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Paper Session: Firm Financing in Global Markets
Society for the Study of Emerging Markets (SSEM)

Organizers:

Sergio Schmukler (World Bank) and Tomas Williams (George Washington University)



Chair: Jose Tessada (Catholic University, Chile and JPAL, jtessada@gmail.com)

Redrawing the Map of Global Capital Flows: The Role of Cross-Border Financing and Tax Havens

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Abstract:

Global firms finance themselves through foreign subsidiaries, often shell companies in tax havens, which obscures their nationality in aggregate statistics. We associate the universe of traded securities with their issuer's ultimate parent and restate bilateral investment positions to better reflect the true financial linkages connecting countries around the world. We find that portfolio investment from developed countries to firms in large emerging markets is dramatically larger than previously thought. The national accounts of the United States, for example, understate the U.S. position in Chinese firms by nearly 600 billion dollars, while China's social net creditor position to the rest of the world is overstated by about 50 percent. We additionally show how taking account of onshore issuance is important for our understanding of the currency composition of external portfolio liabilities, the nature of foreign direct investment, and the growth of financial globalization.

Discussant: Diego Perez (New York University, diego.perez@nyu.edu)

Benchmarking Intensity and Long-Run Returns

Anna Pavlova (London Business School, apavlova@london.edu),

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Abstract:

In a model with fund managers evaluated relative to benchmark indices, stocks belonging to these benchmarks have lower expected returns. Motivated by theory, we construct a stock-level measure of benchmarking intensity (BMI) from a unique dataset of 33 U.S. equity indices. The BMI of a stock is computed as the cumulative weight of the stock in all benchmarks, weighted by assets under management following each benchmark. Exploiting a discontinuity in the BMI of stocks at the bottom of the Russell 1000 and the top of the Russell 2000 index, we show that

stocks with higher BMIs indeed have lower long-run returns. A growing literature similarly uses the Russell cutoff for identification. We document emerging challenges to this approach: (1) the change in incentives to hold stocks around the cutoff of funds benchmarked to the Russell MidCap/1000/2000 and (2) the growing importance of other benchmarks, including recently introduced CRSP indexes.

Discussant: Harrison Hong (Columbia University, hh2679@columbia.edu)

Benchmarks, Firm Financing, and Real Effects: Evidence from a Global Natural Experiment

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Abstract

We empirically study how changes in benchmark indexes affect firms' cost of capital, external financing, and investments. For identification, we exploit one of the largest rebalancing in a global equity benchmark index by MSCI, affecting 2,508 firms in 49 countries. We show that an increase in a firm's relative importance in the index leads to an increase in its stock price following the announcement of the rebalancing. This reduction in the cost of capital leads to an increase in the firm's probability of issuing equity and borrowing bank debt. Firms that experience a higher increase in their importance in the index have higher capital expenditures in the years following the rebalancing. Our findings provide systematic evidence on the importance of benchmark indexes for firms' financing and investment policies.

Discussant: Daniel Wolfenzon (Columbia University, dw2382@gsb.columbia.edu)

Ownership Concentration and Firm Value: New Evidence from Owner Stakes in IPOs

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Abstract

We revisit the relationship between ownership concentration and firm value using hand-collected data on the stakes of owner-managers immediately before and after IPOs. We instrument for the reduction in concentration using market returns on the three months prior to the IPO. Short-run market returns are plausible instruments since owners engage in naïve market timing by selling more when prior returns are high, but high prior returns are unlikely to affect long-run firm value. As predicted by agency theory, a larger reduction in ownership concentration at the IPO is negatively related to valuation.

Discussant: Federico Huneeus (Yale University and Central Bank of Chile, federico.huneeus@yale.edu)
