790 Target Allocation Funds, Strategic Complementarities, and Cross-Market Fragility Chuck Fang¹, Itay Goldstein² 1: Drexel University; 2: The Wharton School, University of Pennsylvania, United States of America <i>Discussant:</i> Chotibhak Jotikasthira (Southern Methodist University) Target date funds and other funds with target allocations (TAFs) rebalance in a predictable manner: when equities plunge, TAFs redeem bond fund shares and purchase equity fund shares, transmitting equity market shocks to the bond market. This introduces a new form of cross-market fragility: when equities fall and TAFs are expected to rebalance out of bond mutual funds, investors also redeem strategically, since liquidation costs are borne by the remaining mutual fund investors. These strategic runs are particularly pronounced among illiquid bond mutual funds, where liquidation costs are large and therefore payoff complementarities are strong. Together, TAF rebalancing and the associated runs explain half of aggregate bond fund outflows and a significant share of Treasury and corporate yield dislocations during COVID-19. The growth of TAFs contributes to the rise in stock-bond correlation and weakens the traditional role of bonds as safe-haven assets.  EFA2026_790_FI 01_Target Allocation Funds, Strategic Complementarities, and Cross-Market Fragility.pdf ID: 682 ETFs as a disciplinary device Karamfil Todorov¹, Yuet Chau², Eyub Yegen² 1: Bank for International Settlements, Switzerland; 2: Hong Kong University of Science and Technology <i>Discussant:</i> Veronica De Falco (Imperial College London) We investigate whether packaging active management into an exchange-traded, shortable vehicle improves managerial discipline and capital allocation. We show that actively managed ETFs (AETFs) exhibit flow-performance sensitivity (FPS) almost three times higher than nearly identical mutual funds. This heightened sensitivity is driven by short-selling: AETFs with higher short positions experience significantly steeper FPS, as short-sellers trigger outflows via the ETF redemption channel. This external monitoring imposes real career consequences: short positions spike upon the appointment of poor-performing managers and predict managerial exit. Finally, we show that short-selling discipline shapes the composition of managers across fund structures, as the best performers manage AETFs while the worst manage only mutual funds. Our results suggest that removing short-sale constraints on delegated capital strengthens the disciplinary forces that align capital with managerial ability.  EFA2026_682_FI 01 ETFs as a disciplinary device.pdf ID: 417 Credit Supply and Hedge Fund Trading: Evidence from Prime Broker Surveys Lubomir Petrasek, Dan Li, Phillip Monin Federal Reserve Board, United States of America <i>Discussant:</i> Ivan Ivanov (Federal Reserve Bank of Chicago) We study how prime brokers' credit supply affects hedge fund leverage, portfolio allocation, and performance. We construct a novel, fund-level measure of credit supply by linking survey responses on leverage availability with reported creditor relationships. Hedge funds with better access to credit subsequently borrow more and generate higher risk-adjusted returns. This effect is stronger for funds with concentrated prime broker relationships and those relying on secured borrowing rather than derivatives for leverage. Credit supply matters most during periods of market stress and when arbitrage opportunities are abundant. We also find that prime brokers allocate scarce credit disproportionately to their most profitable clients. Our findings provide empirical support for models of leverage constraints in which less constrained investors hold higher-alpha portfolios, and help explain the outperformance of large hedge funds with diverse credit sources.  EFA2026_417_FI 01_Credit Supply and Hedge Fund Trading.pdf
9:00am - 10:30am	SF 01: Climate Risk in Asset, Housing, and Insurance Markets Location: LR M0.3 (Floor 0) Session Chair: Bram van der Kroft, MIT ID: 128 Green Waste Tom Meling¹, Morten Grindaker², Magne Mogstad², Ingvil Gaarder² 1: The Ohio State University, United States of America; 2: University of Chicago, United States of America <i>Discussant:</i> Poorya Kabir (National University of Singapore) We develop and apply a framework to test for and measure green waste: the misallocation of public subsidies for green investment projects. Our context is a major Norwegian subsidy program to reduce

carbon emissions. We apply the framework to detailed project-level data on carbon emissions and subsidy amounts for both marginal and inframarginal projects. We find that the decision-maker could have achieved the same level of emission reductions at less than half the cost. To isolate the sources of this green waste, we use data on both ex-ante expected and ex-post realized emission reductions for each project. We find that the decision-maker is able ex-ante to identify the projects with the highest ex-post emission reductions but unwilling to select them.

 [EFA2026_128_SF 01_Green Waste.pdf](#)

ID: 1816

Flooded House or Underwater Mortgage? The Macrofinancial Implications of Climate Change and Adaptation

Yasmine Van der Straten

Nova SBE, Portugal

Discussant: **Cristian Badarinza** (Frankfurt School of Finance and Management)

I study how climate change affects housing markets, mortgage credit, and private adaptation in a general-equilibrium overlapping-generations model. Climate events damage housing and degrade land, which is inelastically supplied. While exposure to future climate risk lowers expected resale values, realized climate damages reduce effective housing supply, raising house prices over time. In frictionless markets, forward-looking prices support efficient adaptation. However, credit-constrained households underinvest in resilience, implying that price signals alone are insufficient. Unequal adaptation amplifies wealth inequality and accelerates land degradation, tightening credit constraints and widening the adaptation gap. I show that a shift toward landlord-based ownership can restore efficiency.

 [EFA2026_1816_SF 01_Flooded House or Underwater Mortgage_ The Macrofinancial Implications.pdf](#)

ID: 880

Insuring Climate Risks in Integrated Markets

Deeksha Gupta¹, Michael Sockin², Jan Starmans³

1: Johns Hopkins University, United States; 2: University of Texas at Austin, United States; 3: Stockholm School of Economics, Sweden

Discussant: **Hannes Wagner** (Bocconi University)

We develop a spatial model of climate risks when goods markets across regions are economically integrated but firms can only insure against local climate shocks. We show that firms' insurance demands across regions can be strategic complements or substitutes depending on the correlation of climate shocks across regions. Strategic complementarity can result in equilibrium multiplicity when regions are highly integrated, leading to underinsurance traps. Underinsurance can persist even at actuarially fair insurance premiums and can be Pareto dominated by an economy without insurance markets. We show that insurance market collapse in one region creates contagion effects, potentially contracting insurance markets in other regions. Insurance subsidies can paradoxically worsen the underinsurance problem.

 [EFA2026_880_SF 01_Insuring Climate Risks in Integrated Markets.pdf](#)

9:00am - 10:30am

HF 01: Household Debt

Location: **LR N0.5 (Floor 0)**

Session Chair: **Francisco Gomes**, London Business School

ID: 272

Unlocking Mortgage Lock-In: Equilibrium Effects in a Spatial Housing Ladder Model

Julia Fonseca¹, Lu Liu², Pierre Mabille³

1: UIUC Gies, USA; 2: Wharton, USA; 3: INSEAD, France

Discussant: **Marta Cota** (Nova School of Business and Economics)

Mortgage borrowers are "locked in": forgoing moves to keep low rates. We show missing downsizers stay in larger homes, raising net demand. We design a spatial housing ladder model with long-term mortgages, generating a distribution of locked-in rates and causal mobility effects consistent with the data. A temporary rate hike causes lock-in, increasing house prices by 4.4% and rents by 1.4% relative to a counterfactual without lock-in, offsetting a third of the house-price decline caused by higher rates. A starter-home seller subsidy modestly increases mobility at a high cost per marginal move, suggesting demand-based policies are poorly targeted responses.

 [EFA2026_272_HF 01_Unlocking Mortgage Lock-In.pdf](#)

ID: 469

A Danish Fix for U.S. Mortgage Lock-in?

David Berger¹, Jaehun Jeong¹, Julie Marx², Maria Victoria Olesen², Fabrice Tourre³

1: Duke University; 2: Copenhagen Business School, Denmark; 3: Baruch College, City University of New York

Discussant: **Purnoor Tak** (London Business School)

We study Danish fixed-rate mortgage contracts, which are identical to those in the United States except that borrowers may repurchase their mortgages at market value.

Using Danish administrative data, we show that households actively buy back debt when mortgage prices fall below par and that household mobility is largely insensitive when existing mortgage rates are below prevailing market rates --- unlike in the United States, where moving rates fall sharply as rates rise.

We develop an equilibrium model that explains these patterns and show that introducing a repurchase-at-market option into U.S. mortgages substantially reduces interest-rate-induced lock-in with limited effects on equilibrium mortgage rates.

 [EFA2026_469_HF 01_A Danish Fix for US Mortgage Lock-in_.pdf](#)

ID: 1486

The costs of financial fraud victimization

Naser Hamdi¹, Ankit Kalda², David Sovich³

1: Equifax Inc; 2: Indiana University; 3: University of Kentucky

Discussant: **Bo Bian** (University of British Columbia)

This paper documents the extent of identity theft fraud and victimization costs. We find that between 2010 and 2022, over 26 million borrowers reported being victims. An average victim flagged two accounts on which they owed \$28,278. Victims, on average, take three years to detect fraud, which acts as the main friction driving long-run costs. Victims face reduced credit access, increased financial distress, and six-month delay in homeownership compared with non-victims. Delayed detection and credit demand shocks drive these costs. Low-income borrowers are more likely to become victims and incur higher costs, exacerbating credit access gaps over the income distribution.

 [EFA2026_1486_HF 01_The costs of financial fraud victimization.pdf](#)

9:00am - 10:30am

CF 01: Staged Incentives in Finance and Organizations

Location: **LR M1.2 (Floor 1)**

Session Chair: **Giorgia Piacentino**, USC

ID: 161

Multilateral Contracting in Stage Financing

Paolo Fulghieri¹, Yunzhi Hu², Felipe Varas³

1: University of North Carolina Chapel Hill, United States of America; 2: University of North Carolina Chapel Hill; 3: University of Texas at Dallas

Discussant: **Jan Starmans** (Stockholm School of Economics)

Venture capital financing typically features complex securities and staging. We develop a dynamic contracting model where an entrepreneur seeks financing from active investors (who provide costly monitoring and screening) and passive investors (who offer cheaper capital). Under multilateral moral hazard, we show that the optimal contract can be implemented through a sequential offering of securities, including common and preferred equity, options, warrants, as well as a combination of senior debt and credit lines (venture debt). Our model predicts when entrepreneurs optimally separate monitoring and screening across multiple active investors ("rounds financing") versus consolidating these functions with a single active investor ("milestone financing"). Rounds financing dominates when informed capital is scarce.

 [EFA2026_161_CF 01_Multilateral Contracting in Stage Financing.pdf](#)

ID: 1435

Private Equity Continuation Vehicles: A Model of Strategic Asset Transfers

Simon Mayer², Victoria Ivashina³, Ludovic Phalippou¹

1: Saïd Business School, United Kingdom; 2: Carnegie Mellon University; 3: Harvard Business School

Discussant: **Andrew Winton** (University of Minnesota)

We document new empirical facts and develop a theory of private equity continuation vehicles (CVs), in which general partners (GPs) transfer portfolio companies from an existing fund to a new vehicle they continue to manage. CVs can improve efficiency by extending the holding period of high-potential firms, but they also allow GPs to extract rents by exploiting their informational advantage and intermediary position between legacy and new limited partners (LPs). CV formation may involve two informational frictions: adverse selection, where new LPs overpay for low-quality assets, and inverse selection, where they underpay for high-quality assets. These frictions intensify when fewer legacy LPs roll over their stakes.

The GP's coinvestment and carry, and whether the legacy fund is in or out of the money, determine whether CVs arise and how they perform. The model links LP liquidity needs, GP coinvestment, and contract design to CV performance and distribution of value across investors.

 [EFA2026_1435_CF 01_Private Equity Continuation Vehicles.pdf](#)

ID: 231

Biased Promotions

	Daniel Ferreira¹, Radoslaw Nikolowa², Elena Pikulina³ 1: London School of Economics, CEPR and ECGI; 2: Queen Mary University Of London, United Kingdom; 3: Sauder School of Business, University of British Columbia <i>Discussant:</i> Matthieu Bouvard (Toulouse School of Economics) We present a model of biased promotions: workers differ only by a nonproductive label, "Blue" or "Red," and firms favor Blue workers in promotion decisions. In equilibrium, worker self-sorting implies (partial) segregation and endogenous firm heterogeneity. Large, high-wage firms offer risky career paths, attracting workers from both groups, whereas small, low-wage firms offer stable careers that attract only Red workers. Promotion biases can benefit firms by weakening workers' outside options and increasing industry profits. The model generates persistent group differences in promotions, earnings, and career trajectories as an equilibrium outcome of competitive labor markets.  EFA2026_231_CF 01_Biased Promotions.pdf
9:00am - 10:30am	CF 02: Organization and Firms Location: Chapel (Floor 1) Session Chair: Spyridon Lagaras, University of Illinois at Urbana-Champaign ID: 2143 Corporate Hierarchy Michael Ewens¹, Xavier Giroud² 1: Columbia Business School; 2: Columbia Business School <i>Discussant:</i> Ramin P Baghai (Stockholm School of Economics) We introduce a novel measure of corporate hierarchies for over 3,100 U.S. public firms. This measure is obtained from online resumes of 7 million employees and a network estimation technique that allows us to identify hierarchical layers. Equipped with this measure, we document several facts about corporate hierarchies. Firms have on average ten hierarchical layers and a pyramidal organizational structure. More hierarchical firms have a more educated workforce, higher internal promotion rates, and longer employee tenure. Their operating performance is higher, but they face higher administrative costs. They are more active acquirers and produce more patents, but not higher-quality patents. They exhibit lower stock return volatility and operating asset volatility. We also examine how companies adjust their hierarchies in response to demand and knowledge shocks. We find that pharmaceutical companies increased their number of layers following the Covid-19 pandemic, while companies flattened their hierarchies following the adoption of artificial intelligence (AI) technologies. These findings are consistent with the theoretical predictions of existing models of corporate hierarchies.  EFA2026_2143_CF 02_Corporate Hierarchy.pdf ID: 2106 Technology in the Banking Sector and the Importance of Modern Skills Efraim Benmelech^{1,5}, Anastassia Fedyk², James Hodson³, Vladimir Mukharlyamov⁴, Dimitris Papanikolaou^{1,5} 1: Northwestern Kellogg; 2: UC Berkeley Haas; 3: AI for Good Foundation; 4: DePaul University; 5: NBER <i>Discussant:</i> Quinn Maingi (USC Marshall) This paper examines technology adoption and individual career progressions of technically-skilled employees in the banking sector. We leverage detailed employer-employee matched data to capture (i) the technical skills of each employee, (ii) firm-level technical capital, and (iii) a novel methodology to systematically measure vintages of technical skills, differentiating older technical skills (e.g., Fortran) from newer technical skills (e.g., Python). Banks dramatically increased their technical hiring during the 2010s, with an average bank's technical capital growing by 84%. This increase is ubiquitous across bank size, deposits, and loan portfolio composition. At the individual employee level, we document the importance of modern technical skills. We leverage a unique combination of the same workers' resumes captured in 2015 and 2020 and find that having modern technical skills in 2015 reduces the likelihood of demotions by 2020 by 2.7%. These effects are especially pronounced for older workers. For employees over 40, having modern technical skills reduces demotions by 3.9%. These results highlight the interaction between employee age and skill vintage, with important policy implications for workforce reskilling in the face of advancing new technologies.  EFA2026_2106_CF 02_Technology in the Banking Sector and the Importance.pdf ID: 1894 Do Business Unit Leaders Matter for Mergers and Acquisitions? Sinan Gokkaya¹, Xi Liu², René Stulz³ 1: Ohio University; 2: Miami University; 3: The Ohio State University <i>Discussant:</i> Andrey Golubov (University of Toronto) We penetrate the black box of post-acquisition integration process by examining whether business unit leaders (BULs) —executives responsible for integrating and operating acquired targets— shape

	integration outcomes. Using text-based and financial measures, we find that BUL target industry experience increases (decreases) integration success (failures) through superior realization of revenue and cost synergies. Other BUL attributes are unrelated to integration outcomes. Consistent with the importance of integration for acquisition success, BUL target industry experience enhances acquisition performance, with effects most pronounced when integration challenges are greatest. BULs add no value at earlier transaction stages, except through integration planning and more extensive due diligence.  EFA2026_1894_CF 02_Do Business Unit Leaders Matter for Mergers and Acquisitions_.pdf
9:00am - 10:30am	AP 01: Liquidity, Volume, and Trading Frictions Location: LR M2.1 (Floor 2) Session Chair: Ralph Koijen, Chicago Booth
	ID: 1978 Intraday Price Pressure and Order Flow around US Treasury Auctions Michael Fleming¹, Weiling Liu², Giang Nguyen³ 1: Federal Reserve Bank of New York; 2: Northeastern University; 3: Penn State University <i>Discussant:</i> Zhuolu Gao (Frankfurt School of Finance & Management) Using 33 years of intraday Treasury data, we provide the first high-frequency evidence on auction-day price pressure: yields rise in the hours before auction and reverse afterward. This pressure strengthens when dealers face tighter risk-bearing constraints and weakens when investor demand is strong or more elastic. Net order flow explains much of the price pressure, offering direct evidence that secondary market trading transmits dealer constraints into prices. Despite heightened concerns about dealer capacity amid rapidly growing federal debt, price pressure has not increased in recent years in part because investment funds and foreign investors now absorb more auction supply, thus easing dealers' intermediation burden and reducing price frictions.  EFA2026_1978_AP 01_Intraday Price Pressure and Order Flow around US Treasury Auctions.pdf ID: 132 Rethinking Mutual Fund Performance: From Traditional Alpha to Achievable Alpha Victor DeMiguel¹, Alberto Martin-Utrera², Raman Uppal³ 1: London Business School; 2: Iowa State University; 3: EDHEC Business School, United Kingdom <i>Discussant:</i> Manav Chaudhary (London School of Economics) About 88% of mutual-fund assets are held by retail investors, who rarely take short positions because of the associated costs and risks. Yet mutual-fund performance is traditionally measured by alpha, which implicitly assumes investors can freely short the benchmark factors. We show that mutual-fund performance for constrained investors is measured by achievable alpha, computed using only factors with strictly positive weights in the shortsale-constrained benchmark portfolio. Empirically, achievable alpha and value-added reveal weaker absolute performance and starkly different rankings. Achievable alphas predict fund flows---especially during market turmoil---and indicate that funds are less scalable than implied by traditional alphas.  EFA2026_132_AP 01_Rethinking Mutual Fund Performance.pdf ID: 1902 Rethinking Volume: Has the Market Become More Long-Term Liquid? Philippe van der Beck¹, Lorenzo Bretscher², Julie Fu³ 1: Harvard Business School; 2: University of Lausanne, Switzerland; 3: University of Washington in St. Louis <i>Discussant:</i> Francois Koulischer (University of Luxembourg) We document a striking fact: While gross trading volume has quintupled over the past four decades, net volume -- trading from persistent portfolio reallocations, which excludes transitory round-trip trades -- has remained largely unchanged. We argue that the increase in transitory round-trip trades comes primarily from high-frequency intermediation, which has improved high-frequency liquidity but has not materially changed the market liquidity over the long term. Thus, while markets have become considerably more liquid at short horizons, long-term liquidity measures, such as the quarterly price impact and mean reversion, have remained largely unchanged over time. Using various instruments, we further demonstrate that net volume is the appropriate measure of liquidity at a given horizon and that it substantially outperforms gross-volume-based liquidity measures in explaining both the cross-section and time-series of long-term price impact and expected returns.  EFA2026_1902_AP 01_Rethinking Volume.pdf
9:00am - 10:30am	AP 02: Machine Learning Methods in Portfolio Management and Fund Behavior Location: LR M2.2 (Floor 2) Session Chair: Andy Neuhierl, Purdue University
	ID: 490 Machine Learning Mutual Fund Flows

Jürg Fausch¹, Moreno Frigg^{1,3}, Stefan Ruenzi², Florian Weigert⁴

1: Lucerne University of Applied Sciences & Arts; 2: University of Mannheim; 3: University of Neuchâtel; 4: Technical University of Munich

Discussant: **Jeong Ho (John) Kim** (Florida State University)

We present improved out-of-sample predictability of future fund flows using state-of-the-art machine learning methods. Nonlinear machine learning models significantly outperform linear models in terms of out-of-sample R-squared. Using interpretable ML methods, we identify past flows and the Morningstar rating as the most important predictors for netflows, while other past performance variables are of minor importance. We find that the importance of Morningstar ratings and expenses has increased over time. In addition, the interaction effect of past flows with the Morningstar rating has a substantial impact on future flows. Furthermore, our results demonstrate that machine learning-based fund flow predictions can be used to ex-ante differentiate between high and low-performing mutual funds. Finally, we provide evidence that funds whose flow predictions can be improved the most using ML reveal the worst performance, consistent with the idea that liquidity management is particularly challenging for these funds.

 [EFA2026_490_AP 02_Machine Learning Mutual Fund Flows.pdf](#)

ID: 533

Mimicking Finance

Lauren Cohen¹, Yiwen Lu², Quoc Nguyen³

1: Harvard Business School, United States of America; 2: Wharton School of Business, University of Pennsylvania; 3: DePaul University

Discussant: **Laurent Barras** (University of Luxembourg)

We use frontier advancements in Artificial Intelligence and machine learning to extract and classify the part of key economic agents' behaviors that are predictable from past behaviors. Even the agents themselves might view these as novel (innovative) decisions; however, we show in strong contrast that a large percentage of these actions and behaviors can be predicted – and thus mimicked – in the absence of these individuals. In particular, we show that 71% of mutual fund managers' trade directions can be predicted in the absence of the agent making a single trade. For some managers, this increases to nearly all of their trades in a given quarter. Further, we find that manager behavior is more predictable and replicable for managers who have a longer history of trading and are in less competitive categories. The larger the ownership stake of the manager in the fund, the less predictable their behavior. Lastly, we show strong performance implications: less predictable managers strongly outperform their peers, while the most predictable managers significantly underperform. Even within each manager's portfolio, those stock positions that are more difficult to predict strongly outperform those that are easier to predict. Aggregating across the universe of fund managers each quarter, stocks whose position changes are least predictable additionally significantly outperform stocks whose position changes are most predictable across the universe. Our framework allows researchers to delineate and classify the portion of financial agents' action sets which are predictable from those which are novel responses to stimuli – open to being evaluated for value creation or destruction.

 [EFA2026_533_AP 02_Mimicking Finance.pdf](#)

ID: 539

Machine Learning Meets Markowitz

Yijie Wang¹, Hao Gao², Campbell R. Harvey^{3,4}, Yan Liu⁵, Xinyuan Tao⁶

1: Tongji University, China; 2: Tsinghua University, PBC School of Finance, China; 3: Duke University, USA; 4: National Bureau of Economic Research, USA; 5: Tsinghua University, School of Economics and Management, China; 6: New Jersey Institute of Technology, USA

Discussant: **Daniele Bianchi** (School of Economics and Finance, Queen Mary, University of London)

The standard approach to portfolio selection involves two stages: forecast the asset returns and then plug them into an optimizer. We argue that this separation is deeply problematic. The first stage treats cross-sectional prediction errors as equally important across all securities. However, given that final portfolios might differ given distinct risk preferences and investment restrictions, the standard approach fails to recognize that the investor is not just concerned with the average forecast error – but the precision of the forecasts for the specific assets that are most important for their portfolio. Hence, it is crucial to integrate the two stages. We propose a novel implementation utilizing machine learning tools that unifies the expected return generation process and the final optimized portfolio. Our empirical example provides convincing evidence that our end-to-end method outperforms the traditional two-stage approach. In our framework, each investor has their own, endogenously determined, efficient frontier that depends on risk preferences, investor-specific constraints, as well as exposure to market frictions.

 [EFA2026_539_AP 02_Machine Learning Meets Markowitz.pdf](#)

9:00am - 10:30am

FI 02: Data Centers

Location: **LR M2.3 (Floor 2)**

Session Chair: **Aleksandar Andonov**, University of Amsterdam

ID: 1019

Subsidizing the Cloud: U.S. State Incentives to Data Centers

Antonio Gargano¹, Marco Giacoletti²

1: University of Houston, United States of America; 2: University of Notre Dame, United States of America

Discussant: **Aymeric Bellon** (UNC Chapel Hill)

Between 2000 and 2025, 38 U.S. states adopted tax incentives to attract data center investment. We provide causal evidence that these incentives increased state-level data center construction, with effects concentrated among large-scale facilities for cloud computing and, more recently, large language models. We develop a quantitative model endogenizing development location decisions and state tax incentives. The model implies strong fiscal competition among states: a coordinated repeal of incentives would improve total state-government welfare. It also implies large expected economic gains from data centers. We explore job market spillovers and find null results for data centers' impact on local tech-related employment.

 [EFA2026_1019_FI 02_Subsidizing the Cloud.pdf](#)

ID: 462

Is AI Trained on Public Money? Evidence from U.S. Data Centers

Adam Feher¹, Roxana Mihet¹, Emilia Garcia-Appendini²

1: University of Lausanne, Switzerland; 2: University of St. Gallen

Discussant: **Zacharias Sautner** (University of Zurich)

States and counties are offering large incentives to attract data centers, yet it remains unclear whether host communities benefit from the buildout of AI infrastructure. We find no detectable average effect of data-center load on residential or commercial electricity prices, and no broad gains in local revenue, employment, or IT spending. These results suggest that host communities help finance the buildout of AI infrastructure without receiving broad local gains. We argue that the historical null in electricity prices is consistent with supply-side absorption: during our sample, load growth appears to have landed largely on slack segments of local supply curves. Private procurement and behind-the-meter contracts matter mainly for forward-looking scenarios, not for explaining the historical null.

 [EFA2026_462_FI 02_Is AI Trained on Public Money_Evidence from US Data Centers.pdf](#)

ID: 1915

Datacenter Mortgages and Originate-to-Distribute

Pedro Gete¹, Amparo Mercader²

1: IE University, Spain; 2: Georgetown University, USA

Discussant: **Olivier Darmouni** (HEC Paris)

We build a novel property-level database of U.S. datacenter mortgages, documenting a source of AI-buildout financing that has received little attention. Unlike corporate debt, which is observable through public bond and loan disclosures, property-level mortgage lending is fragmented across property records, local lenders, and non-public loan documents. By linking these mortgages to lender balance sheets, we document a large, recent, and highly concentrated market. The market is dominated by banks with a high propensity to originate loans for distribution rather than retention, that is, originate-to-distribute (OTD) banks, and by Undiversified Datacenter borrowers, firms whose repayment capacity depends on continued AI demand for datacenter capacity rather than diversified revenue. We then ask whether OTD incentives relax lending standards in this market. We find that High-OTD lenders extend substantially higher leverage and finance more Undiversified Datacenter deals. Moreover, the leverage premium itself concentrates among these same borrowers.

 [EFA2026_1915_FI 02_Datacenter Mortgages and Originate-to-Distribute.pdf](#)

10:30am - 11:00am

Coffee Break

11:00am - 12:30pm

BIS: Digital Innovation and the Future Financial System

Location: **LR M0.1 (Floor 0)**

Session Chair: **Sebastian Doerr**, Bank for International Settlements

ID: 365

Are New Technologies Replacing the Information Produced by Financial Markets?

Laurent Fresard¹, Marco Zanolli²

1: USI Lugano, Switzerland; 2: Stockholm School of Economics

Discussant: **Victoria Vanasco** (CREI)

Firms are increasingly collecting and analyzing data from a wide range of sources. How do these data affect the interaction between firms and financial markets?

Using the staggered adoption of data technologies on firms' websites, we show that customers' data partially substitutes for the information that managers learn from financial markets. Data availability improves managers' internal information about future product demand and reduces firms' reliance on stock prices for investment decisions by about one half. The effect is consistent with data technologies replacing the informational role of stock prices. This "replacement effect" is robust to alternative explanations and reverses back under data-privacy restrictions. Our findings suggest that the diffusion of data technologies weakens the informational role of financial markets in guiding real investment decisions.

ID: 599

Technology, Online Banks, and Credit Market Segmentation

Laura Bottazzi^{1,5}, Chiara Farronato^{2,5,6}, Rachel J. Nam³, Loriana Pelizzon^{4,5}

1: University of Bologna; 2: Harvard Business School; 3: USI Lugano/Swiss Finance Institute; 4: Leibniz Institute for Financial Research, SAFE; 5: CEPR; 6: NBER

Discussant: **Cecilia Parlatore** (NYU Stern School of Business)

How does online bank expansion (digital-only depository institutions that originate loans without human intermediation) affect consumer credit markets? Using loan-level data from Germany, we show that online banks cherry-pick low-risk borrowers, generating adverse selection on traditional banks. We document three facts. First, the market is segmented across lender types. Online banks serve the lowest-risk borrowers, traditional banks the medium-risk segment, and fintechs the highest-risk segment. Second, online banks attract these borrowers by offering substantially lower rates, an advantage that diminishes with risk. Using historical branch density as an instrument, we isolate the supply-side mechanism of this pattern. Third, traditional banks more exposed to online bank expansion experience a deterioration in their borrower pool and charge higher rates as a result. A parsimonious model with lenders who observe the same application information but use it differently rationalizes these facts. Traditional banks use coarse pricing, a legacy of costly manual underwriting for a standardized product, while online banks use finer pricing and cherry-pick the best borrowers from within traditional banks' pricing cells. Our findings highlight that technological development in credit markets can generate important distributional consequences.

 [EFA2026_599_BIS_Technology, Online Banks, and Credit Market Segmentation.pdf](#)

ID: 1109

When Privacy Protects but Excludes: The Costs and Benefits of Privacy Regulation in Credit Markets

Sumit Agarwal¹, Pulak Ghosh², Peiyi Jin¹, Shohini Kundu³, Xinbo Wang¹, Nishant Vats⁴, Yingze Xu⁴

1: National University of Singapore, Singapore; 2: IIM Bangalore, India; 3: UCLA Anderson, United States of America; 4: WashU Olin, United States of America

Discussant: **Ralph De Haas** (European Bank for Reconstruction and Development)

This paper studies the consequences of privacy regulation by exploiting Google's 2019 data-access restriction. We document a key trade-off: stronger privacy protections increase loan applications, suggesting higher demand, but lead to tighter screening and reduced credit supply. This contraction disproportionately excludes economically and socially marginalized applicants. Using bureau records, we quantify the "FinTech ladder effect," whereby early digital credit access enables long-term borrowing. Privacy-driven rejections lower the likelihood of obtaining credit by 13.7 percentage-points even after four years. A structural model decomposes the welfare effects and shows that regulation raises consumer surplus by 0.23-0.60% but reduces lender profits by 20-23%.

 [EFA2026_1109_BIS_When Privacy Protects but Excludes.pdf](#)

11:00am - 12:30pm

FI 03: Central Bank Balance Sheets and Monetary Transmission

Location: **LR M0.2 (Floor 0)**

Session Chair: **Frank Smets**, Bank for International Settlements

ID: 1691

Fluctuations in the Treasury General Account and their effect on the Fed's balance sheet

Annette Vissing-Jorgensen

Board of Governors of the Federal Reserve, United States of America

Discussant: **Tobias Linzert** (European Central Bank)

The US government's money demand is large and volatile and takes the form of the Treasury General Account (TGA) at the Federal Reserve. I study the drivers of TGA volatility and the options available to the Federal Reserve for adjusting its balance sheet in response to this volatility. Using interest rate control, control of the Fed's overall policy stance, and communication as criteria, I argue that a policy of backing the TGA with Treasury bills (or other short-maturity assets) and adjusting bill holdings with TGA fluctuations performs better than the current ample reserves policy of letting the supply of reserves and overnight reverse repo balances adjust passively to changes in the TGA.

 [EFA2026_1691_FI 03_Fluctuations in the Treasury General Account and their effect.pdf](#)

ID: 460

When the tide goes out: The Effect of QE on the Structure of the Financial System

Ciaran Rogers¹, Matteo Leombroni², Philippe van der Beck³, Stelios Kotronis⁴

1: HEC Paris, France; 2: Boston College; 3: HBS; 4: EIOPA

Discussant: **Matteo Aquilina** (BIS)

This paper shows that the prolonged period of low long-term interest rates fundamentally reshaped the European financial system by compressing the life-insurance sector—the main private holder of long-dated sovereign debt. Life insurers depend on high long-term yields to offer attractive guaranteed-return savings products to households. Using newly assembled supervisory data from EIOPA combined with flow-of-funds statistics, we show that the compression of term premia under quantitative easing (QE) reduced household inflows into life insurers by nearly EUR2 trillion between 2015 and 2022, leading to a sharp contraction in their bond holdings. Instrumenting the term premium with high-frequency monetary policy shocks, we find that insurers' inflows respond strongly to long-term rates, particularly among those most exposed to guaranteed-rate products. Because insurers invest roughly EUR0.70 in bonds for every EUR1 of inflows, this liability-side channel accounts for the bulk of their bond demand. The effects during QT were not symmetric: rising rates triggered widespread policy surrenders, turning insurers into net sellers of government bonds. Although inflows have begun to recover as yields normalized, the rebound remains limited. By compressing long-term yields, QE indirectly reshaped the investor base for sovereign debt—leaving bond markets more reliant on central bank demand and less anchored by private long-term investors.

 [EFA2026_460_FI 03_When the tide goes out.pdf](#)

ID: 1372

Tight Capital, Loose Money: How Stress-Tested Banks Responded to Quantitative Easing

Chiara Vergeat¹, Marco Grotteria^{1,2}, Lakshmi Naaraayanan¹

1: London Business School, United Kingdom; 2: CEPR

Discussant: **Marta Skrzypinska** (European Central Bank)

We study whether capital regulation shapes how quantitative easing (QE) reaches borrowers. Comparing U.S. banks subject to post-crisis stress tests with other banks during the Federal Reserve's asset purchases, and using detailed loan-rate data, we find that stress-tested banks cut mortgage rates more but raised consumer loan rates more. Effects are largest for banks required to raise the most capital and those most exposed to the Fed's mortgage-backed security purchases. An estimated model shows that capital constrained banks favour mortgages—whose funding QE makes cheaper—at the expense of consumer credit. Capital rules thus redirect monetary stimulus across credit markets.

 [EFA2026_1372_FI 03_Tight Capital, Loose Money.pdf](#)

11:00am - 12:30pm

SF 02: Perceptions and Pricing of Sustainability

Location: **LR M0.3 (Floor 0)**

Session Chair: **Shaojun Zhang**, The Ohio State University

ID: 1092

Green Expectations: Climate Change and Homeowner Valuation of Dwelling Sustainability

Milind Goel

Nanyang Technological University, Singapore

Discussant: **Pat Akey** (ESSEC Business School)

I estimate climate discount rates by calibrating the present value of expected energy savings from greener dwellings to the corresponding price premium. I link seven million residential real estate transactions in the United Kingdom to the sustainability ratings of the underlying dwellings and demonstrate that homeowners price dwelling sustainability following economic principles. Homeowners apply lower rates to discount marginal energy savings from subsequently greener dwellings. Differences in capital constraints, heterogeneity in climate beliefs, regulatory uncertainty associated with lower-rated dwellings, and uncertainty of marginal savings from lower-rated dwellings do not explain the declining cross-sectional structure of the discount rates with increasing dwelling sustainability. Thus, homeowners derive non-pecuniary benefits from holding greener dwellings, and these benefits become more salient with increasing dwelling sustainability. This interpretation is supported by the increase in unprofitable investments to have ratings improved for dwellings not impacted by the regulation imposing a minimum energy efficiency standard.

 [EFA2026_1092_SF 02_Green Expectations.pdf](#)

ID: 199

What is the carbon premium a premium on?

Marcin Kacperczyk

Imperial College London, United Kingdom

Discussant: **Deeksha Gupta** (Johns Hopkins University)

I develop an asset-pricing framework in which climate premia depend on the price of risk and on how firm characteristics map into cash-flow exposure. Which characteristics are priced is therefore a question about economic mechanisms, not proxy selection. The framework characterizes when a scalar characteristic is sufficient for priced exposure: normalized exposure must be measurable with respect to that characteristic. Applying this criterion to emission intensity yields two testable implications, spanning

and scale invariance. Both are rejected in international firm-level data: the intensity premium varies with firm size, and emission levels carry independent information conditional on firm value.

 [EFA2026_199_SF 02_What is the carbon premium a premium on_.pdf](#)

ID: 370

Objective vs. Perceived Corporate Greenness: Do Individuals Understand Corporate Sustainability Information?

Kornelia Fabisik^{1,2}, Rink Sebastian³

1: University of Bern; 2: CEPR Affiliate; 3: Frankfurt School of Finance & Management

Discussant: **Marco Ceccarelli** (VU Amsterdam)

We investigate how individuals interpret corporate sustainability disclosures in a pre-registered survey experiment. Participants can distinguish greener from browner firms better than applying uninformed guessing, but their assessments are systematically compressed toward the middle of the scale. This compression is asymmetric: respondents overestimate the greenness of browner firms but they underestimate the greenness of greener firms even more strongly. The pattern is the same among finance professionals or sustainability experts, suggesting that expertise alone does not resolve the interpretation problem. We then examine how disclosure design can mitigate these errors. Providing benchmark information, presenting emissions in relative terms, and translating emissions into familiar metrics improve participants' ability to distinguish firm greenness.

 [EFA2026_370_SF 02_Objective vs Perceived Corporate Greenness.pdf](#)

11:00am - 12:30pm

MM 01: Trading and information

Location: **LR N0.5 (Floor 0)**

Session Chair: **Xavier Vives**, IESE Business School

ID: 1156

Institutional Ownership Concentration and Informational Efficiency

Yan Xiong¹, Liyan Yang², Zexin Zheng³

1: University of Hong Kong; 2: University of Toronto; 3: Hong Kong University of Science and Technology

Discussant: **Christian Eufinger** (IESE Business School)

This work studies how the concentration of ownership among institutional investors influences price informativeness in financial markets. We find that an increase in institutional ownership concentration — whether measured by investors' assets under management (AUM) or their firm-level holdings — reduces price informativeness as well as investment-to-price sensitivity. This negative effect is attributed to the learning and trading decisions of active, rather than passive, investors. To establish causality, we utilize a setting involving mergers between active investors, and our results remain consistent across both U.S. and international contexts.

 [EFA2026_1156_MM 01_Institutional Ownership Concentration and Informational Efficiency.pdf](#)

ID: 860

Trade-Off ? What Trade-Off: Information Production without Illiquidity

Thierry Foucault¹, Kostas Koufopoulos², Roman Kozhan³

1: HEC Paris, France; 2: University of Sussex, United Kingdom; 3: University of Warwick, United Kingdom

Discussant: **Savitar Sundaresan** (Imperial College London)

Private information in financial markets improves the informativeness of asset prices and guides resource allocation. However, informed trading generates rents at the expense of uninformed traders, creating a trade-off between price informativeness and liquidity. In addition, private incentives to acquire information need not align with the value of that information for agents who rely on prices to make decisions. We show that this trade-off can be eliminated by a market structure that separates information production from liquidity provision. In such a structure, prices remain informative while liquidity is preserved, and incentives to acquire information align with its value for decision-makers.

 [EFA2026_860_MM 01_Trade-Off _What Trade-Off_.pdf](#)

ID: 2119

Competition and Collusion Among Strategic Traders Who Face Uncertainty

George Malikov¹, Snehal Banerjee², Filipp Prokopen²

1: University of Western Ontario, Ivey Business School; 2: University of Michigan, Stephen M. Ross School of Business

Discussant: **Vladimir Asriyan** (CREI, ICREA, BSE)

Conventional wisdom suggests that informed investors benefit from trading monopolistically. We show this can fail when investors face uncertainty about liquidity. In a Kyle (1985) framework, we compare profits under monopolistic and competitive equilibria when investors face uncertainty about liquidity trading volatility. While low uncertainty favors coordination, sufficiently high uncertainty reverses this: an individual investor's competitive profits can exceed total monopolistic profits. Endogenizing the collusion

	decision generates novel predictions: small increases in liquidity uncertainty can cause discrete jumps in trading volume, price volatility, and price informativeness.  EFA2026_2119_MM 01_Competition and Collusion Among Strategic Traders Who Face Uncertainty.pdf
11:00am - 12:30pm	HF 02: Expectations and Financial Choices Location: LR M1.2 (Floor 1) Session Chair: Steffen Meyer, Aarhus University and Danish Finance Institute (DFI) ID: 406 Subjective Income Expectations and Household Debt Choices <u>Francesco D'Acunto</u>², <u>Michael Weber</u>¹, <u>Xiao Yin</u>³ 1: Purdue University, United States of America; 2: Georgetown University, United States of America; 3: UCL, Great Britain <i>Discussant:</i> Thomas Jansson (Sveriges Riksbank) Matched transaction-level, credit-registry, and survey data show that consumers over-extrapolate from unexpected income shocks to their income expectations. Over-optimistic income forecasts raise current spending and lead to greater debt accumulation and higher default when incomes subsequently fall short. A consumption-savings model with defaultable unsecured debt and extrapolative Kalman filtering, in which consumers overreact to income surprises reconciles our empirical findings and shows extrapolative expectations can generate state-dependent household debt cycles.  EFA2026_406_HF 02_Subjective Income Expectations and Household Debt Choices.pdf ID: 332 Investing When Fewer Expect to Parent: Fertility Expectations and Financial Risk-Taking <u>Judith Bohnenkamp</u>¹, <u>Ville Rantala</u>¹, <u>Melina Vosse</u>² 1: University of Miami; 2: University of San Diego <i>Discussant:</i> Lovisa Reiche (BI Norwegian Business School) We examine how fertility expectations influence financial risk-taking using nationally representative data from three countries. Our results indicate that childless adults who do not expect children are 21–36% more likely to invest in stocks than those who expect children, controlling for personal characteristics. This effect persists also when medical infertility instruments expectations. We find no similar effects for other savings categories, nor differences in self-reported risk tolerance. Households expecting children report shorter financial planning horizons, which may explain their lower risk-taking. These results suggest declining fertility can increase young adults' stock market participation through childbearing expectations.  EFA2026_332_HF 02_Investing When Fewer Expect to Parent.pdf ID: 2107 Beliefs and Actions under Government Policy Uncertainty: Evidence from Student Loan Forgiveness <u>Dmitri Koustas</u>¹, <u>Michael Weber</u>², <u>Constantine Yannelis</u>³ 1: University of Chicago; 2: University of Cambridge; 3: Purdue University <i>Discussant:</i> Vesa Pursiainen (University of St. Gallen) Government announcements about future actions can influence agents' economic choices today. How do beliefs about future government policy affect households' borrowing, spending and debt paydown behavior? We study this question through the lens of student loan forgiveness in the United States, which following electoral promises, was announced in 2022 but never implemented due to judicial rulings. We conduct a customized information provision experiment embedded in a survey eliciting real-time beliefs about future debt forgiveness and repayment, which we link to credit bureau data, employment verification data, and nondurables consumption. Borrowers who are more optimistic about forgiveness reduce payments on student loans and increase non-durable spending, but postpone durable spending while they wait for uncertainty to resolve. Our results provide micro-evidence on the role of policy uncertainty in household decisionmaking, and have implications for government announcements and commitment policy.  EFA2026_2107_HF 02_Beliefs and Actions under Government Policy Uncertainty.pdf
11:00am - 12:30pm	CF 03: Innovation Location: Chapel (Floor 1) Session Chair: Isil EreI, The Ohio State University ID: 431 Quietly Ahead: The Diverging R&D Productivity of Public and Private Firms <u>Daniel Bias</u>¹, <u>Alexander Ljungqvist</u>²

1: Vanderbilt University; 2: Stockholm School of Economics, Sweden

Discussant: **Leandro Sanz** (University of Notre Dame)

Using 80 years of patent-level data, we show that unlisted firms are "quietly ahead" of stock market-listed firms in the innovation race. While unlisted firms produced less valuable innovations for much of the twentieth century, they have risen to a leading position in innovation value this century. This reversal is not explained by changes in patent characteristics or by shifts in market multiples applied to those characteristics. Instead, it reflects differences in technology-field allocation: beginning in the 1980s, unlisted firms reallocated R&D toward fields with rising market valuations and away from declining ones. A simple conceptual lens highlights how nimble reallocation toward high-value fields becomes more valuable as technological opportunities grow more dispersed and persistent. Unlisted firms---especially young and first-time patenters---adjust more nimbly to emerging value signals, aided by venture capital. As a result, their share of aggregate R&D value-add has more than tripled since 1985, despite stable patent shares and faster R&D spending growth among listed firms.

 [EFA2026_431_CF 03_ Quietly Ahead.pdf](#)

ID: 1727

America Invents Act and Innovation Acquisition: A Race to Acquire Patents?

Evrin Akdoğu¹, Merve Meriç-Yılmaz², Serif Aziz Simsir³

1: Sabanci University; 2: Istanbul Bilgi University; 3: Sabanci University

Discussant: **Jean-Marie Meier** (University of Texas at Dallas and Fellow, Wharton Impact, Wharton School, University of Pennsylvania)

This study examines how America Invents Act, particularly its shift from a "first-to-invent" to a "first-inventor-to-file" rule, affects innovation acquisition. Using the Act as a quasi-natural experiment, we find innovative firms became more likely acquisition targets post-AIA. This increased demand is further evidenced by more contested bids, longer deal completions, and higher bid premiums for innovative targets during that time. Acquirers of these targets subsequently reduced their own patenting, indicating a substitution effect between internal and external innovation. The findings reveal a more competitive and less cooperative environment post-AIA, forcing firms to exit the market or acquire innovation through M&As.

 [EFA2026_1727_CF 03_America Invents Act and Innovation Acquisition.pdf](#)

ID: 1627

Inventor Performance Pressure and Strategic Innovation Management

Tao Shu¹, Xiangqian Huang², Xuan Tian³

1: Chinese University of Hong Kong, Shenzhen; 2: Zhongnan University of Economics and Law;

3: Peking University

Discussant: **Silvia Dalla Fontana** (ESCP Business School)

We investigate whether corporate inventors, incentivized by annual performance appraisals, engage in opportunistic innovation management by filing excessive low-quality patents during fiscal year-end (FYE) months. For US public firms, we find a 43% surge in patent filings during FYE months compared to other months, and these additional patents exhibit significantly lower quality. Innovation management is more pronounced among inventors facing greater performance pressure. While such behavior initially reduces inventor turnover, it increases inventor turnover in later years, reflecting a tradeoff between short-term performance gains and long-term reputational costs. Finally, innovation management leads to lower future firm performance and stock returns.

 [EFA2026_1627_CF 03_Inventor Performance Pressure and Strategic Innovation Management.pdf](#)

11:00am - 12:30pm

DFA: Innovations in Asset Pricing

Location: **LR M2.1 (Floor 2)**

Session Chair: **Mamdouh Medhat**, Dimensional Fund Advisors

ID: 399

0DTE Asset Pricing

Caio Almeida¹, Gustavo Freire², Rodrigo Hizmeri³

1: Princeton University, United States of America; 2: Nova School of Business and Economics;

3: Liverpool Business School

Discussant: **Stephen Szaura** (BI Norwegian School of Business)

We document new asset pricing stylized facts implied by zero days-to-expiration (0DTE) options, which now comprise half of total S&P 500 option volume, and contrast them to those of longer-maturity contracts. A distinctive feature of the 0DTE market is that investors require more compensation for positive market returns than for negative returns. This is reflected in a high variance risk premium, which is mainly driven by compensation for upside risk and negatively predicts market returns. Moreover, the majority of 0DTEs violates price bounds associated with risk-averse investors. A trading strategy exploiting these violations is highly profitable up to 2022, but dissipates after the daily availability of 0DTEs, consistent with growing integration with the underlying market in recent years.

 [EFA2026_399_DFA_0DTE Asset Pricing.pdf](#)

ID: 1088

Financial Prediction Markets: A New Measure of Earnings Expectations

Roberto Gomez-Cram¹, Yunhan Guo¹, Theis Jensen², Howard Kung^{1,3}

1: London Business School; 2: Yale University; 3: Centre for Economic Policy Research (CEPR)

Discussant: **Dirk Hackbarth** (Boston University)

We construct a high-frequency measure of earnings expectations using financial prediction markets. Unlike analyst forecasts, which are updated infrequently and prone to agency conflicts, prediction market prices reflect real-time, stake-backed beliefs. Each contract pays one dollar if realized earnings exceed the analyst consensus; we derive the conditions under which these prices represent subjective probabilities and introduce a methodology to convert them into implied expectations about earnings. Relative to analyst forecasts, we find that market-implied expectations are (i) more accurate; (ii) incrementally informative for earnings announcement returns; (iii) significantly less biased, though they exhibit short-term overreaction in contrast to the underreaction typical of analysts; and (iv) lead in price discovery. We expect this measure to become increasingly informative as the market matures, liquidity deepens, and financial prediction markets become part of mainstream finance.

 [EFA2026_1088_DFA_Financial Prediction Markets.pdf](#)

ID: 1381

Text Is All You Need: Asset Pricing Without Returns

Christian Breitung

Technical University of Munich, Germany

Discussant: **Fulin Li** (Texas A&M University)

How should investors value firms without return histories? In practice, investors typically proxy the cost of equity in discounted cash flow valuations using peer-based betas. Using IPOs as a natural laboratory, I show that disclosed business risks provide an informative basis for beta estimation. I introduce Aggregated Cluster Embeddings (ACE), a context-aware framework that encodes disclosed business risks into economically meaningful numerical representations. Using these representations as inputs to machine learning models, I obtain beta estimates that are up to 31 percent more accurate than peer-based benchmarks. Despite this improvement, investors do not appear to fully incorporate the information contained in disclosed business risks at issuance. Portfolios formed on predictions derived from ACE representations exhibit cross-sectional return predictability. The resulting long-short portfolio earns a significant six-factor alpha of 101 basis points per month during the first year after the IPO. These abnormal returns vanish as return histories accumulate, consistent with markets gradually learning firms' true systematic risk exposures.

 [EFA2026_1381_DFA_Text Is All You Need.pdf](#)

11:00am - 12:30pm

AP 03: Frictions in Financial Markets

Location: **LR M2.2 (Floor 2)**

Session Chair: **Hanbin Yang**, London Business School

ID: 1332

The Hidden Cost of Stock Market Concentration: When Funds Hit Regulatory Limits

Lubos Pastor, Taisiya Sikorskaya, Jinrui Wang

University of Chicago Booth School of Business, United States of America

Discussant: **Paul Hübner** (Stockholm School of Economics)

As stock market concentration has risen, regulatory limits on fund portfolio concentration have become increasingly binding, especially for large-cap growth funds. When funds approach these limits, they trim their largest holdings and reduce equity exposure. Funds perform worse when constrained. A constraint-based ownership measure predicts stock returns, particularly among the largest firms. These findings suggest that high market concentration can distort stock prices by limiting the ability of optimistic investors to scale their positions. Just like short-sale constraints can produce overpricing by limiting pessimistic investors' views, constraints on long positions can generate underpricing by suppressing optimists' views.

 [EFA2026_1332_AP 03_The Hidden Cost of Stock Market Concentration.pdf](#)

ID: 1047

Specialization in Financial Markets

Milena Wittwer², Andreas Uthemann¹

1: Bank of Canada, Canada; 2: Columbia Business School, USA

Discussant: **Filippo Cavaleri** (University of Chicago)

Financial markets are fragmented, with different asset classes trading in separate markets. Yet most empirical asset pricing research pays little attention to this type of fragmentation. As a result, we know relatively little about how financial intermediaries operate across markets or how to design policies that account for cross-market dynamics. We construct a unique dataset that traces trading by registered broker-dealers and exchange members—dealers—across all major Canadian markets for bonds, stocks, and exchange-traded derivatives. We show that dealers concentrate their activity in specific markets and asset types, with stronger specialization across markets. We provide suggestive evidence that this

specialization reflects a mix of firm organization, market frictions, and client demand, and show that more specialized dealers consistently obtain better prices, indicating a trading advantage.

 [EFA2026_1047_AP 03_Specialization in Financial Markets.pdf](#)

ID: 2131

Learning from Prediction Markets: The Transmission of Information and Noise to Traditional Assets

Itay Goldstein¹, Ye Li², Chen Wang³

1: Wharton School of the University of Pennsylvania; 2: University of Washington; 3: University of Notre Dame, United States of America

Discussant: **Theis Jensen** (Yale University)

Prediction markets are widely promoted as efficient mechanisms for aggregating dispersed information and generating signals for the broader economy. We document information spillover from Polymarket to traditional financial markets during the 2024 U.S. presidential election. Changes in Polymarket-implied probabilities predict next-day returns of “Trump trades” across asset classes, followed by partial reversals, indicating that both information and noise are transmitted. Using the blockchain-based transaction data, we classify Polymarket traders as informed or uninformed at the wallet level and show that the price impact of uninformed trading contributes to the next-day predictability, but, unlike the price impact of informed trading, does not persist and fades over the following days. As the transmitted noise cannot reflect the sequential arrival of fundamental information, it identifies an active cross-market learning channel through which both information and noise propagate. We further document an “information hangover” effect: recent informed trading amplifies the traditional market’s subsequent reliance on Polymarket signals, which in turn facilitates noise spillovers.

 [EFA2026_2131_AP 03_Learning from Prediction Markets.pdf](#)

11:00am - 12:30pm

RE 01: Housing Supply

Location: **LR M2.3 (Floor 2)**

Session Chair: **Cristian Badarinza**, Frankfurt School of Finance and Management

ID: 1002

Affordable Housing at What Cost? Housing Subdivision and the Affordability–Externality Tradeoff

Jiayin Hu¹, Shangchen Li², Wen Wang³, Yue Yu⁴

1: Peking University; 2: The University of Hong Kong; 3: Hong Kong University of Science and Technology; 4: University of Toronto

Discussant: **Yushi Peng** (Tilburg University)

Subdividing existing housing units into smaller self-contained rental units has become an increasingly important approach to expanding affordable housing supply. Yet while subdivision increases the supply of low-cost housing, it may also generate congestion, safety, and other residential externalities. This paper studies this affordability–externality tradeoff using the expansion of a large PropTech platform in Beijing that converts apartment living rooms into additional bedrooms and rents them separately. Using longitudinal rental contract, census, and administrative complaint data in an instrumental-variable design, we find that subdivision lowers both bedroom rents and standard apartment rents, but increases complaints related to noise, fire hazards, and other housing-related nuisances. To evaluate the welfare and distributional consequences of subdivision, we develop and estimate a structural housing market model with heterogeneous households and endogenous remodeling decisions. We find that migrants without Beijing hukou, non-college households, and smaller households benefit most from the rent reductions generated by subdivision, whereas higher-educated local households and families with children bear larger externality costs. Although a complete ban on subdivision increases aggregate welfare, it disproportionately harms the most disadvantaged renters. Counterfactual analysis shows that targeted restrictions or Pigouvian taxes with resident rebates can substantially reduce externalities while preserving much of the affordability benefit.

 [EFA2026_1002_RE 01_Affordable Housing at What Cost_Housing Subdivision and the Affordability–Externality.pdf](#)

ID: 752

How Housing Supply Expansions Reshape Cities

Marco Giacoletti¹, Matthijs Korevaar², Franklin Qian³

1: University of Notre Dame; 2: Erasmus University Rotterdam; 3: University of North Carolina - Chapel Hill

Discussant: **Kevin Sheedy** (London School of Economics)

We study a large-scale policy relaxing residential land supply constraints near major Dutch cities in the mid-1990s. Land allocation was determined centrally and was unrelated to pre-policy local market dynamics. Using administrative data, we explore effects on housing, mobility, and labor markets. New supply attracted high-income individuals, primarily from nearby high-income neighborhoods, where house prices decreased. New supply also increased local employment in surrounding areas, especially in high-earning occupations. We develop a rich quantitative spatial equilibrium model and show that the

impact of relaxing supply constraints on housing markets and welfare crucially depends on job reallocation and on in-migration flows.

 [EFA2026_752_RE 01_How Housing Supply Expansions Reshape Cities.pdf](#)

ID: 2174

Bank Regulation, Construction Financing, and the Supply of New Housing

Sheridan Titman¹, Deheng Xu², Yiyuan Zhang¹

1: University of Texas at Austin; 2: Chinese University of Hong Kong

Discussant: **Anil Kumar** (Aarhus University)

We show that post-GFC bank regulatory changes intended to curb bank risk-taking contributed to the decline in the supply of new housing. With unique data on the financing and sales of nearly 18,000 homebuilders, we document a sharp decline in construction loans from large banks subject to stress testing following the 2013 reforms, a reduction that was not offset by increases in financing from other sources. Employing a difference-in-differences (DiD) design, we find that, relative to homebuilders that previously borrowed from smaller banks, the credit availability and new home sales of homebuilders that previously borrowed from stress-tested banks declined after the reforms. In a county-level instrumental-variable analysis, we find that counties where stress-tested banks held greater pre-GFC market shares originated fewer construction loans, supplied fewer new homes, and experienced greater house price appreciation after 2013.

 [EFA2026_2174_RE 01_Bank Regulation, Construction Financing, and the Supply.pdf](#)

12:30pm - 2:00pm

Lunch

2:00pm - 3:30pm

Deutsche Bundesbank: Rewiring Finance: Artificial Intelligence, Digitalization and the Future Architecture of Financial Systems

Location: **LR M0.1 (Floor 0)**

Session Chair: **Natalya Martynova**, Deutsche Bundesbank

ID: 541

Payment Innovation and Interbank Competition

Rodney Garratt¹, Jiaheng Yu², Haoxiang Zhu³

1: University of California, Santa Barbara; 2: The University of Hong Kong; 3: MIT Sloan School of Management

Discussant: **Kartik Anand** (Deutsche Bundesbank)

This paper presents a theoretical analysis of how innovation in the form of public payment infrastructures, accessible to all banks with equal efficacy, affects competition in the banking sector. We develop a model of two-bank competition in which one bank's deposit offers greater payment convenience than its rival's. In equilibrium, the bank with the convenience advantage captures a larger share of both the deposit market and—via a novel channel involving interest on central bank reserves—the lending market. We show that innovations enabling a uniform level of payment convenience for all consumers help level the playing field between large and small banks. In contrast, paying interest on balances of alternative media of exchange tends

to reinforce the advantages of larger banks. Our theoretical findings are supported by recent empirical evidence from payment innovations in Brazil, China, and the United States.

 [EFA2026_541_Deutsche Bundesbank_Payment Innovation and Interbank Competition.pdf](#)

ID: 918

Integrating Fragmented Networks: Interoperability in Money and Payments

Alexander Copestake¹, Divya Kirti¹, Maria Soledad Martinez Peria¹, Yao Zeng^{2,3}

1: International Monetary Fund; 2: Wharton School, University of Pennsylvania; 3: National Bureau of Economic Research

Discussant: **Sergey Sarkisyan** (The Ohio State University)

Network effects in payments technologies drive concentration, but interventions to increase choice risk market fragmentation. We study whether interoperability can resolve this dilemma, using data from India's Unified Payments Interface and a major pre-existing digital wallet. When these platforms became interoperable, overall digital payment usage rose. This increase was driven by regions that were more fragmented across payment platforms ex ante, consistent with a model in which interoperability expands effective network size without requiring consolidation on a single platform. Model-based estimates imply that interoperability raised total digital payment usage by over 50 percent in the year after integration.

 [EFA2026_918_Deutsche Bundesbank_Integrating Fragmented Networks.pdf](#)

ID: 1004

Artificial Intelligence and the Rents of Finance Workers

Jean-Edouard Colliard¹, Junli Zhao²

1: HEC Paris, France; 2: Bayes Business School, United Kingdom

Discussant: **Roxana Mihet** (University of Neuchâtel, University of Lausanne, SFI)

This paper studies how artificial intelligence (AI) affects the finance labor market when humans and AI perform different tasks in investment projects, and workers earn agency rents that grow with project size. We identify two key effects of AI improvement: A free-riding effect raises worker rents by increasing the probability of successful investment when the worker shirks; A capital reallocation effect shifts investment toward workers with higher or lower rents, depending on which tasks AI improves. The model generates predictions that would not be obtained with a frictionless labor market. In particular, AI can increase labor demand and workers' rents even when substituting for workers.

 [EFA2026_1004_Deutsche Bundesbank_Artificial Intelligence and the Rents of Finance Workers.pdf](#)

2:00pm - 3:30pm

FI 04: Monetary Policy and Bank Lending

Location: LR M0.2 (Floor 0)

Session Chair: **Jose-Luis Peydro**, LUISS and EIEF

ID: 1301

QE-QT, Bank Liquidity Risk Management, and Non-Bank Funding: Evidence from Administrative Data

Matt Darst¹, Sotirios Kokas², Alexandros Kontonikas², Jose-Luis Peydro³, Alexandros Vardoulakis¹

1: Federal Reserve Board of Governors, United States of America; 2: University of Essex; 3: LUISS & EIEF

Discussant: **Maximilian Jager** (Frankfurt School of Finance)

We show that the effectiveness of unconventional monetary policy is limited by how banks manage liquidity risk, including credit supply, in response to fragile non-bank funding. For identification, we use granular U.S. administrative deposit account, loan-level, and balance sheet data, in conjunction with variations in quantitative easing (QE) and tightening (QT) and an ex-ante bank-level exposure measure to non-banks. QE mechanically increases bank fragility by triggering large inflows of uninsured deposits from non-bank financial institutions. However, we show that banks more exposed to this fragility actively manage this liquidity risk. On the liability side, more exposed banks offer better rates to insured deposits while cutting uninsured rates; by doing so, they shift away from uninsured to insured deposits. On the asset side, exposed banks move away from reserves into higher-yield liquid assets without changing their liquidity regulatory requirements. Moreover, exposed banks also reduce the supply of contingent credit lines to corporate clients. Firms reliant on more exposed banks experience an aggregate reduction in the amount of liquidity insurance they enjoy against future shocks. Our analysis reveals that the fragility of deposit funding can disrupt the complementarity between deposit-taking and the provision of credit lines. Finally, QT does not reverse the QE-associated higher fragile funding from non-bank financial institutions, while overall reserves are lower; consistently, more exposed banks further cut credit lines to non-financial firms.

 [EFA2026_1301_FI 04_QE-QT, Bank Liquidity Risk Management, and Non-Bank Funding.pdf](#)

ID: 528

When the Spare Tyre Goes Flat: Monetary Policy Transmission through Non-Banks

Roman Goncharenko^{1,2}, Elizaveta Lukmanova^{1,2}

1: Central Bank of Ireland, Ireland; 2: KU Leuven

Discussant: **Yafei Zhang** (American University of Sharjah)

We examine how monetary policy transmits through non-bank lenders (NBLs) using comprehensive loan-level data covering the universe of all term loans in an economy. A one percentage-point (pp) increase in the policy rate leads NBLs to raise lending rates by 0.17 pp more than banks and to contract credit sharply on the extensive margin. We show that this amplification is driven by a liability wedge: banks' price-insensitive deposit franchise stabilizes their funding costs, whereas NBLs rely on short-term wholesale debt that reprices immediately. This funding fragility exposes NBLs to rapid balance-sheet deterioration, resulting in higher pass-through and a stronger contraction in lending. This credit contraction spills over to the real economy, causing firms with high non-bank exposure to reduce as sets, liabilities, employment, and profitability significantly more than bank-dependent firms. Consequently, we show that NBLs can act as stronger amplifiers of monetary policy than banks.

 [EFA2026_528_FI 04_When the Spare Tyre Goes Flat.pdf](#)

ID: 2077

Loan Spreads and Interest Rates: The Role of The Deposit Channel and Lending Market Power

Antoine Hubert de Fraisse^{1,2}, Pierre Dubuis³

1: London School of Economics and Political Science; 2: NBER; 3: Bank of England

Discussant: **Tim Eisert** (Nova SBE)

We present evidence that loan spreads earned by banks over marketable interest rates are inversely related to the level of short-term interest rates. Using loan-level data on business lending in France, we rule out demand-side explanations and demonstrate that this negative correlation aligns with a supply-side narrative: banks with larger loan spreads when interest rates decline experience lower growth in credit volumes. We provide empirical support for theories linking frictions in the deposit-taking business

to the lending behavior of financially constrained banks. Our evidence is consistent with lower interest rates compressing deposit spreads for banks that remunerate deposits below market rates, which reduces their net interest margins, weakens their balance sheets, and prompts constrained banks to reduce credit supply, thereby contributing to the observed rise in loan spreads. Additionally, we find evidence for a complementary channel: lending market power. In particular, lenders with higher market shares and borrowers facing a more severe “hold-up problem” are associated with a lower interest rate pass-through. Finally, we document real effects on corporate financing and investment for firms borrowing from banks with reduced pass-through.

 [EFA2026_2077_FI 04_Loan Spreads and Interest Rates.pdf](#)

2:00pm - 3:30pm

SF 03: Real Effects of Climate Risk

Location: **LR M0.3 (Floor 0)**

Session Chair: **Marcin Kacperczyk**, Imperial College London

ID: 2132

When Trade Dries Up: Infrastructure Constraints and Firm Performance

Nora Pankratz

University of Toronto, Canada

Discussant: **Michela Verardo** (London School of Economics and Political Science)

This paper investigates how natural resources can affect firms and supply chains by constraining capacity in critical infrastructure. Combining granular data on firms' maritime shipping and exogenous variation in the capacity of a major trade route caused by drought, I analyze the effects of disruption on the operations and profitability of U.S. firms. A one-standard deviation increase in water scarcity at a choke point decreases revenues and operating income by approximately 3%. Operating expenses increase with constraints, with the incidence of costs determined by firms' market power. Using data on vessel movement and transportation costs, I show that these effects are likely driven by shipping delays and increases in freight rates. Investors do not appear to fully anticipate the effects, since earnings surprises become more negative even when information was publicly available. Since many economies rely on waterways increasingly constrained by drought, these findings underscore that exacerbating natural capacity constraints can pose significant risks to the economy.

 [EFA2026_2132_SF 03_When Trade Dries Up.pdf](#)

ID: 2031

Beyond Brown: Oil Shocks and Carbon Premium

Shaojun Zhang¹, Zhan Shi²

1: The Ohio State University, United States of America; 2: Tsinghua PBCSF

Discussant: **Robin Döttling** (Erasmus University Rotterdam)

The carbon premium, the financing-cost spread between carbon-intensive and low-carbon firms, is confounded by oil shocks, especially during commodity-stress periods. Event studies and time-series evidence show that oil shocks drive upstream extractive firms' financing costs in equity and bonds via growth options and risk exposures, with limited pass-through to other brown firms; oil beta captures only part of this effect. Re-examining the Paris Agreement, we separate upstream and downstream brown firms and characterize oil and climate news. The Paris effect aligns with oil shocks, not climate-policy news or anticipation; with oil exposure controlled, we find no carbon-transition-risk repricing around Paris.

 [EFA2026_2031_SF 03_Beyond Brown.pdf](#)

ID: 705

Socially Responsible Investing and Multinationals' Environmental Harm Evidence from Global Remote Sensing Data

Virginia Gianinazzi¹, Victoire Girard¹, Mehdi Lehlali², Melissa Prado¹

1: Universidade Nova de Lisboa Nova SBE, Portugal; 2: The University of Manchester, Alliance Business School

Discussant: **Claudio Rizzi** (IESE Business School)

We show how socially responsible investment (SRI) affects multinational firms' environmental footprint using satellite vegetation health around 52,806 facilities in 124

countries combined with institutional ownership data over 2006-2020. We identify these

effects by exploiting two asset-manager-level designs and within-firm changes in SRI

ownership. Higher SRI ownership improves vegetation health, but these improvements

are concentrated around facilities in OECD countries. Around non-OECD facilities of

the same firms, vegetation health deteriorates. This asymmetry is strongest among investors reporting advanced stewardship practices. Our results suggest that investor

stewardship and public regulation are complements in shaping firms' environmental behavior.

 [EFA2026_705_SF 03_Socially Responsible Investing and Multinationals' Environmental Harm.pdf](#)

2:00pm - 3:30pm	MM 02: Microstructure of FX markets Location: LR N0.5 (Floor 0) Session Chair: Dagfinn Rime, BI Norwegian Business School ID: 1952 China Walls <u>Tomy Lee</u>¹, Daniel Nathan², Chaojun Wang³ 1: Central European University, Austria; 2: Hong Kong Polytechnic University and the Bank of Israel; 3: Wharton School, University of Pennsylvania <i>Discussant:</i> Elizaveta Sizova (NHH Norwegian School of Economics) We evaluate the enforcement of information barriers—China Walls—within conglomerates. Our setting is the 25 million trades in 2018–2024 in the Israeli Shekel market, where the SEC tightened the China Walls around dealers from July 2018. Our difference-in-differences design compares the trade volumes and profits of funds that are affiliated with, clients of, or entirely unrelated to a dealer around the days when the dealer is likely to hold valuable information. Before July 2018, dealers extensively share information with both their clients and affiliate funds, and price discovery is rapid. After July 2018: (i) dealers cease sharing information with their affiliate funds; (ii) they continue sharing with their clients unabated; (iii) price discovery slows; (iv) the trading costs paid by affiliate funds decline; and (v) the trading costs paid by other funds rise. A back-of-the-envelope calculation shows that the China Walls eliminated 90.1% of profits by the affiliate funds on event days.  EFA2026_1952_MM 02_China Walls.pdf ID: 916 Dollar Dominance: A Source of Dollar Volatility? <u>Cara Bordier</u>^{1,3,4}, Lukas Frei², Simon Stalder^{1,2,5} 1: Swiss Finance Institute; 2: Swiss National Bank; 3: University of St. Gallen; 4: University of Basel; 5: University of Lugano <i>Discussant:</i> Fabricius Somogyi (Northeastern University) 88% of foreign exchange transactions involve the US dollar. An important reason for this is its use as a vehicle currency: Traders often route trades through the dollar to access better liquidity. We develop a novel methodology to identify dollar cross-trades using high-frequency data from the two primary interdealer platforms. We show theoretically and empirically that cross-trades drive substantial price variation in dollar exchange rates. Using an instrumental variable approach, we find that increased cross-trading causes higher aggregate dollar volatility. This reveals a trade-off: While dollar dominance enhances liquidity, it also exposes the dollar to uncertainty from other currencies.  EFA2026_916_MM 02_Dollar Dominance.pdf ID: 876 The value of trading relationships in FX derivatives: evidence from Credit Suisse's collapse <u>Gerardo Ferrara</u>¹, Helene Hall² 1: Bank of England; 2: Harvard University (PhD 2026) <i>Discussant:</i> Olav Syrstad (BI Norwegian Business School) Using granular transaction-level data, this paper investigates the characteristics and implications of dealer-client trading relationships in the over-the-counter FX derivatives market. We first document that dealer-client trading relationships are persistent over time. Then, to shed light on the role of relationship strength for client access to these instruments during times of dealer stress, we examine the collapse of Credit Suisse in March 2023. Our analysis reveals that clients with greater exposure to Credit Suisse experienced a larger increase in spreads at the client level relative to unexposed clients by about 16 basis points per notional dollar traded on average across maturities, although their trading activity remained unchanged. The greater spread increases paid by clients who relied more heavily on Credit Suisse occurred through their trades with non-Credit Suisse dealers. While more exposed clients continued to trade with Credit Suisse in the post-period, less exposed clients reduced their trading activity with Credit Suisse, but increased their trading activity elsewhere, indicating an ability to substitute counterparties. These findings underscore the critical role of search and bargaining frictions in this market, particularly when a relationship dealer encounters adverse shocks.  EFA2026_876_MM 02_The value of trading relationships in FX derivatives.pdf
2:00pm - 3:30pm	HF 03: Norms, Rights, and Technology in Household Finance Location: LR M1.2 (Floor 1) Session Chair: Arna Olafsson, Copenhagen Business School ID: 640 The Paradox of Opportunity: Socioeconomic Origins of Financial Gender Gaps <u>Athena Tsouderou</u>², <u>Selale Tuzel</u>¹ 1: University of Southern California, United States of America; 2: University of Miami, United States of America

Discussant: **Christine Laudenbach** (Leibniz Institute for Financial Research SAFE & Goethe University)

We study gender gaps across two central domains of household finance: stock market participation and mortgage borrowing and refinancing. Using rich microdata, we show that these gaps are small among lower-income, less-educated households but widen sharply at higher socioeconomic status, with women participating less in the stock market, borrowing on less favorable terms, and refinancing less optimally than comparable men. Financial literacy grounded in quantitative reasoning explains much of this gradient. Leveraging within-family sibling comparisons, we trace the gaps to childhood differences in math skills and math-related attitudes shaped by persistent gender stereotypes.

 [EFA2026_640_HF 03_The Paradox of Opportunity.pdf](#)

ID: 133

Property Rights and Financial Access

Purnoor Tak

New York University, United States of America

Discussant: **Spyridon Lagaras** (University of Illinois at Urbana-Champaign)

This paper investigates the effect of property rights on financial inclusion and subsequent changes in labor market participation and human capital investment. Using hand-collected savings bank data linked to the English census, I exploit the 1870 Married Women's Property Act, which granted married women ownership of their financial assets. A 10% increase in the population of married women is associated with a 1% rise in accounts and a 1.2% rise in deposit receipts after the reform, indicating greater financial inclusion. In districts with a savings bank, following the reform, female employment increases by ~3 pp for married women and ~6 pp for single women, with no change for men. The occupational structure shifts, with married women moving toward low-entry-cost work and single women moving into higher-skill roles that require greater human capital. Girls' school attendance rises by 9-12%, with no change for boys. These patterns align with an appropriability channel in which greater control over earnings raises the private return to work and skill investment, with savings banks making property rights operative by providing secure, interest-bearing deposits. I develop a theoretical framework emphasizing this complementarity between reduced expropriation risk and enforceable, remunerated savings. These results demonstrate an important role of property rights in encouraging financial participation, and the complementarity of property rights and financial access in employment and education outcomes.

 [EFA2026_133_HF 03_Property Rights and Financial Access.pdf](#)

ID: 1089

BigTech Credit and Platform Economic Activity

Lei Chen¹, Wenlan Qian², Albert Di Wang³, Qi Wu⁴

1: Southwestern University of Finance and Economics; 2: National University of Singapore; 3: The University of Texas at Austin; 4: City University of Hong Kong

Discussant: **Rachel J. Nam** (USI Lugano/Swiss Finance Institute)

BigTech firms increasingly integrate financial services into their platform ecosystems, raising a central question: how this integration affects firms' core business activity. Using a large-scale field experiment at one of the world's largest e-commerce platforms (over 2.5 million individual-month observations), we estimate the causal effects of marginal expansions in access to embedded credit. We find that credit access increases user economic activity—raising intensity and persistence, stabilizing demand, and expanding consumption scope—with little evidence of consumption upgrading or increased delinquency. Our results show that embedded credit reinforces the platform's core operations, highlighting complementarities in modern digital ecosystems.

 [EFA2026_1089_HF 03_BigTech Credit and Platform Economic Activity.pdf](#)

2:00pm - 3:30pm

CF 04: Beliefs, Information, and the Cost of Capital

Location: **Chapel (Floor 1)**

Session Chair: **Francesco D'Acutno**, Georgetown University

ID: 496

The Real Cost of Benchmarking

Christian Kontz¹, Sebastian Hanson²

1: University of Notre Dame, United States of America; 2: Stanford GSB, United States of America

Discussant: **Marco Zanotti** (Stockholm School of Economics)

Benchmark-linked capital flows increase firms' CAPM β s, thereby raising managers' perceived cost of equity and reducing investment. Using exogenous variation from Russell and S&P 500 reconstitutions, we show that inclusion in a benchmark stock index increases a stock's CAPM β . Managers interpret the higher β as a higher cost of equity and reduce investment. Consistent with this mechanism, benchmark inclusion also raises the perceived cost of equity among stock analysts and regulators. Industries with larger increases in β s due to benchmarking have accumulated less capital over the past two decades. Benchmark-induced changes in the cross-section of CAPM β s do not cancel out but affect aggregate investment because higher β s fall on many firms with high investment elasticities, while lower β s benefit a few large but inelastic firms.

 [EFA2026_496_CF 04_The Real Cost of Benchmarking.pdf](#)

ID: 352

When Speaking Freely Pays: Anti-SLAPP Laws and Firms' Cost of Equity

Scott Guernsey¹, Matthew Serfling¹, Cheng Yan²

1: Haslam College of Business at the University of Tennessee; 2: Huazhong University of Science and Technology

Discussant: **Katya Neretina** (Bocconi University)

We examine whether investors price firms' ability to suppress unfavorable information generated by outsiders. We exploit the staggered adoption of state anti-SLAPP (Strategic Lawsuits Against Public Participation) laws, which limit firms' use of litigation to deter outside criticism. Using an imputation-based difference-in-differences design, we find that anti-SLAPP adoption lowers firms' cost of equity (COE). We further show that anti-SLAPP laws meaningfully alter firms' information environments by increasing unfavorable outside information, reducing disclosures of litigation related to criticism and speech, and increasing reputational-risk disclosures. Consistent with an uncertainty-resolution mechanism, anti-SLAPP adoption reduces information asymmetry, firm risk, undervaluation, and stock price crash risk, indicating that investors face less uncertainty about hidden firm risks. The decline in COE is concentrated among firms with poorer information environments, weaker internal governance, and greater exposure to public scrutiny, where outside information is especially valuable for reducing informational uncertainty. Our findings identify firms' ability to suppress outside criticism as a distinct, priced information friction and suggest that legal institutions governing third-party speech play an important role in the information infrastructure of capital markets.

 [EFA2026_352_CF 04_When Speaking Freely Pays.pdf](#)

ID: 486

Information Resonance

Ulrike Malmendier², Ryan Oprea², Laura Veldkamp¹

1: Columbia Business School, United States of America; 2: University of California Berkeley

Discussant: **Elena Pikulina** (University of British Columbia)

We study information resonance -- the extra weight people attach to information from people similar to them -- and examine its consequences. In a new lab experiment designed to isolate resonance, we show that people follow the advice of strangers who share characteristics with them at a much higher rate. We find that this is true not only for shared demographics or political identities, but also a broad range of beliefs, personality traits and even superficial preferences and we measure these effects in several types of choices. In the experiment, resonance affects a range of choices, including financial decisions. The structure of our design makes it unlikely that this is a fully rational behavior. To examine the consequences of resonance, we show how to re-purpose a standard information diffusion model, replacing geographic proximity with characteristic similarity. The model explains why role models matter, how social media can erode authority, and why promotion rules that look neutral can still produce homogeneous leadership teams. Finally, field evidence connects micro biases to aggregate outcomes: young workers disproportionately enter occupations already staffed by ethnically similar incumbents, and disproportionately leave those occupations when ethnic elders experience negative labor market shocks. By weaving together micro behavior, theory tools and macro consequences, the paper uncovers new levers for firms and policymakers to manipulate or assist investors.

 [EFA2026_486_CF 04_Information Resonance.pdf](#)

2:00pm - 3:30pm

MAN: Government Debt Sustainability

Location: **LR M2.1 (Floor 2)**

Session Chair: **Hanno Lustig**, Stanford University

ID: 1061

The Austerity Threshold

Vadim Elenev², Tim Landoigt¹, Stijn Van Nieuwerburgh³

1: University of Pennsylvania; 2: Johns Hopkins University, Carey School of Business; 3: Columbia GSB

Discussant: **Howard Kung** (London Business School)

We introduce a new indicator of fiscal capacity—the “austerity threshold”: the debt-to-GDP level above which the government must raise fiscal surpluses to ensure debt safety. In a model with realistic risk premia, nominal rigidities, and an intermediary sector, calibrated to the U.S., we estimate this threshold at 189%. We highlight the roles of safety premia and intermediation-driven convenience yields. The threshold varies with the source of surpluses: spending cuts reduce inflation and allow low interest rates, while tax increases distort labor supply and raise inflation. Uncertainty over the austerity regime – spending cuts or tax increases – sharply lowers fiscal capacity. The expected austerity regime affects asset prices and macro outcomes even when debt-to-GDP is well below the threshold.

 [EFA2026_1061_MAN_The Austerity Threshold.pdf](#)

ID: 505

What Does It Take? Quantifying Cross-Country Transfers in the Eurozone

YiLi Chien¹, Zhengyang Jiang², Matteo Leombroni³, Hanno Lustig⁴

1: Federal Reserve Bank of Saint Louis, United States of America; 2: Northwestern University; 3: Boston College; 4: Stanford University

Discussant: **Paul Fontanier** (London Business Scholl)

We measure the cross-country transfers that result from unconventional monetary policy in the Eurozone. The ECB funds its balance sheet expansion mostly by issuing bank reserves and cash in core countries. The national central banks (NCBs) in periphery countries then borrow from the core NCBs at below-market rates, and use these funds to finance asset purchases and bank lending. This arrangement exposes taxpayers in core countries to credit and currency risk without corresponding compensation. By comparing the cross-country distribution of NCB income to a counterfactual scenario without non-marketable intra-Eurozone claims, we document significant and persistent cross-country transfers in the Target2 system.

 [EFA2026_505_MAN_What Does It Take_ Quantifying Cross-Country Transfers.pdf](#)

ID: 146

The Effects of Fiscal Policy Shocks on Asset Prices

Courtney Wiegand

University of Pennsylvania Wharton, United States of America

Discussant: **Quentin Vandeweyer** (University of Chicago)

Fiscal policy is less understood in financial markets than monetary policy due to the lack of high-frequency shocks. I construct such shocks by tracking revisions to forward-looking deficit targets throughout the Congressional budget resolution and reconciliation process. The shocks are unpredictable yet move deficit forecasts. A 1% deficit-to-GDP shock raises 10-year yields by 2.3 bps, two-thirds through real rates. Deficit news raises term premiums and lowers Treasury convenience yields. Stock market effects combine discount rate and cash flow channels, with the latter dominating at the ZLB. Growth-sensitive industries respond positively, suggesting a fiscal multiplier that monetary policy offsets when unconstrained.

 [EFA2026_146_MAN_The Effects of Fiscal Policy Shocks on Asset Prices.pdf](#)

2:00pm - 3:30pm

AP 04: Corporate and Sovereign Bonds

Location: **LR M2.2 (Floor 2)**

Session Chair: **Andrea Vedolin**, Boston University

ID: 967

Pricing of Corporate Bonds: Evidence From a Century-Long Cross-Section

Mohammad Ghaderi¹, Sebastien Plante², Nikolai Roussanov³, Sang Byung Seo²

1: School of Business, University of Kansas; 2: Wisconsin School of Business, University of Wisconsin-Madison; 3: The Wharton School, University of Pennsylvania

Discussant: **Peter Koudijs** (NYU Stern)

We construct a new historical corporate bond database spanning 128 calendar years to address longstanding data limitations hampering corporate bond research. By hand-collecting monthly corporate bond quotes from three archival print sources, we complement existing datasets and create an extensive database dating back to 1895, comprising nearly 110,000 unique bonds and 8 million observations. Leveraging this expanded sample, we find that the lack of priced risks in corporate bonds documented by recent studies stems from their reliance on short samples. With greater statistical power, we show that prominent bond and stock factors as well as several nontraded macroeconomic factors are significantly priced with theoretically consistent signs. At the same time, the predictive power of corporate bond spreads for real activity is largely robust in the longer sample, except when pre-war data are included. Our database, covering major economic episodes like the Great Depression, not only helps validate previous empirical findings but aims to facilitate further research by serving as a CRSP counterpart for corporate bonds.

 [EFA2026_967_AP 04_Pricing of Corporate Bonds.pdf](#)

ID: 2012

Sparse Portfolios and Benchmarking in Corporate Bond Markets

Zheng Li¹, Anna Pavlova¹, Taisiya Sikorskaya²

1: London Business School, United Kingdom; 2: Booth School of Business, University of Chicago

Discussant: **Manav Chaudhary** (London School of Economics)

We use detailed data on fixed-income benchmark indexes in Canada and the U.S. to provide systematic evidence of how benchmarking shapes corporate bond ownership and prices. Funds hold sparse portfolios, and index weights strongly influence which bonds active and passive funds select. We rationalize these patterns in a model with benchmarked managers who face portfolio management costs, which predicts which assets managers optimally include in their portfolios. In the model, a bond's price increases with its benchmarking intensity (BMI)—a measure of the amount of fund capital benchmarked against the bond—while portfolio sparsity attenuates this price impact for excluded bonds. Exploiting discontinuities in benchmarked assets around bond maturity cutoffs, we show that increases in bonds' BMIs lead to reductions in yield spreads and increases in fund ownership—but only for bonds predicted to enter sparse portfolios.

ID: 970

Sovereign Credit Risk, U.S. Monetary Policy, and the Role of Financial Intermediaries

Johannes Poeschl¹, Ivan Shaliastovich², Ram Yamarthy³

1: European Central Bank; 2: University of Wisconsin-Madison; 3: Federal Reserve Board of Governors

Discussant: **Emanuel Moench** (Frankfurt School of Finance & Management gGmbH)

U.S. monetary policy significantly impacts sovereign credit risk and financial intermediaries play an important role. Using market-based measures of intermediary stress and confidential dealer-country-level sovereign CDS positions, we show that a decline in intermediary risk-taking capacity prior to FOMC announcements amplifies the sensitivity of sovereign spreads to U.S. monetary policy shocks. A general equilibrium model of the world economy explains these findings through occasionally-binding intermediary borrowing constraints that magnify sovereign default risk movements. The model suggests that credit spread movements in response to monetary policy are driven by an intermediation premium, which creates spillovers to both low and high-risk countries.

 [EFA2026_970_AP 04_Sovereign Credit Risk, US Monetary Policy, and the Role.pdf](#)

2:00pm - 3:30pm

RE 02: Policy and Housing Markets

Location: **LR M2.3 (Floor 2)**

Session Chair: **Christophe Spaenjers**, University of Colorado Boulder

ID: 1352

Politics and the price of housing

Andrea Pagliuca, Marco Grotteria, Lakshmi Naaraayanan

London Business School, United Kingdom

Discussant: **Francesco Mazzola** (ESCP Business School)

We examine how congressional representation affects local housing markets through its influence on housing finance. Using the near-universe of U.S. housing transactions from 1990 to 2020 linked to congressional districts, we exploit the staggered entry and exit of representatives from the House Financial Services Committee (FSC) as plausibly exogenous shocks to their influence over housing and mortgage policy. A border design comparing properties within five kilometers of adjacent districts holds local economic conditions constant. House prices increase by about 4 percent when a district's representative joins the FSC and decline by a similar amount when the representative leaves. These effects coincide with higher mortgage origination, greater government-sponsored enterprise (GSE) purchases, and higher conforming loan limits, but no change in construction activity or allocations of Low-Income Housing Tax Credit programs. Representation on the FSC affects local housing markets primarily through credit supply, leading to localized changes in property values.

 [EFA2026_1352_RE 02_Politics and the price of housing.pdf](#)

ID: 484

Inflation Through the Mortgage Market

Arpit Gupta¹, Christopher Hansman², Pierre Mabilie³

1: NYU Stern School of Business, United States of America; 2: Emory University, United States of America; 3: INSEAD, France

Discussant: **Francisco Amaral** (University of Zurich, Swiss Finance Institute)

We study the impact of the Federal Reserve's pandemic-era Mortgage-Backed Security purchases (QE4) on housing markets and consumer inflation. Using mortgage market segmentation, we generate a cross-sectional interest rate instrument to capture areas more heavily affected by Fed purchases in the conforming mortgage market. We find QE4 substantially decreased mortgage rates, raised house prices and rents, and lowered local unemployment. We interpret these results through a quantitative spatial model, and estimate substantial impacts of mortgage purchases on aggregate house prices and consumer inflation. Our findings suggest that unconventional monetary policy can meaningfully stimulate housing demand and economic activity, but may also amplify inflationary pressures and housing affordability tradeoffs.

 [EFA2026_484_RE 02_Inflation Through the Mortgage Market.pdf](#)

ID: 211

Credit Constraints and the Redistribution of Housing Wealth

Belinda Tracey¹, Neeltje van Horen²

1: Bank of England; 2: University of Amsterdam

Discussant: **Virginia Gianinazzi** (Nova SBE)

We examine how easing mortgage borrowing constraints affects entry into home ownership. Using administrative mortgage data and cross-district exposure to the UK Help-to-Buy program, which reopened the 95% LTV segment in 2013, we show that first-time buyer purchases rose sharply in more exposed areas. Introducing a new proxy for financial support—based on the gap between observed and predicted down payments—we find that gains were concentrated among households unlikely to have

	relied on transfers, suggesting a weaker role for family wealth in enabling home ownership. Because these buyers tend to have higher incomes, the composition of homeowners shifted toward higher-income households.  EFA2026_211_RE 02_Credit Constraints and the Redistribution of Housing Wealth.pdf
3:30pm - 4:00pm	Coffee Break
4:00pm - 5:30pm	Wharton-PeRCent: Household and Retirement Finance Location: LR M0.1 (Floor 0) Session Chair: Kim Peijnenburg, Tilburg University ID: 512 Liquidity Design in Pension Accounts: Evidence from Early Withdrawals Alina Bartscher, Henrik Andersen, Søren Leth-Petersen, Patrick Moran Frankfurt School of Finance & Management gGmbH, Germany <i>Discussant:</i> Oksana Smirnova (Cornell University) We study how early withdrawal policies in retirement savings balance consumption smoothing and commitment. Using Danish administrative data, we document that early withdrawals increase sharply after life events entailing financial hardship. However, using a natural experiment, we also show that individuals respond strongly to an exogenous reduction in early withdrawal penalties, unrelated to periods of financial hardship. We use these empirical patterns to discipline a quantitative life-cycle model featuring a liquid savings account and a pension account subject to early withdrawal penalties, addressing both liquidity and commitment needs. We show that policies combining penalty-free access in adverse states with positive penalties otherwise dominate uniform schemes, improving both consumption smoothing and retirement saving outcomes.  EFA2026_512_Wharton-PeRCent_Liquidity Design in Pension Accounts.pdf ID: 1041 The Complexity of Economic Decisions Xavier Gabaix¹, Thomas Graeber² 1: Harvard University; 2: University of Zurich <i>Discussant:</i> Luca Henkel (Erasmus University Rotterdam) This paper develops a calibrated theory of economic decision complexity. For any decision problem, the framework delivers a measure of its complexity with no free parameters, making it highly portable across settings. We illustrate its use in central economic tasks, including dealing with taxes, forecasting, consumption, intertemporal financial planning, and the choice of financial products with opaque features. The microfoundation builds on a macro-style production framework that treats the mind as a cognitive economy. Complexity is defined as the inverse productivity of thought: it increases with the number of importance-weighted components and decreases when outcomes hinge on a small set of dominant factors. More complex problems generate larger errors and reduced sensitivity to underlying parameters. We complement the theory with an experimental methodology for measuring subjective perceptions of complexity, and an experiment that confirms its main predictions. The measure provides a portable formula for predicting ex ante and quantifying ex post decision complexity across economic domains, potentially useful both theoretical and empirical applications.  EFA2026_1041_Wharton-PeRCent_The Complexity of Economic Decisions.pdf ID: 1407 The Geography of Savings Opportunities in Retirement Plans Irina Stefanescu¹, Veronika Pool², Clemens Sialm^{3,4}, Hanjiang Zhang⁵ 1: Federal Reserve Board, United States of America; 2: Vanderbilt University; 3: University of Texas at Austin; 4: NBER; 5: Washington State University <i>Discussant:</i> Marieke Bos (Stockholm School of Economics, VU Amsterdam) We study disparities in retirement savings opportunities using data on 401(k) plan fees from 2011 to 2021. Despite industry-wide fee declines, we find large and persistent geographic variation in plan costs. These disparities correlate with local demographics and remain after controlling for plan and sponsor characteristics. Using ERISA lawsuits and large firm entries as quasi-exogenous shocks, we show that external legal and competitive pressures causally reduce fees. Our findings indicate that plan design reflects not only participant or firm characteristics but also frictions in local financial intermediation. Participants' asset allocations further exacerbate cost differences without offsetting performance benefits.  EFA2026_1407_Wharton-PeRCent_The Geography of Savings Opportunities in Retirement Plans.pdf FI 05: Bank Deposits Location: LR M0.2 (Floor 0) Session Chair: Annette Vissing-Jorgensen, Board of Governors of the Federal Reserve ID: 435
4:00pm - 5:30pm	

Banking on Inattention

Xu Lu¹, Lingxuan Wu²

1: Foster School of Business, University of Washington, USA; 2: NYU Stern School of Business, USA

Discussant: **Yevhenii Usenko** (University of Colorado Boulder)

We show that depositor inattention gives banks deposit market power, explaining incomplete monetary pass-through and generating interest rate exposure that changes sign over the monetary cycle. We present a dynamic deposit-pricing model in which banks trade off current deposit spreads against future deposit base, with inattention dampening spread-sensitive outflows. Empirically, we measure inattention using differential responses to scheduled versus unscheduled income and show that inattentive depositors withdraw less following rate hikes. The data confirm that banks with more inattentive depositors have lower deposit rates, weaker pass-through, and less spread-sensitive outflows. Our calibration quantifies how inattention shapes pass-through and financial stability.

 [EFA2026_435_FI 05_Banking on Inattention.pdf](#)

ID: 572

Hand-to-Mouth Banks: Deposit Inflows and the Marginal Propensity to Lend

Felix Corell

Vrije Universiteit Amsterdam, Netherlands, The

Discussant: **Kristian Blickle** (Federal Reserve Bank of New York)

In modern macroeconomics, the marginal propensity to consume out of transitory income shocks is a central object of interest. This paper empirically explores a parallel concept in banking: the marginal propensity to lend out of unsolicited deposit inflows (MPLD). Using county-level dividend payouts as an instrument for deposit inflows, I estimate the MPLD for U.S. banks and show that before QE, the average bank operated “hand-to-mouth” — it transformed approximately every dollar of deposit inflow into new loans, consistent with tight liquidity constraints. However, since then, the MPLD has dropped to 0.37. Moreover, the MPLD decreases in banks’ cash-to-asset ratio and measures of deposit market power. The findings suggest that the QE-induced abundant reserves regime significantly relaxed liquidity constraints for the majority of banks, but did not eliminate them entirely.

 [EFA2026_572_FI 05_Hand-to-Mouth Banks.pdf](#)

ID: 1659

The Foreign Liability Channel of Bank Capital Requirements

Luigi Falasconi¹, Pablo Herrero Marco², Caterina Mendicino³, Dominik Supera⁴

1: University of Pennsylvania; 2: Bank of Spain; 3: European Central Bank; 4: Columbia Business School

Discussant: **Juliana Salomao** (University of Minnesota)

We examine the effects of tighter capital requirements in a quantitative model of risky financial intermediaries partly funded with foreign currency debt. Setting bank capital requirements at appropriately high levels is crucial to enhance the resilience of banks against sudden losses and the risk of insolvency. As bank default risk declines, the cost of foreign funding decreases, encouraging greater reliance on foreign liabilities. This reveals a novel trade-off in bank capital regulation. On the one hand, higher capital requirements strengthen the resilience of both banks and the broader economy against shocks originating from the banking sector. On the other hand, they increase banks’ exposure to potential disruptions in foreign funding. Our findings suggest that in the presence of bank solvency risk, foreign prudential tools, such as capital flow management taxes or foreign exchange rate interventions, are complementary to bank capital requirements in mitigating financial vulnerabilities. Empirical evidence on Peru’s transition to higher capital requirements lend support to the foreign liability channel of bank capital requirements.

 [EFA2026_1659_FI 05_The Foreign Liability Channel of Bank Capital Requirements.pdf](#)

4:00pm - 5:30pm

SF 04: Financial Implications of Sustainability and Energy Choices

Location: **LR M0.3 (Floor 0)**

Session Chair: **Sophie Manigart**, Vlerick Business School

ID: 1505

Sustainability Risk Premium: Evidence from Sustainability-linked Bonds

Junxiong Gao¹, Laura T. Starks², Haoyue Wang¹, Hong Yan¹

1: Shanghai Advanced Institute of Finance, Shanghai Jiao Tong University; 2: McCombs School of Business, University of Texas at Austin

Discussant: **Karan Bhanot** (UT- San Antonio)

Sustainable investing has expanded rapidly worldwide, yet the magnitude—and even the existence—of a sustainability risk premium (SRP) remains contested. We develop a pricing framework in which a sustainability-contingent claim is priced primarily for its hedging value against sustainability underperformance, and its return therefore identifies the market price of sustainability risk, with a magnitude that increases in the fraction of sustainable capital participating in the market of this type of claims. We use sustainability-linked bonds (SLBs) as an empirical proxy for this contingent claim and estimate the market price of sustainability risk in the SLB market. We find that, at the current

participation rate of sustainable capital in this market, investors are willing to forgo roughly 0.55% of expected return at the bond level to insure against downside sustainability outcomes—the direct evidence of SRP. In contrast, our framework clarifies why tests based on traditional assets yield mixed results: sustainable investors represent only a small share of the broad markets, and sustainability exposures enter the expected return through offsetting risk and non-pecuniary preference channels, resulting in a negligible premium.

 [EFA2026_1505_SF 04_Sustainability Risk Premium.pdf](#)

ID: 764

Carbon Burden

Lubos Pastor¹, Robert Stambaugh², Lucian Taylor²

1: University of Chicago, United States of America; 2: University of Pennsylvania, United States of America

Discussant: **Noémie Bucourt** (Cornell University)

We compute the U.S. corporate sector's "carbon burden"—the present value of social costs of future carbon emissions. Our baseline estimate is 131% of total corporate equity value. Meeting the Paris Agreement goals would reduce the burden by roughly one-fourth, but emissions forecasts and firms' own targets fall short of that reduction. 13% of firms have carbon burdens exceeding their market capitalizations, even with indirect emissions excluded. Firms with higher carbon burdens have higher costs of capital, even after controlling for past emissions. Only a small fraction of the burden is priced through that channel, however.

 [EFA2026_764_SF 04_Carbon Burden.pdf](#)

ID: 1667

Infrastructure Capacity, Risk, and Firm Value: Evidence from U.S. Electricity Tightness

Marcin Kacperczyk, David Licher

Imperial College London, United Kingdom

Discussant: **Thomas Giroux** (ETH Zurich)

We study how capacity constraints in electricity grids shape production, firm value, and risk. We develop a general-equilibrium model in which electricity is a non-storable input subject to proportional rationing when aggregate demand exceeds grid capacity. The anticipation of future scarcity reduces firms' investment and output, while stochastic tightness generates a priced risk factor. Using U.S. data on firms' plant locations matched with measures of electricity outages and forecasted capacity, we show that tighter constraints reduce employment, investment, profitability, and firm value. Firms exposed to electricity tightness earn higher returns unexplained by standard factors.

 [EFA2026_1667_SF 04_Infrastructure Capacity, Risk, and Firm Value.pdf](#)

4:00pm - 5:30pm

MM 03: Dealers, Liquidity Providers, and Market Makers

Location: **LR N0.5 (Floor 0)**

Session Chair: **Albert Menkveld**, Vrije Universiteit Amsterdam

ID: 1632

How much is being a Primary Dealer Worth? Evidence from Argentinian Treasury Auctions

Martin Gonzalez Eiras¹, Jakub Kasti², Jesper Rüdiger³

1: University of Bologna; 2: Princeton University; 3: Universidad Carlos III de Madrid

Discussant: **Sven Klingler** (Frankfurt School of Finance and Management)

We propose a dynamic model of bidding in treasury auctions, in which primary dealers must satisfy minimum winning requirements to retain their dealer status. Data from Argentina between 1996 and 2001, a period in which primary dealer requirements were particularly important, shows dealers bid more aggressively the greater their shortfalls in meeting the requirements, thus sacrificing short-term profits to retain their status. We then leverage this trade-off and develop a method for estimating the value of being a primary dealer. We estimate that the gain from being a dealer is of the same order of magnitude as short-term profits. Dealers who bid optimally retain dealer status with high probability, but may have to sacrifice a significant amount of short-term profits to do so. Finally, we use our model to perform a counterfactual exercise which illustrates how the central bank can use minimum winning requirements in order to reduce dealers' rents.

 [EFA2026_1632_MM 03_How much is being a Primary Dealer Worth_ Evidence.pdf](#)

ID: 2028

Exchange-Traded Liquidity

Lars C. Larsen¹, Gyuri Venter², Paul Whelan³

1: Copenhagen Business School; 2: Aarhus University; 3: Chinese University of Hong Kong

Discussant: **Ryan Riordan** (Ludwig Maximilian University)

We observe every update to the limit order book of S&P 500 E-mini futures, the world's most traded equity derivative, over 2009-2025. Exploiting previously unused information in a public data feed, we

decompose market depth into the number of liquidity providers and the quantity each supplies. Dollar depth fell 80% over the decade to 2022, and since then has not recovered. The drop is due to the number of providers, not the dollar amount each quotes. To understand this, we model the choice to provide liquidity. Providers enter when profits cover a participation cost; scarcer risk-bearing capacity first draws them in, then drives them out. Rising participation costs can account for the secular decline while weaker demand for liquidity cannot, since trading volume has held up. In exchange-traded markets, participation has become an arms race in speed, talent, and data. As the number of providers has fallen, the price impact for a given amount of order flow more than doubled.

 [EFA2026_2028_MM 03_Exchange-Traded Liquidity.pdf](#)

ID: 1781

Multimarket Contact and the Cost of Trading Corporate Bonds

Marco Grotteria¹, Andreas Rapp², Ruslan Sverchkov³, Ram Yamarthy²

1: London Business School, United Kingdom; 2: Board of Governors of the Federal Reserve; 3: Warwick Business School

Discussant: **Alex Boulatov** (International College of Economics and Finance)

We show that multimarket contact (MMC)—the extent to which the same dealers interact across many securities—disciplines the pricing of corporate bonds. In a repeated-game model, where dealers alternate between supplying and demanding liquidity, a dealer that is tempted to widen spreads for a short-run gain is deterred by the prospect of facing wider spreads when next demanding liquidity. MMC pools this discipline across securities: a deviation in one security triggers retaliation in the others. The model predicts that higher MMC for one dealer lowers spreads for all dealers active in that bond, with the largest effects when adverse selection is high or trading is infrequent. Using TRACE data, we exploit within-bond-month variation across dealers and within-dealer-month variation across bonds. Higher MMC compresses interdealer spreads, with reductions passed through to customers. A shift-share instrument based on the sharp increase in investment-grade bond issuance during COVID confirms the result.

 [EFA2026_1781_MM 03_Multimarket Contact and the Cost of Trading Corporate Bonds.pdf](#)

4:00pm - 5:30pm

CF 05: Labor and Finance

Location: **LR M1.2 (Floor 1)**

Session Chair: **S. Abraham Ravid**, Yeshiva University

ID: 1048

Who Benefits from Remote Work?

Abhinav Gupta¹, Arpit Gupta², Elena Simintzi³

1: University of North Carolina Chapel Hill, United States of America; 2: New York University;

3: University of North Carolina Chapel Hill, United States of America, CEPR, ECGI

Discussant: **Constantine Yannelis** (University of Cambridge)

We examine how remote work affects firm productivity and employment outcomes. Using an instrumental variables design based on pre-pandemic occupational remote work suitability, we find that remote work increases the productivity of startups while reducing productivity for established firms. This effect operates partially through labor market scaling: remote startups experience substantially higher hiring rates, overcoming geographical hiring constraints for talent acquisition. Our findings suggest that remote work alleviates a key disadvantage that young firms face in hiring and expanding, while established firms experience challenges in adopting remote working practices.

 [EFA2026_1048_CF 05_Who Benefits from Remote Work_.pdf](#)

ID: 2024

Financial Technologies, Labor Markets, and Wage Inequality: Evidence from Instant Payment Systems

Carlos Antonio Burga¹, Jacelly Céspedes², Carlos Parra¹, Bernardo Ricca³

1: Pontificia Universidad Católica de Chile, Chile; 2: University of Minnesota; 3: Insper

Discussant: **Tural Karimli** (Catolica Lisbon School of Business and Economics)

We study the labor market effects of instant payment systems in the context of Brazil's Pix rollout. Using matched employer–employee administrative data, we implement a triple-difference design that exploits pre-treatment variation in mobile penetration across municipalities, the differential exposure to payment frictions of small versus large establishments, and the timing of Pix's introduction. We find that wages in small establishments rise significantly relative to those in large establishments after Pix, an effect fully explained by cash-intensive sectors such as retail and services. Crucially, wage inequality declines, driven entirely by wage gains among workers in the lower half of the distribution, who are primarily hired by small, cash-intensive firms. Our evidence indicates that Pix's benefits stem from lower cash-handling costs rather than increased local consumer demand, and the pass-through to wages is amplified by local labor market frictions. A quantitative model of monopsonistic labor markets shows that while Pix's actual rollout significantly increased wage-bill and profits, a counterfactual scenario with uniform adoption—achieved by closing mobile penetration gaps—would multiply these gains by a factor of four.

 [EFA2026_2024_CF 05_Financial Technologies, Labor Markets, and Wage Inequality.pdf](#)

ID: 305

Set in Stone: The Persistence and Origins of Corporate Culture

Kai Li¹, Jane Liu², Ruichang Lu², Kaihao Qian², Xiaojun Zhang²

1: UBC, Canada; 2: Peking University, China

Discussant: **Yelena Larkin** (York University)

Using one of the largest panel datasets on corporate culture, we examine its evolution and origins, distinguishing between firm-level values and norms and corporate insiders' preferences. We find that corporate culture is highly persistent: firms with strong (or weak) cultures tend to remain so over the subsequent decade. The majority of the variation in culture is explained by firm fixed effects, reflecting initial cultural imprints around founding. Leveraging rich data on founder characteristics, we show that initial culture is shaped by founders' cultural heritage, the racial diversity of their birthplace, and the business environment at the start of their careers. We also provide suggestive evidence that firm-CEO (firm-employee) matching on values, as well as the influence of culture on CEOs, contribute to culture persistence. Overall, our findings suggest that a firm's founding imprint—reinforced through CEO/employee selection, attrition, and workplace norms—helps explain the enduring nature of corporate culture.

 [EFA2026_305_CF 05_Set in Stone.pdf](#)

4:00pm - 5:30pm

CF 06: Shareholder Influence through Engagement, Voting, and Litigation

Location: **Chapel (Floor 1)**

Session Chair: **Andrey Malenko**, Boston College

ID: 1803

Optional shareholder voting

Peter Iliev¹, Michelle Lowry²

1: Pennsylvania State University; 2: Drexel University, United States of America

Discussant: **Silvina Rubio** (Nova School of Business and Economic)

While mutual funds are required to vote, shareholder voting is optional for institutional managers (IMs), a category that includes activists, hedge funds, private wealth, and mixed asset management. Only 44% of IMs vote on firms' say-on-pay policies. However, their impact is large: the dollar value of their shares voted is twice that of mutual funds. Results suggest they use voting as a monitoring tool: among larger positions, where the benefits of monitoring are greater, they are both more likely to vote and more likely to vote against management. Yet, there is substantial heterogeneity across IMs, with some using voting to pursue other objectives, such as signaling friendliness toward management. We find that smaller firms attract fewer IM votes overall, but among shares voted, there is a more anti-management stance.

 [EFA2026_1803_CF 06_Optional shareholder voting.pdf](#)

ID: 1386

A Theory of Shareholder Class Action

Hongda Zhong

The University of Texas at Dallas, United States of America

Discussant: **Magdalena Rola-Janicka** (Imperial College London)

I examine a novel corporate governance channel exercised by small investors: shareholder class actions, in which dispersed shareholders collectively sue their own firms, often for failing to disclose material information. Paradoxically, these lawsuits typically generate wealth transfers from innocent current shareholders to the plaintiff class, while shareholders who profited from the nondisclosure by selling before the bad news are largely unaffected. In an efficient stock market, class actions serve as an off-equilibrium governance device that motivates initial shareholders to encourage full managerial disclosure. When markets are inefficient, both equilibrium disclosure and the impact of compensation awards are non-monotonic. Intermediate bad news are disclosed to influence the lawyer's litigation strategy, while both small and large shocks are concealed; moreover, awarding higher compensation in class actions does not necessarily improve disclosure incentives for initial shareholders. Finally, a greater presence of small, short-term shareholders increases the likelihood of litigation, reversing the traditional view that dispersed ownership weakens shareholder discipline.

 [EFA2026_1386_CF 06_A Theory of Shareholder Class Action.pdf](#)

ID: 1729

The Price of Green Reputation: Systematic Environmental Reputation Risk and Shareholder Engagement

Diego Guisande¹, Andreas Hoepner², Laura Starks³

1: Trinity College Dublin, Republic of Ireland; 2: University College Dublin, Republic of Ireland;

3: University of Texas at Austin, United States of America

	<i>Discussant:</i> Hannes Wagner (Bocconi University) We develop a measure of firms' exposure to systematic environmental reputation risk and provide evidence that this exposure is priced in capital markets. Firms with greater exposure earn higher average returns, with the premium increasing after the Paris Agreement. We then examine whether shareholder engagement can reduce exposure to this source of systematic risk. Using proprietary data on shareholder engagement, we find that successful engagements targeting verifiable operational improvements reduce firms' exposure to environmental reputation risk and are associated with lower downside systematic risk. These findings suggest that shareholder engagement can influence firms' exposure to a priced source of risk.  EFA2026_1729_CF 06_The Price of Green Reputation.pdf
4:00pm - 5:30pm	AP 05: Text Data and LLMs in Finance Location: LR M2.1 (Floor 2) Session Chair: Lieven Baele, Tilburg University ID: 1628 A Financial Brain Scan of the LLM Hui Chen¹, Antoine Didisheim², Mohammad Pourmohammadi³, Luciano Somoza⁴, Hanqing Tian² 1: MIT; 2: University of Melbourne; 3: Yale; 4: ESSEC Business School, France <i>Discussant:</i> Luka Vulicevic (University of California San Diego) We use sparse autoencoders (SAEs) to "brain scan" large language models, mapping internal activations to interpretable concepts and enabling targeted "steering" of specific features. We show that prompting models to adopt specific preferences or demographics causes severe concept contamination, invalidating causal inference in agent simulations. In contrast, SAEs permit smooth, isolated steering of target concepts without collateral activation. Furthermore, our scans reveal a stark disconnect between a model's true internal focus and its self-generated explanations, highlighting flawed introspection. Ultimately, SAEs provide a lightweight intervention for existing models, adding interpretability to embedding-based methods and surgically correcting economic biases.  EFA2026_1628_AP 05_A Financial Brain Scan of the LLM.pdf ID: 2128 The Memorization Problem: Can We Trust LLMs' Economic Forecasts? Alejandro Lopez-Lira, Yuehua Tang, Mingyin Zhu University of Florida, United States of America <i>Discussant:</i> Leland Bybee (University of Chicago Booth School of Business) Large language models (LLMs) cannot be trusted for economic forecasts during periods covered by their training data. Under black-box access, counterfactual forecasting ability is non-identified when the model has seen the realized values: any observed output is consistent with both genuine skill and memorization. Any evidence of memorization represents only a lower bound on encoded knowledge. We demonstrate LLMs have memorized economic and financial data, recalling exact values before their knowledge cutoff. Instructions to respect historical boundaries fail to prevent recall-level accuracy, and masking fails as LLMs reconstruct entities and dates from minimal context. Post-cutoff, we observe no recall. Memorization extends to embeddings.  EFA2026_2128_AP 05_The Memorization Problem.pdf ID: 2048 News Consumption in the Wild Diego Garcia¹, Tony Cookson¹, Elvis Jarnecic² 1: University of Colorado Boulder, United States of America; 2: University of Sydney, Australia <i>Discussant:</i> Kris Boudt (Ghent University) We study how market returns shape news consumption using 700 million pageviews over 27 months from Australia's largest newspaper, the Australian Financial Review. Aggregate news consumption intensifies after the market index decreases. After major market movements, news consumption of markets news increases while declining for firm news. In panel regressions, firm stock return movements increase firm-specific news consumption while index return movements dampen it. These findings imply aggregate and firm-specific news are substitutes, supporting limited attention theories. Highlighting a news demand mechanism, market returns drive consumption of stale news articles, even without new articles about the firm on that day.  EFA2026_2048_AP 05_News Consumption in the Wild.pdf
4:00pm - 5:30pm	AP 06: Asset Pricing Factors: Bias, Persistence, and AI Location: LR M2.2 (Floor 2) Session Chair: Irina Zviadadze, HEC Paris ID: 1097 Behavioral Economics of AI: LLM Biases and Corrections Pietro Bini¹, Lin William Cong^{2,4}, Xing Huang³, Lawrence J. Jin^{3,4}

1: Boston University, United States of America; 2: Nanyang Technological University, Singapore;
3: Cornell University, United States of America; 4: NBER

Discussant: **Grigory Vilkov** (Frankfurt School of Finance and Management gGmbH)

Do generative AI models, particularly large language models (LLMs), exhibit systematic behavioral biases in economic and financial decisions? If so, how can these biases be mitigated? Drawing on the cognitive psychology and experimental economics literatures, we conduct the most comprehensive set of experiments to date—originally designed to document human biases—on prominent LLM families across model versions and scales. We document systematic patterns in LLM behavior. In preference-based tasks, responses become more human-like as models become more advanced or larger, while in belief-based tasks, advanced large-scale models frequently generate rational responses. Prompting LLMs to make rational decisions reduces biases.

 [EFA2026_1097_AP 06_Behavioral Economics of AI.pdf](#)

ID: 553

Persistent Anomalies and Nonstandard Sharpe Ratios

Guillaume Coqueret¹, Christophe Perignon²

1: EM Lyon; 2: HEC Paris, France

Discussant: **Benjamin Holcblat** (University of Luxembourg)

We propose a framework for rigorous inference in the evaluation of asset pricing anomalies that explicitly accounts for multiple methodological choices. We demonstrate that running multiple paths on the same dataset results in high correlation across outcomes, distorting inference. Alternatively, path-specific resampling reduces outcome correlations and tightens the confidence interval of the average return. Accounting for across- and within-path variability allows us to decompose the variance of the average return into a standard error, a nonstandard error, and a correlation term. We define the nonstandard Sharpe ratio as the ratio of the average return to the nonstandard error and show that this metric enables the identification of persistent anomalies. Empirically, we show that nonstandard errors dominate standard errors, and that 24% of the anomalies in our sample (26 out of 107) are fully persistent.

 [EFA2026_553_AP 06_Persistent Anomalies and Nonstandard Sharpe Ratios.pdf](#)

ID: 1229

Asset Heterogeneity and Uncommon Factors

Lin William Cong², Guanhao Feng¹, Jingyu He¹, Junye Li³, Qianshu Zhang¹

1: City University of Hong Kong; 2: Nanyang Technological University; 3: Fudan University

Discussant: **Andy Neuhierl** (Purdue University)

Standard empirical asset-pricing models impose a common mapping from firm characteristics to expected returns. We develop the Lasso Fama–MacBeth Clustering Model, which jointly estimates characteristic-defined regions of the cross section and locally sparse average slopes within each region. In U.S. equities from 1980 to 2024, a pervasive core of short-term reversal and earnings surprise coexists with a broader periphery of characteristics retained only in particular regions. Cluster-based value-weighted portfolios deliver an out-of-sample Sharpe ratio of 2.04 and monthly alphas above 1.6% unspanned by standard factor models. They outperform pooled benchmarks and remain robust after transaction costs. The set of selected characteristics changes over the business cycle. State-specific fits for expansions and recessions produce distinct partitions and a broader set of selected characteristics in recessions.

 [EFA2026_1229_AP 06_Asset Heterogeneity and Uncommon Factors.pdf](#)

4:00pm - 5:30pm

AP 07: International Finance

Location: **LR M2.3 (Floor 2)**

Session Chair: **Robert Kollmann**, Université Libre de Bruxelles & CEPR

ID: 2091

Bond Demand and the Yield-Exchange Rate Nexus: Risk Premium vs. Convenience Yield

Dongchen Zou

Kelley School of Business, Indiana University, United States of America

Discussant: **Markus Sihvonen** (Bank of Finland, Research Unit)

This paper examines how demand for government bonds jointly affects bond yields and exchange rates. Exploiting government bond auctions from advanced economies to isolate demand shocks, I identify two channels: the risk premium channel, which reduces both bond and currency risk premiums, and the convenience yield channel, which increases the value of domestic safe assets. While both channels suppress yields, they have opposing effects on exchange rates. A preferred-habitat model featuring preference for liquidity demonstrates these mechanisms. The model predicts that higher auction demand lowers yields and strengthens the domestic currency by raising convenience yields. Empirical results validate these predictions. The standard positive yield-exchange rate relation, primarily driven by the risk premium channel, dampens during auctions as bond yields increasingly reflect convenience yields. These findings highlight the pivotal role of liquidity preferences in the joint dynamics of government bonds and exchange rates.

ID: 489

Demand Propagation Through Traded Risk Factors

Yu An², Amy Huber¹

1: University of Pennsylvania, United States of America; 2: Johns Hopkins Carey

Discussant: **Gerardo Ferrara** (Bank of England)

We quantify how demand shocks propagate across exchange rates in an interconnected FX market. Using 11 years of daily customer-bank FX flows and exchange-rate returns across 17 currencies, we show that cross-currency propagation can be decomposed into factor-level repricing and currencies' exposures to common risks. To make this decomposition empirically tractable, we identify three traded risk factors that account for 90% of the non-diversifiable risk banks bear when absorbing customer demand imbalances and that plausibly exhibit no cross-factor price effects. We estimate each factor's price sensitivity using sovereign bond auction announcements as instruments for non-informational shocks to factor demand and find that the FX market is highly elastic. Mapping factor-level price sensitivities back to currencies, we find that a \$1 billion demand shock to one currency moves other exchange rates by up to 9 basis points. Propagation is strongest among currencies with same-signed factor exposures and weaker when exposures offset. Consistent with the model-implied propagation patterns, out-of-sample FX interventions show that shocks originating in one currency transmit broadly across FX markets through shared risk exposures.

 [EFA2026_489_AP 07_Demand Propagation Through Traded Risk Factors.pdf](#)

ID: 685

Global portfolio investments and FX derivatives

Tsvetelina Nenova^{1,2}, Andreas Schrimpf^{1,2}, Hyun Song Shin^{2,3}

1: Bank for International Settlements, Switzerland; 2: CEPR; 3: Bank of Korea

Discussant: **Johannes Poeschl** (European Central Bank)

We show that outstanding volumes in FX swaps serve as a good indicator for the hedging activity associated with portfolio positions of advanced economy bond investors. As such, FX swaps serve as a key barometer of risk-taking and global financial conditions. We develop a simple portfolio choice model for international bond investors and use it to estimate the relationship between global FX hedging activity, relative investment opportunities (captured by the yield curve slopes in respective economies), and the hedging costs associated with underlying investments. We find that higher FX hedging activity is closely associated with US portfolio debt inflows and outflows, indicating that FX hedging plays a crucial role in facilitating cross-border bond investments. This connection between FX hedging motives, portfolio bond flows, and the yield curve highlights a mechanism of international financial spillovers—not only from the US but also from advanced economies with significant accumulated wealth flowing into the US.

 [EFA2026_685_AP 07_Global portfolio investments and FX derivatives.pdf](#)

7:00pm - 9:30pm

Get Together

Location: [Wintercircus](#)

Conference Agenda

WED
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THU
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Aug

Daily Overview

Date: Friday, 21/Aug/2026

9:00am - 10:30am

Moody's: Private Credit

Location: LR M0.1 (Floor 0)

Session Chair: **Olivier Darmouni**, HEC Paris

ID: 1028

Indirect Credit Supply: How Bank Lending to Private Credit Shapes Monetary Policy Transmission

Sharjil Haque¹, **Young Soo Jang²**, **Jessie Wang¹**

1: Federal Reserve Board of Governors; 2: Pennsylvania State University

Discussant: **Sophie-Dorothee Rotermund** (Stockholm School of Economics)

This paper examines how banks' financing of nonbank lenders affects monetary policy transmission. Using supervisory bank loan-level data and deal-level private credit data, we document an intermediation chain: Banks lend to Business Development Companies (BDCs)—large private credit providers—which then lend to firms. As monetary tightening restricts bank lending, firms turn to BDCs for credit, prompting BDCs to borrow more from banks. This intermediation chain raises borrowing costs, as banks charge BDCs higher rates, which BDCs pass on to firms. Consistent with this pass-through, bank-reliant BDCs respond more strongly to monetary tightening, and BDC-dependent firms grow more but exhibit weaker interest coverage ratios. Overall, while bank lending to nonbanks mitigates credit contraction and supports investment during tightening, it amplifies monetary transmission by elevating borrowing costs and financial distress risk.

 [EFA2026_1028_Moody_s_Indirect Credit Supply.pdf](#)

ID: 1708

Bank Liquidity Regulation and the Growth of Private Credit

Sebastian Doerr¹, **Gaston Gelos¹**, **Vesa Pursiainen²**

1: Bank for International Settlements, Switzerland; 2: University of St.Gallen

Discussant: **Alberto Manconi** (Bocconi University)

We study the role of bank liquidity regulation in the growth of private credit. Following the introduction of the liquidity coverage ratio (LCR), private credit increases significantly more in U.S. counties where banks subject to the LCR or where LCR-banks with a greater initial liquidity shortfall had a larger footprint. Our estimated effect of the LCR on private credit growth is comparable in economic magnitude to that of the capital shock from stress tests. The relationship between LCR footprint and private credit is stronger in industries that are more reliant on credit.

 [EFA2026_1708_Moody_s_Bank Liquidity Regulation and the Growth of Private Credit.pdf](#)

ID: 1364

When Flexibility Becomes Forbearance: Payment-in-Kind in Private Credit

Paul Rintamäki, **Sascha Steffen**

Frankfurt School of Finance & Management gGmbH, Germany

Discussant: **Melina Papoutsis** (European Central Bank)

Payment-in-Kind (PIK) provisions allow borrowers to capitalize unpaid interest, offering flexibility but potentially enabling excessive forbearance. Testing predictions of a simple model with comprehensive Business Development Company (BDC) loan data, we show that PIK is primarily used for forbearance. PIK delays the recognition of early losses while predicting persistent deterioration later rather than recoveries. Adverse outcomes are driven by PIK exercised after (not at) origination. Consistently, lenders of PIK'd loans extend their maturities rather than recapitalize the borrowers. Funding markets discipline excessive PIK-lending by BDCs: an increase in PIK-exposure reduces bank funding, and public equity investors discount PIK-exposure exercised post-origination.

 [EFA2026_1364_Moody_s_When Flexibility Becomes Forbearance.pdf](#)

9:00am - 10:30am

FI 06: Rewiring Banking: Open Banking, Crypto, and the Democratization of Assets

Location: LR M0.2 (Floor 0)

Session Chair: **Alfred Lehar**, University of Calgary

ID: 1185

Open Banking and Competition in Banks and Fintech: Evidence from Mobile Apps

Xinchen Ma

London School of Economics

Discussant: **Gyongyi Loranth** (University of Vienna)

Open banking policies have been introduced by many governments to foster innovation in financial services, yet evidence on their effects on competition remains limited. I construct a novel dataset of fintech app source code and exploit cross-country variation in open banking availability within the same app to identify the impact of open banking on fintechs. I find that open banking significantly boosts fintech app usage and performance, with the strongest gains for data-intensive apps, fintech startups, and during the pandemic when access to traditional banking was limited. Textual analysis of app descriptions shows that incumbent banks most exposed to open banking suffer declines in loan issuance and income but respond strategically by raising fee intensity and improving earning efficiency. The findings are consistent with theories that open banking reduces barriers to entry by weakening banks' monopoly power over consumer data.

 [EFA2026_1185_FI 06_Open Banking and Competition in Banks and Fintech.pdf](#)

ID: 844

Demand for Safety in the Crypto Ecosystem

Murillo Campello⁴, Angela Gallo¹, Lira Mota², Tammaro Terracciano³

1: Bayes Business School; 2: MIT Sloan School of Management; 3: IESE Business School; 4: University of Florida

Discussant: **Ganesh Viswanath Natraj** (University of Warwick)

We study the demand for safety and liquidity in the crypto ecosystem. We do so under a framework in which a representative investor allocates liquidity between stablecoin deposits in lending pools and traditional safe assets (e.g., MMF shares). Our model delivers three main predictions: (i) the stablecoin deposit premium co-moves with the Treasury premium when investors value the safety and liquidity services of stablecoins; (ii) increases in Treasury supply reduce the stablecoin deposit premium; and (iii) drops in the perceived safety and liquidity of stablecoin deposits (e.g., due to de-pegs or hacker attacks) reduce their premium. Using granular data from hundreds of DeFi pools spanning multiple protocols, tokens, and blockchains, we find evidence supporting these predictions. Investors treat stablecoin deposits as money-like instruments, whose sensitivity to stress reveals their fragility.

 [EFA2026_844_FI 06_Demand for Safety in the Crypto Ecosystem.pdf](#)

ID: 2111

Democratizing Illiquid Assets: Liquidity Transformation and Performance in Interval Funds

Stefano Pegoraro, Sophie Shive, Rafael Zambrana

University of Notre Dame, United States of America

Discussant: **Ben Charoenwong** (INSEAD Singapore)

We study whether regulated semiliquid funds can successfully democratize private assets and improve retail investors' risk-adjusted performance. Using interval funds, which invest in illiquid assets while offering periodic redemptions, we show retail investors face a trade-off between agency frictions and liquidity premia. Managers generate positive risk-adjusted returns in illiquid, information-insensitive markets, especially credit, but underperform in liquid, information-sensitive strategies, consistent with weak flow-based incentives. Outperformance originates from distribution yields rather than NAV appreciation and is amplified by leverage and portfolio illiquidity. Retail investors benefit from co-investing alongside sophisticated investors, whose stable capital supports illiquid exposure and improves liquidity transformation.

 [EFA2026_2111_FI 06_Democratizing Illiquid Assets.pdf](#)

9:00am - 10:30am

SF 05: Corporate Governance and Sustainable Finance

Location: **LR M0.3 (Floor 0)**

Session Chair: **Laura Starks**, The University of Texas at Austin

ID: 2081

Building Voice in Socially Responsible Investing

Michael Sockin, Richard Lowery

University of Texas - Austin, United States of America

Discussant: **Paul Voss** (HEC Paris)

We develop a dynamic model of socially responsible investment where large households trade firm equity and vote on production decisions involving the depletion of a nonrenewable resource. Although accumulating wealth and exercising voice are intratemporal substitutes, they are dynamic complements because influence is tied to wealth. Socially responsible households delay implementing resource-preserving policies that reduce firm productivity to amass wealth for future influence, while financially-motivated households may accumulate wealth to block conservation efforts. The constrained efficient technological choice balances higher productivity with society's willingness to pay for conservation, and

can be implemented through a voting protocol that assigns voice based on how depletion impacts welfare rather than shareholdings.

 [EFA2026_2081_SF 05_Building Voice in Socially Responsible Investing.pdf](#)

ID: 649

NGO Activism: Exposure vs. Influence

Michele Fioretti¹, Victor Saint-Jean², Simon Smith³

1: Bocconi University, CEPR; 2: ESSEC Business School; 3: Federal Reserve Board of Governors

Discussant: **Nickolay Gantchev** (University of Virginia)

This paper studies how the timing of NGO activism shapes its effectiveness in influencing corporate behavior. Using data on 2,500 campaigns targeting U.S. firms, we show that campaigns timed at annual general meetings (AGMs) generate large visibility gains but little contemporaneous influence, while campaigns launched before the AGM significantly increase shareholder proposal success and improve firms' environmental and social performance. We develop a dynamic model in which NGOs trade off awareness building and credibility formation, generating a lifecycle in activism from visibility-seeking to influence-oriented engagement. Therefore, NGOs' objectives evolve endogenously to coordinate shareholder pressure and shape corporate behavior.

 [EFA2026_649_SF 05_NGO Activism.pdf](#)

ID: 1940

Investment and Voting Under Local Externalities

Dmitrii Pugachev¹, Dmitry Chebotarev²

1: Norwegian School of Economics, Norway; 2: Indiana University

Discussant: **Ernst Maug** (Universität Mannheim)

We build a model in which local externalities generate heterogeneous preferences among investors and shape stockholdings, corporate voting, and welfare. We study this mechanism in the context of pollution. Risk-averse investors suffer from pollution produced by local firms, which choose between more productive brown and less productive green technologies through ownership-weighted voting. Diversification attracts brown-voting external investors, distorting local investors' portfolios and votes, generating inefficient technology choice and risk sharing. A passive fund that maximizes assets under management can alleviate this coordination failure and, in most cases, implement the first best, although its concern for portfolio value can induce excessive brown voting. Pass-through voting weakens the fund's coordinating role and can reduce welfare. Our findings show how green preferences can arise endogenously from investors' economic interests.

 [EFA2026_1940_SF 05_Investment and Voting Under Local Externalities.pdf](#)

9:00am - 10:30am

HF 04: Household Wealth

Location: [LR N0.5 \(Floor 0\)](#)

Session Chair: **Roine Vestman**, Stockholm University

ID: 1857

Who Harvests? Tax Alpha and Heterogeneous Responses to Capital Gains Taxation

Federico Mainardi

Columbia Business School, United States of America

Discussant: **Gualtiero Azzalini** (Stockholm School of Economics)

Using high-frequency household-level data—including more than 700 billionaires—I study heterogeneous responses to capital gains taxation. Wealthier households realize more losses and fewer gains, consistent with more effective tax management. A regression kink design shows that this pattern reflects active tax optimization at the top, driven largely by sophisticated financial advisors. Annual tax expenses decline from 1.1% at the bottom to 40 basis points at the top, generating a 70-basis-point tax alpha that is comparable in magnitude to the pre-tax return gap on risky assets estimated in prior work. These differences have sizable effects on the long-run wealth distribution.

 [EFA2026_1857_HF 04_Who Harvests_Tax Alpha and Heterogeneous Responses.pdf](#)

ID: 1770

What do 12 billion card transactions say about house prices and consumption?

Knut Are Aastveit¹, Jesper Böjeryd², Magnus Gulbrandsen¹, Ragnar Juelsrud^{1,2,4}, Kasper Roszbach^{1,3}

1: Norges Bank, Sweden; 2: University of Oslo; 3: University of Groningen; 4: CEPR

Discussant: **Tatiana Pazem** (London School of Economics)

We study how changes in housing wealth affect household spending using administrative and granular, de-identified, data on debit card payments and e-invoices for the near population of Norway. We focus on the 2014 oil-price collapse, which created sharp regional variation in house prices. Comparing government workers in oil and non-oil regions, we estimate a three-year marginal propensity to spend (MPX) of about 3.6 cents per dollar. The response is highly concentrated in durables, home improvements, furnishings, and vehicles, and primarily driven by a reduction in the uptake of credit

backed by home-equity. The local MPX (L-MPX), the share of the total spending response accruing to locally produced goods and services, stands for roughly 80% of the consumption decline. Additional findings highlight both collateral and wealth effects as key channels linking housing wealth to consumption, and document that household balance-sheet heterogeneity shapes the propagation of housing-wealth shocks.

 [EFA2026_1770_HF 04_What do 12 billion card transactions say about house prices and consumption_.pdf](#)

ID: 847

Interest Rate Pass-Through With Adjustable Rate Mortgages

Manuel Adelino¹, Miguel Ferreira², Sujiao Zhao³

1: Fuqua School of Business at Duke, CEPR, and NBER; 2: Nova School of Business and Economics, ECGI and CEPR; 3: The University of Hong Kong and Banco de Portugal

Discussant: **Asger Lau Andersen** (University of Copenhagen)

Adjustable-rate mortgages (ARMs) transmit monetary policy less directly than often assumed. We exploit quasi-experimental variation in ARM rate reset timing in Portugal—where over 92% of mortgages are indexed to Euribor—around the ECB's 2022–2023 tightening cycle to estimate responses to mortgage payment shocks. After reset dates, mortgage renegotiations increase by 10 percentage points, lender switching by 4, partial prepayments by 5, and full prepayments by 3, offsetting about 17% of the payment increase implied by policy rates. Responses occur only immediately after resets, consistent with selective inattention, and are largest among younger, more educated, and higher-balance borrowers. Supply-side factors amplify these effects: as rates rise and bank competition intensifies, households at more flexible banks renegotiate, switch lenders, and prepay more, while greater broker presence further increases lender switching. Our findings suggest that monetary policy pass-through in ARM-dominated markets depends on borrower behavior, market frictions, and sticky deposit rates.

 [EFA2026_847_HF 04_Interest Rate Pass-Through With Adjustable Rate Mortgages.pdf](#)

9:00am - 10:30am

CF 08: Politics and Firm Behavior: Polarization, Geopolitical Risk, and Lobbying

Location: **LR M1.2 (Floor 1)**

Session Chair: **Frederico Belo**, INSEAD

ID: 979

Foreign Geopolitical Risk and U.S. Firm Productivity: The Role of Immigrant Labor

Zhongling {Danny} Qin¹, Miao Ben Zhang²

1: Auburn University; 2: University of Southern California

Discussant: **Marco Grotteria** (London Business School)

We demonstrate that foreign geopolitical risk can affect U.S. firm productivity through their immigrant employees. Using confidential U.S. Census employee-employer matched microdata, we measure a firm's labor exposure to foreign geopolitical risk (FGPR) based on geopolitical shocks to the origin countries of its immigrant employees. FGPR significantly boosts firm labor productivity, profitability, and investment. The effect appears causal, operates on the intensive margin rather than through labor turnover, and is robust among firms without international trade activities. Examining the mechanism at the worker level, we find that immigrants increase their working hours when origin-country GPR rises, which positively spills over to their domestic coworkers' labor supply. These effects are consistent with two underlying forces: a reduced option value of return migration and increased remittance motives when origin-country GPR rises. Overall, our study highlights a novel labor channel through which foreign GPR pressures immigrant employees but benefits their employing firms

 [EFA2026_979_CF 08_Foreign Geopolitical Risk and US Firm Productivity.pdf](#)

ID: 252

Lobbying Congress versus Agencies

Michelle Lowry¹, Ekaterina Volkova²

1: Drexel University, USA; 2: University of Melbourne, Australia

Discussant: **Stefan M Lewellen** (Penn State University)

While lobbying of Congress receives much attention, government agencies control key decisions. Companies extensively lobby agencies, and this contributes to increases in firm value around regulatory announcements. Lobbying on both bills and related agency rules yields 30-70% higher benefits than lobbying on bills only. Compared to lobbying of Congress: the propensity to lobby agencies and the associated benefits are concentrated on technical issues, and 'what you know' is relatively more important than 'who you know'. Firms that lobby agencies experience negative abnormal returns following shocks that decrease agency power (the Supreme Court's Chevron decision) or decrease a firm's lobbying capacity.

 [EFA2026_252_CF 08_Lobbying Congress versus Agencies.pdf](#)

ID: 1056

Political Preferences and Financial Market Equilibrium

Youchang Wu¹, Josef Zechner²

	1: University of Oregon, United States of America; 2: Vienna University of Economics and Business <i>Discussant:</i> Will Cassidy (University of Notre Dame) We develop a model of competitive financial markets in which investors hold opposing political preferences and firms choose political stances that generate non-pecuniary payoffs. In equilibrium, firms cater to the investor group with the greatest impact on their stock price, leading to endogenous corporate polarization and distorted risk sharing. Partisan firms generally have lower expected stock returns than politically neutral firms, and the minimum difference increases with financial costs of partisanship. Valuemaximizing political stances coincide with the utilitarian first best when cash flows are uncorrelated; with correlated cash flows, market incompleteness generically leads value maximization to diverge from welfare maximization.  EFA2026_1056_CF 08_Political Preferences and Financial Market Equilibrium.pdf
9:00am - 10:30am	CF 07: Specific and Opaque Assets: Theory Location: Chapel (Floor 1) Session Chair: Dirk Hackbarth, Boston University
	ID: 1715 Innovate to Borrow: How Intangibles Shape Finance and Growth <u>Victoria Vanasco</u>¹, Vladimir Asriyan¹, Alberto Martin¹, Guillermo Ordóñez² 1: CREI, Spain; 2: University of Pennsylvania <i>Discussant:</i> Bianca He (University of Notre Dame) We study a dynamic economy in which heterogeneous entrepreneurs invest in either generic or innovative technologies, the latter relying on intangible, firm-specific assets whose payoffs are realized through learning or experimentation (e.g., know-how, R&D). A key friction is that, to finance investment, entrepreneurs can pledge assets but not cash flows. We show that innovative technologies can relax financing constraints by increasing the value of continuation relative to default, thereby enabling borrowing against future cash flows. Technology choice is non-monotonic in productivity: low-productivity entrepreneurs innovate-to-experiment and delay investment, intermediate types adopt generic technologies, and high-productivity entrepreneurs innovate-to-scale and relax financial constraints. In equilibrium, financial frictions distort both the allocation of capital and the choice of technology, leading to insufficient experimentation. The model helps us understand how innovation is adopted across firms and economies and has novel policy implications.  EFA2026_1715_CF 07_Innovate to Borrow.pdf
	ID: 848 The Economics of Not Knowing: A Symmetric Ignorance Theory of IPO Pricing <u>Michel Habib</u>^{1,3,5}, Alexander Ljungqvist^{2,4,5} 1: University of Zurich; 2: Stockholm School of Economics; 3: Swiss Finance Institute; 4: Swedish House of Finance; 5: CEPR <i>Discussant:</i> Merih Sevilir (Halle Institute for Economic Research and ESMT-Berlin) We develop a unified framework in which IPO practices operate not to manage asymmetric information but to prevent it from arising. Costly information acquisition gives investors an option to pick and choose among offerings, forcing the underwriter to offer a discount. IPO practices lower the value of this option—by diminishing the quality, relevance, or payoff of investor information—and thereby reduce the discount required to deter information production. This information-prevention perspective offers a coherent explanation for otherwise disparate practices, resolves persistent empirical puzzles about IPO allocations, and yields new implications for cornerstone investors and the JOBS Act.  EFA2026_848_CF 07_The Economics of Not Knowing.pdf
	ID: 645 The Blessing of Persistent Misvaluation <u>Zhiyao Chen</u>¹, Wenyu Wang² 1: City University of Hong Kong, Hong Kong S.A.R. (China); 2: Kelley School of Business, Indiana University <i>Discussant:</i> Johan Hombert (HEC Paris) Conventional wisdom holds that equity misvaluation reduces mergers and acquisitions (M&A) efficiency by stimulating market timing. We show that this conclusion overlooks a critical dimension: the persistence of misvaluation. We develop and estimate a real options model in which persistent misvaluation reduces bidders' urgency to exploit the financing window, shifting incentives back to deals with stronger fundamental synergies. Overvaluation boosts merger activities but lowers deal quality. In the estimated economy these two effects approximately cancel, keeping aggregate M&A value creation close to the no-misvaluation benchmark. This balance, however, hinges on persistence: transient, large-scale misvaluation can be sharply detrimental, while mild, persistent misvaluation can even push aggregate M&A value creation beyond the no-misvaluation benchmark. Price inefficiency, in this sense, can enhance real efficiency.  EFA2026_645_CF 07_The Blessing of Persistent Misvaluation.pdf

9:00am - 10:30am	AP 08: Equity Risk Premia and Correlation Risk Location: LR M2.1 (Floor 2) Session Chair: Allan Timmermann, University of California-San Diego ID: 1057 Conditional Excess Volatility <u>Christian Skov Jensen</u>^{1,2}, Eben Lazarus³ 1: University of Copenhagen; 2: Bocconi University; 3: University of California, Berkeley <i>Discussant:</i> Fabrizio Ghezzi (University of California San Diego) We decompose market return variance into a component that covaries with the stochastic discount factor (SDF) and one that does not. The SDF-orthogonal component - conditional excess volatility - contributes to variance but cannot earn a risk premium. We show that the ratio of the market risk premium to total market variance reveals the share of market variance orthogonal to the SDF. Using three distinct measures of this ratio across twenty equity markets, we find that it does not increase during recessions and often declines. Because standard models uniformly predict countercyclical risk pricing, this finding requires the excess volatility share to increase substantially in bad times. Our empirical results imply that excess volatility constitutes at least half of the total market volatility in recessions. We show that this mechanism provides a unified explanation for (i) why optimal portfolio weights do not increase in downturns despite rising Sharpe ratios, (ii) why the term structure of Sharpe ratios on dividend claims is downward-sloping, and (iii) why option portfolios with fixed risk quantities earn lower returns at longer horizons.  EFA2026_1057_AP 08_Conditional Excess Volatility.pdf ID: 1911 Risk Premia, Firm Insurance, and Endogenous Labor Income Risk <u>Maarten Meeuwis</u>¹, Dimitris Papanikolaou², Lawrence Schmidt³ 1: Washington University in St. Louis; 2: Kellogg School of Management and NBER; 3: University of California, San Diego and NBER <i>Discussant:</i> Esther Eiling (University of Amsterdam) We study how aggregate financial conditions shape firm insurance and, through it, labor income risk. In a directed search model with dynamic wage contracts and two-sided limited commitment, firm insurance against idiosyncratic shocks erodes when risk premia rise. Using U.S. administrative data, we document new evidence supporting the model: pass-through of firm shocks to earnings rises in bad times, especially for lower-paid workers near the separation margin. The model reproduces many untargeted time-series and cross-sectional features of earnings risk and implies substantial welfare costs of idiosyncratic risk, high private discount rates on human capital, and large gains from recession-contingent transfers.  EFA2026_1911_AP 08_Risk Premia, Firm Insurance, and Endogenous Labor Income Risk.pdf ID: 1916 Correlation neglect in asset prices <u>Hongye Guo</u>², Jessica Wachter¹ 1: University of Pennsylvania, United States of America; 2: Hong Kong University <i>Discussant:</i> Rossen Valkanov (UCSD) The U.S. stock market return during the first month of a quarter positively predicts the second month's return, which in turn negatively predicts the first month's return of the next quarter. This pattern arises because investors fail to fully recognize that earnings announced in the second month of a quarter are inherently similar to those announced in the first month, leading them to overreact to predictably repetitive earnings news. A model formalizing this form of correlation neglect yields additional predictions for survey data and for both the time-series and cross-section of returns, all of which are borne out in the data. These results provide evidence of correlation neglect even among sophisticated, financially incentivized decision-makers, underscoring its importance as a behavioral phenomenon.  EFA2026_1916_AP 08_Correlation neglect in asset prices.pdf
9:00am - 10:30am	AP 09: Empirical Asset Pricing with Quantities Location: LR M2.2 (Floor 2) Session Chair: Kristy Jansen, Marshall School of Business, University of Southern California ID: 1719 A Bound on Price Impact and Disagreement <u>Philippe van der Beck</u>¹, Lorenzo Bretscher², Zhiyu Julie Fu³ 1: Harvard Business School, United States of America; 2: University of Lausanne, Switzerland; 3: Washington University in St. Louis

Discussant: **Chuck Fang** (Drexel University)

High asset price volatility alongside low portfolio flows reveals a fundamental trade-off between investor disagreement and price impact: When volatility is high but flows are small, investors must either largely agree with each other or be insensitive to price changes, implying large price impacts of small flows. We formalize this relationship in a price impact bound based on price volatility, flow volatility, and investor agreement. Applying our bound to U.S. equities yields large price impacts, implying that flows are central to understanding price dynamics. Our bounds align with event-study estimates while revealing novel patterns across horizons, assets, and aggregation levels.

 [EFA2026_1719_AP 09_A Bound on Price Impact and Disagreement.pdf](#)

ID: 1914

A European Safe Asset? Not Without the Investors

Giovanni Bonfanti^{1,2}, **Juri Marcucci**³

1: NBER; 2: Leibniz Institute for Financial Research SAFE; 3: Banca d'Italia

Discussant: **Felix Corell** (Vrije Universiteit Amsterdam)

We study bonds issued by the European Union (EU) as joint and several liabilities of its member countries and show that they pay higher interest rates than comparably safe and large sovereign issuers. The spread reflects their greater sensitivity to adverse market shocks, which becomes particularly pronounced during periods of monetary tightening. Using novel data, we document that EU bonds have a small investor base because they are excluded from major fixed-income indices due to their lack of formal sovereign status. This exclusion lowers expected prices during crises, making EU bonds unattractive to investors with liquidity needs, such as mutual funds and foreign central banks. Expectations of state-contingent purchases by the European Central Bank (ECB) can substantially compress this premium even when not directed at EU bonds. A demand-based asset pricing framework suggests that the spread would be negligible if the EU were recognized as a fully sovereign issuer and a new safe asset would arise.

 [EFA2026_1914_AP 09_A European Safe Asset_ Not Without the Investors.pdf](#)

ID: 951

Elastic in Cash, Inelastic in Repo: Hedge Funds in the Treasury and Repo Markets

Andrea Poinelli², **Loriana Pelizzon**¹, **Davide Tomio**³, **Benoit Nguyen**⁴, **Tobias Linzert**⁵

1: Leibniz Institute for Financial Research SAFE; Goethe University Frankfurt; Ca' Foscari University of Venice; CEPR; 2: European Central Bank; Deutsche Bundesbank; Goethe University Frankfurt; 3: Texas A&M University, Mays Business School; CEPR; 4: European Central Bank; 5: European Central Bank

Discussant: **Paul Huebner** (Stockholm School of Economics)

Sovereign bond markets are a cornerstone of the financial system, and their functioning is tightly linked to repo markets, where investors finance long positions and source bonds for short sales. We show, theoretically and empirically, that repo prices are set in the cash bond market: when demand for cash bonds exceeds available supply, arbitrageurs accommodate the excess by shorting bonds and borrowing them in the repo market, opening a wedge between the policy and repo

rates, i.e., generating specialness. An elastic supply of collateral, in turn, limits how much of the excess demand is capitalized into bond prices. Using regulatory data covering the universe of repos backed by German sovereign bonds, we identify the final borrowers and lenders of securities and estimate the first demand and supply elasticities for a repo market. Supply, dominated by the public sector, accounts for 87% of the aggregate elasticity. Demand, driven by hedge funds, is strongly inelastic: a 10% increase in borrowing costs reduces their borrowing by only 1%. Despite

being among the most price-elastic investors in cash bond markets, hedge funds are inelastic in repo, as their borrowing sustains relative-value positions whose size is pinned by the preferred-habitat demand they intermediate: their elasticity is inherited from their cash-market counterparties rather than being a primitive. Specialness thus emerges as the equilibrium price of cash-market demand pressure—of which collateral scarcity from central bank purchases is a special case—tying safe-asset

pricing and the transmission of monetary policy to the same imbalances in the cash bond market

 [EFA2026_951_AP 09_Elastic in Cash, Inelastic in Repo.pdf](#)

9:00am - 10:30am

RE 03: Commercial Real Estate

Location: **LR M2.3 (Floor 2)**

Session Chair: **Sven Damen**, University of Antwerp

ID: 261

Pricing Government Contract Risk Premia: Evidence from the 2025 Federal Lease Terminations

Soon Hyeok Choi¹, **Cameron LaPoint**²

1: Rochester Institute of Technology; 2: Yale School of Management

Discussant: **Keling Zheng** (The Chinese University of Hong Kong)

Are government contracts a safe investment? We investigate this question using unanticipated Department of Government Efficiency (DOGE) cancellations of federal leases as a shock to commercial mortgage default risk. Offices with DOGE-notified leases experience persistent net operating income

declines exceeding 15%, with large, negative effects on CMBS prices and rental cash flows tied to nearby private-tenant properties in Washington, D.C. Spillovers are driven by increased vacancy from tenants with high exposure to procurement contracts involving disrupted federal agencies. Simulations of office property value losses from early lease terminations indicate substantial market-wide repricing of government contract risk.

 [EFA2026_261_RE 03_Pricing Government Contract Risk Premia.pdf](#)

ID: 624

Does Mortgage Rate Lock-in Dampen Commercial Real Estate Busts?

Sean Flynn¹, Robert Kurtzman², Alexei Tchisty³

1: Cornell University, United States of America; 2: Federal Reserve Board, United States of America; 3: Cornell University, United States of America

Discussant: **Lee Seltzer** (Federal Reserve Bank of New York)

We show that mortgage lock-in effects play a significant role in commercial real estate. We develop a bargaining model in which owners with low interest rates have high reservation values and thus sell at higher prices. Consistent with the model, we find a 17% reduction in sale probability and a 4% increase in price for locked-in properties when market rates are 100bp above the fixed rate on the mortgage. Additionally, unlocked properties in more locked-in markets sell at higher prices, consistent with a market-wide effect. Overall, our results indicate that lock-in effects mitigated price declines significantly in the recent bust.

 [EFA2026_624_RE 03_Does Mortgage Rate Lock-in Dampen Commercial Real Estate Busts_.pdf](#)

ID: 2175

Remote Work, Financial Frictions, and Office Valuation in Spatial Equilibrium

Xinle Pang¹, Franklin Qian², Max Yang³

1: SUNY, University at Buffalo; 2: UNC Kenan-Flagler Business School; 3: UCSD, Rady School of Management

Discussant: **Vrinda Mittal** (Kenan-Flagler Business School, University of North Carolina at Chapel Hill)

We quantify how remote work and tighter credit reshape the long-run spatial equilibrium of U.S. office markets. Across nine metros, we estimate a tract-level office supply elasticity averaging 1.6 via a Bartik-style instrument on Firm Market Access, with wide cross-tract heterogeneity. We embed these estimates in a spatial equilibrium model in which workers choose residence, workplace, and work mode; firms combine on-site labor, remote labor, and office space; and developers face a debt-service-coverage constraint that binds in 89% of New York tracts. Higher remote productivity reallocates office demand toward high-productivity, high-remote-share locations—the observed flight to quality—while financial frictions raise mean Manhattan rents by 4% and contract floorspace by 14%, with sharper effects as financing rates rise. Model-implied long-run Manhattan prices are 31–33% below the 2024 transaction median, and 56% below once a post-WFH risk premium from Office REITs is imposed.

 [EFA2026_2175_RE 03_Remote Work, Financial Frictions, and Office Valuation.pdf](#)

10:30am - 11:00am

Coffee Break

11:00am - 12:30pm

ECB: Technological Innovation in Finance: Implications for Markets and Central Bank Policy

Location: [LR M0.1 \(Floor 0\)](#)

Session Chair: **Peter Hoffmann**, European Central Bank

Session Chair: **Angela Maddaloni**, European Central Bank

ID: 1256

AI Errors

Wenqian Huang¹, Albert Menkveld², Shihao Yu³

1: Bank for International Settlements; 2: Vrije Universiteit Amsterdam; 3: Singapore Management University

Discussant: **Jean-Edouard Colliard** (HEC Paris)

When AIs are tasked with empirical research, how do their outcomes compare to those of humans? Are the distributions similar? We run an experiment where we let AI models repeat an experiment that was run with 162 human teams. Not surprisingly, distributions differ. The deeper question is: Why? We develop an approach that identifies which decisions on the analysis path drive the AI errors. The results show that AI estimates are less dispersed than human estimates. The location of the two distributions as measured by the median, also differs significantly, in particular for more complex tasks. The experiment shows that this location differential is largely due the choice of the statistical model, e.g., identifying a time trend by adding a stationary trend to a model in levels, or by computing relative changes and taking the average.

 [EFA2026_1256_ECB_AI Errors.pdf](#)

ID: 1591

Prompted to Start: How Generative AI is Transforming Entrepreneurship

Jan Bena¹, Bo Bian¹, Mariassunta Giannetti²

1: University of British Columbia, Canada; 2: Stockholm School of Economics

Discussant: **Diana Bonfim** (ECB and Católica Lisbon)

We show that following the diffusion of GenAI, industries with higher task-level exposure to the new technology experience 20\% more startup formation than less-exposed industries, and a growing share of these startups offer new AI products and services rather than merely automating operations. This entry is geographically dispersed, extending beyond traditional innovation hubs into regions with limited venture capital and thin specialized labor markets. While individual entrants are smaller in scale, aggregate entry generates net employment and wage growth at the industry level and creates employment in the very occupations most exposed to GenAI. GenAI also changes who becomes an entrepreneur: founding teams are increasingly drawn from high-exposure occupations and describe themselves in terms of technical, AI-related skills rather than the capital-raising and deal-making expertise, consistent with the technology enabling new uses of human capital rather than simply displacing workers.

 [EFA2026_1591_ECB_Prompted to Start.pdf](#)

ID: 1569

The Limits of AI Trading

Winston Dou¹, Itay Goldstein¹, Zigang Li², Liyan Yang²

1: University of Pennsylvania, United States of America; 2: University of Toronto, Canada

Discussant: **Xavier Vives** (IESE Business School)

We show that powerful autonomous learning does not ensure trading dominance in competitive markets, even when humans hold systematically biased beliefs. We characterize how information structure and market sophistication bound reinforcement-learning traders' performance relative to humans. Humans receive private signals, potentially including soft information unavailable to algorithms, and differ in their ability to extract information from prices and anticipate others' trading, as captured by level-k reasoning. AI traders learn demand schedules from prices and realized profits and may also receive private signals. Despite heterogeneous initial conditions and persistent differences in learning parameters, all AI traders converge to a common probabilistic trading policy, generating algorithmic herding, which amplifies the equilibrium-price response to aggregate AI demand and compresses profits. Without an informational advantage, AI is outperformed by the most sophisticated humans because it learns from market data generated by average, rather than frontier, human sophistication. Even the least sophisticated humans can outperform AI when their private information is either very precise or very imprecise. AI sophistication rises with that of the humans who compete with and train it.

 [EFA2026_1569_ECB_The Limits of AI Trading.pdf](#)

11:00am - 12:30pm

FI 07: Monetary Policy Transmission

Location: **LR M0.2 (Floor 0)**

Session Chair: **Hans Degryse**, KU Leuven

ID: 1733

Insurers and Real Estate Credit

Iñaki Aldasoro¹, Sebastian Doerr¹, Umang Khetan², Ishita Sen³

1: Bank for International Settlements, Switzerland; 2: University of Iowa; 3: Harvard Business School

Discussant: **Christian Kubitza** (European Central Bank)

Life insurance companies hold about \$650 billion in commercial mortgages in the United States, yet little is known about their role as suppliers of real estate credit. Using regulatory data covering the universe of mortgage loans held by U.S. life insurers, we show that insurers complete this market, dominating long-maturity, low-leverage lending. We then show that aggregate macroeconomic shocks, specifically interest rates, transmit differently through insurers than through banks. When rates rise, banks cut lending and raise loan rates, while insurers expand lending and reduce loan spreads, without loosening collateral standards. Insurers' expansion is concentrated in shorter-maturity loans, a segment otherwise dominated by banks. We find that two reinforcing mechanisms explain insurers' response. Rising rates generate inflows into guaranteed-return products and narrow the duration gap embedded in insurers' long-dated liabilities, lowering the shadow cost of holding shorter-duration mortgage assets. At the same time, bank retrenchment shifts part of the residual borrower demand toward insurers. We isolate credit supply by exploiting cross-sectional variation in insurers' liability and asset durations, local exposure to bank retrenchment, and granular time-varying fixed effects. Our findings imply that bank-centered analyses may misstate the contraction in real estate credit when rates rise, and that monetary tightening reallocates credit not only across intermediaries, but also across maturities and borrowers.

 [EFA2026_1733_FI 07_Insurers and Real Estate Credit.pdf](#)

ID: 1669

The liquidity promise of QE

Felix Corell¹, Federic Holm-Hadulla², Matteo Leombroni³, Lira Mota⁴, Melina Papoutsis²

1: VU Amsterdam; 2: European Central Bank, Germany; 3: Boston College; 4: MIT

Discussant: **Diane Pierret** (University of Luxembourg)

This paper uses confidential portfolio holdings data to show that corporate quantitative easing (QE) operates primarily through a liquidity demand channel. By acting as a standing buyer, the central bank enhances bond liquidity, raising demand from liquidity-sensitive investors. The impact on prices crucially depends on investor heterogeneity. Mutual funds rebalance toward eligible bonds, while banks and foreign investors are net sellers. As a result, mutual funds amplify the transmission of QE to bond prices. QE mainly compresses the CDS-bond basis with limited effect on default premia. Even during balance sheet unwinding, the implicit liquidity backstop persists, muting quantitative tightening effects.

 [EFA2026_1669_FI 07_The liquidity promise of QE.pdf](#)

ID: 586

Market-Priced Savings, Bank Deposit Market Power, and Monetary Policy Transmission

Dominic Cucic¹, Christoph Basten³, Glenn Schepens²

1: Danmarks Nationalbank; 2: European Central Bank; 3: University of Zurich

Discussant: **Leming Lin** (University of Pittsburgh)

Banks' deposit market power is customer-specific: depositors who hold stocks, bonds, or investment fund shares (market-priced savings, MPS) have stronger outside options and therefore more elastic deposit demand. Using Danish administrative data linking the universe of deposit accounts to each depositor's complete investment portfolio, we show that banks price this elasticity: MPS holders receive a 6.6 bps larger deposit-rate increase per 100 bps policy-rate increase than comparable non-holders at the same bank in the same year. The premium opens when depositors acquire MPS and fades when they sell these assets. Inheritances following unexpected parental deaths provide exogenous variation: heirs who inherit stocks or bonds see pass-through rise 3 to 6 pp relative to heirs inheriting cash or real estate. Higher pass-through only partially offsets MPS holders' greater elasticity: per 100 bps of tightening, they reduce deposits 2.4 pp more, and the resulting funding pressure leads high-MPS banks to cut lending.

 [EFA2026_586_FI 07_Market-Priced Savings, Bank Deposit Market Power, and Monetary Policy Transmission.pdf](#)

11:00am - 12:30pm

SF 06: Implications of Carbon Pricing

Location: **LR M0.3 (Floor 0)**

Session Chair: **Lubos Pastor**, University of Chicago

ID: 1846

Climate Risk Pricing

Nicolae Garleanu¹, Lasse Pedersen²

1: Washington University in St. Louis, United States of America; 2: Copenhagen Business School

Discussant: **Michael Halling** (University of Luxembourg)

We develop an environmental macro-finance model to study how markets price transition and physical climate risks. When carbon taxes are below the social cost of carbon, raising them improves long-run welfare even as it reduces current output. Brown firms perform well in the "bad economic states" when low taxes let climate damage worsen. This hedging value gives them lower required returns, reversing standard ESG predictions. The green-minus-brown required return can, however, switch sign depending on how policy and climate shocks interact. Strikingly, climate-concerned investors optimally hedge by holding brown stocks, while skeptics hedge with green. More broadly, private hedging motives can diverge from societal climate objectives.

 [EFA2026_1846_SF 06_Climate Risk Pricing.pdf](#)

ID: 2003

Carbon Pricing and Investment

James Brown¹, Gustav Martinsson², Per Strömberg³, Christian Thomann⁴

1: Texas A&M University, United States of America; 2: Stockholm University; 3: Stockholm School of Economics; 4: Royal Institute of Technology

Discussant: **Olivier Darmouni** (HEC Paris)

How does carbon pricing affect investment in brown firms? During the period 2000–2019, the effective cost of emitting carbon rose by about 400 percent for Swedish manufacturing firms. Despite lower operating margins, high-emission firms significantly increased both total capital investment and the share of investment dedicated to abatement. The response is concentrated among firms with strong internal financial capacity. We find no comparable investment increase in lower-emitting firms or in high-emission industries outside of Sweden. Our results show that pricing CO2 emissions at a sufficiently high level can incentivize brown firms to make green investments.

 [EFA2026_2003_SF 06_Carbon Pricing and Investment.pdf](#)

ID: 1640

Cap and Trade with Imperfect Hedging

Bruno Biais¹, Johan Hombert¹, Daniel Schmidt¹, Pierre-Olivier Weill²

1: HEC Paris, France; 2: UCLA

	<i>Discussant:</i> Joel Shapiro (University of Oxford) In a cap-and-trade system, emitters face transition risk, to the extent that emission caps and permit prices are volatile. We show, theoretically, and empirically for the EU Emissions Trading System, that (i) emitters hedge with emission permits futures bought from financials, (ii) financial constraints limit hedging, in particular by limiting and delaying emitters' purchases of permits in the spot market, implying (iii) permit prices are below the prices of replicating derivatives portfolios. Moreover, we show theoretically that constrained Pareto optima are implemented in equilibrium with cap-and-trade systems, in which the variance of emission caps is set lower than in the unconstrained case.  EFA2026_1640_SF 06_Cap and Trade with Imperfect Hedging.pdf
11:00am - 12:30pm	HF 05: Household Choice of Financial Products Location: LR N0.5 (Floor 0) Session Chair: Kathrin Schlafmann, Copenhagen Business School
	ID: 771 Product Complexity, Investor Experience, and Returns Alan De Genaro¹, Jose Liberti², Pedro Saffi³, Jason Sturgess⁴ 1: FGV EAESP; 2: Kellogg School of Management; 3: CUNEF Universidad, Spain; 4: Queen Mary University of London <i>Discussant:</i> Olga Balakina (Leibniz Institute for Financial Research) We examine how investor sophistication influences returns in Brazil's structured products market using regulatory microdata. We introduce a novel sophistication measure based on prior trading experience across securities markets. Experienced investors systematically outperform inexperienced counterparts when trading complex products, exhibiting both persistent skill and superior learning capabilities. This experience-based measure is more predictive than conventional proxies such as wealth and age. Our findings suggest complexity obscures risk from unsophisticated investors, enabling rent extraction through strategic design. Results challenge wealth-based "accredited investor" standards, showing that measures of financial experience provide more effective criteria for protecting retail investors in complex markets.  EFA2026_771_HF 05_Product Complexity, Investor Experience, and Returns.pdf
	ID: 592 Regulating Inaction: The Case of Price Walking Jamie Coen¹, Alessandro Gavazza², Daniel Gottlieb³, Tarun Ramadorai² 1: Imperial College London; 2: London School of Economics; 3: USC Marshall <i>Discussant:</i> Mehran Ebrahimian (Stockholm School of Economics) We develop a theoretical model and test its predictions using granular search, choice, and pricing data from the UK motor insurance market around the introduction of price walking regulation. Before the policy, insurers attracted new customers with low prices while raising prices for existing customers. After regulation, introductory discounts to likely inactive customers fell, but insurers responded by proliferating products and segmenting the market more finely. Inactive customers therefore still pay a substantial price penalty relative to active searchers, through different mechanisms. Our findings illustrate how firms can redesign products in ways that blunt even well-designed regulation.  EFA2026_592_HF 05_Regulating Inaction.pdf
	ID: 1148 Employee Forgivable Loans Alexandru Barbu¹, Yiran Wang² 1: INSEAD and Wharton; 2: INSEAD <i>Discussant:</i> Tobin Hanspal (WU Vienna University of Economics and Business) We study compensation in markets for expert advice. We document how a large class of client-facing professionals (lawyers, financial advisors, real estate agents) have employee forgivable loans — compensation advances structured as debt that employers can accelerate upon underperformance and separation. Analyzing millions of regulatory filings from the US securities industry, we illustrate how financial advisors routinely borrow 3-4 times their annual income, in ways that are entirely undisclosed to customers and credit bureaus, then spend the loan proceeds to lever up. Loans default, becoming the largest source of financial advisor delinquencies, and are conflicted, as advisors fund the resulting liquidity demands by defrauding their clients. Using a regression discontinuity design, we estimate that up to a third of all misconduct at large securities firms after the financial crisis is attributable to forgivable loans. We discuss reasons why firms may design compensation that incentivizes misconduct.  EFA2026_1148_HF 05_Employee Forgivable Loans.pdf
11:00am - 12:30pm	CF 09: Mergers & Acquisitions Location: LR M1.2 (Floor 1)

	Session Chair: Henri Servaes, London Business School ID: 506 The Real Effects of Valuation Mistakes: Estimates from Mergers and Acquisitions Francois Derrien¹, Johan Hombert¹, Alexei Ovtchinnikov¹, Philip Valta² 1: HEC Paris, France; 2: University of Bern <i>Discussant:</i> Geoffrey Tate (University of Maryland) We explore how biased investors affect the market for real assets and estimate the resulting efficiency losses. Investors subject to non-proportional thinking ask (too) high merger premia to sell low-price targets and offer (too) low merger premia to buy high-price targets. As a result, M&A premia are lower for high-price targets and both low- and high-price firms are less likely to be acquired than firms in the middle of the price distribution. We test these predictions using a large sample of M&A transactions. We also quantify the value lost because positive-synergy deals do not happen due to non-proportional thinking. Our structural estimation suggests that investors' mistakes reduce the frequency of M&A transactions by about 8% and the value created by the M&A market by about 6%.  EFA2026_506_CF 09_The Real Effects of Valuation Mistakes.pdf
	ID: 401 M&A and the Rise in Industry Concentration Simcha Barkai¹, Ezra Karger², Scott Loring³ 1: Boston College, United States of America; 2: Federal Reserve Bank of Chicago; 3: Counterfactual Consulting <i>Discussant:</i> Margarida Soares (Nova School of Business and Economics) This paper provides the first quantification of the contribution of mergers and acquisitions (M&A) to rising industry concentration. We use comprehensive firm-level microdata from the U.S. Economic Census to show that M&A account for 44% of the increase in aggregate concentration. We classify M&A using the numerical criteria in the merger guidelines and show that presumed anticompetitive M&A account for 12% of the increase in aggregate concentration. We provide evidence indicating that low rates of intervention by the federal competition agencies reflect limited regulatory capacity rather than successful deterrence that prevented firms from attempting anticompetitive mergers.  EFA2026_401_CF 09_M&A and the Rise in Industry Concentration.pdf
	ID: 593 Deal Terms in Takeovers Alexander Gorbenko¹, Brett Green², Shreye Mirani² 1: University College London; 2: Washington University Olin, United States of America <i>Discussant:</i> René Stulz (The Ohio State University) We study how non-price deal terms shape outcomes in merger contests. We assemble a novel dataset of 738 U.S. mergers completed between 2015 and 2022 that records every formal offer, including price, payment method, financing contingencies, regulatory approval conditions, due diligence requirements, and exclusivity provisions. Three facts emerge. First, non-price terms are pervasive in private bidding. Second, their use varies systematically across bidder types, especially between strategic and financial acquirers. Third, price alone does not determine the winner: in 22% of contests with multiple formal bids, the highest price per share loses. We estimate a structural model to recover target valuations for these contractual provisions. The estimates imply that non-price deal terms have economically large effects and play a central role in determining which bidder ultimately acquires the target.  EFA2026_593_CF 09_Deal Terms in Takeovers.pdf
11:00am - 12:30pm	CF 10: Risk, Incentives, and Liquidity in Entrepreneurial Finance Location: Chapel (Floor 1) Session Chair: Rui Silva, Nova SBE
	ID: 984 Secondary Markets for VC-backed Startup Equity Daniel Bias, Johan Cassel Pegelow, Berk Sensoy Vanderbilt University <i>Discussant:</i> Antonino Emanuele Rizzo (Esade Business School) This paper provides the first systematic evidence on secondary markets for equity in VC-backed startups, a fast-growing segment of private capital markets. Using proprietary data from a large market maker, we show that shares typically trade at a discount to prior venture capital valuations, with discounts narrowing when buyer demand is strong. We find that market activity responds to new information: in an event study, order flow and prices react quickly to VC financing events. Furthermore, secondary prices are forward-looking and predict future VC valuations. These signals are partially incorporated by mutual funds valuing their startup holdings. By providing both liquidity and price discovery, secondary markets are becoming an integral part of private capital markets, and their importance is likely to grow as startups remain private longer.

ID: 1098**Entrepreneurship on a Safety Net: Evidence from the World's Largest Cash Transfer Program****Murillo Campello^{1,3}, Guilherme Junqueira¹, Spyridon Lagaras²**

1: University of Florida, , United States of America; 2: University of Illinois at Urbana-Champaign, United States of America; 3: NBER, , United States of America

Discussant: **Virginia Gianinazzi** (Nova SBE)

Do social transfer programs boost entrepreneurship among low-income populations? We address this question by examining Brazil's Bolsa Família—the world's largest cash transfer program—and its effects on entrepreneurial entry, performance, and economic mobility. Using administrative data covering 2.3 million sole-proprietorships, we track entrepreneurs through the complete business lifecycle—from entry through performance to post-failure employment. We address selection combining instrumental variables—exploiting bunching across program eligibility thresholds—with matching and granular fixed effects. We first show that cash transfers increase transitions into entrepreneurship from both non-employment and wage employment, increasing beneficiaries' representation among entrepreneurs. We then identify systematic performance disadvantages: cash-transfer entrepreneurs exhibit lower survival, business growth, employment creation, and credit access, eventually facing higher rates of tax violations and debt collection proceedings. Performance gaps appear to reflect two mechanisms: managerial constraints—evident in hiring less-educated workers at higher wages with stable employment—and dependency effects revealed by income bunching to maintain eligibility. Yet these same hiring patterns, along with stronger recruitment of racial minorities, produce positive spillovers extending beyond cash-transfer recipients. Examining post-entrepreneurship trajectories, we find that cash-transfer entrepreneurs secure worse jobs after business failure—lower occupational attainment and reduced earnings. However, their wage losses are 61% smaller than those of other failed entrepreneurs—suggesting the entrepreneurial experience builds human capital that disproportionately benefits cash-transfer participants. Our analysis—the first to track cash-transfer entrepreneurs through entry, performance, and post-failure outcomes—reveals that while these programs succeed at poverty alleviation, the businesses they create remain trapped in subsistence, generating neither growth nor pathways to economic mobility.

 [EFA2026_1098_CF 10_Entrepreneurship on a Safety Net.pdf](#)**ID: 1823****Tax Incentives and Venture Capital Risk-Taking****Murillo Campello^{1,2}, Guilherme Junqueira¹**

1: University of Florida; 2: NBER

Discussant: **Fabrizio Core** (LUISS)

Do tax subsidies prompt investors to take on risk? We address this question by looking at investors' responses to changes to the Qualified Small Business Stock (QSBS) program, which reduces capital gains taxes on startup investing. We do so under a framework in which some startup investors --- venture capitalists (VCs) --- combine outside funding with incentive-based compensation, while others invest their own funds. Using bunching, triple-differences, and matching designs that exploit industry eligibility, investment vintage, and holding-period requirements, we analyze data from 158 thousand investor--firm pairings over two decades. We identify strategic investment timing, with subsidies prompting bunching at tax-eligible holding-period thresholds. Most notably, when and where tax subsidies apply, VCs shift their project selection toward riskier ventures: they invest more in pre-commercial stage startups, become more likely to provide startups with their initial capital, and invest more in startups with pre-existing debt, while becoming less likely to co-syndicate their investments. Tax-subsidized VC-backed ventures show higher failure rates, but on the flip side, attain higher valuations at exit and are more likely to reach "unicorn status." None of these patterns are observed for comparable non-VC investors in startups exposed to the same tax subsidies. Our tests further show that tax incentives lead to reallocation toward more innovative industries, yielding more impactful patents. Our study is the first to show that tax policy can shift entrepreneurial financing toward riskier, more innovative, and valuable startups.

 [EFA2026_1823_CF 10_Tax Incentives and Venture Capital Risk-Taking.pdf](#)**11:00am - 12:30pm****AP 10: High-Dimensional Asset Pricing**Location: **LR M2.1 (Floor 2)**Session Chair: **Theis Jensen**, Yale University**ID: 195****Data Uncertainty in Financial Information****Jiantao Huang¹, Serhiy Kozak²**

1: University of Hong Kong; 2: R.H. Smith School of Business, University of Maryland

Discussant: **Rohit Allena** (University of Houston)

We study three fundamental data challenges in empirical asset pricing: missing observations, infrequent measurements, and inherent noise in financial information. These challenges make firm characteristics

uncertain inputs rather than fixed conditioning variables. We develop a Bayesian tensor model that treats characteristics as latent, exploits cross-sectional, characteristic-level, and time-series dependence, and generates posterior panels for missing and stale values. In global equities, accounting for characteristic uncertainty leaves systematic factor portfolios nearly unchanged, but substantially reduces the number of statistically significant residual alphas and attenuates arbitrage-portfolio Sharpe ratios. Averaging arbitrage portfolio weights across imputations yields more stable performance, especially internationally.

 [EFA2026_195_AP 10_Data Uncertainty in Financial Information.pdf](#)

ID: 644

Limits To (Machine) Learning

Zhimin Chen¹, Bryan Kelly², Semyon Malamud³

1: Nanyang Technological University, Singapore; 2: AQR Capital Management, Yale School of Management, and NBER; 3: Swiss Finance Institute, EPFL, and CEPR

Discussant: **Rui Da** (Indiana University)

Machine learning (ML) methods are highly flexible, but their ability to approximate the true data-generating process is fundamentally constrained by finite samples. We characterize a universal lower bound, the Limits-to-Learning Gap (LLG), quantifying the unavoidable discrepancy between a model's empirical fit and the population benchmark. Recovering the true population R^2 , therefore, requires correcting observed predictive performance by this bound. Using a broad set of variables, including excess returns, yields, credit spreads, and valuation ratios, we find that the implied LLGs are large. This indicates that standard ML approaches can substantially understate true predictability in financial data. We also derive LLG-based refinements to the classic Hansen and Jagannathan (1991) bounds, analyze implications for parameter learning in general-equilibrium settings, and show that the LLG provides a natural mechanism for generating excess volatility.

 [EFA2026_644_AP 10_Limits To \(Machine\) Learning.pdf](#)

ID: 1980

Simplified: A Closer Look at the Virtue of Complexity in Return Prediction

Daniel Buncic

Stockholm University, Sweden

Discussant: **Dexin Zhou** (Baruch College)

Kelly, Malamud and Zhou (2024, KMZ) argue that simple models severely understate return predictability relative to complex ones in which the number of predictors vastly exceeds the number of training window observations. KMZ prove that under certain conditions expected out-of-sample forecast accuracy and portfolio performance are strictly increasing in model complexity. They call this the 'Virtue of Complexity' (VoC). I show that KMZ's empirical VoC results are the consequence of two implementation choices: (1) a zero-intercept restriction imposed on the prediction models, and (2) an unconventional aggregation scheme used to construct performance measures for the machine learning models. Both of these choices artificially worsen the performance of KMZ's 'simple' models and lead to absurd portfolio performance outcomes such as negative Sharpe ratios with corresponding positive expected returns. Using a simulation experiment, I show that equivalent VoC results can be obtained from artificially generated and thus unpredictable i.i.d. returns data. Overall, the performance of KMZ's complex models is disappointing. Standard linear models estimated with an intercept term generate Sharpe ratios that are up to 40% larger than from KMZ's complex models.

 [EFA2026_1980_AP 10_Simplified.pdf](#)

11:00am - 12:30pm

AP 11: Public Policy and Asset Prices

Location: **LR M2.2 (Floor 2)**

Session Chair: **Lukas Schmid**, University of Southern California

ID: 150

A New Keynesian Model for Financial Markets

Thomas Mertens¹, Tony Zhang²

1: Federal Reserve Bank of San Francisco, United States of America; 2: Arizona State University

Discussant: **Lukas Schmid** (University of Southern California)

Which levels of interest rates along the yield curve are consistent with stable economic activity? We use expectations at the daily frequency reflected in financial market prices to extract the state of the economy within a textbook New Keynesian model. We use these real-time estimates to derive neutral and optimal monetary policy rates at each horizon. The model identifies perceived demand and supply shocks on each day, along with their persistence and associated risk premiums. We find that financial markets started to predict the post-COVID surge in inflation by mid-2021 and inflation risk premiums turned positive soon thereafter. The resulting inflation forecasts from the model are at least as accurate as several leading alternatives.

 [EFA2026_150_AP 11_A New Keynesian Model for Financial Markets.pdf](#)

ID: 260

Fiscal Imbalances and Asset Returns: Cross-Sector Fluctuations under the Aggregate Budget Constraint

Junxiong Gao², Alberto Plazzi¹, Rossen Valkanov³, Yan Xu⁴

1: USI Università della Svizzera italiana and SFI; 2: Shanghai Jiao Tong University; 3: UCSD; 4: Hong Kong University

Discussant: **Yang Liu** (University of Hong Kong)

We express the aggregate budget constraint of the economy as nesting the budget constraints of the private, public, and external sectors (e.g., equities, Treasuries, and foreign assets). This formulation implies that valuation ratios in one sector may capture fluctuations in future real returns and cash-flow growth in other sectors. Exploiting the cross-sector restrictions implied by the aggregate constraint, we show that fluctuations in the government surplus-to-debt ratio robustly predict equity returns. The magnitude of this cross-sector predictability is on par with the own-sector predictability associated with the dividend-price ratio. We then develop a model in which distortionary taxes generate these time-series dynamics and use the cross-sector forecasts to calibrate the implied magnitude of the tax distortions.

 [EFA2026_260_AP 11_Fiscal Imbalances and Asset Returns.pdf](#)

ID: 1042

Did I make myself clear? The Fed and the market under the 2020 monetary policy framework

Anna Cieslak¹, Michael McMahon², Hao Pang³

1: Duke University; 2: Oxford University; 3: University of Texas at Dallas

Discussant: **Vadim Elenev** (University of Utah)

We propose a channel whereby uncertainty about the central bank's reaction function raises risk premia, especially when inflation deviates from target. To test the channel, we focus on the period after the Federal Reserve's revision of its policy framework in 2020. Post-framework communication introduced reaction function uncertainty just as inflation surged to a four-decade high. Market concerns about policy mistakes amid incoming data drove up term premia, undermining the easy financial conditions the Fed initially sought. While short-rate expectations were anchored by forward guidance, term premium sensitivity to inflation news increased. The subsequent shift in the Fed's words and then actions, reaffirming its anti-inflation stance, stabilized premia and neutralized the effect of macroeconomic news on long-term yields.

 [EFA2026_1042_AP 11_Did I make myself clear_ The Fed and the market under the 2020 monetary policy.pdf](#)

11:00am - 12:30pm

RE 04: Housing Inequality and Access

Location: **LR M2.3 (Floor 2)**

Session Chair: **Arpit Gupta**, NYU Stern School of Business

ID: 534

Racial Segregation, Landlords, and Urban Decay

Tom Nicholas¹, Christophe Spaenjers²

1: Harvard Business School; 2: University of Colorado Boulder

Discussant: **Sven Damen** (University of Antwerp)

We study how racial segregation shaped Manhattan landlords' incentives, rent-setting practices, and maintenance decisions in the middle of the twentieth century. We construct a novel data set linking Census records to real estate transaction data, property images, and renovation records. We show that landlords operating in Black neighborhoods exercised substantial pricing power and faced weak incentives to incur the costs of maintenance or to limit overcrowding. Rents for Black tenants were more closely tied to household size than to measures of housing quality. Moreover, properties with Black tenants generated disproportionately high rental income relative to their market values. These short-term profit incentives had long-run consequences: properties housing Black residents in 1940 experienced fewer renovations and showed greater visual exterior deterioration by 1980. Landlord behavior thus perpetuated racial divides in economic conditions and housing quality.

 [EFA2026_534_RE 04_Racial Segregation, Landlords, and Urban Decay.pdf](#)

ID: 333

Credit Without Proximity: Informational Frictions and Unequal Gains from Technology

Erica Xuewei Jiang¹, Yeonjoon Lee², Quinn Maingi³

1: UCLA Anderson, United States of America; 2: Federal Reserve Bank of Richmond, United States of America; 3: USC Marshall, United States of America

Discussant: **Artashes Karapetyan** (ESSEC Business School)

We study how the organization of information production—and its response to economic and technological forces—affects informational efficiency, credit allocation, and borrower risk. Using U.S. administrative data linking mortgage applications to loan officers and subsequent loan performance, we show that underwriting facilitated by officers located close to the borrower increases approval rates without worsening ex-post performance or processing speed, but is not always deployed where it is most valuable, because lenders allocate loan-officer labor elastically with respect to local wages. These gains

are especially large for observably riskier borrowers. We develop and estimate a model that combines a core information-production problem over latent borrower risk, an endogenous choice over local versus remote underwriting, and equilibrium in mortgage and labor markets. We find substantial baseline credit rationing---up to 15 percent in high-risk segments---with local officers eliminating roughly half of it while also reducing excessively risky approvals. A technology shock that raises the processing productivity of remote officers induces lenders to substitute away from local screening, lowering informational efficiency, increasing excessively risky approvals and expected defaults, and tightening rationing for marginal borrowers despite only modest reductions in interest rates.

 [EFA2026_333_RE 04_Credit Without Proximity.pdf](#)

ID: 242

Fairness by Design: Machine Learning and Interpretable Mortgage Lending

Sebastian Bell², Ali Kakhbod¹, Abdolreza Nazemi², Richard Stanton¹, Nancy Wallace¹

1: UC Berkeley, United States of America; 2: KIT

Discussant: **Clément Mazet-Sonilhac** (Bocconi University)

Regulated lenders must explain denials and avoid disparate treatment in U.S. mortgages, yet flexible scoring can be opaque. We develop and study a less-discriminatory and transparent machine learning approach that embeds equalized-odds fairness in estimation and decomposes each decision into feature contributions suitable for adverse-action notices. Using HMDA applications, the model preserves performance while shrinking minority-nonminority error gaps and reweighting away from geographic proxies to core underwriting signals (debt-to-income, loan-to-value). Regression discontinuity design around underwriting cutoffs and lender-level tests confirm that the model lowers minority shortfalls at the margin and reduces within-lender disparities.

 [EFA2026_242_RE 04_Fairness by Design.pdf](#)

12:30pm - 2:00pm

Lunch

2:00pm - 3:30pm

FSMA: The Future of Equity Financing: The Role of Public and Private Markets

Location: **LR M0.1 (Floor 0)**

Session Chair: **Francois Koulischer**, University of Luxembourg

ID: 1935

Democratizing Private Markets? Private Equity Performance of Individual Investors

Cynthia Balloch¹, Federico Mainardi², Sangmin S. Oh², Petra Vokata³

1: London School of Economics, United Kingdom; 2: Columbia Business School; 3: Fisher College of Business, Ohio State University

Discussant: **Per J Strömberg** (Stockholm School of Economics)

Using novel data on U.S. households, we provide the first systematic study of private equity performance by individual investors. On average, individual investments in private equity perform similarly to institutions. However, the most affluent investors outperform the least affluent by 9 percentage points in public market equivalent. Advisor fixed effects explain two-thirds of the variation in private equity performance and 75% of the wealth performance gap, as wealthier investors have better advisors that deliver persistently higher returns. Intermediary fees impose a sizable drag on performance, especially for less affluent investors.

 [EFA2026_1935_FSMA_Democratizing Private Markets_Private Equity Performance.pdf](#)

ID: 1965

Venture Fraud

Alexander Dyck, Freda Fang, Camille Hebert, Ting Xu

University of Toronto, Canada

Discussant: **Luana Zaccaria** (LUISS)

We assemble the first dataset of venture fraud cases involving 654 U.S. VC-backed startups. Venture fraud has increased over the past two decades. Among newly public firms, VC-backed companies are more likely to face fraud charges than comparable non-VC-backed firms. Governance characteristics, rather than founder traits, are the strongest predictors of fraud: fraud is more prevalent in startups with founder-friendly contracts, complex cap tables, and initial rounds raised in hot market conditions. Fraudulent entrepreneurs continue to found new VC-backed startups unharmed, suggesting weak market discipline. These findings highlight growing agency costs in private markets.

 [EFA2026_1965_FSMA_Venture Fraud.pdf](#)

ID: 1324

Organization capital, large startups, and the dearth of IPOs

Rudiger Fahlenbrach¹, Leandro Sanz², Rene Stulz³

1: EPFL Lausanne, Switzerland; 2: University of Notre Dame; 3: The Ohio State University

Discussant: **Francois Derrien** (HEC Paris)

	Many startups in the 2000s have remained private after achieving large valuations, a pattern that funding availability alone cannot explain. We propose that startups relying heavily on organization capital to achieve economies of scale and network effects through digital technologies are more likely to become large private firms than exit earlier via an IPO or acquisition. Using LinkedIn data, we construct a novel measure of organization capital intensity for startups. Exploiting a legal shock that strengthened organization capital protection, we provide causal evidence that organization-capital-intensive startups are more likely to remain private and grow large rather than exit early.  EFA2026_1324_FSMA_Organization capital, large startups, and the dearth.pdf
2:00pm - 3:30pm	FI 08: New Perspectives in Bank Lending to Firms Location: LR M0.2 (Floor 0) Session Chair: Diana Bonfim, ECB and Católica Lisbon
	ID: 1714 Business Owner Wealth and the Credit Channel of Monetary Policy Manthos Delis², Annalisa Ferrando³, Klaas Mulier¹, Steven Ongena⁴ 1: KU Leuven, Belgium; 2: Audencia Business School; 3: ECB; 4: University of Zürich <i>Discussant:</i> Ralph De Haas (European Bank for Reconstruction and Development) Using data on entrepreneurs' private wealth, small-business loan applications, and bank credit scores, we show that monetary policy changes the weight banks attach to private wealth in lending decisions. Among applicants receiving nearly identical credit assessments, monetary easing raises loan approval rates more for low-wealth entrepreneurs than for high-wealth entrepreneurs. Exploiting the bank's approval cutoff, we show that loan approval increases entrepreneurs' income and wealth. These findings imply monetary policy may influence the wealth distribution among entrepreneurs over time. Survey data from 19 euro area countries corroborate the findings and indicate that the channel operates through less liquid and weakly capitalized banks.  EFA2026_1714_FI 08_Business Owner Wealth and the Credit Channel of Monetary Policy.pdf
	ID: 723 Scope for Change? Bank Scope and Small Business Lending Paul Beaumont¹, Mathias Lé² 1: McGill University; 2: Banque de France <i>Discussant:</i> Ivan Ivanov (Federal Reserve Bank of Chicago) Why do firms obtain multiple lending products from the same bank? Exploiting the 2016 acquisition of two specialized lenders by a diversified French bank, we test whether multi-product borrowing arises from operational frictions (e.g., search costs) or from informational frictions, which give banks with existing product relationships an advantage over outside lenders. We find that, after the acquisition, only firms using high-information products from the acquired lenders start borrowing from the acquiring bank. Post-merger integration or cross-selling opportunities cannot explain this asymmetry. Our results show that broader scope helps banks retain borrowers by generating information, not by offering convenience.  EFA2026_723_FI 08_Scope for Change_Bank Scope and Small Business Lending.pdf
	ID: 1868 Populism and Monetary Policy Transmission Nora Lamersdorf BI Norwegian Business School, Norway <i>Discussant:</i> Thomas Lambert (Rotterdam School of Management, Erasmus University) This paper examines how populism shapes the transmission of monetary policy. Combining credit-registry and firm survey data from Germany with voter shares for the populist party AfD, I find that firms in high-populism districts hold elevated inflation expectations and revise them less in response to monetary policy surprises. Most strikingly, their credit demand response is similarly attenuated, indicating that populism significantly weakens the credit channel. An analysis of over 700,000 German-language tweets is consistent with a distorted information environment: AfD-affiliated media cover ECB decisions less promptly and frame them more negatively than conventional outlets. In addition, firms whose managers report lower trust in the ECB revise their expectations less and show a similarly muted credit demand response to policy surprises, pointing to institutional distrust as part of the underlying mechanism. A New Keynesian model extended to incorporate biased perceptions rationalizes these findings: distorted beliefs weaken policy transmission and exacerbate adverse shocks, posing significant challenges for central banks in increasingly polarized environments.  EFA2026_1868_FI 08_Populism and Monetary Policy Transmission.pdf
2:00pm - 3:30pm	SF 07: Sustainable Investment and Real Effects Location: LR M0.3 (Floor 0) Session Chair: Lin Peng, Baruch College
	ID: 961 Are Socially Responsible Funds Viable?

Amil Dasgupta¹, Dirk Jenter¹, Richmond Mathews², Paul Voss³

1: London School of Economics, United Kingdom; 2: University of Maryland at College Park, USA;
3: HEC Paris

Discussant: **Julian Kölbel** (University of St Gallen)

We study the viability of socially responsible (SR) funds when investors are small, have social preferences, and can cheaply invest in other ways. In a static setting, SR “impact” funds, which engage with dirty firms at a cost, cannot exist due to free riding, regardless of the type of social preferences. SR exclusion funds with reduced ownership of dirty firms can exist, but only if investors’ social preferences are “warm glow,” i.e., tied to the extent of ownership. In a dynamic setting, we demonstrate that such exclusion funds endogenously make impact funds viable. Impact funds profit by making dirty firms investable for exclusion funds.

 [EFA2026_961_SF 07_Are Socially Responsible Funds Viable_.pdf](#)

ID: 1443

Decoding Sustainable Investment Strategies: Bridging Intentions and Outcomes

Keer Yang, Ayako Yasuda

University of California, Davis, United States of America

Discussant: **Leonard Kostovetsky** (Baruch College)

We study whether U.S. mutual funds’ sustainability objectives predict behavior and real-economy outcomes. Using machine learning on prospectuses, we classify sustainable strategies as financial, moral, or impact-oriented. Among 1,523 funds managing \$1.7 trillion in 2023, 88% of assets are financially motivated, 10% morally motivated, and just 2% impact-oriented. Financial funds hold greener, lower-carbon portfolios; moral funds rely on exclusionary screens and exhibit lower flow–performance sensitivity; impact funds support outcome-oriented proposals and are the only fund type whose purchases are followed by reductions in portfolio firms’ carbon intensity. Most sustainable capital is not allocated to strategies seeking measurable real-economy change.

 [EFA2026_1443_SF 07_Decoding Sustainable Investment Strategies.pdf](#)

ID: 1279

Capital Allocation, Operational Efficiency, and Emissions: The Real Effects of ESG Divestment

Marco Ceccarelli², Christoph Herpfer¹, Johannes Klausmann³

1: University of Virginia, Darden School, United States of America; 2: VU University Amsterdam;

3: University of Houston, Bauer

Discussant: **Boris Vallee** (INSEAD)

We study the effect of ESG-induced divestment on access to financing, operating efficiency, and CO2 emissions for long-lived, capital intensive assets: U.S. power plants. Using a shift-share measure of firms’ exposure to banks’ coal divestment policies, we find that divestment leads to a reduction in debt supply and subsequently lower capital expenditure. We then trace out the full chain of real consequences of this financial shock. Using hourly operating data for all major U.S. power plants, we show that capital rationing causes operational inefficiencies in generator utilization, resulting in inefficiently high CO2 emissions. We show that policy choices play a major role in these unintended consequences. Exploiting the staggered introduction of emissions trading schemes, we show that, unlike ESG divestment, carbon pricing does not lead to inefficient asset utilization and excess CO2 emissions.

 [EFA2026_1279_SF 07_Capital Allocation, Operational Efficiency, and Emissions.pdf](#)

2:00pm - 3:30pm

MM 04: Client Order Execution Quality

Location: **LR N0.5 (Floor 0)**

Session Chair: **Laurence Daures**, ESSEC Business School

ID: 1576

Many Facets of Best Execution: Order Routing and Competition in Retail Trading

Xing Huang¹, Philippe Jorion², Mina Lee³, Christopher Schwarz²

1: Washington University in St. Louis; 2: UC Irvine, United States of America; 3: Federal Reserve Board

Discussant: **Peter Hoffmann** (European Central Bank)

Using a controlled trading experiment spanning 150,000 trades, we study how retail brokers route orders and respond to execution quality. Within each broker, execution quality varies substantially and persistently across wholesalers. Yet broker responses to these dispersions are strikingly heterogeneous: while some route more orders to lower-cost wholesalers, others consistently send more to higher-cost ones. We develop a switching cost model that rationalizes these contrasting behaviors. A natural experiment involving wholesaler entry demonstrates that competition improves execution quality even for the most responsive broker. This heterogeneity in how brokers implement best execution requirements shapes the competitive pressure on wholesalers.

 [EFA2026_1576_MM 04_Many Facets of Best Execution.pdf](#)

ID: 392

Nocturnal Trading

Gregory Eaton¹, Andriy Shkilko¹, Ingrid Werner²

1: University of Georgia, United States of America; 2: The Ohio State University, United States of America

Discussant: **Sophie Moinas** (Toulouse School of Economics)

Although still relatively new, nocturnal trading in U.S. equities, defined as trading between 8:00 p.m. and 4:00 a.m., has grown rapidly. It is largely retail-driven, concentrated in a small set of securities, and marked by substantial order imbalances. Using unique transaction-level data, we show that nocturnal execution costs exceed regular-hours benchmarks but are broadly consistent with elevated adverse selection faced by liquidity suppliers. Nocturnal returns generally do not reverse during the subsequent regular-hours session, except in a small subset of high-sentiment stocks. Overall, the nocturnal session appears to be an important source of price discovery and may create profit opportunities for retail liquidity demanders despite higher transaction costs.

 [EFA2026_392_MM 04_Nocturnal Trading.pdf](#)

ID: 2052

Best Execution Puzzles

Indira Puri², Mohan Sun¹, Mao Ye^{1,3}

1: Cornell University, United States of America; 2: New York University; 3: NBER

Discussant: **Katya Malinova** (McMaster University)

A long-standing puzzle in U.S. equity markets is why hundreds of off-exchange venues coexist. Under the conventional best-execution metrics of execution cost and speed, many venues appear both slower and more expensive than their competitors. We propose that execution-speed volatility helps explain this inconsistency. This paper constructs the first empirical execution-speed volatility measure and shows that higher execution costs are associated with lower execution-speed volatility. The compensation is strongest in the right tail of the speed distribution, where orders execute with extreme delay or fail to execute at all. We find compensation for speed volatility but not average speed for ETFs, which are often used as legs of coordinated multi-security strategies. We find that younger venues tend to offer lower speed volatility and higher cost. Finally, a random-coefficients venue-choice model shows that incorporating execution-speed volatility as a third dimension of execution quality substantially improves model fit and helps rationalize market fragmentation as an equilibrium outcome.

 [EFA2026_2052_MM 04_Best Execution Puzzles.pdf](#)

2:00pm - 3:30pm

CF 11: Shareholder Power

Location: **LR M1.2 (Floor 1)**

Session Chair: **Josef Zechner**, WU Vienna University of Economics and Business

ID: 416

Decentralized Voting in Mutual Fund Families

Roni Michaely¹, Matthew Ringgenberg², Silvina Rubio³, Irene Yi⁴

1: University of Hong Kong; 2: University of Utah; 3: Nova School of Business and Economics; 4: University of Toronto

Discussant: **Paul Voss** (HEC Paris)

We provide the first large-sample evidence that decentralized voting is widespread within mutual fund families. Contrary to the view that families vote as unified blocs, we find that at least 40% of families exhibit evidence of decentralized voting, starting as early as 2006. We measure decentralization using voting disagreement within the family, which is low unconditionally due to the high volume of routine proposals, but rises substantially for controversial proposals, environmental and social issues, and when proxy advisors recommend voting “against.” Decentralized voting is more prevalent in families with more active funds and greater stewardship resources, and funds within a family vote more similarly when they share management structures and characteristics. Decentralization has consequences for governance and fund investors. First, it weakens the monitoring effectiveness of institutional investors—a result we corroborate using Vanguard’s 2019 adoption of decentralized voting as a quasi-natural experiment. Second, funds that deviate from their family’s voting stance charge higher fees without delivering higher returns for clients. Yet, funds that deviate attract higher inflows.

 [EFA2026_416_CF 11_Decentralized Voting in Mutual Fund Families.pdf](#)

ID: 421

Shareholder Activism, Takeovers, and Managerial Discipline

Francesco Celentano¹, Oliver Levine²

1: University of Lausanne and Swiss Finance Institute; 2: University of Wisconsin-Madison

Discussant: **John Barry** (Rice University)

We quantitatively assess the role of activism in the market for corporate control by developing and estimating a model featuring both activism and M&A. We find that activism complements M&A, reducing

the agency frictions associated with takeovers. However, activism simultaneously crowds out some M&A activity by substituting for disciplinary takeovers. Both the threat of activism and actual activist intervention create shareholder value by improving CEO incentives, while the value from reduced takeover frictions is primarily captured by acquirers. We find that activists have an information advantage, which is critical to overcoming the free rider problem in activist intervention.

 [EFA2026_421_CF 11_Shareholder Activism, Takeovers, and Managerial Discipline.pdf](#)

ID: 1744

Fragmentation of Shareholder Power

Andrey Malenko¹, Nadya Malenko¹, Anton Tsoy²

1: Boston College, United States of America; 2: University of Toronto, Canada

Discussant: **Markus Parlasca** (Leibniz Institute SAFE, WU Vienna)

The asset management industry is increasingly shifting toward tailored portfolios, fund proliferation, and decentralization of stewardship – trends partly driven by growing heterogeneity in investor preferences. While these developments better align investment products with investor demands, they also reshape ownership structures, potentially leading to more fragmented ownership and weaker managerial oversight. We develop a framework to evaluate these trade-offs and show that fund proliferation does not necessarily weaken governance: Stronger incentives for asset managers and concentrated portfolios of specialized funds can offset these effects, especially when investor preferences are intense. However, strong investor preferences can also induce asset managers to compete on a new margin – granting investors control by decentralizing stewardship and adopting pass-through voting – without internalizing the associated governance costs.

 [EFA2026_1744_CF 11_Fragmentation of Shareholder Power.pdf](#)

2:00pm - 3:30pm

CF 12: Top Executives and Their Incentives

Location: **Chapel (Floor 1)**

Session Chair: **Marco Becht**, Université libre de Bruxelles

ID: 491

What are the costs of weakening shareholder primacy? Evidence from a quasi-natural experiment

Benjamin Bennett¹, René Stulz², Zexi Wang³

1: Texas Christian University; 2: The Ohio State University; 3: Lancaster University

Discussant: **Henri Servaes** (London Business School)

We study the economic consequences of weakening shareholder primacy using Nevada Senate Bill 203 as a quasi-natural experiment. A difference-in-differences analysis shows that affected Nevada firms experience a decline in firm value of more than 4%, as measured by Tobin's q. Rather than responding with stronger governance to reassure capital providers, affected firms experience a worsening of their governance. We document significant real effects through the investment channel: treated firms undertake worse acquisitions and exhibit reduced efficiency in both capital expenditures and R&D spending. Weakening shareholder primacy does not improve how stakeholders are treated, as environmental and social performance worsens.

 [EFA2026_491_CF 12_What are the costs of weakening shareholder primacy_Evidence.pdf](#)

ID: 546

Non-Compete Agreements and the Market for Corporate Control

Andrey Golubov, Yuanqing (Lorna) Zhong

Rotman School of Management, University of Toronto

Discussant: **Theo Vermaelen** (INSEAD)

Non-compete agreements (NCAs) limit outside employment options and, therefore, increase personal costs of job displacement for managers. Using state-level changes in NCA enforceability as a natural experiment, we find that managers are more averse to horizontal takeovers when NCA enforcement tightens. In particular, higher enforceability is associated with fewer same-industry takeovers. Those that do materialize are more likely to be hostile, involve higher premiums, and are less likely to complete. Overall, the findings indicate that the use of NCAs and their enforceability have important implications for the market for corporate control and that banning NCAs could actually promote consolidation.

 [EFA2026_546_CF 12_Non-Compete Agreements and the Market for Corporate Control.pdf](#)

ID: 2022

Human Capital, Competition and Mobility in the Managerial Labor Market

John Barry¹, Noah Lyman², Lin Zhao³

1: Rice University; 2: Warwick Business School; 3: Duke University

Discussant: **Jessica Jeffers** (HEC Paris)

We pose a structural model of the managerial labor market with general and firm-specific human capital accumulation, managerial bargaining power, and imperfect labor market competition. Empirically, firm-specific skill drives wage growth and variability over careers; it also restricts mobility and helps explain

	the low rate of external CEO hiring. We decouple bargaining power from labor market competition in managerial rent extraction, with competition accounting for a substantial share, especially for poached CEOs. Firm-specific skill accumulation increases match productivity between firms and managers, shaping the dynamics of rent extraction by raising rent growth over tenure while dampening it over experience.  EFA2026_2022_CF 12_Human Capital, Competition and Mobility in the Managerial Labor Market.pdf
2:00pm - 3:30pm	NBIM: Understanding the Long-run Drivers of Asset Prices Location: LR M2.1 (Floor 2) Session Chair: Christian Heyerdahl-Larsen, BI Norwegian Business School
	ID: 395 The Pricing of Geopolitical Tensions over a Century Andrei Goncalves, Alessandro Melone, Andrea Ricciardi The Ohio State University <i>Discussant:</i> Xinwei Li (University of Texas at Dallas) We study capital allocation and asset pricing consequences of geopolitical tensions using nearly 100 years of data. Leveraging widely adopted news-based geopolitical risk indices, we find that geopolitical threats (GPT) and acts (GPA) have markedly different implications. GPT closely tracks geopolitical risk perceptions and capital allocation decisions of investors and firms, is priced across different asset cross-sections, and predicts country-level equity premia. By contrast, GPA has weaker and less stable links to beliefs, capital allocation, and risk premia. These results are incremental to existing news-based measures of macro-financial uncertainty, including indices capturing war-related discourse and economic and trade policy risk.  EFA2026_395_NBIM_The Pricing of Geopolitical Tensions over a Century.pdf
	ID: 497 Wealth Inequality with Declining Interest Rates Matteo Leombroni¹, Hanno Lustig², Stijn Van Nieuwerburgh³, Dan Greenwald⁴ 1: Boston College, United States of America; 2: Stanford University; 3: Columbia Business School; 4: NYU Stern <i>Discussant:</i> Paul Ehling (BI Norwegian Business School) US wealth inequality and long-term real interest rates exhibit a strong negative correlation over the post-war period. We quantify how much of the observed increase in wealth inequality from 1983 to 2023 can be accounted for by the decline in rates. To do so, we combine asset holdings data with asset exposures to interest rates to measure the exposure of households' portfolios to interest rates. The portfolios of the wealthy have higher interest rate exposure due to a tilt toward equity-like assets with long duration. As a result, wealth inequality increases when rates fall. When we feed in the observed path of real interest rates, we find that this revaluation effect explains the majority of the increase in measured wealth inequality over the past forty years.  EFA2026_497_NBIM_Wealth Inequality with Declining Interest Rates.pdf
	ID: 1995 From Numbers to Words: Breaking Down Institutional Beliefs Andrea Andolfatto¹, Federico Bastianello² 1: Bocconi University; 2: London Business School <i>Discussant:</i> Andrei Goncalves (The Ohio State University) Using Capital Market Assumptions (CMA) reports, in which managers publish long-horizon forecasts and explain how they construct them, we show how they form beliefs about returns, volatilities, and correlations. They decompose return expectations into broad building blocks across asset classes, but assign different values to them. For U.S. equity, valuation change is the largest net source of disagreement. Growth expectations, however, partly offset valuation-change expectations because the two are strongly negatively correlated, so return expectations understate disagreement in the underlying views. In most non-U.S. equity markets, growth is the main source of disagreement. This matters for portfolios: equity allocations are more strongly associated with growth expectations than with valuation-change expectations. Three mechanisms shape belief formation: managers anchor to peer consensus, use different modeling assumptions, and process information through narratives that differ in complexity and topic attention. Modeling assumptions such as mean reversion and historical calibration predict systematic forecast differences. Narrative complexity and topic attention predict responses to news: managers with more complex or valuation-focused narratives respond less to positive earnings news, whereas attention to dividend yield or downturn risks is associated with stronger responses. Comparisons with N-CSR shareholder letters show that CMA narratives reflect persistent institution-specific investment views. Volatility and correlation beliefs, by contrast, remain backward-looking.  EFA2026_1995_NBIM_From Numbers to Words.pdf
2:00pm - 3:30pm	AP 12: Asset Pricing in Networks Location: LR M2.2 (Floor 2)

ID: 630

Knowledge Network and Asset Pricing

Po-Hsuan Hsu¹, Erica Li², Huijun Wang³, Gang Zhang⁴

1: National Tsing Hua University; 2: Cheung Kong Graduate School of Business; 3: Auburn University; 4: Fudan University

Discussant: **Roberto Steri** (University of Luxembourg)

We develop a model with multiple sectors connected through both knowledge and physical input-output networks, in which knowledge productivity evolves endogenously through firms' investments in human capital devoted to R&D. The network structures in the model determine economic dynamics and constitute systematic risk in asset pricing, and predict that the sparsity of knowledge network increases aggregate consumption and leads to positive risk premium. Our model implications receive empirical support as follows: (i) consumption growth increases with knowledge network sparsity; (ii) firms with higher exposures to knowledge network sparsity carry higher expected stock returns; and (iii) knowledge network sparsity exists in the stochastic discount factor and helps price the cross section of stock returns.

 [EFA2026_630_AP 12_Knowledge Network and Asset Pricing.pdf](#)

ID: 1972

On the shoulders of giants: Financial spillovers in innovation networks

Abhijit Tagade, Bijan Aghdasi

London School of Economics, United Kingdom

Discussant: **Bruno Giovannetti** (Sao Paulo School of Economics - FGV)

Do financial markets price knowledge spillovers? We show that patent grants influence the stock returns of firms that are connected through technological knowledge dependencies.

Using directed patent citations among publicly listed companies in the United States, we construct a granular measure of each firm's exposure to new patents granted to its technologically upstream firms. Patents granted to these upstream companies significantly boost its abnormal stock returns during the week of the grant. This contrasts with the gradual fade-out of returns from a firm's own patent grants, indicating a gradual diffusion of information in markets. We find that these financial spillovers are predominantly localized within a firm's immediate technological connections. Additionally, we provide a novel empirical decomposition of financial spillovers generated from patent grants, by distinguishing those spillovers emerging from sources of technological knowledge, from those emerging from product market rivals (negative effect) and suppliers (positive effect). Our findings are robust to alternative specifications and placebo tests, and they suggest that technological knowledge spillovers create important market-priced ties between firms that are not fully captured by traditional product market relationships.

 [EFA2026_1972_AP 12_On the shoulders of giants.pdf](#)

ID: 1426

Breaking the Data Chain: The Ripple Effect of Data Sharing Restrictions on Financial Markets

Simona Abis³, Bo Bian¹, Huan Tang²

1: University of British Columbia, Canada; 2: The Wharton School; 3: University of Colorado - Boulder

Discussant: **Luise Eisfeld** (University of Lausanne and Swiss Finance Institute)

Privacy regulation is typically studied through its effects on firms and consumers, while its implications for financial markets remain unexplored. We use Apple's App Tracking Transparency (ATT) to examine whether privacy-driven data sharing restrictions spill over to capital markets by reducing the precision of widely used signals. After ATT, analysts relying more heavily on such data become less accurate, and mutual funds shift attention away from affected stocks. Consequently, firms more exposed to these market participants exhibit weaker price efficiency. Our findings reveal a new fragility in financial markets as surveillance-like alternative data becomes increasingly vulnerable to future regulatory disruption.

 [EFA2026_1426_AP 12_Breaking the Data Chain.pdf](#)

2:00pm - 3:30pm

AP 13: New Perspectives on Cross-Sectional Asset Pricing

Location: **LR M2.3 (Floor 2)**

Session Chair: **Kris Boudt**, Ghent University

ID: 1336

The Global Cross-Section of Corporate Bonds: Market, Maturity and Liquidity

Geert Bekaert², Roberto De Santis¹, Tomas Mondino²

1: European Central Bank, Germany; 2: Columbia Business School

Discussant: **Daniele Massacci** (King's College London)

We investigate pricing factors for corporate bonds in the six largest international markets. Our econometric analysis shows that small sample sizes severely compromise pricing tests of bond portfolios. Using Barillas and Shanken (2017) tests and global portfolios, we reject standard corporate

bond factor models in favor of a model featuring the global corporate bond market, a global maturity spread factor, and a global liquidity spread factor. This model prices various cross-sections well, except for Japanese Yen bonds, where including a local market factor improves fit. All returns are hedged in US dollars, as hedged portfolios outperform unhedged ones.

 [EFA2026_1336_AP 13_The Global Cross-Section of Corporate Bonds.pdf](#)

ID: 638

The Origins of the Factor Zoo: Investors Weakly Substitute Across Stocks

Carter Davis, Aditya Chaudhry

Ohio State University, United States of America

Discussant: **Nathan Lassance** (UCLouvain)

We show that investors treat individual stocks as weak substitutes, and that this weak substitutability explains the existence of the “factor zoo” in expected stock returns. In classical asset-pricing models, substitutability is strong: when relative expected returns change, investors readily reallocate across assets that covary. In this case, there would be no factor zoo: differences in expected returns would be explained by the few factors that drive most covariance across stocks. In contrast, we show that substitutability is empirically weak in investor holdings data. We demonstrate that this weak substitutability gives rise to the factor zoo: expected returns depend on many factors, including those that drive little covariance across stocks.

 [EFA2026_638_AP 13_The Origins of the Factor Zoo.pdf](#)

ID: 1757

Empirical Pricing Factors in Theoretical Economies

Kerry Back², Alexander Ober², Seth Pruitt¹

1: Arizona State University, United States of America; 2: Rice University, United States of America

Discussant: **Guanhao Feng** (City University of Hong Kong)

We simulate data from well-known economic frameworks in which the true conditional SDF can be calculated. We examine multiple factor construction methodologies in these simulated economies, estimating the SDF by linear regression on past factor returns. Creating many factors using nonlinear combinations of characteristics as portfolio weights and then using shrinkage in the regression (complexity) works well. However, a latent factor model with fewer factors than characteristics (instrumented principal components) also works well. Classical methods do not perform well.

 [EFA2026_1757_AP 13_Empirical Pricing Factors in Theoretical Economies.pdf](#)

3:30pm - 4:00pm

Walking groups will depart every 5 minutes starting at 15:30. The Handelsbeurs (same location as the Welcome Reception) is about a 10-minute walk from Vlerick.

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The Handelsbeurs (the same location as the Welcome Reception) is about a 10-minute walk from Vlerick Business School.

4:00pm - 5:40pm

GA: General Assembly - Prize Ceremony - Keynote Address

Location: [Handelsbeurs](#)

7:30pm - 11:00pm

Conference Dinner

Location: [Old Fish Market \(Oude Vismijn\)](#)

Conference Agenda

WED
19
Aug

THU
20
Aug

FRI
21
Aug

SAT
22
Aug

Daily Overview

Date: Saturday, 22/Aug/2026

9:30am - 11:00am

HF 06: Information, Literacy, and Portfolio Choice

Location: LR M0.1 (Floor 0)

Session Chair: **Laurent Calvet**, SKEMA Business School

ID: 123

The Participation Reversal Puzzle

Federico Mainardi¹, **Roxana Mihet**^{2,3,5}, **Laura Veldkamp**^{1,4}

1: Columbia Business School; 2: University of Lausanne; 3: Swiss Finance Institute; 4: NBER; 5: CEPR

Discussant: **Engin Iyidogan** (SKEMA)

Risky-asset participation rose in the 1990s, then reversed after the mid-2000s despite continuing declines in financial technology costs. We explain this reversal by separating access costs from data costs. Lower access costs expand participation, but cheaper scalable data lets wealthy investors acquire more information, bid up prices, and reduce risk-adjusted returns for marginal, uninformed households. Using SCF and Addepar portfolio data, we document the model's cross-sectional mechanisms: middle-wealth households exited, while informed investors earned higher returns and held riskier portfolios. Quantitatively, technological change accounts for 49% of the post-2007 participation reversal and explains the post-Covid rise.

 [EFA2026_123_HF 06_The Participation Reversal Puzzle.pdf](#)

ID: 874

Rethinking the Stock Market Participation Puzzle: A Qualitative Approach

Kamila Duraj¹, **Daniela Grunow**², **Michael Haliassos**², **Christine Laudenbach**¹, **Stephan Siegel**³

1: Leibniz Institute for Financial Research SAFE & Goethe University, Germany; 2: Goethe University;

3: University of Washington

Discussant: **Marieke Bos** (Stockholm School of Economics, VU Amsterdam)

We revisit the puzzle of limited stock market participation using qualitative methods common in other social sciences but rare in economics. Through in-depth interviews with investors and non-investors in Germany—a high-income country with low market participation—we elicit open-ended reflections on money without mentioning investing upfront. This allows beliefs and barriers to emerge naturally. We analyze these interviews using traditional human-led content analysis, complemented with a large language model (LLM)-based approach. We validate our findings using a representative survey of more than 7,000 individuals. While many known factors appear, we uncover a pervasive misconception: participation is believed to require selecting “safe” stocks, avoiding “bad” ones, and timing the market through monitoring and frequent trading. This inflates perceived costs and deters participation. Some investors overcome these barriers with support from family, friends, or trusted advisors. Notably, even active investors hold these beliefs, suggesting the misconception influences both entry and behavior in the market.

 [EFA2026_874_HF 06_Rethinking the Stock Market Participation Puzzle.pdf](#)

ID: 2197

The Impact of Financial Literacy: Evidence from a Randomized Trial Linked to Administrative Data

Miguel Ferreira¹, **Diogo Mendes**², **Andre F. Silva**³

1: Nova School of Business and Economics; 2: Stockholm School of Economics; 3: Federal Reserve Board

Discussant: **Olga Goldfayn-Frank** (Bundesbank)

We study the effects of adult financial education using a large-scale randomized controlled trial linked to administrative credit register data. The intervention consists of a structured ten-hour personal finance course involving more than 10,000 people in Portugal. Six months after the program, treated individuals exhibit significant improvements in financial knowledge, especially among women, low-income and low-education individuals, and participants with low baseline financial literacy. The intervention also improves self-reported confidence, financial attitudes, and behaviors, including budgeting, saving, retirement planning, informed use of financial products, and financial market participation. Using loan-level administrative data, we find significant changes in debt management: treated individuals reduce reliance

	on high-cost credit card balances while preserving credit access, experience fewer delinquencies, and are more likely to renegotiate mortgages. Our results suggest that financial education can reduce financial literacy gaps and improve household balance sheet management, even within relatively affluent populations in high-income countries.  EFA2026_2197_HF 06_The Impact of Financial Literacy.pdf
9:30am - 11:00am	FI 09: Bank Risk, Losses ,and Failure Location: LR M0.2 (Floor 0) Session Chair: Steven Ongena, University of Zurich
	ID: 761 Securities Losses and the Bank Collateral Channel of Monetary Transmission Mariassunta Giannetti¹, Martina Jasova², Caterina Mendicino³, Dominik Supera⁴ 1: Stockholm School of Economics; 2: Barnard College, Columbia University, United States of America; 3: ECB; 4: Columbia Business School <i>Discussant:</i> Tim Eisert (Nova SBE) We show that losses on banks' securities portfolios matter for the transmission mechanism of monetary policy even in the absence of financial stability concerns. When banks experience losses in their pledgeable securities, their ability to tap liquidity through the interbank market is impaired, and they subsequently reduce illiquid corporate lending, regardless of whether the securities were recorded at market or historical value. These effects are less pronounced for banks with abundant collateral and reserves and for banks that receive liquidity through their group's internal capital market. Our results highlight a collateral channel in the bank-based transmission of monetary policy.  EFA2026_761_FI 09_Securities Losses and the Bank Collateral Channel.pdf ID: 700 When Banks Fail: Depositor Attention and the Cost of Funding for Survivors Brian Jonghwan Lee¹, Stefan Walz² 1: Emory University Goizueta Business School; 2: Boston College <i>Discussant:</i> Martien Lamers (Ghent University) We document a novel channel through which bank failures affect the economy by increasing the funding costs of surviving banks, thereby further contracting bank credit provision. Using a sample of U.S. bank failures, we find that competitor banks significantly raise deposit rates following a nearby bank failure, even when controlling for local economic conditions and bank fundamentals. The effect is persistent, lasting up to three years, and is stronger following highly publicized failures. At the same time, we observe weaker deposit and loan growth at surviving banks after failures, despite non-bank lending growing in those areas. Consistent with an increase in depositor price sensitivity, we observe price effects for uninsured and insured deposits. Our findings highlight how banking crises propagate indirectly by making funding more expensive, even if remaining banks are safe, thereby constraining credit supply and amplifying economic downturns.  EFA2026_700_FI 09_When Banks Fail.pdf ID: 1804 Holding Bankers Liable: Personal Guarantees and Risk-taking in Security Underwriting Peter Koudijs^{1,2}, Eva Mulder² 1: NYU Stern School of Business; 2: Erasmus University Rotterdam <i>Discussant:</i> Kristine Hankins (University of Kentucky) Does additional liability for bank executives improve risk management? We address this question using uniquely detailed data on the underwriting activities of one of the largest Dutch banks in the early 20th century. Its executives faced additional liability as they partially guaranteed their banks' security underwriting. If the issuance was successful, they received the underwriting fee; if it failed, they had to personally purchase securities at a loss. Exploiting exogenous discontinuities in the size of these guarantees, we find that issuance quality was higher for bigger guarantees. Investor subscription rates were higher and issuing firms had stronger balance sheets. Results indicate that additional liability directly tied to executives' decisions can help reduce bank risk-taking.  EFA2026_1804_FI 09_Holding Bankers Liable.pdf
9:30am - 11:00am	SF 08: Operationalizing Non-Financial Preferences Location: LR M0.3 (Floor 0) Session Chair: Balbinder Singh Gill, Yeshiva University
	ID: 1263 Non-pecuniary Securities Lending by Passive Funds George Baihan Wang^{1,2}

1: Monash University; 2: Queensland University of Technology

Discussant: **Cynthia Yin** (Cornell University)

The equity lending supply of brown firms is concentrated in one-fourth of mutual fund shareholders, two-thirds of which are passive. I construct a novel dataset of passive fund equity lending spanning 2010 to 2024 to document the securities lending channel of sustainable investing. Pro-environmental lenders (PELs) tilt their lending supply toward brown positions, facilitating short selling as a market-based governance mechanism that disciplines brown firms. Consistent with non-pecuniary motives, PELs are predominantly managed by politically liberal managers and UNPRI signatories. PELs do not forgo voice: they recall brown shares when shareholder meetings feature E&S proposals and vote in favor. At the firm level, PEL ownership relaxes short-sale constraints, improves the price informativeness of brown stocks, and is suggestive of long-term improvements in their environmental practices. These findings highlight how passive funds express non-pecuniary preferences by forming targeted securities lending habitats.

 [EFA2026_1263_SF 08_Non-pecuniary Securities Lending by Passive Funds.pdf](#)

ID: 1874

Investor Democracy

Rob Bauer¹, Emmeline Cooper², Bram van der Kroft³, Paul Smeets⁴

1: Maastricht University; 2: Carnfield University; 3: MIT; 4: University of Amsterdam

Discussant: **Sehoon Kim** (University of Florida)

Pension fund boards must decide how to invest on behalf of millions of members, including when investment choices involve trade-offs between financial returns and social impact. Making these decisions well requires boards to understand their members' considered social preferences. We introduce deliberative democracy tools as a method for eliciting these preferences. Deliberation exposes members to balanced expert information, creates structured opportunities for peer exchange, and helps members work through complex trade-offs before expressing their views. Partnering with a large Dutch pension fund, we conduct two field experiments that combine a deliberative mini-public with a binding maxi-public vote. In the mini-public, 49 randomly selected members participate in a three-day, in-person process of structured peer deliberation and balanced expert briefings on sustainable investing. After deliberation, participants formulate and vote on recommendations for the pension board. Deliberation does not change how much financial return members are willing to sacrifice for sustainable investing. What changes is how members approach the trade-off. As knowledge increases, non-consequentialist views fall from 34.9% to 9.3% and consequentialist views rise from 20.9% to 44.2%. Mini-public members produce several recommendations for the pension board, among which expanding impact investing features prominently. To test whether this reflects the broader membership, the board puts the impact investing question to a binding vote. A total of 13,619 members participate, choosing between stopping, maintaining, or expanding impact investing, with the explicit understanding that the outcome determines actual portfolio allocations. We communicate that impact investing can reduce pension payments at retirement, but may also have positive environmental and social impacts. Despite this financial trade-off, a clear majority favors expansion over stopping. The mini-maxi-public translates considered social preferences into consequential investment decisions: the board commits to increasing impact investments from 300 million to 1.2 billion euros.

 [EFA2026_1874_SF 08_Investor Democracy.pdf](#)

ID: 739

Financially constrained carbon management

Maria Cecilia Bustamante¹, Francesca Zucchi²

1: University of Maryland; 2: European Central Bank, Germany

Discussant: **Simon Mayer** (Carnegie Mellon University)

We develop a model studying how financing frictions affect a firm's carbon footprint as well as its transition to sustainable technologies, while allowing for multiple types of green investment: abatement of carbon emissions, adoption of available technologies, and green innovation. Financing frictions impact each type of green investment differently—with abatement unaffected, a negative effect on adoption, and an ambiguous impact on green innovation. Financing frictions reduce current emissions by contracting production, but have a negative impact on the transition to greener technologies in firms relying mainly on adoption. We further show tilting strategies need not boost green innovation, exclusion strategies mainly curb current emissions, and subsidies to adoption help incentivize green innovation too

 [EFA2026_739_SF 08_Financially constrained carbon management.pdf](#)

9:30am - 11:00am

FI 10: Changing Nature of Bank Funding and Credit Provision

Location: **LR N0.5 (Floor 0)**

Session Chair: **Loriana Pelizzon**, Leibniz Institute for Financial Research SAFE

ID: 1879

Information-Concealing Credit Architecture

Gary Gorton¹, Ye Li², Guillermo Ordóñez³

1: Yale University; 2: University of Washington; 3: University of Pennsylvania

Discussant: **Lea Katharina Paoli** (SAFE & Goethe University Frankfurt)

Creditors are tempted to examine collateral assets of uncertain value, but costly information acquisition ultimately reduces financing capacity. A pecking order emerges. Debt provides greater financing capacity than equity: unlike equity, creditors own the asset only if the borrower defaults, discouraging costly asset examination. Probabilistic asset ownership can be further diluted by introducing intermediaries between borrower and creditor, leading to a new theory of financial intermediation and credit chains. Our theory rationalizes the seemingly excessive complexity of financial architecture: the optimal chain arises in a decentralized equilibrium and is characterized by a sequence of heterogeneous intermediaries that discourages information production.

 [EFA2026_1879_FI 10_Information-Concealing Credit Architecture.pdf](#)

ID: 142

Earnings Information Spillovers and Depositor Contagion

Qi Chen¹, Itay Goldstein², Rahul Vashishtha¹, Benda Yin³

1: Duke University; 2: University of Pennsylvania; 3: Hong Kong University of Science and Technology

Discussant: **Andrea Gamba** (University of Warwick)

Contagion has been a central theme in episodes of bank fragility over the years. Yet, it is challenging to identify in the data. We provide evidence from the universe of banks in the US over the last three decades, showing how deposit outflows are associated with performance deterioration in peer banks. We then demonstrate how this is amplified by panic that is caused by the liquidity transformation in focal banks, peer banks, and the interaction between them. Our analysis speaks to the important role of liquidity transformation, generating panic that is amplifying and spreading financial fragilities across banks.

 [EFA2026_142_FI 10_Earnings Information Spillovers and Depositor Contagion.pdf](#)

ID: 1526

Banks to Markets

Mandeep Singh, Pramod Kumar Yadav

University of Sydney, Australia

Discussant: **Dominic Cucic** (Danmarks Nationalbank)

Households' increased allocation of savings outside banks raises the question of how this shift occurs and its effects on the banking sector. We show that local expansion of brokerage intermediation, measured as the local presence of securities brokers, reallocates household savings away from bank deposits. Using a staggered adoption of the Broker Protocol in a shift-share instrumental variables design, we find that a 1 percentage point increase in brokerage intermediation reduces bank deposits by 2.4 percent. These outflows coincide with higher local equity wealth, and banks do not offset by offering higher deposit rates or increasing funding from alternative sources. Banks that are more exposed to brokerage intermediation reduce small business lending. The results are not explained by stock market performance alone. Instead, they highlight a novel link between the evolving financial system and household portfolio allocation.

 [EFA2026_1526_FI 10_Banks to Markets.pdf](#)

9:30am - 11:00am

CF 13: From Natural Disasters to Trade Shocks: Finance and Distributional Effects

Location: **LR M1.2 (Floor 1)**

Session Chair: **Marco Pagano**, Università degli Studi di Napoli Federico II

ID: 1510

The Ripple Effect: Supply Chain Reconfigurations and Cross-border Credit Dynamics

Ricardo Correa¹, Andrea Fabiani², Matias Ossandon Busch³, Miguel Sarmiento⁴

1: Federal Reserve Board; 2: Banca d'Italia; 3: Banco de Espana; 4: Banco de la Republica

Discussant: **Christian Eufinger** (IESE Business School)

We study the role that cross-border firm-to-firm credit plays in financing exporters. Exploiting the exogenous shock of US tariffs on Chinese goods in 2018–2019, we examine the response of Colombian firms -- bystanders not targeted by trade policy -- to redirected US demand. Using credit registry information for cross-border and domestic non-financial firm financing, we find that almost 40 percent of the total credit sourced by exporters came from cross-border firm-to-firm credit at end-2019, which represented 80 percent of their cross-border credit. In contrast to traditional trade credit, which is typically short-term, firm-to-firm credit has an average maturity of almost 2 years, and has characteristics resembling bank lending. Our findings highlight an overlooked financial channel underpinning the international trade network.

 [EFA2026_1510_CF 13_The Ripple Effect.pdf](#)

ID: 786

Market Integration, Risk-Taking, and Income Inequality

Will Cong¹, Ron Kaniel², Yizhou Xiao³

1: Cornell SC Johnson College of Business; 2: University of Rochester; 3: Chinese University of Hong Kong

Discussant: **Yuliyen Mitkov** (University of Vienna)

A pandemic, trade frictions (e.g., tariff escalations), or nationalism can dial back global integration as much as advancements in IT and transportation can spur it. We study a parsimonious general equilibrium model of occupational choice, risk-taking, and income inequality against the backdrop of market (dis)integration and certain services in inelastic supply over the short run. In a decentralized, segmented environment, entrepreneurship and risk-taking are inefficiently low; in an integrated market, they can be socially excessive and entrepreneurship is non-monotone in the service supply. As transportation and information technologies improve, occupational risk-taking and total production increase, with ambiguous welfare consequences. In a dynamic setting with inter-generational inheritance, wealth inequality is exacerbated by income inequality, but faces a long-term reversal when total production helps increase service supply. Our findings are generally robust to endogenous service supply and various levels of scarcity.

 [EFA2026_786_CF 13_Market Integration, Risk-Taking, and Income Inequality.pdf](#)

ID: 660

Who Pays for Natural Disasters? Firm Exit, Market Power, and Consumer Prices

Mariassunta Giannetti¹, Yingjie Qi², Su Wang³

1: Stockholm School of Economics, Sweden; 2: Copenhagen Business School, Denmark;
3: ShanghaiTech University, China

Discussant: **Diane Pierret** (University of Luxembourg)

Using establishment-level data and scanner-based retail prices, we show that the number of firms declines and local retail prices rise in counties affected by natural disasters. Price increases are particularly pronounced for essential goods and low-priced products, as well as in counties with fewer bank branches per capita, where fewer firms enter following natural disasters. The effects extend beyond retailers: large producers affected by natural disasters raise prices, especially when many of their competitors are also affected, while smaller producers do not. Consistent with these pricing patterns, large firms experience increases in sales and profits following natural disasters. Our results suggest that the costs of climate-related disasters, which are increasingly frequent negative realizations of physical risk, are ultimately borne by consumers, while large firms benefit from the redistribution of market shares.

 [EFA2026_660_CF 13_Who Pays for Natural Disasters_Firm Exit, Market Power, and Consumer Prices.pdf](#)

9:30am - 11:00am

CF 14: Private Capital Markets

Location: **Chapel (Floor 1)**

Session Chair: **Constantine Yannelis**, University of Cambridge

ID: 1754

The Outsized Role of Tax Havens in Mergers and Acquisitions

Jean-Marie Meier¹, Jake Smith², Christoph Schneider³

1: University of Texas at Dallas; 2: Securities and Exchange Commission; 3: University of Münster, Germany

Discussant: **S. Abraham Ravid** (Yeshiva University)

Using two novel datasets and a more comprehensive sample, we document a new stylized fact: tax havens play a major role in mergers and acquisitions (M&A). Cross-border M&A involving either an acquirer or a target from a haven accounts for 29.7% of cross-border M&A volume, or 11.1% of all M&A activity. We investigate 20,360 such transactions from 1990 to 2023, valued at \$8.3 trillion. \$4.6 of the \$8.3 trillion is classified as “abnormal” activity based on a gravity model with economic fundamentals. Small havens alone account for \$2.4 trillion, or 8.5% of cross-border M&A volume (e.g., Bermuda, the Cayman Islands).

 [EFA2026_1754_CF 14_The Outsized Role of Tax Havens in Mergers and Acquisitions.pdf](#)

ID: 585

Tax Avoidance Costs and Corporate Investment: Evidence from Offshore Data Leaks

Juan F. Imbet¹, Marcelo Ortiz²

1: Paris Dauphine - PSL, France; 2: Universitat Pompeu Fabra

Discussant: **Michaela Pagel** (Washington University)

We study whether increases in the cost of tax avoidance affect corporate investment. Tax avoidance can raise investment not only by lowering effective tax rates, but also by preserving internal funds that firms can use when external finance is costly. Identifying this channel is difficult because tax reforms typically change both statutory tax rates and incentives to avoid taxes. We exploit offshore data leaks as firm-specific shocks to the cost of avoidance that do not change statutory tax rates. We link the ICIJ Offshore Leaks Database to Orbis Europe and identify exposed private firms across 12 European countries. Using a staggered difference-in-differences design, we find that exposed firms reduce investment after the leaks. The decline is concentrated among firms for which

internal funds are likely to have high shadow value: smaller firms, younger firms, firms without prior long-term debt relationships, and lower-productivity firms. Exposed firms also experience deteriorating operating cash flows and pre-tax profits. We find no evidence that the effects are driven by product-market penalties or credit supply shocks. The evidence shows that increases in avoidance costs can reduce real investment by tightening firms' internal financing capacity, even when statutory tax rates and credit conditions do not change.

 [EFA2026_585_CF 14_Tax Avoidance Costs and Corporate Investment.pdf](#)

ID: 1946

Investor Expertise and Private Investment Selection

Ye Zhang¹, **Emmanuel Yimfor**², **Shane Miller**³

1: Stockholm School of Economics, Sweden; 2: Columbia University; 3: University of Michigan

Discussant: **Will Gornall** (UBC)

We conduct a survey experiment presenting identical venture capital fund profiles to professional and individual investors. The two groups evaluate funds very differently. Professional investors weight track records heavily and avoid first-time funds. Individual investors ignore past performance, focusing instead on educational credentials and location. Using a risk-averse benchmark model calibrated to historical VC returns, we show that professional investors' preferences align with past VC performance while individual investors' selections deviate substantially. A follow-up experiment isolates two mechanisms: informing individuals that VC performance persists increases their track record sensitivity by 12.5 percentage points, and assuring equal access to top-performing funds increases sensitivity by 9.9 percentage points. Both channels operate independently, with information appearing somewhat more important. These selection differences have meaningful consequences. We estimate that selection alone could reduce individual investor returns by approximately 12%, accounting for roughly 20% of the performance gap with professionals. Observational data confirm that funds with more individual investors have worse exit outcomes and weaker performance persistence. These results indicate that selection, not just access, would likely shape individual investor outcomes in private markets.

 [EFA2026_1946_CF 14_Investor Expertise and Private Investment Selection.pdf](#)

9:30am - 11:00am

AP 14: Imperfect Competition and Asset Prices

Location: **LR M2.1 (Floor 2)**

Session Chair: **Winston Dou**, University of Pennsylvania

ID: 1402

Data, Markups, and Asset Prices

Alexandre Corhay¹, **Kejia Hu**², **Jun Li**³, **Jincheng Tong**¹, **Ben Tsou**⁴

1: University of Toronto, Canada; 2: University of Oxford; 3: University of Warwick; 4: University of Manchester

Discussant: **Nancy Xu** (University of Cambridge)

This paper studies the implications of data technology for firm dynamics and asset prices.

We develop a heterogeneous firm model in which firms optimally hire data scientists to learn about unobserved consumer preferences. Data enhances firms' demand forecasting accuracy, enabling them to charge higher markups. Firms that are constrained in expanding production capacity have stronger incentives to hire data scientists. This results in countercyclical data scientist hiring, which amplifies firms' exposure to aggregate risk via the operating leverage channel. Using a novel dataset that tracks firms' employment of data scientists, we document three key empirical findings that support the model's main mechanisms: firms with a higher share of data scientists exhibit larger markups, higher information quality, and higher stock returns.

 [EFA2026_1402_AP 14_Data, Markups, and Asset Prices.pdf](#)

ID: 410

Moral Hazard and Imperfect Competition in Financial Markets

Milena Wittwer

Columbia Business School, United States of America

Discussant: **Ji Hee Yoon** (University College London)

When financial intermediaries invest on behalf of clients, they exert effort that clients cannot contract on and compete when trading assets. I develop a model in which the resulting moral hazard and degree of competition interact through market clearing, so that the incentive contracts clients offer intermediaries depend on how many intermediaries compete. I show that greater competition can tighten incentive constraints and reduce welfare. Pricing patterns in proprietary Canadian equity data are consistent with both frictions, and, read through the lens of the model, suggest a welfare loss from greater competition. This calls for coordinating competition and conduct regulation.

 [EFA2026_410_AP 14_Moral Hazard and Imperfect Competition in Financial Markets.pdf](#)

	ID: 1886 Granular Markups and Inflation Surge: The Role of Managerial Incentives Yuchen Chen³, Juliana Salomao^{1,4}, Varun Sharma², Yicheng Wang¹ 1: University of Minnesota, United States of America; 2: Indiana University; 3: University of Illinois Urbana-Champaign; 4: NBER & CEPR <i>Discussant:</i> Di Tian (Hong Kong University of Science and Technology) We develop a novel methodology to estimate firm-specific markup premiums using highly granular product-level data that controls for common shocks, isolating the premium as a residual. We validate this measure by comparing it to existing accounting-based estimates and by showing that it exhibits expected correlations with firm size and market share. Unlike traditional approaches, our method can be applied to both public and private firms, enabling an analysis of how financial structure and managerial incentives influence pricing decisions. We find that financial structure matters: public firms systematically increase markups following an IPO. Moreover, during the 2021--2022 inflation surge, publicly listed firms expanded their margins by capitalizing on inflationary pressures---especially among firms with high retail ownership, large early-pandemic stock declines, and strong equity-based pay incentives.  EFA2026_1886_AP 14_Granular Markups and Inflation Surge.pdf
9:30am - 11:00am	AP 15: Asset Prices, News, and Beliefs Location: LR M2.2 (Floor 2) Session Chair: Michael Halling, University of Luxembourg
	ID: 239 Macroeconomic Announcements and the Repricing of Earnings Risk Leyla Han¹, Ella Patelli² 1: Boston University, United States of America; 2: University of British Columbia, Canada <i>Discussant:</i> Ryan Israelsen (Michigan State University) Macroeconomic announcements trigger the repricing of previous firm-specific earnings news, generating cross-sectional heterogeneity in risk compensation. At earnings announcements, investors form joint beliefs about firm-specific fundamentals and aggregate conditions. Subsequent macroeconomic announcements reveal the aggregate state, leading investors to reassess the firm-specific component of prior earnings news. We quantify this repricing channel in a dynamic equilibrium model with learning across earnings and macroeconomic announcements. Empirical evidence supports the model's predictions: on macroeconomic announcement days, firms with recent earnings news earn lower risk premia than those without, and this effect is stronger when their earnings are more informative about aggregate conditions.  EFA2026_239_AP 15_Macroeconomic Announcements and the Repricing of Earnings Risk.pdf
	ID: 337 The Subjective Belief Factor Tingyue Cui¹, Ricardo Delao², Sean Myers¹ 1: The Wharton School, University of Pennsylvania, United States of America; 2: Marshall School of Business, USC <i>Discussant:</i> Ella Patelli (UBC) Subjective expectations and asset prices both revolve around distorted probabilities. Subjective expectations are expectations under biased probabilities, and asset prices are expectations under risk-neutral probabilities. Given this link, asset pricing techniques designed to estimate a Stochastic Discount Factor (SDF) can be used to estimate a Subjective Belief Factor (SBF), i.e., a distortion that characterizes many subjective expectations even for non-financial variables. Using the Survey of Professional Forecasters and Blue Chip, we find that differences between subjective expectations and statistical expectations for 24 macroeconomic variables can be summarized (average R-squared of 50%) by a single SBF related to real GDP growth and the T-bill rate. This SBF also accurately replicates differences across the 24 variables in the serial correlation of forecast errors and under/overreaction. Further, the SBF can be used to succinctly incorporate subjective beliefs data into asset pricing models, even those involving many expectations. Applying our measured SBF to a model of cross-sectional stock returns, we estimate that distorted beliefs account for the majority of excess returns for the Fama-French factors and explain about two thirds of the variation in returns across 176 anomalies, while the remaining third is attributed to preferences/risk. Our results support models like robust control and certain versions of diagnostic expectations in which agents' beliefs across different variables are characterized by a single probability distortion.  EFA2026_337_AP 15_The Subjective Belief Factor.pdf
	ID: 531 Inflation Surges and the Market Reaction to Inflation News Niklas Kroner Federal Reserve Board, United States of America <i>Discussant:</i> Clifton Green (Emory University)

I document a large increase in intraday market reactions to Consumer Price Index (CPI) announcements during the 2021--23 inflation surge. Asset prices across markets—including equities, interest rates, and inflation swap rates—respond significantly more strongly to CPI surprises than in the preceding low-inflation period. At the same time, reactions to other macroeconomic announcements remain comparatively unchanged. Overall, the market volatility attributable to macro announcements—driven by the CPI release—rises during the inflation surge. The patterns are likely not unique to 2021--23: historical evidence points to a stronger sensitivity to CPI surprises in earlier high-inflation episodes. Inspecting the mechanism, I find that the prevailing inflation level robustly predicts stronger CPI reactions and is closely linked to a proxy for ex-ante investor attention, which likewise amplifies market responses. Through the lens of a standard investor learning model, the increased market reaction to inflation news can help explain a substantial share of the heightened stock market volatility during inflation surges.

 [EFA2026_531_AP 15_Inflation Surges and the Market Reaction to Inflation News.pdf](#)

9:30am - 11:00am

AP 16: Heterogeneity in Global Financial Markets

Location: [LR M2.3 \(Floor 2\)](#)

Session Chair: **Riccardo Colacito**, University of North Carolina at Chapel Hill

ID: 326

Inflation and the Joint Bond-FX Spanning Puzzle

Andreas Schrimpf¹, Markus Sihvonen²

1: Bank for International Settlements; 2: Bank of Finland, Research Unit

Discussant: **Lukas Kremens** (University of Washington)

We generalize the yield spanning condition in the bond literature to non-linear models and to exchange rates. In standard macro-finance models, no variable should predict yield or exchange rate changes once standard yield curve factors are controlled for. We provide novel evidence that this spanning condition is violated, with inflation as a common unspanned predictor of both bond and exchange rate returns. Investors' incomplete information about the Federal Reserve's monetary policy rule emerges as the key driver of this result. We find high inflation to be followed by unexpected monetary policy tightening, which leads to dollar appreciation and low bond returns. We explain these findings by a simple model that departs from full information rational expectations.

 [EFA2026_326_AP 16_Inflation and the Joint Bond-FX Spanning Puzzle.pdf](#)

ID: 1827

Intangible Capital Around the World

Frederico Belo^{1,2}, Maria Ana Vitorino¹, Juliana Salomao^{3,2,4}, Yu Li⁵

1: INSEAD, France; 2: CEPR; 3: University of Minnesota; 4: NBER; 5: Shanghai Jiaotong University

Discussant: **Esther Eiling** (University of Amsterdam)

We estimate the market value of intangible capital around the world using a neoclassical investment model with two quasi-fixed inputs, physical and intangible capital. Across publicly listed firms in 80 economies (77 countries and 3 territories), installed intangible capital accounts for more than half of firm value, with wide variation across countries. Intangible capital is substantially more costly to adjust than physical capital in almost every country. This adjustment cost varies mainly across countries rather than across industries. Stronger intellectual property protection, shareholder rights, and director liability each lower the cost of adjusting intangible capital, while stronger creditor rights lower the cost of adjusting physical capital.

 [EFA2026_1827_AP 16_Intangible Capital Around the World.pdf](#)

ID: 1277

What Drives Global Corporate Bond Returns?

Jiarui Deng¹, Kewei Hou², Zhan Shi¹

1: Tsinghua University; 2: Ohio State University

Discussant: **Mirela Sandulescu** (University of North Carolina at Chapel Hill)

What drives expected returns in the global corporate bond market? Using a comprehensive dataset spanning 112 countries and 35 currencies from 1997 to 2021, we show that equity-market information dominates bond-specific and accounting-based characteristics in predicting returns. The most robust predictors are the debt-equity spread and short-term equity momentum, highlighting imperfect integration between equity and credit markets. Building on this insight, we introduce a novel equity-implied mispricing (EIM) factor and find that a parsimonious two-factor model comprising the market factor and EIM outperforms established multifactor specifications. Furthermore, contrary to equity market evidence, global and currency-based factor models substantially outperform local models outside the US. We trace this to the "dollar bias" of international investors and show that currency, not geography, is the primary driver of risk integration in global corporate bonds.

 [EFA2026_1277_AP 16_What Drives Global Corporate Bond Returns_.pdf](#)

11:00am - 11:30am	Coffee Break
11:30am - 1:00pm	HF 07: Fintech and Household Financial Outcomes Location: LR M0.1 (Floor 0) Session Chair: Andreas Fuster, EPFL ID: 236 Banking for Baby Boomers-A Field Experiment on Technology Adoption in Financial Services Katharina Hartinger¹, Erik Sarrazin¹, David Jia-Hui Streich² 1: Johannes Gutenberg University Mainz; 2: Catholic University Eichstaett-Ingolstadt, Germany <i>Discussant:</i> Claudio Daminato (Lund Universtiy) As banks shift services online, elderly clients unable or unwilling to use internet banking risk losing access to financial services. We design and test training interventions to foster internet banking in a field experiment with more than 27,000 elderly non-adopters at a large German savings bank. Training take-up is strikingly low: only 2% of invited clients respond. Yet, conditional on participation, training is highly effective: the two-hour training program increases internet banking setup by 25 percentage points and raises online transactions by 13 percentage points – effects that persist four months after training completion. A follow-up survey with a broader sample of elderly non-adopters reveals why take-up is low despite sizable training effects: two-thirds of elderly non-adopters display persistent reluctance towards internet banking adoption, which is not sensitive to subtle changes in the framing of training invitations. The remaining third are constrained by a lack of skills and support, which could be overcome by our training intervention.  EFA2026_236_HF 07_Banking for Baby Boomers-A Field Experiment on Technology Adoption.pdf ID: 1260 Banking on Bundles: The Effect of Cross-Selling on Household Credit Fatima Zahra Filali Adib¹, Steffen Andersen², Kasper Meisner Nielsen³, Yingjie Qi³ 1: ESSEC Business School; 2: Danmarks Nationalbank; 3: Copenhagen Business School, Denmark <i>Discussant:</i> Cédric Huylebroek (KU Leuven) We study the effect of banks' cross-selling on household credit. Using administrative register data on bank-household relationships in Denmark, we measure cross-selling via households' holdings of noncredit products. Our identification strategy exploits plausibly exogenous shocks to cross-selling relationships resulting from bank mergers. We document the following findings. First, cross-selling increases credit access and lowers interest rates: treated households see loan amounts rise by about 22% and interest rates fall by roughly 60 basis points. Second, these effects are stronger in low-competition markets. Overall, our findings imply that cross-selling has an economically significant impact on household credit and can exacerbate credit inequality.  EFA2026_1260_HF 07_Banking on Bundles.pdf ID: 931 One Size Does Not Fit All: Contract Design in FinTech Lending Jianfeng Hu¹, Changcheng Song², Gloria Yang Yu¹ 1: Singapore Management University, Singapore; 2: University of Florida <i>Discussant:</i> Giorgia Barboni (University of Warwick) This paper examines whether modest contract tailoring improves consumer credit outcomes. In a randomized field experiment with a large fintech lender, shifting due dates to just after paydays sharply improves on-time repayment. In the lender's complete loan book, where due dates land as good as randomly relative to paydays, synchronizing repayment with income cycles cuts the overdue rate by 29.4% and long-term default by 16.0%. Tailored timing raises borrowers' future credit access by 4.1% through improved repayment records. Substantial economic benefits accrue to both sides: borrowers save on penalties, and lenders accelerate cash flows and avoid write-offs. Effects concentrate among liquidity-constrained borrowers---young, low-income, low-credit-limit, and low-education---and strengthen with borrower experience. Overall, consumer credit markets benefit from contract tailoring, with fintech lending particularly well placed to turn those gains into financial inclusion.  EFA2026_931_HF 07_One Size Does Not Fit All.pdf
11:30am - 1:00pm	FI 11: Illiquidity and Investor Behavior Location: LR M0.2 (Floor 0) Session Chair: Per J Strömberg, Stockholm School of Economics ID: 944 When Cash Flows Turn Negative: Liquidity-Driven Selling by Pension Funds Aleksandar Andonov¹, Kristy Jansen², Joshua Rauh³ 1: University of Amsterdam; 2: University of Southern California; 3: Stanford GSB and Hoover Institution <i>Discussant:</i> Cynthia Balloch (London School of Economics)

U.S. public pension funds are long-horizon investors with predictable liability structures. As such, they are often perceived as contrarian investors who can absorb supply shocks and stabilize markets. However, they increasingly face negative net operating cash flows as benefit payments exceed contributions. Using aggregate pension fund data combined with granular holdings obtained through public records requests, we document three findings that challenge the conventional view of U.S. pension funds as stabilizing investors. First, pension funds with more negative cash flows do not incorporate this factor into their target asset allocation and maintain low allocation to safer or more liquid assets. Second, because of these limited liquidity buffers, pension funds meet cash flow shocks primarily by selling equities rather than drawing on liquid assets. Pension funds absorb \$0.67 per dollar of shock through equity sales. At the security level, pension funds sell across equities and do not follow a liquid-assets-first approach. Third, these equity sales occur even during periods of negative equity returns, indicating they are driven by cash flow needs rather than portfolio rebalancing considerations. Together, these findings show that pension funds have become regular sellers in equity markets rather than contrarian, stabilizing investors.

 [EFA2026_944_FI 11_When Cash Flows Turn Negative.pdf](#)

ID: 1761

Selling to Yourself: Continuation Funds in Private Equity

Rustam Abuzov¹, Will Gornall², Sophie Shive³, Ilya Strebulaev⁴, Michael Weisbach⁵

1: UVA Darden; 2: University of British Columbia; 3: University of Notre Dame; 4: Stanford; 5: Ohio State

Discussant: **Teodor Duevski** (Chinese University of Hong Kong)

Continuation funds (CFs) are a recent financial innovation in which PE managers raise new funds to purchase assets from their existing funds. CFs have surged in popularity, accounting for 9% of PE exits in 2024 and raising twice as much as US IPOs. We show that CFs emerge when LPs are more heterogeneous and fund managers have earned carried interest in legacy funds. Assets transferred to CFs are better performing and larger than other assets in legacy funds. LPs overwhelmingly choose to exit rather than invest in CFs, the decision that appears to be driven by time-varying LP liquidity demands.

 [EFA2026_1761_FI 11_Selling to Yourself.pdf](#)

ID: 1032

Capital Commitments and Private Debt Lending in Crises

Sophie-Dorothee Rotermund

Stockholm School of Economics

Discussant: **Tatyana Marchuk** (Nova School of Business and Economics)

I study how capital commitments affect the resilience of private debt funds' lending during crises by comparing private and public Business Development Companies (BDCs) during the COVID-19 shock. Using borrower-level regressions with firm-quarter fixed effects, I find that, in comparison to public BDCs, private BDCs sustained lending, providing about 7%, or \$1.2 million, more credit to the same firm. My findings show that pre-committed capital, rather than liquidity buffers, shields private BDCs from financing frictions and enables them to maintain their credit supply when market-based funding is impaired. The results highlight how funding structures shape the cyclicalities of non-bank credit.

 [EFA2026_1032_FI 11_Capital Commitments and Private Debt Lending in Crises.pdf](#)

11:30am - 1:00pm

SF 09: Biodiversity Finance

Location: **LR M0.3 (Floor 0)**

Session Chair: **Boris Vallee**, INSEAD

ID: 1358

Monitoring the Green Line: Environmental Covenants in Supply Chain Contracts

Ting Dai¹, Lin Ceng², Michael Hertz³, Scott Liao⁴

1: The Hong Kong University of Science and Technology, Hong Kong S.A.R. (China); 2: Chinese University of Hong Kong; 3: Arizona State University; 4: University of Toronto

Discussant: **Aymeric Bellon** (UNC Chapel Hill)

This paper investigates the determinants and real economic effects of environmental covenants in supply chain contracts, as well as their interaction with public regulatory enforcement. We show that the likelihood of including environmental covenants is positively associated with the expected benefits of managing suppliers' pollution risks and aligning with shareholder preferences for sustainability, and negatively associated with the anticipated costs of monitoring and enforcing compliance. In settings such as high-polluting industries, where both benefits and costs are elevated, whether covenants are adopted ultimately depends on which effect dominates. Using identification strategies based on the close victory of the Democratic Party in elections, we find that stronger public regulatory enforcement reduces the likelihood of covenant adoption, indicating that contractual monitoring and public oversight function as substitutes. Finally, we provide evidence that environmental covenants causally generate tangible improvements in supply chain sustainability, as disciplined suppliers significantly reduce toxic emissions and increase their hiring of environmental specialists.

 [EFA2026_1358_SF 09_Monitoring the Green Line.pdf](#)

ID: 345

Indebted to Nature: Corporate Biodiversity Endowment and Bond Market Reactions

Xing Han, Yizheng Li, Pinwen Mu

University of Auckland

Discussant: **Thorsten Martin** (Frankfurt School of Finance & Management)

Regulatory concerns of biodiversity conservation prompt creditors to markdown firms surrounded by rich wildlife species: Combining a proximity-based biological diversity endowment (BDE) measure with an exogenous shock to regulatory enforcement, we show that high-BDE firms experience a sharp rise in bond spreads and suffer with less bond (re-)issuance after the shock. Geospatial and thermal evidence indicates that high- BDE firms experience more post-event curbs on business operations. They also experience a larger deterioration in firm fundamentals, confirming the transition risk channel. Finally, high-BDE firms' transition cost is magnified by local regulatory intensity, but is not mitigated by their prior ESG performance.

 [EFA2026_345_SF 09_Indebted to Nature.pdf](#)

ID: 1162

Biodiversity Impacts of Renewable Energy

Haozhou Gong³, Chen Lin³, Zacharias Sautner^{1,2}, Thomas Schmid³

1: University of Zurich, Germany; 2: Swiss Finance Institute; 3: The University of Hong Kong

Discussant: **Sophie Shive** (University of Notre Dame)

Renewable energy is essential for mitigating climate change but can harm biodiversity through habitat loss. We combine spatial biodiversity data, satellite imagery, and asset-level information on 47,616 hydro, solar, and wind plants to construct a measure of their biodiversity impacts. Solar plants have high aggregate impacts due to land use, while hydro plants are often sited in biodiversity-sensitive areas. Impacts are highly concentrated, skewed, and vary across plants by owner type (listed versus unlisted, financial versus non-financial) and financing structure (project versus corporate finance). Counterfactual analyses show that nearby siting alternatives could reduce impacts substantially without foregoing renewable energy investment.

 [EFA2026_1162_SF 09_Biodiversity Impacts of Renewable Energy.pdf](#)

11:30am - 1:00pm

FI 12: Bank and Non-Bank Credit Supply

Location: [LR N0.5 \(Floor 0\)](#)

Session Chair: **Rudi Vander Vennet**, Ghent University

ID: 861

Bank Specialization within Production Networks

Olivier De Jonghe^{1,2}, Yushi Peng³, Tong Zhao^{2,4}

1: European Central Bank; 2: National Bank of Belgium; 3: Tilburg University; 4: KU Leuven

Discussant: **Patrick Coen** (Warwick Business School)

This paper studies the benefits and costs of lending specialization along supply chains, where banks serve as common lenders. Using firm-to-firm transaction and credit registry data from Belgium, we show that common lending is persistent and widespread. We develop and estimate a structural model of credit demand and supply in imperfectly competitive markets, where firms are connected through the production network. Our estimation results reveal that firms prefer to borrow from the same bank as their suppliers or customers, which gives common lenders market power and enables them to charge higher markups. At the same time, the network effects of common lending give banks an incentive to offer lower interest rates to maintain their role as common lenders. Exploiting the closure of a large manufacturing plant as an exogenous shock, we show that common lending also creates costs: the shock propagates through the production network, reducing credit demand along the supply chain and among common lenders, with banks more exposed to the affected network experiencing significantly larger declines in lending. A simulated counterfactual shows that the preference for borrowing from common lenders amplifies the propagation of the shock, concentrating the losses on the banks most specialized in the disrupted supply chain.

 [EFA2026_861_FI 12_Bank Specialization within Production Networks.pdf](#)

ID: 1587

The Cyclicity of Direct Lending

Sascha Steffen¹, Franz Hinzen², Giorgio Mondini¹, Paul Rintamäki¹

1: Frankfurt School, Germany; 2: Tuck School of Business at Dartmouth

Discussant: **Dominik Damast** (LUISS)

In direct lending, nonbank financial institutions originate bilaterally negotiated loans to risky firms. We document that issuance in this segment of the private credit market is countercyclical relative to issuance in other high-yield corporate credit markets, such as syndicated loans. This countercyclicity is the result of firms substituting across credit markets. Rather than forgo debt financing, firms switch to direct lending when credit conditions in other credit markets tighten. This substitution behavior is especially pronounced among sponsor-backed firms. Contrary to the concern that private credit could

amplify credit supply shocks, our results indicate that private credit may dampen the corporate credit cycle. Thus, our findings have important implications for assessing the financial stability ramifications of the rapid growth in private credit.

 [EFA2026_1587_FI 12_The Cyclicity of Direct Lending.pdf](#)

ID: 558

Estimating the Impact of Loan Supply Shocks

Nittai Bergman¹, Alejandro Casado², Rajkamal Iyer^{3,4,5}, Itay Saporta-Eksten^{1,4,6,7}

1: Tel Aviv University; 2: Banco de España; 3: Imperial College London; 4: CEPR; 5: ABFER; 6: University of Manchester; 7: IZA

Discussant: **Olivier De Jonghe** (National Bank of Belgium)

We show that commonly used empirical approaches in the banking literature do not recover the impact of credit supply shocks on loan-level lending, on total firm-level borrowing or on real outcomes. Using a simple model of firm borrowing with standard ingredients, we propose new estimators that recover these effects. We apply our methodology to the 2011 credit crisis in Spain and show that it implies significantly smaller effects of loan supply shocks than those generated by current empirical approaches.

 [EFA2026_558_FI 12_Estimating the Impact of Loan Supply Shocks.pdf](#)

11:30am - 1:00pm

CF 16: Financing Frictions, Market Signals, and Corporate Investment

Location: LR M1.2 (Floor 1)

Session Chair: **Quinn Maingi**, USC Marshall

ID: 1219

Market Feedback about Emerging Technologies

Sean Cao¹, Itay Goldstein², Jie {Jack} He³, Yabo Zhao⁴

1: University of Maryland; 2: University of Pennsylvania; 3: University of Georgia; 4: Chinese University of Hong Kong-Shenzhen

Discussant: **Dong Yan** (Shanghai Advanced Institute of Finance, Shanghai Jiao Tong University)

How do firms make decisions on investments in emerging technologies? We find that firms adjust AI/green investments in response to market reactions to announcements of such emerging-technology investment plans. Through a battery of tests, we show that this pattern is more likely due to active managerial learning from the market than alternative explanations such as a passive reflection of underlying fundamentals that drive both market reactions and corporate actions. Firms are more likely to act on feedback about emerging technologies than about other investments, particularly when market participants have more expertise in these areas and when firms face greater uncertainty.

 [EFA2026_1219_CF 16_Market Feedback about Emerging Technologies.pdf](#)

ID: 1703

Capital, Intangibles, and Financial Frictions

Fergal Hanks¹, Joao Monteiro²

1: Cambridge University; 2: EIEF

Discussant: **Bianca He** (University of Notre Dame)

How do financial frictions shape firms' investment in intangible capital? We show that financial constraints distort firms' input choices, leading to systematic underinvestment in intangible assets. Exploiting an investment subsidy in Portugal that lowered the cost of both physical and intangible capital while keeping their relative price unchanged, we find that treated firms reduced their capital-to-intangible ratio by 12 percent, with larger effects for financially constrained firms. The distribution of treatment effects declines sharply across percentiles - firms with higher initial capital-to-intangible ratios adjust the most - revealing the signature of a binding financial wedge. Going beyond average effects, we recover the entire cross-sectional distribution of wedges between the marginal rate of technical substitution and the price ratio. The recovered distribution corresponds to the least distorted economy consistent with the data, showing that only a small share of firms are unconstrained while roughly one-quarter face wedges exceeding twenty percent - providing a direct quantitative map of financial distortions in production.

 [EFA2026_1703_CF 16_Capital, Intangibles, and Financial Frictions.pdf](#)

ID: 390

The Equity Constraint Channel of Monetary Policy

Heitor Almeida, Sebastiao Oliveira, Yucheng Zhou

UIUC, United States of America

Discussant: **Philip Coyle** (Study Center Gerzensee)

We use a measure of financial constraint that distinguishes between a company's emphasis on equity versus debt financing to show that equity-focused constrained firms endure larger declines in stock prices and implement deeper cuts in investments when faced with contractionary monetary policy shocks. Equity-focused constrained firms reduce equity issuance and are more reluctant to run down cash holdings in response to tighter monetary policy. Contractionary shocks reduce investor demand for

	the equity of constrained firms, increasing their cost of capital. Our findings suggest that equity frictions are the main determinant of the transmission of monetary policy to the corporate sector.  EFA2026_390_CF 16_The Equity Constraint Channel of Monetary Policy.pdf
11:30am - 1:00pm	CF 15: Industry Structure and Corporate Finance Location: Chapel (Floor 1) Session Chair: Maria Cecilia Bustamante, University of Maryland
	ID: 2179 Learning Production Process Heterogeneity: Implications of Machine Learning for Corporate M&A Decisions Jongsub Lee¹, Hayong Yun² 1: Seoul National University, Korea, Republic of (South Korea); 2: Michigan State University, U.S.A. <i>Discussant:</i> Yelena Larkin (York University) We introduce novel metrics to evaluate production process heterogeneity using both machine learning (ML) and traditional kernels. ML kernels, particularly through economically motivated transfer learning models, enhance M&A forecasting accuracy. A wider gap in firms' production processes predicts fewer M&As, lower success rates, reduced returns, diminished post-M&A growth, and increased divestiture. Dynamic learning among repeat acquirors mitigates adverse effects of production process dissimilarity on post-M&A growth. The adoption of Right-to-Work laws, reducing employees' bargaining power, significantly alleviates detrimental effects of heterogeneous production processes. Our findings underscore the pivotal role of technology heterogeneity in shaping integration synergy and firm boundary decisions.  EFA2026_2179_CF 15_Learning Production Process Heterogeneity.pdf
	ID: 690 One Sows and Another Reaps: Outsourcing Innovation to Suppliers Kayla Freeman Colorado State University, United States of America <i>Discussant:</i> Tasaneeya Viratyosin (Tuck School of Business at Dartmouth) I document novel evidence of a substitutionary relationship in supply chain innovation: When R&D becomes relatively cheaper upstream through state tax credits, customers strategically reduce innovative investment while their suppliers increase it. Suppliers produce no additional patents from the increased R&D; instead, customers accrue more patents in their suppliers' technological domains. These patents are more exploratory and garner more citations. As mechanisms through which upstream R&D can translate to downstream patents, formal alliances and collaborative patenting arrangements become more frequent. Collectively, findings indicate firms can outsource innovative expenditures upstream, while still reaping the innovative outputs, blurring traditional firm boundaries.  EFA2026_690_CF 15_One Sows and Another Reaps.pdf
	ID: 1876 The Intangible Gap Mindy Xiaolan, Yiyuan Zhang University of Texas at Austin, United States of America <i>Discussant:</i> Johannes Matt (London School of Economics) We document a large and rising intangible investment gap between small and large U.S. firms. Smaller firms invest disproportionately in intangible capital, despite facing tighter financing constraints, and this gap has tripled since the 1980s alongside a pronounced increase in intangible investment volatility. We develop a dynamic industry-equilibrium model in which firms invest in both physical and intangible capital under financial frictions. Intangible investment is subject to idiosyncratic quality shocks and can be partially financed internally through equity-based compensation. These features generate an option like payoff to intangible investment: downside risk is limited by exit, while upside gains scale with realized quality. This mechanism makes intangible capital particularly attractive for small firms with high exit risk. Our analysis reveals that the joint increase in intangible investment volatility and the decline in financing frictions for intangible capital account for a sizable fraction of the post-2000 gap in intangible-to-physical capital ratios between small and large firms over the 2001–2023 period.  EFA2026_1876_CF 15_The Intangible Gap.pdf
11:30am - 1:00pm	AP 17: Dynamic Asset Pricing Theory Location: LR M2.1 (Floor 2) Session Chair: Pascal Maenhout, INSEAD
	ID: 408 Expectations and the Term Structure of Interest Rates Pooya Molavi¹, Alireza Tahbaz-Salehi¹, Andrea Vedolin² 1: Kellogg School of Business, Northwestern University; 2: Boston University <i>Discussant:</i> Christian Heyerdahl-Larsen (BI Norwegian Business School)

This paper studies the relationship between investors' subjective expectations and the term structure of interest rates. Departing from rational expectations, we allow investors to hold arbitrary—and potentially heterogeneous—beliefs about future interest rates. We derive the relationships that expected and realized interest rates must satisfy under different assumptions about expectation formation,

and we develop regression-based tests for two key hypotheses: (i) that bond risk premia are constant, and (ii) that investors' expectations across maturities and forecast horizons are consistent with one another. Using survey data, we find no evidence of time-varying risk premia for short-term bonds. We also document that market participants' expectations are inconsistent with the structural relationships that link short- and long-term interest rates.

 [EFA2026_408_AP 17_Expectations and the Term Structure of Interest Rates.pdf](#)

ID: 2079

How (Not) to Identify Demand Elasticities in Dynamic Asset Markets

Jules van Binsbergen², Benjamin David², Christian Opp¹

1: Simon Business School, United States of America; 2: University of Pennsylvania

Discussant: **Harjoat Bhamra** (Imperial College Business School)

We evaluate approaches to estimating demand elasticities in dynamic asset markets, both theoretically and empirically. We establish strict, necessary conditions that the dynamics of instrumented asset price variation must satisfy for valid identification. We illustrate these insights in a general equilibrium model of dynamic trade and derive the magnitude of biases that arise when these conditions are violated. Estimates are severely biased when the instrumented price variation is persistent or predictable. We then propose an approximate bias-correction factor and establish when such a correction is feasible. Empirically, we show that commonly used instruments yield elasticity estimates that are off by orders of magnitude, or even have the wrong sign. Our analysis further reveals significant shortcomings of standard multiplier calculations, and instead characterizes the dynamic asset market interventions required to sustain a targeted price support process, with direct implications for policies such as Quantitative Easing.

 [EFA2026_2079_AP 17_How \(Not\) to Identify Demand Elasticities in Dynamic Asset Markets.pdf](#)

ID: 1836

Ambiguity, Learning, and Portfolio Flows

Thomas Dangl¹, Lorenzo Garlappi², Alex Weissensteiner³

1: Vienna University of Technology, Austria; 2: University of British Columbia, Canada; 3: Free University of Bozen-Bolzano, Italy

Discussant: **Paul Ehling** (BI Norwegian Business School)

We develop an equilibrium model in which agents learn about both the mean and volatility of dividends and differ in ambiguity aversion. Because their conservative portfolios give them higher marginal risk-bearing capacity, ambiguity-averse investors step in as buyers when volatility rises. In contrast to economies populated only by Bayesian agents, volatility learning under ambiguity aversion has first-order effects: uncertainty premia rise with perceived volatility and portfolio flows predict returns. Using the concavity of the option-implied volatility surface as a proxy for ambiguity and index futures trading data, we provide empirical support for the model's predictions.

 [EFA2026_1836_AP 17_Ambiguity, Learning, and Portfolio Flows.pdf](#)

11:30am - 1:00pm

AP 18: Asset Prices and Monetary Policy

Location: **LR M2.2 (Floor 2)**

Session Chair: **Joost Driessen**, Tilburg University

ID: 887

Equity Duration and Monetary Policy

Eric Offner

Frankfurt School of Finance and Management, Germany

Discussant: **Tomas Jankauskas** (Federal Reserve Bank of New York)

Equity duration plays a central role in the transmission of monetary policy to equity markets. Using dividend futures and empirical estimates of aggregate equity duration, I show that stock market reactions to monetary policy are stronger when equity duration is high. In the cross-section, variation in equity duration explains the heterogeneous sensitivity of U.S. stock returns to monetary policy across a broad set of firm characteristics, including dividend yield, market-to-book ratio, cash flow-to-price ratio, profitability, investment growth, and payout ratio. In contrast, differences in betas, size, or financial constraints do not account for this heterogeneity. An asset-pricing model in which heterogeneity stems solely from differences in cash flow maturity can reproduce these new empirical findings and clarifies the underlying duration channel.

 [EFA2026_887_AP 18_Equity Duration and Monetary Policy.pdf](#)

ID: 1416

Investors and Inflation

Johannes Breckenfelder¹, Marie Hoerova^{1,3}, Giuditta Perinelli²

1: European Central Bank, Germany; 2: MIT Sloan; 3: CEPR

Discussant: **Frank de Jong** (Tilburg University)

Using security-level holdings of bond and equity mutual fund shares, we study how different investor types respond to inflation shocks. We distinguish between cost-push (“bad”) inflation and demand-driven (“good”) inflation. Using expectations from the Survey of Professional Forecasters as a proxy for sophisticated investors’ beliefs, we show that bad inflation shocks induce stagflationary expectations, whereas good inflation shocks raise expected inflation while also improving expected economic activity. Household expectations move in a remarkably similar way. We then show that portfolio rebalancing is broadly consistent with these shifts in expectations, although investors differ in both the speed and the intensity of their responses. Our identification compares flows across fund shares held by different investors within the same fund, holding the underlying portfolio risk fixed. Investment funds rebalance rapidly and strongly following inflation shocks. Insurance companies behave as steady-hand investors, with overall more muted responses. Household rebalancing responses are smaller in magnitude but more persistent. These findings shed light on how inflation shocks are transmitted to stock and bond prices.

 [EFA2026_1416_AP 18_Investors and Inflation.pdf](#)

ID: 1021

The Term Structure of Stock-Bond Risks

Mihir Gandhi

Copenhagen Business School

Discussant: **Ingomar Krohn** (Bank For International Settlements)

I study the term structure of stock-bond covariances after the Global Financial Crisis. The term structure of covariances refers to the covariance between the aggregate market and government bonds of different maturities. I establish five new facts about the term structure of covariances: (1) The average term structure of covariances is downward sloping: long-maturity covariances are more negative than their short-maturity counterparts, whereas the term structure is flat across maturities before the crisis. (2) After the crisis, short-maturity covariances are acyclical. Short-maturity covariances are of the same magnitude in good and bad times, and so are acyclical. In contrast, long-maturity covariances are more negative in bad times, and so are countercyclical. Taken together, the first two facts imply that short-maturity bonds have weaker hedging properties relative to long-maturity bonds. (3) To generalize the intuition from the first two facts, I run regressions of long-maturity covariances on short-maturity covariances in changes. Before 2007, the sensitivity of long to short, the regression slope, is about one and stable. After 2010, the sensitivity roughly doubles. (4) The sensitivity of long to short is related to unconventional monetary policy. First, in the United States, the sensitivity rises only after the announcement of large-scale asset purchases and varies with Post-GFC programs implemented by the Federal Reserve. Second, around the world, the rise in the sensitivity is larger in countries with larger quantitative easing programs. (5) The break in the term structure has implications for bond risk premia. I construct a stock-bond factor, analogous to the Cochrane-Piazzesi factor, from the term structure of covariances. After the crisis but not before, the stock-bond factor predicts bond excess returns, even after controlling for typical predictors of bond returns. These five facts provide new directions for the literature on stock-bond comovement.

 [EFA2026_1021_AP 18_The Term Structure of Stock-Bond Risks.pdf](#)

11:30am - 1:00pm

AP 19: Risk Premiums Everywhere

Location: **LR M2.3 (Floor 2)**

Session Chair: **Geert Bekaert**, Columbia University

ID: 1327

Option-Implied Risk Premia with Intertemporal Hedging

Fousseni Chabi-Yo¹, Elise Gourier², Hugues Langlois³

1: University of Massachusetts Amherst; 2: ESSEC Business School, France; 3: Barclays Bank International

Discussant: **Can Gao** (University of St. Gallen)

We derive novel estimates of the equity and variance risk premia that account for intertemporal hedging motives and embed information on the market’s term structure of risk. We show that standard asset pricing models impose restrictions on how intertemporal hedging affects the equity risk premium that are inconsistent with evidence on investors’ prudence and higher order risk pricing. Our more flexible framework delivers estimates that are in line with this evidence. Estimates derived from option prices indicate that intertemporal hedging accounts for up to 80% of the equity and variance risk premia, and improve the out-of-sample R² of market return prediction.

 [EFA2026_1327_AP 19_Option-Implied Risk Premia with Intertemporal Hedging.pdf](#)

ID: 941

Systematic Variance Risk Everywhere in Equity Option Markets

Alexander Dickerson³, Mathieu Fournier³, Kris Jacobs², Piotr Orlowski^{1,4}

1: HEC Montreal; 2: University of Houston; 3: University of New South Wales; 4: Canadian Derivatives Institute

Discussant: **Amit Goyal** (University of Lausanne)

We propose systematic variance risk as the primary factor for pricing the cross-section of equity option returns. Using a parsimonious factor model with time-varying risk premiums, we find pervasive negative variance risk premiums in index, stock, and ETF options, consistent with asset pricing theory. The magnitudes of the risk premiums are plausible and similar across markets and the cross-section of options. This highlights the central and unifying role of systematic variance risk in option markets. We emphasize aspects of model specification and empirical implementation which play a critical role in establishing this stylized fact and explain differences with existing studies.

 [EFA2026_941_AP 19_Systematic Variance Risk Everywhere in Equity Option Markets.pdf](#)

ID: 1780

From Bonds to Dividend Strips: Decomposing the Equity Premia Term Structure

Andrei Goncalves², Spencer Andrews¹

1: Villanova University; 2: The Ohio State University, United States of America

Discussant: **Benjamin Golez** (University of Notre Dame)

Combining yield dynamics with an SDF pricing bonds and equities, we estimate term structures of risk premia for real bonds, nominal bonds, and equities from 1972 to 2022. We use these term structures to decompose equity risk premia into term, inflation, and cash flow components, with cash flow risk premia denoting expected returns of dividend strips over nominal bond strips. Term and inflation risk premia rise with maturity, while cash flow risk premia are hump-shaped. Importantly, long-maturity equity premia variation is driven by term and inflation risk premia, underscoring the role of bond risk premia in the excess volatility puzzle.

 [EFA2026_1780_AP 19_From Bonds to Dividend Strips.pdf](#)

1:00pm - 2:00pm

Snacks & Drinks