



TILEC-AFM

Research Network on Financial Market Regulation

ANNUAL REPORT 2009

By

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1. Introduction

This annual report describes the research and network activities that took place in 2009 within the framework of the agreement that was signed between Tilburg University (represented by TILEC) and the Autoriteit Financiële Markten (AFM) on September 15, 2005. The agreement stipulates that after every calendar year, but before the end of the first quarter of the next year, a report is submitted to the supervisory board.

The current report is submitted to fulfill this requirement for 2009. The report aims to inform AFM, TILEC, and other stakeholders about the activities that have been organized and the research that has been undertaken within that framework. It describes the activities of the TILEC-AFM Chairholders and the other Tilburg Network Members within the “*TILEC-AFM Research Network on Financial Market Regulation*” during the calendar year 2009. This Network has been established at the occasion of this agreement and all the activities and research findings can be found on the website: <http://www.tilburguniversity.nl/tilec/afm>.

The agreement specifies the available financial means, the persons involved (chairholders, senior researchers and junior researchers) and stipulates, in point 5, that the following goals are to be achieved:

- a. het verrichten van onderzoek naar de juridische en economische aspecten van het gedragstoezicht op financiële markten, zowel in nationaal als in internationaal perspectief;
- b. het participeren in disciplineoverstijgend onderzoek, gezien de juridische en economische aspecten die aan het werkkterrein van de AFM zijn verbonden;
- c. het begeleiden van promotieonderzoekers op het gebied van financieel gedragstoezicht;
- d. het in beperkte mate verzorgen van onderwijs (in keuzevakvorm) op het hiervoor genoemde vakgebied;
- e. het in beperkte mate begeleiden van studenten bij afstudeerthesen op het gebied van financieel gedragstoezicht;
- f. het in samenwerking met het AFM-netwerk organiseren van workshops en seminars, symposia en congressen;
- g. het mede vormgeven en begeleiden van de maatschappelijke discussie over het vraagstuk van gedragstoezicht op financiële markten.

As the people are key, Section 2 describes the persons involved in the TILEC-AFM Research Network on Financial Market Regulation. Section 3 describes the research program and the results achieved during the calendar year 2009 in Economics and in Law. Section 4 describes the status of the education program, while section 5 shows the activity program of 2009. Section 6 describes the outreach program, while, finally, section 7 offers the financial statements. The Appendices provide an overview of all publications and presentations by the chairholders, senior researchers, and the publications related to the network of the Tilburg Network Members.

2. People

2.1 The chairholders

As of January 1, 2006, Professor Hans Degryse has been appointed as the AFM chairholder in economics. Professor Hans Degryse holds the Chair in Financial Market Regulation within FEB-Department of Finance and TILEC.

As of September 1, 2006, Professors Joseph McCahery and Erik Vermeulen are jointly appointed in the Faculty of Law to the Chair in Financial Market Regulation in order to provide academic leadership in the legal regulation of financial markets.

2.2 The network of senior researchers

2.2.1. The network in Economics

The TILEC-AFM Network on Financial Market Regulation was established in 2006 and has been persistently updated by adding new members; see website <http://www.tilburguniversity.nl/tilec/afm>. This website displays the members of the research network, the activities within the research network as well as relevant publications. Following a practice as initiated by the ECB-CFS network on Capital Markets and Financial Integration in Europe, researchers become member when having actively participated in a TILEC-AFM network activity (i.e. a seminar speaker or discussant).

We make a distinction between members from Tilburg University (including the FTE allocation), and members from other institutions and universities.

The members of the network, especially those at Tilburg University, help in improving the exposure of the chairs initiated by AFM and TILEC, and stimulate the scientific discussion and research on financial market supervision. Also, several Tilburg researchers are working together with the chairholders on topics related to the TILEC-AFM research network on financial market regulation.

Members at the end of 2009 (as displayed on the website) are:

From Tilburg University (FTE time in brackets):

- Jan Bouwens, Tilburg University (0.0*)
- Elena Carletti, Tilburg University and University of Frankfurt
- Eric van Damme, Tilburg University and TILEC (0.0*)
- Hans Degryse, Tilburg University, TILEC and CESifo (0.8)
- Peter de Goeij, Tilburg University and TILEC (0.2)
- Jenke ter Horst, Tilburg University (0.05*)
- Joachim Inkmann, Tilburg University (0.0*)
- Frank de Jong, Tilburg University (0.1*)
- Philip Joos, Tilburg University (0.1*)
- Vincent van Kervel (AIO on TILEC-AFM research network on financial market regulation since August 2009)
- Jérémie Lefebvre (AIO on TILEC-AFM research network on financial market regulation, until August 2009)
- Theo Nijman, Tilburg University, Netspar (0.05*)
- Steven Ongena, Tilburg University and TILEC (0.0*)
- Maria Fabiana Penas, Tilburg University and TILEC (0.05*)
- Luc Renneboog, Tilburg University and TILEC (0.1*)
- Marco da Rin, Tilburg University (0.05*)
- Wolf Wagner, Tilburg University (0.1*)
- Bas Werker, Tilburg University (0.0*)

Outside Tilburg University:

- Franklin Allen, University of Pennsylvania
- Efraim Benmelech, Harvard University
- Allen Berger, Federal Reserve Board
- André Betzer, University of Mannheim
- Ekkehart Boehmer, Texas A&M University
- Eric de Bodt, University of Lille
- Elena Carletti, University of Frankfurt
- Tarun Chordia, Goizueta Business School, Emory

- Ingolf Dittmann, Erasmus School of Economics, Rotterdam
- Ben Dubow, Financial Services Authority
- Mara Faccio, Vanderbilt University
- Falko Fecht, Deutsche Bundesbank
- Miguel A. Ferreira, ISCTE Business School (IBS)
- Mark Flannery, University of Florida
- Thierry Foucault, HEC School of Management
- Julian Franks, London Business School
- Abe de Jong, Erasmus University
- Luc Laeven, International Monetary Fund
- Gyongyi Loranth, Judge Business School, University of Cambridge
- Ulrike Malmendier, Stanford GSB
- Robert Marquez , Arizona State University
- Albert J. Menkveld, Free University Amsterdam
- Alan Morrison, Oxford Said Business School
- Maureen O'Hara, Johnson School, Cornell
- Daniel Paravisini, Columbia Business School
- Manju Puri, Duke University
- Koen Schoors, Ghent University
- Mark Seasholes, Haas School of Business, Berkeley
- Per Strömberg, Swedish Institute of Financial Research
- Ian Tonks, University of Exeter
- Irem Tuna, Wharton School UP
- Uwe Walz, Goethe University Frankfurt
- Lucy White, Harvard Business School
- Gunther Wuyts, University of Leuven
- David Yermack, New York University

2.2.2. The network in Law

Professors McCahery and Vermeulen seek to bring together a unique interdisciplinary group of leading international academics with backgrounds in law, economics and finance. From the law side, a set of professional fellows have been invited to join the network.

From Tilburg University (FTE time in brackets):

- Sven Dumoulin, Tilburg University (0.0*)
- Christoph van der Elst, Tilburg University (0.1*)
- Barbara Gabor, Tilburg University (0.0*)
- Christian Huiskes, Tilburg University (0.05*)
- Ruud Galle, Tilburg University (0.05*)
- Sofia Johan, Tilburg University and AFM Post-doc Research Fellow
- Jing Li, Tilburg University (0,8)
- Joe McCahery, Tilburg University and TILEC (0.4)
- Jose Miguel Mendoza, Tilburg University and Javeriara University (0.0*)
- Bart Prinsen, Tilburg University (0.05*)
- Gwénaél Pover, Tilburg University and AFM (AIO on the TILEC and AFM research network on financial markets)
- Theo Raaijmakers, Tilburg University (0.2*)
- Peter van der Schee, Tilburg University (0.05*)
- Erik Vermeulen, Tilburg University and TILEC (0.4)
- Dirk Zetsche, Tilburg University (visiting) and Dusseldorf University Law School (0.1*)

Outside Tilburg:

- Kern Alexander ,Judge Business School, University of Cambridge
- John Armour, Oxford University
- Rashid Bahar, Bär & Karrer
- William W. Bratton, Georgetown University
- Henry Butler, Northwestern University School of Law, Chicago
- Albert Choi, University of Virginia
- Lawrence Cunningham, George Washington University Law School
- George S. Dallas, Standard & Poor's

- Luca Enriques, Bologna University and Consob
- Guido Ferrarini, University of Genoa
- Merrit B. Fox, Columbia University
- Judith Freedman, Oxford University
- Paolo Giudici, Free University of Bolzano
- Léo Goldschmidt, Bank Degroof
- Gérard Hertig, Swiss Institute of Technology
- Masato Hisatake, Ministry of Economics Japan
- Howell E. Jackson, Harvard Law School
- David Kershaw, London School of Economics
- Jonathan Karpoff, Washington University
- Winfred Knibbeler, Freshfields Bruckhaus Deringer
- Reinier H. Kraakman, Harvard Law School
- François Kristen, Universiteit van Amsterdam
- Donald C. Langevoort, Georgetown University
- Ruben Lee, Oxford Finance Group
- Curtis J. Milhaupt, Columbia University School of Law
- Marco Pagano , University of Naples Federico II
- Alain Pietrancosta, University of Paris
- Mark Roe, Harvard Law School
- Wolfgang Schön, Max Planck Institute (Munich)
- David Skeel, University of Pennsylvania Law School
- Marco Ventoruzzo, Bocconi University
- Eddy Wymeersch, University of Ghent

2.3 **Junior/Senior Researchers in Economics and Law**

The contract stipulates that a senior researcher for 0.2 will be appointed next to a pm research network of 0.6, for both FEB and FRW. From September 2008 onwards, Dr. Peter de Goeij has been appointed as senior researcher in FEB. Peter works on issues related to analyst recommendations and earnings forecasts. Examples include the role of gender and the impact of regulatory changes and legal interventions on the way how analysts recommend stocks. In addition he is also interested in the relationship between corporate governance and insider trading by firm's management. Elena Carletti has been appointed starting of 2007 as extramural TILEC research fellow and visits Tilburg University regularly in the framework of

the TILEC-AFM research network. She also cooperates actively with some of the Tilburg network members.

Sofia Johan has been appointed as an AFM Senior Researcher and visits Tilburg University regularly. Sofia works on the issues related to financial market surveillance.

Examples of her work include studies on global market surveillance, advice and monitoring in venture finance and law and finance and regulation.

Jose Miguel Mendoza has been appointed as an extramural AFM Research Fellow and visits Tilburg University regularly in the framework of the TILEC-AFM research network. He is participating in a number of the research projects on stock exchanges and financial market regulation. He visited the Paul Woolley Centre for the Study of Capital Markets at the London School of Economics in the fall of 2008. He has written a widely-regarded study on securities regulation in low-tier listing venues and is working on family businesses and IPOs.

Jérémie Lefebvre started on August 1, 2006 as a FEB research AIO on the TILEC-AFM research network on financial market regulation. Jérémie is working on insider trading and market manipulation on Dutch financial markets, using an interesting data set made available by AFM. He visited the Texas A&M University (Mays Business School) in the fall of 2008. His stay was supervised by Ekkehart Boehmer. He received a grant to cover part of the expenses from CentER-graduate school. Jérémie has left TILEC at the end of July 2009 and should defend his Ph D thesis in 2010. Jérémie has taken up a post-doc position at the Louvain School of Management. Vincent van Kervel has started as FEB research AIO on the TILEC-AFM research network on financial market regulation as of August 1, 2009. He works on issues related to trading systems and MiFID, employing detailed data bought from Thomson-Reuters in the framework of the TILEC-AFM research network on financial market regulation.

Gwénaél Pover started on September 1, 2008 as a FRW research AIO in the TILEC-AFM research network on financial market regulation. Gwénaél is working on hedge fund activism and disclosure within the context of Dutch and EU securities regulation. He is also working on a project on empty voting in the context of Dutch financial markets. He will be supervised by Joseph McCahery and Erik Vermeulen. He will also teach in the Department of Business Law on the course organized by Joseph McCahery in the Faculty of Economics.

Jing Li started in June 2008 as a researcher at the Business Law Department of the Faculty of Law. We hope to be able to appoint her as an AFM research AIO in the beginning of 2009. Her research topic will be related to dispersed damages and deterrence in securities and antitrust enforcement. Public and private enforcement of law are complements in deterrence. In theory, when parties damaged by an infringement can claim full compensation that disgorges the illegal gain, modest public fines imposed on top of that suffice to marginally deter the infringement, even when the probability of detection is small. In the current European cartel practice, private antitrust damages are scarcely awarded and public fines are likely too small to have an ex ante incentive effect. Several developments are already underway to improve this situation. Still, a central problem is that individual private damages are widely dispersed throughout the economy. This project seeks to assess several alternative regimes of combined private-public enforcement on their ability to deter violations and compensate victims. It will draw for inspiration on the European Commission's Green Paper on damages actions and several alternative proposals, including Schinkel and Rüggeberg (2006). The research will attempt to achieve a systematic basis for the design of deterring law enforcement in the presence of damage pass-on. It pursues an integrated analysis of legal and private penalties in antitrust that draws on our understanding of private monetary penalties are related to misconduct in securities regulation, including Bajaj, Mazumdar & Sarin (2003), LaPorta et al (2007), Gande and Lewis (2007), Karpoff, Lee and Martin (2007). Regulatory sanctions will also be examined to determine their effect on disciplining misconduct, and to determine the respective role of private damage actions and regulatory actions in deterring financial misconduct.

2.4 Support

Elvira van Vliet has been appointed as part-time secretary to the research network since March 1, 2006. Since February 17, 2009, Rochelle van Rooij replaces her.

2.5 Governance

The supervisory board consists of

- Drs. G. Möller (AFM)
- Prof. dr. E. van Damme (TILEC)
- Prof.dr. S. Maijoor (AFM)
- Prof. mr. Th. Raaijmakers (FRW/Business Law)
- Prof. dr. Frank de Jong (FEB/Finance)

3. The research program and research results

As in the previous annual reports, we make a distinction between research undertaken by the chairholders and senior researchers (who are (partly) paid by the network due to the Tilburg University-AFM agreement), and the other Tilburg members (pm) of the research network.

We first provide some highlights of the TILEC-AFM research network, before turning to the research program in economics and law.

Hans Degryse and Steven Ongena, together with Moshe Kim of Haifa University, published “**Microeconometrics of Banking**” with Oxford University Press, which provides a compendium to the empirical work that investigates the hypotheses generated by recent banking theory

The group was active in the organization of various meetings as well. In the **Accounting Spring Camp** that the TILEC-AFM Research Network organized in cooperation with the CentER Accounting Group at Tilburg University on April 22, the focus was on the role of regulation in financial reporting. Questions discussed related to the impact of accounting rules and practices on market efficiency and cyclicity. Have accounting firms failed to be true to their auditing obligations? Are accounting regulations themselves responsible for amplifying the variations in financial asset prices? In June, together with the Swiss National Centre of Competence in Research, NCCR, TILEC organized a workshop in Berne on **Challenges and New Directions in the Regulation of Financial Services**. Papers presented at this workshop will be published in a volume edited by TILEC-member Panos Delimatsis in 2010. In September, TILEC organized a **Workshop on insider trading** at the AFM-premises in which TILEC-members Peter de Goeij and Jérémy Lefevre presented their recent (co-authored) papers on this topic. In November, Eric van Damme, at the invitation of the Royal Dutch Academy of Sciences, organized a special workshop, “**Beyond the Bankers’ Bonuses**” on the causes and consequences of the crisis, in which Hans Degryse was one of the speakers, next to Arnoud Boot (ACLE), Sweder van Wijnbergen (UvA) and economic historian Jan-Luiten van Zanden.

3.1 The research program in Economics

The research line "Financial Market Regulation" investigates how financial regulation and supervision can help in obtaining the goals of an efficient and smooth functioning of financial markets (in a broad sense, i.e. including financial intermediaries such as banks, pension funds, insurance companies, etc.).

The research by Hans Degryse (and his co-authors) during 2009 has mainly focused on three broad issues:

1. *Market microstructure: Design and regulation of financial markets*

A longstanding question in the market microstructure literature relates to the optimal design of the organization of a financial market or trading system. Before the Markets in Financial Instruments Directive, trading was often concentrated in one national market. With MiFID, recent technological advances and the start of MiFID (Markets in Financial Instruments Directive) allows for the occurrence of new trading platforms and systems. At the same time, the MiFID also regulates the transparency of the order flow at these trading systems, and has an impact on how securities are cleared and settled.

The literature on *competition between simultaneously operating trading systems* is quite underdeveloped. Therefore, given the new market environment, we modeled how investors behave when simultaneous trading at several differently organized markets is possible. The markets that have been considered are a dealer market (DM) and a crossing network (CN). The latter is a facility that matches financial assets at a prespecified time at a price derived from another market. Examples are ITG's POSIT, NASDAQ Crossing Network or Xetra XXL. Also MiFID might encourage the creation of such systems. Despite the prevalence of CNs next to continuous markets, the dynamic aspects and welfare implications of the coexistence of these systems have not yet been well explored.

We address two important policy questions that also relate to long-standing issues within the market microstructure literature. First, where do investors trade when there are multiple trading venues for a single asset? More specifically, we consider the choice between a CN and a continuous dealer market (DM) under different degrees of transparency. Second, what is the optimal organization and structure of financial markets? In particular, we study whether

coexistence of a CN and a DM creates added value in terms of welfare and investigate the optimal transparency level when markets coexist. We can summarize our main findings around the two policy questions that we address. The first set of results relates to order submission strategies and order flow patterns. Common to the three informational settings, CN and DM are shown to cater for different types of traders: investors with a higher willingness to trade are more inclined to trade at a DM. Further, we find that the CN's order flow increases when an asset exhibits a higher "relative spread" (i.e. a higher bid-ask spread in proportion to its underlying value). Moreover, the existence of a CN results in "order creation" due to the participation of "CN-only traders": investors who have a relatively lower willingness to trade submit orders to a CN, whereas they would never trade at a DM. We also find a "trade diversion" effect, which occurs because the introduction of a CN causes some trades to be diverted away from the DM to the CN. A key result of our paper is that the transparency and partial opaqueness settings generate systematic patterns in order flow. In particular, current CN order flow stimulates the arrival of future CN counterparties. In addition, current CN order flow hinders future CN orders on the same market side. The intuition for our key result is that the net order imbalance created by the current order is more (less) favorable for future orders on the opposite (same) market side, which is reflected in their respective execution probabilities. Under complete opaqueness, these patterns do not arise because traders do not observe any order flow. The result that order flow is informative about execution probabilities is novel to the market microstructure literature. The reasoning for this informativeness of order flow is that, when markets are partially opaque, observing no order flow relative to a DM trade may be perceived as good news for a successive CN order as it increases the potential for good counterparties. However, no order may also be perceived as bad news when it entails the preemption of a successive CN order. Overall, these theoretical insights point to a time-varying order flow at a CN and trade flow at a DM, even in the absence of asymmetric information. This has important policy implications for supervisory authorities that are attempting to correctly infer the presence of informed trading. Further, these insights need to be accounted for when measuring "normal" order flow. The paper appeared in the *Journal of Financial Economics*.

The *implications of MiFID on stock market liquidity* have been investigated in three different ways. First, two review papers were written on the expected impact of MiFID on competition between trading systems and the role of dark pools. The first paper, published in *Financial Markets and Portfolio Management*, employs insights from the theoretical and empirical literature to highlight some of the possible implications of MiFID. It is argued that more

competition will lead to more liquid markets, reflected in lower bid-ask spreads and greater depth. It will also lead to innovation in incumbent markets and stimulate the design of new trading platforms. MiFID has already introduced more competition, as evidenced by the startup of Instinet Chi-X, the announcement of new initiatives, including Project Turquoise and BATS, and the reactions of incumbent exchanges. The second paper, published in the *liquidity guide of institutional investor*, reviews the recent developments on dark liquidity pools starting from the theoretical and empirical academic literature. The number of dark liquidity pools as well as their trading volume has grown substantially in the last couple of years. The incentives of providers as well as users of these dark liquidity pools are highlighted. Furthermore, the impact of recent financial regulation in Europe (MiFID) is studied and an outlook on dark liquidity pools is given. The set of contributions on MiFID and dark liquidity pools shows that effort is spent to fulfill point 5. g of the goals of the TILEC-AFM research network on financial market regulation.

Second, in ongoing work with Vincent van Kervel (the new FEB research aio on this network) and Frank de Jong, the impact of multimarket trading resulting from MiFID on stock market liquidity is investigated. In particular, we compare the liquidity on Euronext of Dutch stocks before and after MiFID. We find that, controlling for several trade characteristics and the state of the orderbook, liquidity and depth have worsened. We now investigate how global liquidity, i.e. combined Euronext and other trading platforms, has been affected. A dataset from Reuters containing detailed information on order flow on all trading systems has been acquired. This helps in studying the impact of shocks to trading systems (e.g. MiFID) on global stock market liquidity.

Third, in ongoing work with Mark Van Achter (University of Mannheim) and Gunther Wuyts (University of Leuven), we investigate theoretically the implications of internalization on stock market liquidity. In particular, we deal with the consequences of internalization on the costs of clearing and settlement and how this ultimately is reflected in stock market liquidity. Indeed, many exchanges now offer the possibility for brokers to settle trades that they internally match without them going to the clearing and settlement system. We investigate how this impacts the functioning of the market.

What is the impact of *legal insider trading and how clean are financial markets?* It has been shown in the literature that legal insider trades create market reactions around those trades. In TILEC DP 2009-026 by Hans Degryse, Frank de Jong and Jérémie Lefebvre, a registry of legal insider trading for Dutch listed firms is employed to investigate short-term stock market reactions around legal insider trades. Regulations stipulate that insiders are not allowed to

trade shares of their own company based on private and price-sensitive information. It has been shown nevertheless that insiders have superior knowledge either on the future prospects of their firm or on the mispricing of the stock by the market. Using standard event study methodology, we examine stock price behavior before and after insider trading to analyze the information content of the trades. This analysis allows us to study the impact of changes in the regulation concerning insider trading. Finally, our results suggest that insiders use their special information to obtain abnormal returns from their trade, but also to facilitate their liquidity trades.

A second paper by Hans Degryse, Frank de Jong and Jérémie Lefebvre, assesses the impact of the presence of corporate insiders on stock market liquidity. In doing so, we analyze liquidity measures on the Dutch stock market on dates of legal insider trading. We find that for small capitalization stocks, the bid-ask spread and the price impact increase when insiders trade. For mid-cap stocks, only the price impact increases. In addition, we study the effect of a change in regulation, namely the implementation of the Market Abuse Directive (European Union Directive 2003/6/EC). A regression analysis shows that the effect of insiders on their stock's liquidity increased after the implementation of the regulation. The results of this research line have been presented on Sept 24, 2009, at an event organized at the premises of the AFM, allowing AFM employees as well as other researchers to take advantage of the research output of the TILEC-AFM research network on financial market regulation.

Finally, in a third paper, Jérémie Lefebvre investigates the impact of block trades (also called “upstairs market”) on stock market liquidity. He tests the “cream skimming” versus the “risk sharing” hypothesis. Cream skimming is when uninformed order flow is diverted to the upstairs market, and as a consequence liquidity providers at the downstairs market face a higher information risk and market liquidity is reduced. Alternatively, the upstairs market might induce trades that would not occur without this facility, thus providing extra benefits to traders without reducing market liquidity. In a cross-sectional analysis, we show that more block trades increases liquidity. We also show that more block trades increases trading volume on the downstairs market. These findings are consistent with the “risk sharing” hypothesis and with order flow creation due to the upstairs trading facility.

Also Peter de Goeij investigates issues related to insider trading. In the paper *“Insider Trading, Option Exercises and Private Benefits of Control”*, Peter de Goeij, together with Peter Cziraki and Luc Renneboog investigate patterns of abnormal stock performance around insider trades and option exercises on the Dutch Market using the insider trading database of

the AFM. Listed firms in the Netherlands have a long tradition of employing many anti-shareholder mechanisms limiting shareholders rights. The empirical results suggest that insider transactions are more profitable at firms where shareholder rights are not restricted by anti-shareholder mechanisms. This finding goes against the *monitoring hypothesis* which states that more shareholder orientation and stronger blockholders would reduce the gains from insider trading. They show robust support for the *substitution hypothesis* as insiders of firms which effectively curtail shareholder rights enjoy valuable private benefits of control in lieu of engaging in insider trading to exploit their position.

2. *The internal organization of financial intermediaries*

The *organizational structure of financial institution and its implications* for lending technology and banking competition is a second topic of research within the TILEC-AFM research network. Does the way in which banks are organized internally matter for competition and hence customers? Together with Luc Laeven and Steven Ongena, both members of the TILEC-AFM research network, it is shown that the organizational structures of both the rival banks and the lending bank matter for branch reach and loan pricing. The geographical footprint of the lending bank is smaller when rival banks are large and hierarchically organized. Such rival banks may rely more on hard information. Geographical reach increases when rival banks have inferior communication technology, have a wider span of organization, and are further removed from a decision unit with lending authority. Rival banks' size and the number of layers to a decision unit also soften spatial pricing. Thus, the organizational structure and technology of rival banks in the vicinity does influence local banking competition. The research paper is published in the *Review of Finance*.

In another paper targeted to both an academic and practitioners audience, Hans Degryse, Steven Ongena and Günseli Tümer-Alkan review the recent theoretical and empirical studies investigating how both bank technology and organization shape bank-borrower interactions. We refer to two related concepts for bank technology. First, the technologies banks employ in loan granting decisions and second, the advances in information technology linked to the bank's lending technology. We also summarize and interpret the theoretical and empirical work on bank organization and the use of lending technologies depending on bank organization. We show that the choice of lending technology and bank organization heavily depends on the availability of information, the technological progress in the collection of information, as well as the banking market structure and the legal environment. We draw

important policy conclusions from the literature: Competition authorities and supervisors have to remain alert to the consequences of the introduction of any new technology as advances in technology do not necessarily lead to intenser banking competition and as the impact of technological and financial innovation on financial efficiency and stability depends on the incentives of the entire 'loan production chain'. This paper has been published in the *Journal of Financial Transformation*.

Other related work has focused on how banking mergers affect firm-bank lending relationships (joint work with Janet Mitchell and Nancy Masschelein). We argue that assessing the impacts of bank mergers on small firms requires separating borrowers with single versus multiple banking relationships and distinguishing the three alternatives of "staying," "dropping," and "switching" of relationships. Single-relationship borrowers who "switch" to another bank following a merger will be less harmed than those whose relationship is "dropped" and not replaced. Using Belgian data, we find that single-relationship borrowers of target banks are more likely than other borrowers to be dropped. We track postmerger performance and show that many dropped target-bank borrowers are harmed by the merger. Multiple-relationship borrowers are less harmed, as they can better hedge against relationship discontinuations. The paper is forthcoming in the *Review of Financial Studies*.

In TILEC DP 2009-044, Degryse, Havrylchyk, Jurzyk and Kosak (2008) investigate how foreign bank entry impacts the cost of credit in transition economies employing detailed bank specific data provided by the National Bank of Poland. The previous literature had shown that foreign entrants charge lower loan rates than domestic banks. We find that this stems from a "portfolio composition" effect in that foreign entrants grant more loans to transparent borrowers that receive lower loan rates. This paper has been presented at the FMA 2008 conference in Dallas in a session on Financial Regulation. Cheng and Degryse (2008) investigate whether asymmetric information is important in the Chinese credit card market. The introduction of the Chinese credit registry provides them with a natural experiment to test how the availability of external information impacts credit rationing. Furthermore, they have data on submitted loan demands, allowing them to disentangle demand and supply effects. They find that the introduction of the credit registry removes most informational barriers.

Ferrari, Verboven and Degryse study investment in a shared *Automated Teller Machine* network and investigates whether firms have the correct incentives and whether consumers

make the proper usage decisions, when new technologies become available. It is shown that banks substantially underinvested in the shared ATM network and thus provided too little geographic coverage. This contrasts with earlier findings of strategic overinvestment in networks with partial incompatibility. Furthermore, consumer usage of the available ATM network is too low because of the zero retail fees for cash withdrawals at branches. A direct promotion of investment (through subsidies or other means) can improve welfare, but the introduction of retail fees on cash withdrawals at branches would be more effective, even if this does not encourage investment per se. This paper is forthcoming in the *American Economic Review*.

In ongoing projects with Jose Liberti (De Paul University) and Steven Ongena, Hans Degryse investigates how shocks to the organizational structure of banks affect lending market competition and lending outcomes. The dataset employed are handcollected files from a large bank operating in Argentina. Furthermore, they investigate the role of discretion in loan contracts on the performance of loans using detailed information from these handcollected datasets.

Finally, Degryse, Kim and Ongena have written an empirical counterpart to the Freixas and Rochet book the Microeconomics of banking which is titled: Microeconometrics of Banking: Methods applications and results. The book is published at Oxford University Press and contains one chapter on the regulation of banks.

3. Financial markets, financial development and financial stability

Another research topic relates to the impact of financial development through banks or markets, economic growth and financial stability.

In a first paper, Cheng and Degryse provide evidence on the relationship between finance and growth in a fast growing country, such as China. Employing data of 27 Chinese provinces over the period 1995–2003, we study whether the financial development of two different types of financial institutions — banks and non-banks — have a (significantly different) impact on local economic growth. Our findings indicate that banking development shows a statistically significant and economically more pronounced impact on local economic growth. This paper is forthcoming in the *Journal of Financial Services Research*.

In TILEC DP 2009-08, Hans Degryse, Muhammad Ather Elahi and Maria-Fabiana Penas empirically analyze cross-border exposures and financial contagion. Integrated financial markets provide opportunities for expansion and improved risk sharing, but also pose threats of contagion risk through cross-border exposures. This paper examines cross-border contagion risk over the period 1999-2006. To that purpose we use aggregate cross-border exposures of seventeen countries as reported in the BIS Consolidated Banking Statistics. We find that a shock which affects the liabilities of one country may undermine the stability of the entire financial system. Particularly, a shock wiping out 25% (35%) of US (UK) cross-border liabilities against non-US (non-UK) banks could lead to bank contagion eroding at least 94% (45%) of the recipient countries' banking assets. We also find that since 2006 a shock to Eastern Europe, Turkey and Russia affects most countries. Our simulations also reveal that the "speed of propagation of contagion" has increased in recent years resulting in a higher number of directly exposed banking systems. Finally we find that contagion is more widespread in geographical proximities. This paper is forthcoming in the *International Review of Finance*.

Finally, in TILEC DP 2009-09, Hans Degryse, Peter de Goeij and Peter Kappert (Rabobank) investigate the impact of firm and industry characteristics for firms' capital structure using a unique dataset on Dutch firms. We find that the capital structure decision of Dutch SMEs is consistent with the pecking order theory: SMEs use profits to reduce their debt level, and growing firms increase their debt position since they need more funds. Furthermore, we document that profits reduce in particular short term debt, whereas growth increases long term debt. This implies that when internal funds are depleted, long term debt is next in the pecking order. We also find evidence for the maturity matching principle in SME capital structure: long term assets are financed with long term debt, while short term assets are financed with short term debt. This implies that the maturity structure of debt is an instrument for lenders to deal with problems of asymmetric information. Finally, we find that SME capital structure varies across industries but firm characteristics are more important than industry characteristics. This paper is forthcoming in *Small Business Economics*.

4. *Analyst earnings forecasts, overconfidence, strategic incentives and gender*

Peter de Goeij who has become the senior researcher of the TILEC-AFM network, investigates the issue of analyst recommendations and earnings forecasts, gender and the impact of regulation.

In two research papers (“*Coexistence and Dynamics of Overconfidence and Strategic Incentives*” and “*Male Analysts are Overconfident while Female Analysts are Not*”), together with Katrien Bosquet and Kristien Smedts from the University of Leuven, he investigates whether analysts overweight private information relative to the Bayesian benchmark and behave strategically at the same time.

In the first paper a two stage model for the decision making process of financial analysts when issuing earnings forecast is used. In the first stage of the model, financial analysts perform a fundamental analysis in which they are subjective to a behavioral bias. In the second stage, analysts can adjust their earnings forecast in line with their strategic incentives. Using quarterly earnings forecasts they document that financial analysts overweigh their private information throughout the entire forecasting period. At the same time, financial analysts behave strategically. They issue initial optimistic forecast by strategically inflating their forecast. In their last revision, they become pessimistic and strategically deflate their earnings forecast, which creates the possibility of a positive earnings surprise. The analysis of the dynamics of the decision process provides empirical evidence on the coexistence of overconfidence and strategic incentives.

In the second paper, the authors use the two stage model that was developed in the paper described above to study gender differences in overconfidence among financial analysts earnings forecasts. The results confirm the gender stereotype that male analysts are overconfident. Male analysts overweigh their private information about 3% compared to the rational Bayesian weights, while female analysts do not. Moreover, both male and female analysts strategically inflate their earnings forecast. After the implementation of new analyst regulations in 2002, this strategical inflating behavior disappears, while only the male analysts remain overconfident.

The research achievements by the other network members are reflected in their lists of publications (see Appendix A). We here only highlight those research findings that were published or are forthcoming in top finance or top core econ journals:

- **Elena Carletti** (joint with F. Allen and R. Marquez), Credit Market Competition and Capital Regulation, forthcoming in *Review of Financial Studies*. Empirical evidence suggests that banks hold capital in excess of regulatory minimums. This did not prevent the financial crisis and underlines the importance of

understanding bank capital determination. Market discipline is one of the forces that induces banks to hold positive capital. The literature has focused on the liability side. We develop a simple theory based on monitoring to show that discipline from the asset side can also be important. In perfectly competitive markets, banks can find it optimal to use costly capital rather than the interest rate on the loan to commit to monitoring because it allows higher borrower surplus.

- **Frank de Jong** “Derivative pricing with liquidity risk: evidence from the credit default swap market”, forthcoming in *Journal of Finance*. (with D. Bongaerts and J. Driessen). We derive an equilibrium asset pricing model incorporating liquidity risk, derivative assets, and short-selling due to hedging of non-traded risk. We show that, both for positive-net-supply assets and derivatives, the sign of liquidity effects depends on investor heterogeneity in non-traded risk exposure, risk aversion, horizon and wealth. We also show that liquidity risk affects derivatives in a different way than positive-net-supply assets. We estimate this model for the credit default swap market using GMM. We find strong evidence for an expected liquidity premium earned by the credit protection seller. The effect of liquidity risk is significant but economically small.
- **Steven Ongena** “Time for a change: loan conditions and bank behavior when firms switch banks” (with Vasso Ioannidou), forthcoming in *Journal of Finance*. This paper studies loan conditions when firms switch banks. Recent theoretical work on bank-firm relationships motivates our matching models. The dynamic cycle of the loan rate that we uncover is as follows: a loan granted by a new (outside) bank carries a loan rate that is significantly lower than the rates on comparable new loans from the firm’s current (inside) banks. The new bank initially decreases the loan rate further but eventually sharply ratchets it up. Other loan conditions follow a similar economically relevant pattern. This bank strategy is consistent with the existence of hold-up costs in bank-firm relationships.
- **Theo Nijman** and **Bas Werker** “When Can Life-cycle Investors Benefit from Time-varying Bond Risk Premia?” (with Ralph Koijen, “), forthcoming in *Review of Financial Studies*. We study the economic importance of time-varying bond risk premia in a life-cycle consumption and portfolio-choice problem for an investor facing short-sales and borrowing constraints. On average, the investor is able to time bond markets only as of age~45. Tilts in the optimal asset allocation in response to changes in bond risk premia exhibit pronounced life-cycle patterns. Taking as a point of reference an investor who conditions only on age and wealth, we compute the

management fee this investor is willing to pay to account for either current risk premia or for both current and future risk premia. We find the fees to account for current risk premia to be economically sizeable, ranging up to 1% per annum, but this fee is comparable to the fee of the fully optimal strategy. To solve our model, we extend recently developed simulation-based techniques to life-cycle problems featuring multiple state variables and multiple risky assets.

- **Luc Renneboog** "Who gets the carrot and who gets the stick? Evidence of gender disparities in executive remuneration" (with Alexander Haslam, Clara Kulich, Michelle Ryan, and Grzegorz Trojanowski), forthcoming in *Strategic Management Journal*. This paper offers a new explanation of the gender pay gap in leadership positions by examining the relationship between managerial bonuses and company performance. Drawing on findings of gender studies, agency theory, and the leadership literature, we argue that the gender pay gap is a context-specific phenomenon which results partly from the fact that company performance has a moderating impact on pay inequalities. Employing a matched sample of 192 female and male executive directors of UK listed firms we corroborate the existence of the gender pay disparities in corporate boardrooms. In line with our theoretical predictions, we find that bonuses awarded to men are not only larger than those allocated to women, but also that managerial compensation of male executive directors is much more performance-sensitive than that of female executives. The contribution of attributional and expectancy-related dynamics to these patterns is highlighted in line with previous work on gender stereotypes and implicit leadership theories such as the romance of leadership. Gender differences in risk-taking and confidence are also considered as potential explanations for the observed pay disparities. The implications of organizations' indifference to women's performance are examined in relation to issues surrounding the recognition and retention of female talent.
- **Marco da Rin** "What is the role of legal systems in financial intermediation? Theory and Evidence (with Laura Bottazzi and Thomas Hellmann), *Journal of Financial Intermediation*, 559-598. We develop a theory' and empirical test of how the legal system affects the relationship between venture capitalists and entrepreneurs. The theory uses a double moral hazard framework to show how optimal contracts and investor actions depend on the quality of the legal system. The empirical evidence is based on a sample of European venture capital deals. The main results are that with better legal protection, investors give more non-contractible support and demand more

downside protection. These predictions are supported by the empirical analysis. Using a new empirical approach of comparing two sets of fixed-effect regressions, we also find that the investor's legal system is more important than that of the company in determining investor behavior.

- **Wolf Wagner:** “Diversification at financial institutions and systemic crisis”, *Journal of Financial Intermediation*. It is widely believed that diversification at financial institutions benefits the stability of the financial system. This paper shows that it also entails a cost: even though diversification reduces each institution’s individual probability of failure, it makes systemic crises more likely. Full diversification is shown to become inefficient as a result and the optimal degree of diversification may be arbitrarily low. Moreover, there are externalities that cause financial institutions to diversify beyond the efficient level. They arise because a single institution does not fully internalize the systemic costs of diversification. Contrary to conventional wisdom our results thus suggest that there is an important reason for regulators to discourage diversification in the financial system. They also suggest that the systemic nature of the subprime crisis may have been the consequence of inefficient diversification strategies at financial institutions. We show that the analysis can be extended beyond diversification, such as to interbank insurance and bank mergers.

3.2 The research program in Law

We first provide some highlights of the TILEC-AFM research network in law, before turning to the research program in economics and law.

Joseph McCahery and Erik Vermeulen, together with Vino Timmerman of Erasmus University of Rotterdam, published “**Private Company Law Reform**” with Asser Press and Cambridge University Press, which investigates the legal business forms used by investment funds.

The group was active in the organization of various meetings as well. In the that the TILEC-AFM Research Network organized in cooperation with the Anton Philips Fund, on 13 February 2009, a conference on Regulation and Enforcement of Corporate governance Codes and enforcement. Questions discussed related to the role of governance codes for issuers of securities in Europe and the US. Have codes increased the level of market transparency and disclosure for investors? Are regulators increasingly forced to induce issuers to comply with

the comply or explain rules? In November, TILEC organized a seminar on Insider Trading and Disclosure in which Professor Merritt Fox (Columbia University and AFM Network Member) presented a paper on “Required Line of Business Reporting and Share Price Accuracy.”

The Research line in Law deals with the efficient and effective regulation of financial markets (in a broad sense, i.e. including financial intermediaries such as hedge funds, private equity, banks, pension funds, insurance companies, etc.).

The research by Joseph McCahery, Erik Vermeulen (and their co-authors) during 2009 and has mainly focused on five broad issues:

1. Private Equity

The legal and organizational structure of private equity funds is the first topic of research within the TILEC-AFM research network. Does it matter how private equity funds are structured and governed for their investors?

In the first paper, Joseph McCahery and Erik Vermeulen (with a co-author) examine the impact of increased corporate mobility on corporate lawmaking in the European Union (EU). They consider the implications of the new corporate mobility for the location decision of investment company vehicles that are tailored for private equity funds. More specifically, the paper seeks to answer to a simple question: Has the increased mobility which arose from the implementation of the *Societas Europaea* (SE) and the path-breaking decisions of the European Court of Justice (ECJ) led to an outbreak of regulatory competition and the emergence of a Delaware-like member state in Europe? Two types of corporate mobility are distinguished: (1) the incorporation mobility of start-up firms and (2) the reincorporation mobility of established firms. As to incorporation mobility, the *Centros* triad of cases makes it possible for start-up firms to incorporate in a foreign jurisdiction. Many entrepreneurs have taken advantage of this new freedom of establishment. However, recent data from Germany and The Netherlands indicate declining numbers of such foreign incorporations over time. Moreover, *Centros*-based incorporation mobility is a rather trivial phenomenon, economically speaking. The actors in question seek only to minimize costs of incorporation. National lawmakers have been responding, amending their statutes to lower these costs.

But, because out of pocket cost minimization at the organization stage operates as only a secondary motivation of 'choice-of-business-form' decisions, there arise no competitive pressures that cause national legislatures to engage in thorough-going reform addressed to corporate governance more generally. As to reincorporation mobility, which concerns the migration of the statutory seat of a firm incorporated in one member state to another member state, the SE has opened the door, but not widely enough to serve as a catalyst for company law arbitrage. Reincorporation mobility is still far from generally available in the EU. As a result, competitive pressures do not yet motivate changes in the fundamental governance provisions of national corporate law regimes. This paper appeared in the *American Journal of Comparative Law*, (2009).

In a second paper, Joseph McCahery and Erik Vermeulen take a comprehensive look at the structure of private equity funds. With private equity differing from other asset classes, it requires a whole new approach for those trained in more traditional investments such as stocks and bonds. But with the right guidance, it is possible to obtain a firm understanding of what private equity has to offer. This research provides a comprehensive view of private equity by describing the current state of research and best practices in this arena. Issues addressed include the structure of private equity funds and fundraising, the financial and real returns of private equity, and the structure of private equity investments with investees, to name a few. The paper examines the role of private equity in today's financial environment and the implications for fund structure, management fees and performance. This paper is published in *Private Equity: Fund Types, Risks & Returns, and Regulation* (D. Cumming ed.), Wiley 2010.

A third paper by Sofia Johan, AFM Post-Doctoral Fellow, examines (with a co-author) the cross-country evidence on the duration of venture capital investment. In this *Venture Capital Duration*, she formulates a theory of VC investment duration based on the idea that venture capitalists exit when the expected marginal cost of maintaining the investment is greater than the expected marginal benefit, and thereby relate VC investment duration to entrepreneurial company characteristics, investor characteristics, deal characteristics, and institutional and market conditions. VC investment duration data in Canada and the US lend strong support to the theoretical predictions developed herein. This paper is published in *Journal of Small Business Management*, 2009.

A fourth paper by Sofia Johan (and co-author) examines the compensation of private equity fund managers, which is an important issue for policymakers in Europe and the US. In this paper, the authors analyze compensation in 17 countries over 4 continents looking at fixed management fees (as a percentage of fund size), performance fees (the carried interest percentage), clawbacks (reduced fees for poor performance), and cash versus share distributions (payment to institutional investors). Controlling for a variety of factors including market conditions, institutional investor and fund manager characteristics, including education and experience as well as fund factors such as stage and industry focus, she finds that legal conditions by far have the most robust statistically and economically significant effect on compensation across countries: fixed fees are higher and performance fees are lower in countries with poor legal conditions; clawbacks are more likely in countries with poor legal conditions; and cash-only distributions are much more likely to be mandated among offshore funds. The paper is published in *Venture Capital: An International Journal of Entrepreneurial Finance* (2009).

In a fifth paper, Joseph McCahery and Erik Vermeulen examine the proposed set regulatory reforms that are being considered (in Europe and the US) in order to lower the level of risk and to redress the balance between investors and private equity firms. In this paper, they show that while private equity funds are mainly regulated by contract, the level of regulatory scrutiny will increase substantially over the next period. As financial risk has become more critical for buyout companies and their employees, the authors explain that there has been more direct government intervention in response. This has come at the expense of the system of private ordering employed by the funds and their investors. Cost-benefit considerations and fears about unintended consequences, however, may tend to prevent lawmakers from introducing extremely blunt-edged legislation that would alter the balance of benefits and gains for the sector. They argue that industry co-regulation, alternatively, could play an important role in protecting the stakeholders of the funds as well as the portfolio companies. This strategy may work well with private equity because they are less burdensome, easily updated, and permit firms to achieve their regulatory goals with maximum discretion. This paper will be published in the *Journal of Management and Governance* (forthcoming).

In a sixth paper, Sofia Johan (with co-author) analyzes a Pre-Seed Fund ("PSF") government venture capital ("VC") program for the purpose of improving our understanding about effective public policy towards entrepreneurial finance. The PSF program is a public-private partnership started in 2002 for the purpose of fostering more investment in nascent high-tech

entrepreneurial companies in Australia. Data from Venture Economics indicate PSFs are the primary provider of seed stage VC in Australia, but PSFs are not more likely to invest in high-tech companies than other types of VC funds. PSFs have smaller portfolios (number of investees) per manager than other types of VC funds, and are more likely to invest in companies resident in the same state, but do not stage and syndicate more frequently than other types of VC funds. Overall, therefore, the structure of the program has given rise to mixed performance in terms of finance and governance provided to nascent high-tech entrepreneurial companies. As well, there is also suggestive evidence that the PSF program diminishes the incentives for Innovation Investment Funds (a previously existing Australian government VC fund program) to invest in seed stage ventures, and hence competing government initiatives appear to be crowding out one another. Further evidence suggests that among the four PSFs in existence, one PSF has outperformed the other PSFs in regards to the investee company patents and financial statement performance, even though this fund has invested less money and charged lower management fees than its counterparts. Hence, a further lesson from the PSF program is that the impact of government sponsored VC funds depends not only on the design of the program but also on the selection of the VC managers carrying out the investments. This paper is published in the *Journal of International Entrepreneurship* (2009).

In a seventh paper, Joseph McCahery and Erik Vermeulen suggest that lower barriers of entry for new firms and more flexibility in structuring a business organization are the key factors motivating the introduction of the new company law. In general, policymakers use new company law initiatives to encourage entrepreneurship, innovation, and cooperative arrangements. This paper distinguishes the different strands of company law reforms arising in the United States, Europe and Asia and points to the underlying conditions that shape the markedly different reform outputs. Our empirical analysis points to three important factors - (1) private ordering, (2) fiscal transparency, and (3) limited liability - that effect the incentives for new firm creation. However, we find that many of the new company law reforms are incomplete. Nevertheless, these new company law reforms retain the ability to generate rents due to their adaptability and responsiveness to social and economic change. This paper appeared in *Private Company Law Reform – International and European Perspective* (J.A. McCahery, L. Timmerman and E.P.M. Vermeulen eds.), T.M.C. Asser Press, 2010.

2. Hedge Funds

Hedge funds, like private equity funds, provide markets and investors with substantial benefits. Since these funds tend to be engaged in extensive market research before taking significant trading positions, they enhance liquidity and contribute to market efficiency. While hedge funds are reluctant to disclose any information about their investors and investing strategies, new rules are being proposed which may create more transparency and accountability for investors.

In a recent paper, Joseph McCahery and Erik Vermeulen discuss the activities of hedge funds and how they've successfully avoided (until recently) the scrutiny of regulators and lawmakers, which arguably contributed to its success in attracting investors. Yet with concerns arising from the increased risk due to overleveraged transactions and the potential costs to investors from insider trading and price manipulation, the trend has moved in the direction of toward increasing regulation of hedge fund managers. Far-reaching measures have been proposed in both the EU and US. In this context, this paper analyzes the costs and benefits of increased regulation for hedge fund managers and the implications for investors. Consideration is given to whether the new rules on hedge fund managers will prompt regulatory competition within the EU. This paper will appear in W. Bratton and J. McCahery (eds.) *Activist Investors, Hedge Funds and Private Equity*, Oxford University Press, 2010.

Joseph McCahery and William Bratton edited a handbook for Oxford University Press on *Activist Investors, Hedge Funds and Private Equity* that will appear in 2010. This collection offers descriptive expositions and empirical analyses which are essential for an understanding of the prominent varieties of interventionist shareholder activism. The collection brings together analyses on the strategic approaches, the financial returns, and the prevailing policy and regulatory contexts of activist shareholders, hedge funds and private equity.

3. Organizational Structure of Financial Institutions

The organizational structure of financial institutions and its implications for lending technology and banking competition is major topic of research within the TILEC-AFM research network. In three recent research papers, Joseph McCahery examines the organizational structures of syndicated banking and its impact on loan pricing.

In a first paper, Joseph McCahery (with co-authors) examines the potential benefits and costs of tranching loans that have been packaged and sold to investors in securities, such as

collateralized debt obligations (CDOs). Loan tranching is an important mechanism for facilitating financing for riskier companies, and matching risk firms' borrowing needs with investors' risk and return profiles. A well functioning tranching market is also important for facilitating loan finance in different countries around the world. To be sure, the tranching process often results in more pronounced agency problems where different parties to the transaction lose their incentives to effectively monitor the transacting parties. As such, loan tranching may carry with it costs of selling lower quality loans to unsuspecting investors. This agency problem is often cited as one of the main factors that caused the financial crisis that began in mid-2007. In light of these potential costs, McCahery investigates the factors that influence the propensity of loan tranching around the world. This research also examines the structure of tranches in terms of the percentage of a loan's top versus bottom spread. This paper is a European Banking Center Policy paper (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1531567).

In a second paper, McCahery (with a co-author) examines the role of debt finance as an important source of external capital for most companies. In this paper, we show that, on average, the market leverage ratio of larger US companies is around 20%, making debt financing an important source of external capital. For small companies, this is often the primary source of finance, with implied leverage ratios significantly higher than 20%. One important distinction between debt and equity (next to the one leading to the trade-off theory) is the flexibility that is given to management. While equity investors provide significant leeway to management in how the equity capital raised is used (though they can influence this through their voting right), debt holders have no direct control over the management's action. Instead lenders write detailed contracts on how the loan is to be used, including various types of restrictive covenants. In this study, we investigate how the presence of large shareholders affects the way corporations raise debt. More specifically we focus on syndicated loans that have material impact of corporate investments, given the size of the loans. We test two opposing hypotheses. One builds on the monitoring role of large shareholders, aligning the incentives of management to firm value maximization. This then leads to less risk for debt holders and thus to lower spreads and less covenants. The other one postulates that the presence of large shareholders generates credible threat of expropriation for lenders, leading for increased loan risk and thus higher spread and more covenants. This paper will appear in the *Journal of Corporate Finance* (forthcoming).

In a third paper, Joseph McCahery (with a co-author) considers the role played by investment banks in underwriting loan issues. Specifically, the paper looks at the relation between bank reputation and the price and quality of bond underwriting services provided. Investment banks play an important role in linking firms that need extra external capital with investors willing to supply such capital. As such, these banks are expected to reduce information asymmetries and lower the cost of capital that firms would otherwise have to pay. In doing so, banks with better reputations will be able to select the type of assignments that they prefer and to charge higher fees for their intermediary services. This paper shows that there is a positive link between lead underwriter reputation and premium fee extraction from clients for their underwriting services. This paper appeared in *Rationality in Company Law—Essays in Honour of DD Prentice* (John Armour and Jennifer Payne eds), Hart, 2009.

4. Enforcement in Financial Markets

An assessment of the financial crisis would be incomplete if it neglected the role of enforcement institutions – supervisory authorities, securities regulators, the judiciary, institutional investors, – in safeguarding and promoting the confidence in the financial markets.

In the first paper, Erik Vermeulen (and a co-author) build on the wide-ranging policy discussion on shareholder activism in Europe. This paper seeks to define which shareholder actions are useful in reducing managerial agency costs and which could be interpreted as frivolous or abusive. In order to reveal suits that create unjustified and opportunistic shareholder litigation costs, the authors develop a typology, comprising of a number of Abuse Indicators: Investors' actions could be considered as abusive more often than not, if the actions are 1) filed by low tier law firms that 2) represent professional and recurrent plaintiffs; 3) which hold a small rather than significant stake in the company's stock; 4) the complaints on which the suits rely are of a boilerplate/carbon copy/formalistic nature; 5) the key motivation of the suits is driven by side benefits rather than the desire to enhance the value of the plaintiff's investment in the issuer; and 6) the suits are lacking institutional backing by shareholder associations or government agencies. Drawing on two unique datasets, which involve cases respectively in the Dutch Inquiry Proceeding ('Enquêterecht') and the Rescission Suit in Germany ('Anfechtungs - und Nichtigkeitsklage'), we show that the Dutch Inquiry Proceeding, which often results in a court-induced settlement, involve mostly 'useful' shareholder interventions to reduce managerial agency costs whereas the vast bulk of the

German Rescission Suits filed are abusive. This paper appeared in *European Company and Financial Law Review* (2010).

In a second paper, Joseph McCahery and Erik Vermeulen analyze private enforcement of corporate law in a civil law jurisdiction that has a relatively weak company law regime. First, we develop a benchmark for how effective the court is in resolving conflicts in a speedy and decisive manner. They base their findings on a hand-collected database of filings of legal actions brought against companies between 2002-2008. The main conclusion is that the grant of injunctive relief provides an incentive for the parties to the lawsuit to seek out settlements and thereby prevent further costly and unwanted litigation. The paper's results indicate the importance of the private enforcement of intra-firm disputes and the effectiveness of a specialized court in providing protection to minority shareholders. The paper appeared in *Company Law and SMEs* (M. Neville and K. Engsig Sørensen eds.), Thomson/Sweet & Maxwell, 2010.

In a third paper, Joseph McCahery and Erik Vermeulen show that the Enterprise Chamber has reinvented itself moving from a body engaged in specialized investigations into disputes arising in the context of bankruptcy proceedings to addressing the major governance claims of parties, particularly in the area of takeovers and conflicts of interest. This paper is published in *Perspectives in Company Law and Financial Regulation* (C.F. Van der Elst, M. Tison, H. De Wulf and R. Steennot eds.), Cambridge University Press, 2009.

3.3. Multidisciplinary research

Many research topics in both economics and law are at the crossroads of both disciplines . The chairholders and senior researchers have interacted with each other at several occasions.

The chairholders have been involved in the program committee of a number of conferences where legal and economic aspects of financial regulation/supervision were discussed. For example, Hans Degryse is in the program committee of the Frankfurt conference on “The Industrial Organisation of Securities Markets: competition, liquidity and network externalities” (to be held in Frankfurt in June, 2010 and organized by the e-finance lab and the Center for Financial Studies, Frankfurt). Joseph McCahery was a keynote speaker at the 29th Anniversary Conference of the Capital Markets Board of Turkey on “Global Financial Markets & Future of Regulation” , held on January 29, 2009 in Ankara.

4. The education program

4.1. The education program in Economics

In several courses in the **Masters Programs in Finance**, attention has been drawn to issues related to financial regulation. For example, in the course Treasury Management, a couple of lectures are spent on banking and financial market regulation. Also, Luc Laeven has been teaching several times a topics course on “Corporate Governance and Financial Regulation” within the Advanced topics in finance course. Hans Degryse has been teaching at the Barcelona Banking Summer School on “Regulation and Risk Management in Banking”. Several master theses were written on topics related to financial market regulation, supervised by Hans Degryse or Peter de Goeij. Examples are (names have been dropped for privacy reasons):

- 1 sword, 2 edges - investigating abnormal returns around analysts' forecasts on television
- Analyzing stock analysts: Evidence from the Netherlands
- Stock advice on television
- Board characteristics and firm performance in the Netherlands
- Dispersion in Brokers' recommendations and the cross section of stock returns
- The dispersion of analysts' recommendations and the cross-section of stock returns
- The impact of Internet message board activity on stock returns and trading volume: evidence from the Netherlands
- The Timing of Recommendation Revisions in the Netherlands
- The Information value of insiders' trading in the Netherlands
- The application of risk- and value based factors in credit management: added value or nothing new
- Is the degree of information leakage lower after the introduction of the market abuse directive? Evidence from the Amsterdam stock exchange using the market cleanliness approach
- Determining the financing behavior of non-financial dutch listed companies
- Relationship banking in the Netherlands: evidence from small business data
- Asset default correlation in synthetic structured finance and credit ratings

Aron Tihanyi finished his internship at the AFM to compare market cleanliness at several financial markets, in particular, the UK, the US and the Netherlands. (supervisor at AFM: Teunis Brosens; supervisor at Tilburg University: Hans Degryse).

4.2. The education program in Law

The AFM Chairs in Law taught in the **Master's Programme in International Business Law**. Specific courses dealing with the AFM Chair's main policy areas of research have been taught during Tilburg University's Master's Programme in International Business Law. These courses introduce students to the legal foundations of financial market regulation and encourage them to participate in redesigning the existing framework by providing their specific insight in such matters. Banking and Securities Regulation, taught by Professor Joseph A. McCahery, deals with cross-border cooperation among Securities Regulators and Commissions, clearing and settlement and listings. International Business Law II, taught by Professor Erik P.M. Vermeulen, addresses private equity funds and hedge funds as well as listings on traditional and alternative markets. More than thirty master theses were written in the area of financial market regulation.

This program, which also offers graduate students the opportunity to absorb a large amount of the institutional and legal analysis concerning securities and financial market regulation at the European law and national level, provides a strong foundation for working with complex international transactions. The training program includes a series of Master courses offered in the International Business Law program, such as Banking and Securities Regulation, International Business Law I (Mergers and Acquisitions), International Business Law II (Alternative Asset Investments), and Financial Law. The Master level courses are taught as 6 credit courses and form the mandatory core of the program in International Business Law. In addition, an introductory course to company law and securities regulation, which is mandatory for all undergraduate students in Law at Tilburg University, is designed to introduce the key mechanisms of company law regulation and the instruments of securities law. Finally, the Chair holders of the AFM offer in-house training courses to practising lawyers in securities market regulation and company law.

5. The activity program

The TILEC-AFM network on Financial Market Regulation has organised several seminars and workshops during the year 2009. The goal of these seminars and workshops is to expose researchers and financial supervisors to the most recent research related to financial market supervision and regulation. It allows also interaction between the different members of the TILEC-AFM Research Network on Financial Market Regulation.

The activities are of various types:

- Joint TILEC-AFM seminars with the Department of Finance. These are organised by the chairholder in Economics in cooperation with the Department of Finance; they take place in Tilburg, within the context of the regular Finance (Monday) seminars; the emphasis is on issues in economics/finance;
- TILEC-AFM seminars. These are organised by the chairholders jointly in cooperation with TILEC. They take place in Tilburg within the regular TILEC (Friday) seminars and focus on both economics and legal issues;
- TILEC-AFM workshops. These are activities of a somewhat larger scale, who may take place in Amsterdam, Tilburg, or elsewhere in the country, or abroad. Typically, the chairholders in Law will take the lead.

5.1 TILEC-AFM seminars with the Department of Finance

3 March 2009 - *The legal penalties of financial misrepresentation*

Seminar with Jonathan Karpoff, Faculty of Economics, Washington University at the AFM, Amsterdam. Jonathan spoke on "*The legal penalties of financial misrepresentation*"(forthcoming).

30 March 2009 - *Study of Going Concerns in Bankruptcy*

TILEC-AFM/Finance seminar with Gyongyi Loranth, Judge Business School, University of Cambridge, at 16.00 in K834. Gyongyi spoke on "*Corporate Finance*".

20 April 2009 - *The Impact of the U.S. Financial Crisis on Global Retail Lending*

TILEC-AFM/Finance seminar with Manju Puri, Duke University at 16.00 in K834.

Manju spoke on ‘*Corporate Finance/Banking*’.

16 December 2009 - *The Economics of Club Bidding in Private Equity*

TILEC-AFM seminar with Robert Marquez , Arizona State University. Robert spoke on: "*The Economics of Club Bidding in Private Equity*"

5.2 TILEC-AFM Seminars

20 February 2009 - *Bank Debt Restructuring and Control Rights in Bankruptcy*

TILEC-AFM seminar with Kern Alexander ,Judge Business School, University of Cambridge and Koen Schoors, Ghent University, at 12.30 in M1003. Koen spoke on "*Bank Debt Restructuring and Control Rights in Bankruptcy*".

14 September 2009 - *Inheritance Law and Investment in Family Firms*

Seminar with Marco Pagano , University of Naples Federico II. Marco spoke on "*Inheritance Law and Investment in Family Firms.*"

20 November 2009 - ?

TILEC-AFM seminar with André Betzer, University of Mannheim and Merritt Fox, Columbia University at 12.30 in M1003. André spoke on: ‘*Strategic Trading and Trade Reporting by Corporate Insiders*’. Merritt spoke on: ‘*The Effectiveness Of Mandatory Disclosure: An Empirical Test of the Line of Business Regulations.*’

5.3 TILEC-AFM Workshops

13 February 2009 - *Regulation and Enforcement of Corporate Law and Corporate Governance Codes*

Conference on “Regulation and Enforcement of Corporate Law and Corporate Governance Codes.” The conference program, which was developed by Joseph McCahery, Theo Raaijmakers and Erik Vermeulen, seeks to provide insights about the importance of corporate law enforcement for investors and financial market development. The location of the event was C186, Ruth First, Cobbenhagen building.

Programme

- 10.15-10.45 Registration & coffee
- 10.45-11.00 Opening and Introduction: Theo Raaijmakers, Tilburg University, Anton Philips Fund
- 11.00-11.30 Jaap Winter, Amsterdam University
- 11.30-12.00 Joseph McCahery, Amsterdam & Tilburg University
Enforcement of Corporate and Securities Law: A comparative analysis
- 12.00-12.30 Comments and discussion: Huub Willems, Enterprise Chamber Amsterdam Court of Appeals
- 12.30-13.50 Lunch
- 14.00-14.45 Gerard Hertig, Zurich University of Technology
- 14.45-15.45 Comments and discussion: Christoph Van der Elst, Tilburg University and Erik Vermeulen, Tilburg University
- 15.45-16.15 Coffee/tea
- 16.15-17.00 Inaugural Lecture Alain Pietrancosta, Sorbonne Paris
Enforcement of Corporate Governance Codes
- 17.00 Drinks

22 April 2009 - Accounting spring camp on Reporting and Regulation

Dept Accounting workshop: Accounting spring camp on Reporting and Regulation, in cooperation with TILEC-AFM Research Network on Financial Market Regulation at the TIAS-Nimbas Business School. For registration see programme. Registration is obliged and seats are limited.

Programme

09:30—11:00 Clive Lennox HKUST Business School

*‘Auditing the Auditor: Evidence on the PCAOB
Inspection of Audit Firms’*

Discussant: Philip Wallage KPMG & University of Amsterdam

11:30—13:00 Ray Ball GSB University of Chicago

*‘Market and Political/Regulatory Perspectives on the
Recent Accounting Scandals’*

Discussant: Steven Maijoor Netherlands Authority for the Financial
Markets (AFM)

14:00—15:30 Joseph Piotroski GSB Stanford University

*‘Evidence on Insider Trading Decisions in a Weak Regulatory
Environment’*

Discussant: TBA

16:00—17:30 Steven Crawford Rice University

*‘The Role of Market Forces and Legal Institutions in Bonding
Cross-Listed Firms’*

Discussant: TBA

24 September 2009 - Legal insider trading and Dutch financial markets

TILEC and AFM jointly organised the workshop in the framework of the TILEC-AFM research network on financial market regulation on "Legal insider trading and Dutch financial markets". Two papers were presented:

"Insider Trading, Option Exercises and Private Benefits of Control" by Peter de Goeij (joint work with Peter Cziraki and Luc Renneboog).

"Legal insider trading and market liquidity" by Jérémie Lefebvre (joint work with Hans Degryse and Frank de Jong).

6. The outreach program

The three different chairholders have also been actively involved in presenting seminars and participation at workshops at other universities, and national and international conferences. In this way, the chairholders contribute to the visibility of the TILEC-AFM Research Network on Financial Market Regulation. A complete list is provided in Appendix B.

In addition to the Professorial Fellows Program, the AFM Chair in Law intends to undertake from time to time research projects sponsored by outside organizations. These projects can be the basis for one or more publishable studies and for reform or other actions in a particular area of financial market regulation. Studies may involve one or more authors and can draw on the talents of AFM Professorial Fellows, Research Students, practitioners as well as policymakers and regulators.

7. Finances

See the Appendixes

APPENDIX A: PUBLICATIONS

A1 ACADEMIC PUBLICATIONS

A 1.1 Refereed journals

Chairholders

Degryse, H.A.

The Impact of Bank and Non-Bank Financial Institutions on Local Economic Growth in China *forthcoming in Journal of Financial Services Research* (with Cheng, X.)

Staying, dropping, or switching: the impacts of bank mergers on small firms *forthcoming in Review of Financial Studies* (with N. Masschelein and J. Mitchell)

Investment and Usage of New Technologies: Evidence from a Shared ATM Network , *forthcoming in American Economic Review* (with Ferrari, S. and F. Verboven)

Dynamic order submission strategies with competition between a dealer market and a crossing network. *Journal of Financial Economics*, 91(3), 319-338.

(With: Achter, M. van, & Wuyts, G.)

Competition between financial markets in Europe: What to expect from MiFID?

Financial Markets and Portfolio Management, 23, 93-103.

Degryse, H.A. and Ongena, S.

The impact of organizational structure and lending technology on banking competition.

Review of Finance, 13, 225-259. (With Laeven, L.)

Lending technology, bank organization and competition. *Journal of Financial Transformation*, 26, 24-30. (With Tumer-Alkan, G.)

Degryse, H.A. and Penas, M.F.

Cross-border exposures and Financial Contagion, forthcoming in the *International Review of Finance*, (with M.A. Elahi and M.F. Penas)

McCahery, J.A., Vermeulen and E.P.M. Bratton, W.W.

How does corporate mobility affect lawmaking: A comparative analysis. *The American Journal of Comparative Law*, 57(2), 501-549

McCahery, J.A., & Vermeulen, E.P.M.

The regulatory paradox: Hedge funds and private equity. *Journal of Management and Governance*, 13.

McCahery, J.A., & Hertig, G.

Optional EU banking supervision? *European Company Law*, 6(1), 4-5.

TILEC/AFM Research network members

Carletti, E

“Credit Market Competition and Capital Regulation”, forthcoming, *Review of Financial Studies*. (With: Franklin Allen and Robert Marquez).

“Interbank Market Liquidity and Central Bank Intervention” forthcoming, *Journal of Monetary Economics*. (With: Franklin Allen and Douglas Gale).

Johan, S.A.

“Legality and Venture Capital Fund Manager Compensation Venture Capital”, *An International Journal of Entrepreneurial Finance* 11, 23-54 (with Douglas Cumming).

“Exchange Trading Rules and Stock Market Liquidity” *Journal of Financial Economic* (with Douglas Cumming and D. Li).

“Venture Capital Investment Duration” *Journal of Small Business Management* (with Douglas Cumming).

“The Differential Impact of the Internet in Spurring Regional Entrepreneurship”
Entrepreneurship Theory and Practice (with Douglas Cumming).

“Pre-Seed Government Venture Capital Funds” *Journal of International Entrepreneurship* 7, 26-56 (with Douglas Cumming).

Da Rin, M

"What is the Role of Legal Systems in Financial Intermediation? Theory and Evidence "
Journal of Financial Intermediation, vol.18 (3), 559-598(With: Laura Bottazzi and Thomas Hellmann).

Elst, C.F. van der

Corporate regulatory frameworks for risk management in the US and EU. *Corporate Finance and Capital Markets Law Review*, 2009(1/2), 83-94. (With Van Daelen, M.M.A.)

Goeij, P. C. de

Stock and bond market interactions with level and asymmetry dynamics: An out-of-sample application. *Journal of Empirical Finance*, 16(2), 318-329
(With: Marquering, W.)

Ongena, S.

Financial integration and entrepreneurial activity: Evidence from foreign bank entry in emerging markets. *Review of Finance*, 13, 181-223 (With: Giannetti, M).

Ongena, S., & Penas, M.F.

Bondholders' wealth effects in domestic and cross-border bank mergers. *Journal of Financial Stability*, 5(3), 256-271.

Renneboog, L.D.R.

Information salience, investor sentiment and stock returns: The case of British soccer betting. *Journal of Corporate Finance*, 15(3), 368-387
(With Palomino, F.A. and Zhang, C.)

What determines the financing decision in corporate takeovers: Cost of capital, agency problems, or the means of payment? *Journal of Corporate Finance*, 15(3), 290-315.
(With: Martynova, M.)

Why are the French so different from the Germans? Underpricing in IPOs on the euro new markets. *International Review of Law and Economics*, 29(3), 260-272.
(With: Goergen, M. and Khurshed, A.)

The dividend policy of German firms: A dynamic panel data analysis with partial adjustment models. *Journal of Empirical Finance*, 16(2), 175-187.
(With: Andres, C., Betzer, A. and Goergen, M.)

Wagner, W.B.

Efficient asset allocations in the banking sector and financial regulation. *International Journal of Central Banking*, 5(1), 75-95.

Banking fragility and liquidity creations: Options as a substitute for deposits. *Annals of Finance*, 5(1), 125-129.

The marketability of bank assets and managerial rents. *Journal of Financial Stability*, 5(3), 272-282. (With: Fecht, F.)

Werker, B.J.M.

The asymptotic structure of nearly unstable non-negative integer-valued AR(1) models, *Bernoulli*, 15 (2), 297-324, 2009. (With Drost, F.C. and Van den Akker, R.)

Efficient estimation of autoregression parameters and innovation distributions for semiparametric integer-valued AR(p) models, *Journal of the Royal Statistical Society, Series B*, vol. 71, part 2, 467 - 485, 2009. (With Drost, F.C. and Van den Akker, R.)

Causality Effects in Return Volatility Measures with Random Times, forthcoming *Journal of Econometrics*. (With Renault E.)

Werker, B.J.M. and Nijman, Th.E.

Optimal Annuity Risk Management, forthcoming *Review of Finance*.
(With Kojen, R.S.J).

When Can Life-cycle Investors Benefit from Time-varying Bond Risk Premia?,
forthcoming *Review of Financial Studies*. (With Kojen, R.S.J).

A 1.2 Other journals

Chairholders

Degryse, H.A.

"Shedding Light on Dark Liquidity Pools", *Institutional Investor's Liquidity Guide*
(with , Van Achter, M., and G. Wuyts)

McCahery, J.A., & Hertig, G.

Rethinking financial regulation in the EU: A choice-based approach to ECB
supervision. *Fiducie*, 16(3), 28-29.

TILEC/AFM Research network members

Elst, C.F. van der

Auditcomités in het Wetboek van vennootschappen: "comply" zonder "explain" / Les
Comités d'Audit dans le Code des Sociétés, "Comply" sans "Explain". *Tax, Audit &*
Accountancy (With: Poorter, I. De)

A 1.3 Bookchapters

Chairholders

Degryse, H.A. and Ongena, S.

Distance, bank organizational structure and credit. In P. Alessandrini, M. Fratianni, &
A. Zazzaro (Eds.), *The Changing Geography of Banking and Finance* (pp. 54-74).
Heidelberg: Springer-Verlag. (With: Cerqueiro, G.M.,)

McCahery, J.A.

Bank reputation in the private debt market. In J. Armour & J. Payne (Eds.), *Rationality in company law: Essays in honour of Daniel Prentice*. Oxford: Hart Publishing.

(With: Schwienbacher, A.)

Reputation in the private loan syndication market. In J. Payne & J. Armour (Eds.), *Rationality in company law: Essays in honour of DD Prentice* (pp. 377-388). Oxford: Hart Publishing. (With: Schwienbacher, A.)

Vermeulen, E.P.M., & McCahery, J.A.

Current trends and likely developments in private company law. In P. Essers, G. Raaijmakers, G. van der Sangen, A.F. Verdam, & E.P.M. Vermeulen (Eds.), *Met Recht: Opstellen over privaats- en fiscaalrechtelijk ondernemingsrecht, aangeboden aan Theo Raaijmakers*. Deventer: Kluwer.

Does the European company prevent the 'Delaware-effect'? In T. Clarke & J.-F. Chanlat (Eds.), *European corporate governance: Readings and perspectives*. Routledge.

The new company law: What matters in an innovative economy. In E.P.M. Vermeulen, L. Timmermans, & J.A. McCahery (Eds.), *Private company law reform: International and European perspectives* (pp. 71-119). The Hague: T.M.C. Asser Press.

(With: J.A., Hisatake, M., & Saito, J.)

Role of corporate governance reform and enforcement in the Netherlands. In M. Tison, H. De Wulf, C.F. van der Elst, & R. Steennot (Eds.), *Perspectives in company law and financial regulation: Essays in honour of Eddy Wymeersch*. Cambridge: Cambridge University Press.

TILEC/AFM Research network members

Damme, E.E.C. van

Marktwerking en de borging van publieke belangen. In E.E.C. van Damme & M.P. Schinkel (Eds.), *Marktwerking en Publieke Belangen. Preadviezen KVS 2009* (pp. 1-22). Amsterdam: KVS. (With: Schinkel, M.P.)

Elst, C.F. van der

Corporate governance codes and practices in Belgium. In F.J. López-Iturriaga (Ed.), *Codes of good governance around the world* (pp. 135-164). New York: Nova Science Publishers.

Effecten en hun overdracht en overgang. In B. Tilleman, O. Caprasse, & A. Benoit-Moury (Eds.), *Wetboek Vennootschapsrecht, Geannoteerd Wetboek van Vennootschappen met bijzondere wetgeving*. Brugge: Die Keure.

Renneboog, L.D.R.

Dividend policy in a global perspective. In H.K. Baker (Ed.), *Dividends and Dividend Policy* (pp. 481-498). Chichester: Blackwell Publishing. (Companions to Finance Series). (With: Goergen, M.)

The performance of socially responsible investment funds. In C. Gardner (Ed.), *QFinance: The Ultimate Resource* (pp. 360-363). London: Bloomsbury Publishing.

Socially responsible investment funds. In G. Aras & G. Crowther (Eds.), *The Gower Handbook of Corporate Governance and Social Responsibility*. Surrey: Gower Publishers. (With: Horst, J.R. ter and Zhang, C.)

The catering theory of dividends. In H.K. Baker (Ed.), *Dividends and Dividend Policy* (pp. 215-238). Chichester: Blackwell Publishing. (Companions to Finance Series). (With: Rooij, M.A.M. de)

A 1.4 Monographs and edited books

Chairholders

Degryse, H.A.

Microeconometrics of Banking: Methodology, Applications, and Results. Oxford: Oxford University Press. (With: Kim, M., & Ongena, S.)

McCahery, J.A., & Vermeulen, E.P.M.

Role of corporate governance reform and enforcement in the Netherlands: Liber Amicorum Eddy Wymeersch. S.l.: s.n.

Private company law reform: International and European perspectives. The Hague: Asser / Cambridge University Press. (With: Timmermans, L.)

The law and economics of alliances and joint ventures. Cambridge: Cambridge University Press.

Vermeulen, E.P.M., & Raaijmakers, G.T.M.J.

Vennootschaps- en effectenrecht. Nijmegen: Ars Aequi Wetsedities.

Met Recht: Opstellen over privaats- en fiscaalrechtelijk ondernemingsrecht, aangeboden aan Theo Raaijmakers. Deventer: Kluwer. (With: Essers, P.H.J., G.T.M.J., Sangen, G.J.H. van der and Verdam, A.F.)

TILEC/AFM Research network members

Elst, C.F. van der

Perspectives in company law and financial regulation. New York: Cambridge University Press. (With: Tison, M., De Wulf, H. and Steennot, R.)

A 2 PROFESSIONAL PUBLICATIONS

A. 2.1 Articles in professional journals

Chairholders

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TILEC/AFM Research network member

Bouwens, J.F.M.G

Crisisgedreven prestatie meting. *Management Control & Accounting*, 4, 25.

Bankmanagers afgetopt. *Management Control & Accounting*, 7, 36.

Bijziende controllers. *Management Control & Accounting*, 5, 15.

Goed of fout (Redactioneel). *Management Control & Accounting*, 1, 1.

Ingrijpen op topbeloningen is onverstandig. *Management Control & Accounting*, 1, 14.

De controller is zich van geen kwaad bewust. *Management Control & Accounting*, 8, 8.

Damme, E.E.C.

Worstelen met marktwerking in de zorg. *Markt en Mededinging*, 12(2), 41-43.

Elst, C.F. van der

Biedt de S-BVBA een afdoende antwoord op de Britse Limited? *Tijdschrift voor Rechtspersoon en Vennootschap*, 2009(6), 495-508.

Over de grenzen van het ondernemingsrecht: Fortis. *Onderneming en Financiering*, 2009(3), 5-17. (With: Steen, L. van den).

A 3 DISCUSSION PAPERS

A 3.1 TILEC Discussion Papers

Chairholders

DP 2009-001 Joseph A. McCahery, Gerard Hertig and Ruben Lee

Empowering the ECB to Supervise Banks: A Choice-Based Approach

DP 2009-008 Hans Degryse, Muhammad Ather Elahi and Maria Fabiana Penas

Cross-Border Exposures and Financial Contagion.

DP 2009-009 Hans Degryse, Peter de Goeij and Peter Kappert
The Impact of Firm and Industry Characteristics on Small Firms' Capital Structure: Evidence from Dutch Panel Data.

DP 2009-026 Hans Degryse, Frank de Jong and Jérémie Lefebvre
An Empirical Analysis of Legal Insider Trading in the Netherlands.

DP 2009-044 Hans Degryse, Olena Havrylchyk, Emilia Jurzyk and Sylwester Kozak
Foreign Bank Entry and Credit Allocation in Emerging Markets.

TILEC/AFM Research network members

DP 2009-003 Douglas Cumming and Sofia Johan
Exchange Trading Rules

DP 2009-004 Luc Renneboog and Christophe Spaenjers
Buying Beauty: On prices and Returns in the Art Market

DP 2009-018 Luc Renneboog and Christophe Spaenjers
Where Angels Fear to Trade: The Role of Religion in Household Finance

DP 2009-019 Peter Cziraki, Luc Renneboog and Peter G. Szilagyi
Shareholder Activism through Proxy Proposals: The European Perspective

DP 2009-020 Laura Bottazzi, Marco Da Rin and Thomas Hellmann
The Importance of Trust for Investment: Evidence from Venture Capital

DP 2009-022 Marc Goergen, Arif Khurshed and Luc Renneboog
Why are the French so Different from the Germans? Underpricing of IPOs on the Euro New Markets

DP 2009-023 Christoph Van der Elst and Marijn Van Daelen
Risk Management in European and American Corporate Law

DP 2009-024 Christoph Van der Elst

The Belgian Struggle for Corporate Governance Improvements

DP 2009-025 Christoph Van der Elst

The Modified Belgian Framework for Contributions in Kind, Share Buy Backs and Financial Assistance

DP 2009-031 Luc Renneboog and Peter G. Szilagyi

Shareholder Activism through the Proxy Process

DP 2009-033 Luc Renneboog and Christophe Spaenjers

The Iconic Boom in Modern Russian Art

DP 2009-036 Marco Da Rin, Marina Di Giacomo and Alessandro Sembenelli

Corporate Taxation, Firm Entry Rates, and Entrants' Size: Evidence from Europe

DP 2009-039 Katrien Bosquet, Peter De Goeij and Kristien Smedts

Coexistence and Dynamics of Overconfidence and Strategic Incentives

**DP 2009-046 Clara Kuhlich, Grzegorz Trojanowski, Michelle Ryan,
Alexander Haslam and Luc Renneboog**

Who Gets the Carrot and Who Gets the Stick? Evidence of Gender Disparities in Executive Remuneration

A 3.2 Discussion Papers published in other series

Chairholders

Degryse, H.A., Elahi, M.A. and Penas, M.F.

“Cross-Border Exposures and Financial Contagion”, *EBC Discussion Paper*, 2009-02
pp. 1-39

“Cross-Border Exposures and Financial Contagion”, *CentER Discussion Paper*, 2009-
20 pp. 1-39.

Degryse, H.A., Goeij, P. C. de and Kappert, P.

“The Impact of Firm and Industry Characteristics on Small Firms' Capital Structure: Evidence from Dutch Panel Data”, *CentER Discussion Paper*, 2009-21 pp. 1-34.

“The Impact of Firm and Industry Characteristics on Small Firms' Capital Structure: Evidence from Dutch Panel Data”, *EBC Discussion Paper*, 2009-03 pp. 1-34

Degryse, H.A., Jong, F.C.J.M. de and Lefebvre, J.J.G.

“An Empirical Analysis of Legal Insider Trading in the Netherlands”, *CentER Discussion Paper*, 2009-48 pp. 1-49.

Degryse, H.A., Havrylchyk, O., Jurzyk, E. and Kozak, S.

“Foreign Bank Entry and Credit Allocation in Emerging Markets”, *EBC Discussion Paper*, 2009-23 pp. 1-43.

“Foreign Bank Entry and Credit Allocation in Emerging Markets”, *CentER Discussion Paper*, 2009-94 pp. 1-43.

McCahery, J.A., & Vermeulen, E.P.M.

“Conflict resolution and the role of corporate law courts: An empirical study.” *ECGI Law Working Paper Series*, 132/2009.

“Corporate Governance of non-listed Companies”, *Oxford University Press*

McCahery, J.A. & Schwienbacher, A.

“Bank reputation in the private debt market.” *ECGI's Working Paper Series*, 231/2009

McCahery, J.A., Sautner, Z., & Starks, L.

“Behind the scenes: The corporate governance preferences of institutional investors.”

TILEC/AFM Research network members

Elst, C.F. van der, Aslan, U. and Overkleeft, F.G.K.

Director's remuneration in listed companies: The Dutch situation.

Elst, C.F. van der and Steen, L. van den

Director's remuneration in listed companies: The Belgian situation.

Elst, C.F. van der and Daelen, M.M.A. van

“Risk management in European and American corporate law”, *ECGI - Law Working Paper*, No. 122/2009.

Ongena, S., Kirschenmann, K. and Brown, M.

“Foreign Currency Loans - Demand or Supply Driven?”, *CentER Discussion Paper*, 2009-78 pp. 1-49.

“Foreign Currency Loans - Demand or Supply Driven?”, *EBC Discussion Paper*, 2009-21 pp. 1-49.

Ongena, S., Peydro, J.L. and Ioannidou, V.

“Monetary Policy, Risk-Taking, and Pricing: Evidence from a Quasi-Natural Experiment”, *CentER Discussion Paper*, 2009-31 S pp. 1-45.

“Monetary Policy, Risk-Taking, and Pricing: Evidence from a Quasi-Natural Experiment”, *EBC Discussion Paper*, 2009-04 S pp. 1-45.

Renneboog, L.D.R., Cziraki, P. and Szilagyi, P.G.

“Shareholder Activism through Proxy Proposals: The European Perspective”, *CentER Discussion Paper*, 2009-44 pp. 1-52.

Renneboog, L.D.R. and Szilagyi, P.G.

“Shareholder Activism through the Proxy Process”, *CentER Discussion Paper*, 2009-65 pp. 1-41.

Renneboog, L.D.R. and Spaenjers, C.

“The Iconic Boom in Modern Russian Art”, *CentER Discussion Paper*, 2009-70 pp. 1-21.

“Buying Beauty: On Prices and Returns in the Art Market”, *CentER Discussion Paper*, 2009-15 pp. 1-66.

“Where Angels Fear to Trade: The Role of Religion in Household Finance”, *CentER Discussion Paper*, 2009-34 pp. 1-40.

Da Rin, M., Bottazzi, L. and Hellmann, T.

“The Importance of Trust for Investment: Evidence from Venture Capital”, *CentER Discussion Paper*, 2009-43 pp. 1-44.

Da Rin, M., Di Giacomo, M. and Sembenelli, A.

“Corporate Taxation and the Size of New Firms: Evidence from Europe”, *CentER Discussion Paper*, 2009-72 pp. 1-14.

“Entrepreneurship, Firm Entry, and the Taxation of Corporate Income: Evidence from Europe (Revised version of DP 2008-65)” *CentER Discussion Paper*, 2009-61 pp. 1-55.

Wagner, W.B. and Knaup, M.

“A Market Based Measure of Credit Quality and Banks' Performance During the Subprime Crisis”, *CentER Discussion Paper*, 2009-35 S pp. 1-32.

“A Market Based Measure of Credit Quality and Banks' Performance During the Subprime Crisis”, *EBC Discussion Paper*, 2009-06 S pp. 1-32.

Elena Carletti

“Bank Moral Hazard and Market Discipline”, *Financial Markets Group Discussion Paper 326*, London School of Economics

“Competition and Financial Markets”, *mimeo. OECD 2009.*

“No Finance, No Growth? The African Experience” (With: Franklin Allen, Robert Cull, Jun Qian, and Lemma Sembet)

“Stakeholder Capitalism, Corporate Governance, and Firm Value”, *EUI Working Paper*

ECO2009_10, (With: Franklin Allen and Robert Marquez).

"Financial Connections and Systemic Risk" (With: Franklin Allen and Anna Babus).

Elena Carletti and Steven Ongena

“The Economic Impact of Merger Control”, new version, (With: Philipp Hartmann).

“Competition Control and the Valuation of Bank Mergers ”, *Work in progress*,

(With: Giancarlo Spagnolo).

A 4 POPULARIZING PUBLICATIONS

A 4.1 Articles in newspapers

Chairholders

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TILEC/AFM Research network members

Bouwens, J.F.M.G.

(2009, April 09). Topbeloningen. *Het Financieel Dagblad*.

(2009, February 18). Optimisten liegen. *Het Financieel Dagblad*.

(2009, February 04). Geen invloed media. *Het Financieel Dagblad*.

(2009, December 17). Schrijf de wijze van lesgeven niet voor.

Het Financieel Dagblad.

(2009, March 02). Overheid en banken kunnen leren van Japan. *De Volkskrant*.

(2009, August 21). Leg risico van banken weer terug bij de aandeelhouder.

Het Financieel Dagblad.

(2009, June 27). Bankwaarde mag geen fopspeen zijn. *NRC Handelsblad*.

(2009, March 18). Geen New Deal meer. *Het Financieel Dagblad*.

(2009, March 04). Meer fraudedetectie. *Het Financieel Dagblad*.

(2009, September 26). Vervanging devotie voor winkel werkt negatief.
NRC Handelsblad.

(2009, September 12). Stel regels en handhaaf ze dan ook. *Het Financieel Dagblad*.

(2009, January 21). Een maatregel extra. *Het Financieel Dagblad*.

(2009, May 14). Liever samen dan individueel. *Het Financieel Dagblad*.

(2009, December 08). Beter onderwijs door bonus. *Trouw*.

(2009, January 07). Check alleen op winst. *Het Financieel Dagblad*.

(2009, October 20). Pas op voor dromers in uw bedrijf. *NRC Handelsblad*.

(2009, September 04). Oproep om aanpak bonussen misplaatst.
Reformatorisch dagblad.

(2009, March 31). Belang nemen in het bedrijf. *Het Financieel Dagblad*.

A 4.2 Other popularizing contributions

TILEC/AFM Research network members

Renneboog, L.D.R. and Szilagyi, P.G.

“Bondholder returns in European takeovers”, *FSR Forum*, 12, 14-20.

APPENDIX B: ACTIVITIES

B 1 PRESENTATIONS AND LECTURES

Chairholders

Hans Degryse

discussed the paper “Information Sharing and Information Acquisition in Credit Markets” at the Hasliberg Banking and Financial Intermediation conference on 16-18 March 2009.

presented the paper “Enhancing Market Power by Reducing Switching Costs” (joint work with Jan Bouckaert and Thomas Provoost) at the Applied Micro Conference in Zurich on 13-14 March 2009. He also discussed the paper “Bank Competition and Collateral: Theory and Evidence (by Christa Hainz) at this conference.

Discussed paper by Nicolas Véron at BEPA on March 6

Seminar at the VU Amsterdam on March 24 on Foreign entry and credit allocation in emerging markets

Presentation of two papers at the Financial Intermediation Research Society at Prague on Information Sharing and Credit Rationing, and Foreign bank entry and credit allocation (May 27-29)

Discussant at EBC conference in Tilburg on financial stability

Presentation at workshop of CEPS on the Future of European Banking, on Competition and Regulation of Banking: some insights from the financial crisis. (June 10)

Presentation at workshop by NCCRI-TILEC on cross border exposures and financial contagion (June 24-25)

Research visit University of Granada, Sept 7-11

Presentation at conference on Business models in Banking, University of Bocconi on Foreign entry and credit allocation in emerging markets, Sept 24

Participation in two workshops in Tokyo (RIETI – corporate finance and banking, presentation on rules versus discretion in loan rate setting)

Seminar at UPF, Barcelona on Foreign bank entry and credit allocation in emerging markets (Oct 23)

Seminar at Bocconi on Rules versus Discretion in Loan rate setting (Nov 25)

Discussant at Unicredit Conference (Dec 17-18)

TILEC/AFM Research network members

Activity Peter de Goeij

Peter de Goeij presented the paper "Insider Trading, Option Exercises and Private Benefits of Control" (joint with Peter Cziraki and Luc Renneboog) at the Corporate Finance Day at the University of Antwerp on 17 September 2009.

B 2 PROFESSIONAL CONSULTATIONS AND COMMITTEES

Chairholders

Hans Degryse

Research fellow CESifo 2001-present.

Program committee member Financial Intermediation Research Society, European Financial Management Association, European Finance Association, committee member of CEPR financial stability conference in Barcelona.

Organizer CEPR-EBC-UA conference on Competition in Banking Markets

Supervisor of PhD Geraldo Cerqueiro (University of Tilburg), Xiaoqiang Cheng (University of Leuven)

Co-supervisor of Ph D Stijn Ferrari (University of Leuven)

CoMember PhD committee of Bui Tuan Ngoc (University of Leuven), Zhen Shi (University of Tilburg)

Klankbordcommissie CPB on Financial Markets and Financial Stability

Erik Vermeulen

Vice President, Philips International B.V., Corporate Legal Department (Corporate and Financial Law)

Co-Chairman, Research Network on Hybrid Business Forms

Member Legal Committee, EuropeanIssuers, Brussels, Belgium

Board Member, Stichting Beroepsopleiding Bedrijfsjuristen (Center for Postgraduate Studies), University of Nijmegen, The Netherlands

Board Member, Juridisch Genootschap Eindhoven, The Netherlands

B 3 EDITORIAL AND REFEREE ACTIVITIES

Chairholders

Hans Degryse (Referee Activities)

Journal of Finance, Review of Finance, Journal of Banking and Finance, Journal of Financial Intermediation, Journal of Money, Credit and Banking

B 4 GRANTS AND AWARDS

Hans Degryse

Belgian Francqui Chair on Competition and Regulation in the financial sector, FUCaM.