CASS
BUSINESS SCHOOL
CITY, UNIVERSITY OF LONDON
EST 1894

2nd Cass Business School and CeFARR Conference

What role do analysts play in today's financial markets

13th September 2019

Centre for Financial Analysis
and Reporting Research
(CeFARR)

Programme

About the conference: Analysts play a crucial intermediary role in financial markets. The conference looks at the role of analysts in today's financial markets paying particular attention to the effects of MiFID II regulation and the industry outlook.

08:30 – 08:55	Registration and refreshments (pastries and coffee)
08:55 – 09:00	**Welcome, Dr Pawel Bilinski, Cass Business School**
SESSION 1	Session Chair: **Dr Pawel Bilinski**
09:00 – 09:20	**Charles Combe** , Director of European Sales, Edison Group
09:20 – 09:40	**Helen Rambaut**, Portfolio Strategies, Prospect Wealth Management
09:40 – 10:00	**Gareth Evans**, Managing Director, Progressive Equity Research
10:00 – 10:20	Coffee break
SESSION 2	Session Chair: **Dr Ivana Raonic**
10:20 – 10:40	**Giasone Salati** , Head of European Media Research, Macquarie Group
10:40 – 11:10	Keynote: **Stephen Hanks**, Technical Specialist, Markets Policy, UK FCA
11:10 – 11:40	Keynote: **Stan Markov**, Ashbel Smith professor, University of Texas at Dallas
11:40 – 12:00	Coffee break
SESSION 3	Session Chair: **Dr Art Kraft**
12:00 – 12:30	**Mark Bradshaw**, Boston College, Discussion: **James Ryans** London Business School
12:30 – 14:00	**Michael Jung** , Delaware, Discussion: **Jay Jung** Cass Business School
13:00 – 14:00	Lunch and Coffee
SESSION 4	Session Chair: **Dr Andrew Yim**
14:00 – 14:30	**Devin Shanthikumar** UC Irvine, Discussion: **Alastair Lawrence** LBS
14:30 – 15:00	**Afshad Irani** Washington and Lee, Discussion: **Aneesh Raghunandan** LSE
15:00 – 15:30	**Fei Xie** Delaware, Discussion: **Stefano Cascino** LSE
15:30 – 15:50	Coffee break
SESSION 5	Session Chair: **Dr Jay Jung**
15:50 – 16:20	**Yang Wang** Lancaster, Discussion: **Tim Martens** Cass Business Sc hool
16:20 – 16:50	**Ole-Kristian Hope** Toronto, Discussion: **Xi Li** LSE
17:00 – 17:05	Concluding remarks, **Jay Jung**, Cass Business School
17:05 – 18:00	Drinks and snacks

Morning presentations

Session 1: 09:00 – 10:00

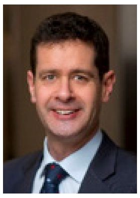
Charles Combe, Edison Group

Charles is the Director of European Sales at Edison Investment Research. Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington.

Helen Rambaut, Prospect Wealth Management

Helen has 27 years investment management experience for leading financial institutions and their clients. Latterly she led the team managing European equities for TD Bank's mutual fund clients. Helen has a BSc in Economics and Accountancy from The City University.

Gareth Evans, Progressive Equity Research



Gareth is the founder and Managing Director of Progressive Equity Research. He has been an analyst for over fifteen years, initially covering Pan-European Chemicals stocks but for over a decade researching the UK Technology sector. His research career has included time at Donaldson, Lufkin & Jenrette, ABN AMRO and Canaccord Genuity; he was also co-Head of European Equity Research at Investec.

Gareth is a frequent speaker at company and industry events, has received numerous Starmine Awards for stock-picking and earnings forecasting, and has been voted techmark Analyst of the Year. Prior to joining the City, he read PPE at Christ Church, Oxford and qualified as an accountant with Arthur Andersen within their Corporate Recovery Services division.

Session 2: 10:20 – 11:40

Giasone Salati, Macquarie Group

Giasone Salati has been an equity research analyst since 1997, focusing on media and telecom from '99. He's worked at Credit Suisse in a team consistently ranked top 3 in II and Extel surveys, he built a strong media franchise at Execution and more recently headed the media team at Redburn, before joining Macquarie in 2016. Giasone acted as CEO and Chief Innovation Officer for FinTech and VR start-ups, and is a digital transformation consultant. He holds a Master's degree in Finance from London Business School, graduated from University of Milan and studied Economics at La Sorbonne in Paris. He is currently studying Statistics and Data Science with MIT. Giasone speaks fluent English, French and Italian.

Stephen Hanks, UK Financial Conduct Authority

Stephen Hanks is Technical Specialist in Markets Policy at the Financial Conduct Authority (FCA), which is the conduct regulator for 59,000 financial services firms and financial markets in the UK and the prudential regulator for over 18,000 of those firms. He has acquired close to a decade of professional regulatory expertise in his role at the FCA's predecessor organisation, the Financial Services Authority (FSA) and now the FCA. He previously worked on the original negotiations on the Markets in Financial Instruments Directive (MiFID) whilst he was Economic Adviser, Financial Services at HM Treasury (2002-2006). At the end of 2006 he joined the FSA where he worked mainly on wholesale markets issues, including sitting on a number of European Securities and Markets Authority (ESMA) task forces and working groups. At the FCA he has co-ordinated the FCAs work on negotiations on the revised MiFID II framework legislation, and is now also involved in the FCA's work on its implementation.

Stan Markov, University of Texas at Dallas

Dr. Stanimir Markov is the Ashbel Smith Professor of Accounting at Naveen Jindal School of Management, University of Texas at Dallas. His research focuses on information intermediaries, corporate disclosure and capital markets. Stan is widely published in a variety of professional publications. He is associate editor of Management Science and the Journal of Accounting, Auditing & Finance. He also serves on the editorial board of the European Accounting Review. He has received a PhD in business administration from the University of Rochester.

Session 3: 12:00 – 13:00

SELECTIVE INFORMATION CHANNELS FOR INVESTMENT RESEARCH

Mark Bradshaw, Boston College

Dan Amiram (Tel Aviv), Zahn Bozanic (Ohio State)

and Oded Rozenbaum (George Washington)

The channels through which investment research is distributed to investors are varied and complex. Because the market for forward-looking financial data is competitive, we argue that both financial data providers and the brokerage houses that employ analysts who generate these data respond to profit-motivated incentives. These incentives result in market segmentation and price differentiation strategies for the distribution of forward-looking financial data. We examine the properties of earnings estimates across different distribution channels. Based on established theories of analyst behavior, we predict that a two-channel research distribution equilibrium occurs, where a low-cost channel includes all estimates, but a premium channel exists with higher quality estimates. We find that analysts' estimates distributed through the premium channel are less biased and more accurate. Further, estimates distributed through the premium channel generate larger market reactions and increased information asymmetry. Our study provides new evidence on the flow of forward-looking information within the capital markets.

Discussant: James Ryans,

London Business School

HOW DOES REPUTATIONAL CAPITAL AFFECT PROFESSIONAL BEHAVIOR? EVIDENCE FROM ANALYSTS WHO BECOME ALL-STARS

Michael Jung, Delaware

Yiqing Lu (NYU, Shanghai) and

Hong Wu (Hong Kong PolyU)

We examine whether increased reputational capital affects the behavior of capital market professionals using the setting of sell-side equity analysts and annual all-star rankings. Our identification strategy is based on a novel dataset and a quasi-experimental design to compare the forecast properties of, and the market reactions to, analysts who rank just high enough to be considered all-stars to analysts who rank just below and are not considered all-stars. We find that newly-ranked all-star analysts become more optimistic, bold, and frequent in their forecasts, but are less accurate; they also add more stocks to their coverage universe and generate higher market reactions from their forecast revisions. Overall, our results suggest that increased reputational capital emboldens professionals to take bolder actions to exert their market influence.

Discussant: Jay Jung,

Cass Business School

Afternoon presentations

Session 4: 14:00 – 15:30

BROKER TRADING VOLUME: A CONFLICT OF INTEREST?

Devin Shanthikumar, UC Irvine

Ben Lourie (UC Irvine) and

Tiana Lehmer (UC Irvine)

Using unique new data, we examine whether brokerage trading volume creates a conflict of interest for analysts' earnings forecasts. We find that forecast optimism is associated with higher brokerage volume, even controlling for forecast and analyst quality, recommendations, and target prices. When analysts change brokerage firms, they bring this trading volume with them, influencing trading volume at the new brokerage house. This indicates that analysts drive the volume effects we observe. Consistent with a reward for generating volume, brokerage houses are less likely to demote analysts who generate more volume. Finally, analysts strategically adjust forecast optimism based on expected volume impact. Analysts become more (less) optimistic if their optimistic forecasts in the prior year were more (less) successful at generating volume. Overall, our results are consistent with a brokerage trading volume conflict of interest moving analysts towards more optimistic earnings forecasts.

Discussant: Alastair Lawrence,

London Business School

WHY DO FIRMS DISCLOSE THEIR ANALYST FOLLOWING ON THEIR CORPORATE WEBSITES?

Afshad Irani, Washington and Lee

Irene Karamanou (Cyprus)

We examine the firm practice of disclosing analyst following on their corporate websites and find that about two-thirds of our sample firms make such disclosures. Disclosers are on average smaller in size than non-disclosers with higher institutional ownership and leverage. This suggests that the decision to disclose is associated with greater demand for information. Further analyses reveal that more than half of the disclosers selectively include analysts who, on average, carry more favorable recommendations. Our analyses show selective disclosers to be less-profitable than non-selective disclosers with larger financing needs and subject to lower level of external monitoring. Selective disclosers also exhibit higher income smoothing and lower accrual quality, future performance and future valuation. Taken together, our evidence is consistent with firms exploiting the unregulated practice of voluntarily disclosing analyst following on corporate websites to possibly mislead investors.

Discussant: Aneesh Raghunandan,

London School of Economics

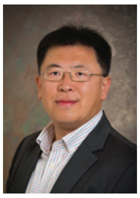
IS THERE INVESTMENT VALUE IN SOFT DOLLAR ARRANGEMENTS? EVIDENCE FROM MUTUAL FUNDS

Fei Xie (Delaware),

Sinan Gokkaya (Ohio), Xi Liu (Miami),

Veronika Krepely Pool (Indiana), and

Jinfan Zhang (Chinese U of Hong Kong)



Combining novel data on sell-side analysts' employment history and mutual fund commission payments, we provide the first evidence that mutual funds obtain valuable investment ideas through soft-dollar arrangements. We show that funds allocate higher commissions to brokerages whose analysts have more industry expertise on portfolio holding firms; they generate higher abnormal returns and exhibit a modest bias on these stocks. For identification, we exploit disruptions to research coverage emanating from analyst turnovers, retirements, deaths and brokerage mergers. Our findings contribute to the intense debate concerning the unbundling of commissions under the MiFID II regulation in Europe and its implications for the U.S.

Discussant: Stefano Cascino,

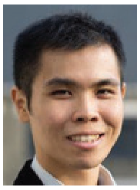
London School of Economics

Session 5: 15:50 – 16:50

THE IMPACT OF SEPARATING SELL-SIDE RESEARCH PAYMENTS FROM DEALING COMMISSIONS: EVIDENCE FROM SWEDEN

Yang Wang, Lancaster

Peter Pope (Bocconi) and Ane Tamayo (LSE)



Sell-side investment research has traditionally been an important source of non-pricecompetition between investment banks with whom institutional investors trade. Economic theory predicts that non-price competition leads suppliers to overproduce non-priced services. We study the impact on sell-side research and stock market reaction of separating research payments from dealing commissions when Sweden's largest asset managers required sell-side firms to separate research payments and dealing commissions using the research payment account (RPA) model. Using a hand-collected dataset revealing analyst location, we find that introduction of the RPA model coincides with a reduction in the supply of sell-side research – on average analyst coverage falls. The reduction in coverage is greater for smaller firms, thosewith less institutional investors, and those not included in the benchmark index. We also find that the RPA model is associated with an overall improvement in analysts' research quality, as evidenced by superior earnings forecast accuracy and stronger market reaction to forecast revisions in the post-RPA adoption period. Overall, our results suggest that unbundling research payments is associated with an improvement in the information environment for firms with analyst coverage, even though some firms suffer a reduction in analyst coverage.

Discussant: Tim Martens,

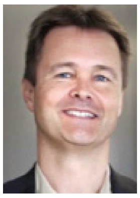
Cass Business School

THE EFFECTS OF MIFID II ON SELL-SIDE ANALYSTS, BUY-SIDE ANALYSTS AND FIRMS

Ole-Kristian Hope, Toronto

Zhongwei Huang (Cass), Bingxu Fang (Toronto),

and Rucsandra Moldovan (Concordia)



This paper provides early but comprehensive empirical evidence on a major new investor protection regulation in Europe, MiFID II, which requires investment firms to unbundle the costs they charge to clients. Specifically, MiFID II requires asset managers and broker-dealers to unbundle the cost of investment research and advisory services from other services they provide. We examine the effects of this new regulation in difference-in-differences matched-sample research designs with firm fixed effects and test for numerous potential outcomes. We find a decrease in the number of sell-side analysts covering European firms after MiFID II implementation. For example, 334 firms completely lose their analyst coverage. On average, the analysts who dropped coverage have higher lifetime forecast errors, higher forecast optimism, less experience on the job, and less experience covering the firm dropped. We do not findsignificant changes in consensus forecast errors or dispersion. However, the remaining analysts are more likely to make sell or hold stock recommendations, their recommendation revisions garner greater market reactions, and their recommendations are more profitable. In addition, sell-side analysts seem to cater more to the buy-side after MiFID II by providing industry recommendations along with stock recommendations. Importantly, we find evidence that buy-side investment firms turn to more in-house research after MiFID II implementation. Especially interesting, buy-side analysts increase their participation and engagement in earnings conference calls compared to the control group. Finally, we find some evidence that stock-market liquidity decreases post-MiFID II (after taking into account firms' disclosure responses and changes in analyst coverage). Our findings have implications beyond Europe, as investors are currently pressuring the U.S. Securities and Exchange Commission to adopt a similar regulation.

Discussant: Xi Li

London School of Economics

Sponsors

DATE AND PLACE:

The conference will take place at 200 Aldersgate, EC1A 4HD London, Cass Business School Executive Education, on 13.09.2019.

Cass Business School Executive Education is 12 min on foot from Cass Business School and is located close to St Paul's Cathedral. Closest Underground stations are St Paul's and Barbican. You can check bus/underground connections to the venue on **www.tfl.gov.uk**

Please book your place at **www.cass.city.ac.uk/newsand-events/events.**

CONTACT AND TWITTER INFORMATION:

For further details, please contact the Centre for Financial Analysis and Reporting Research (CeFARR).

cefarr@city.ac.uk

The conference twitter hashtag is **#CEFARR2019**

CENTRE FOR FINANCIAL ANALYSIS AND REPORTING RESEARCH (CEFARR)

CeFARR works in collaboration with practitioners to develop cutting-edge research, tailored consulting and specialised training in the areas of corporate communication, corporate disclosure, audit, financial reporting, security valuation, and financial intermediation.

www.cass.city.ac.uk/faculty-and-research/centres/cefarr

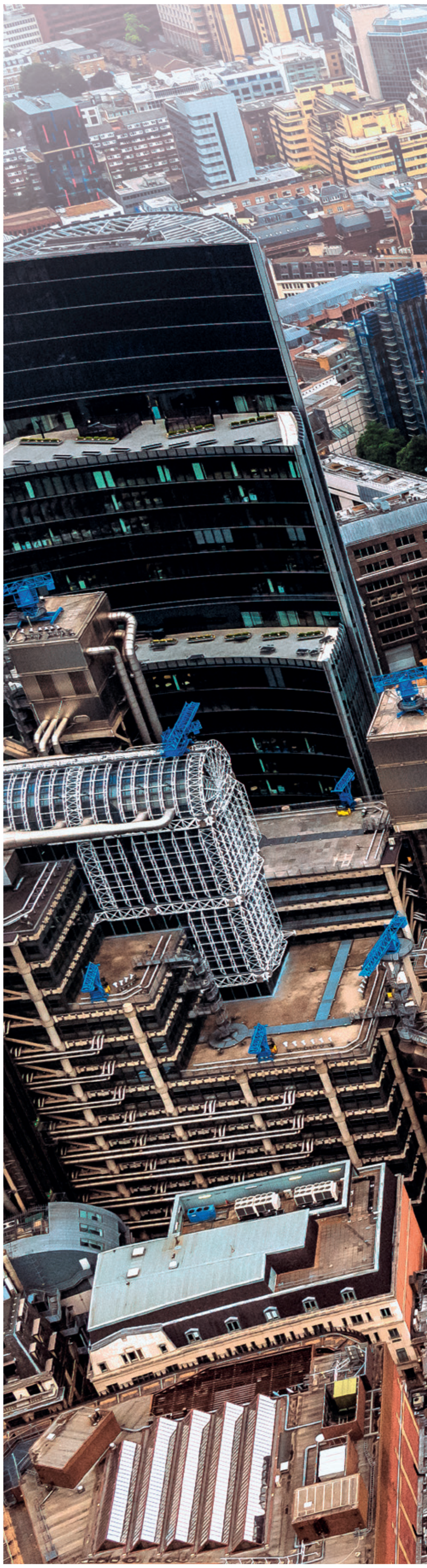
CASS BUSINESS SCHOOL

Cass Business School, City, University of London is ranked 2nd among all business schools in London, UK, according to the 2018 Financial Times European Business School ranking. Centre for Financial Analysis and Reporting Research (CeFARR) is at the forefront of analyst and related regulatory research with the goal to inform the industry and regulators.

We hope you will enjoy the conference.
Dr Pawel Bilinski and Dr Jay Jung

Notes

Centre for Financial Analysis and Reporting Research (CeFARR)
Cass Business School
106 Bunhill Row
London, EC1Y 8TZ
www.cass.city.ac.uk/faculties-and-research/centres/cefarr



www.youtube.com/user/cassprogrammes

Cass Business School

@cassbusiness

facebook.com/cassofficial

instagram.com/cassbusinessschool

Cass Business School
In 2002, the School was renamed Sir John Cass Business School following a generous donation towards the development of its new Bunhill Row premises.

Sir John Cass's Foundation
Sir John Cass's Foundation has supported education in London since the 18th century and takes its name from its founder, Sir John Cass, who established a school in Aldgate in 1710. Born in the City of London in 1661, Sir John served as an MP for the City and was knighted in 1713.

City, University of London is an independent member of the University of London which was established by Royal Charter in 1836. It consists of 18 independent member institutions of outstanding global reputation and several prestigious central academic bodies and activities.

UNIVERSITY OF LONDON