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Report on the 15th Annual Financial Market Liquidity Conference

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1. Opening of the AFML conference

The 15th Annual Financial Market Liquidity Conference (AFML) took place on 14–15 November 2024 at the new Buda campus of the Corvinus University of Budapest (CUB). This highly anticipated event served as a premier platform for thought leaders, researchers and practitioners to explore the evolving dynamics of financial market liquidity, fostering an exchange of innovative ideas and collaborative solutions. In keeping with tradition, the conference was organised by leading Hungarian academic and research institutions, including the Institute of Finance at Corvinus University of Budapest, the KRTK Game Theory Research Group at the HUN-REN Centre for Economic and Regional Studies, and the Faculty of Economics at Eötvös Loránd University. In addition to the Hungarian organisers, under the aegis of the CY Initiative of Excellence the ESSEC Business School also participated as a co-organiser.

The two-day programme featured several keynote speeches by distinguished professors from leading Australian, Canadian and European universities, as well as panel discussions, research presentations and paper pitching sessions. Participants explored and discussed financial market topics related to market structure, risk management, and the intersection of technology and liquidity. Beyond financial liquidity topics, sustainability research also featured prominently. The event was sponsored by KELER CCP and Morgan Stanley, whose support underscores the importance of linking academic research with industry practice to address the challenges and opportunities in financial markets.

* The papers in this issue contain the views of the authors which are not necessarily the same as the official views of the Magyar Nemzeti Bank.

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The conference was opened by Professor *Bruno van Pottelsberghe*, the rector of CUB. After welcoming the participants, he highlighted the importance of high-quality research programmes and events such as the AFML to foster the exchange of ideas and to develop and build lasting research connections, in order to boost quality research output from Central and Eastern Europe. After the opening speech, the conferences commenced with two keynote presentations. Associate Professor *Zsuzsa R. Huszár* introduced the first keynote speaker, Professor *Renée B. Adams* from Oxford University.

2. The first day of AFML Conference – the first and the second keynote speeches and morning parallel sessions

Professor Adams' presentation, with the provocative title 'How to Save the World', explored the role of women in the shareholder/stakeholder debate and in connection with corporate governance and sustainability considerations in management. The presentation became a lively interaction with active engagement by the audience, reflecting the strong general interest in the topic and a desire to better understand the tensions between shareholder value maximisation and stakeholder value maximisation.

The presentation included a broad overview of Adams' research agenda examining corporate governance related topics, such as board composition, bank governance, group decision-making, the governance of central banks and gender diversity on and off boards (see for example *Adams and Lowry* (*2022*), while focusing on current trends in sustainability perception and commitment among students. The study presented was based on classroom experiments among Oxford University MBA students testing their attitude towards shareholders and stakeholder value maximisation.

The experiment aimed to measure the degree of 'shareholderism' among the participants, defined as the extent to which individuals prioritise shareholder interests over those of stakeholders, such as employees, the community, creditors and society in general. The results revealed that MBA students, on average, exhibited a slightly lower degree of shareholderism compared to corporate directors, albeit statistically and economically not significantly different. The mean shareholderism score for directors was 3.4, while for MBA students it was 3.32 on a scale of 1 to 5. Interestingly, the collected data also indicated that female MBA students tend to be more pro-shareholder than their male counterparts, challenging the common narrative that women are inherently more stakeholder oriented.

Further analysis showed that the attitudes of MBA students towards shareholder and stakeholder value maximisation were influenced by their personal values. The study utilised Schwartz's value theory, which identifies ten value types, including universalism, which emphasises understanding, appreciation, tolerance and protection for the welfare of all people and nature. The findings suggested that students with higher universalism scores were less likely to prioritise shareholder interests, aligning with the broader literature on the impact of personal values on corporate decision-making.

The experiment also highlighted the importance of cultural and institutional contexts in shaping attitudes towards shareholder and stakeholder value maximisation. The responses of MBA students were compared to those of directors from different countries, revealing significant variations based on cultural and legal environments. This underscores the complexity of generalising findings across different contexts and the need for a nuanced understanding of how personal and contextual factors interact in shaping corporate governance practices.

The presentation by Adams concluded with a Q&A session, followed by the introduction of the second keynote speaker, Professor *Robert Faff*, who recently also joined CUB as a research professor. Faff's presentation focused on his pioneering efforts in advancing responsible finance research through the preregistration initiative in the Pacific-Basin Finance Journal (PBFJ) as the publication's Editor-in-Chief. He began by emphasising the main principles of scientific inquiry, which extend beyond mere research to include the discovery of new patterns and the accumulation of verified information to generate knowledge.

Faff identified three pillars of responsible science: credibility, relevance and independence. Credibility is achieved through the application of reliable and rigorous methodologies, while relevance requires addressing real-world issues. Independence is equally critical, as it ensures an unbiased perspective and avoids conflicts of interest. He further stressed the importance of open inquiry, advocating for a balanced approach to research and literature review that embraces diverse topics. This framework, he explained, fosters a more robust scientific process by maintaining methodological rigor and addressing practical challenges in research.

To illustrate contemporary challenges in scientific integrity, Faff referenced a 2023 report by the UK House of Commons, which revealed that most scientific publications in the UK are not reproducible, a finding that underscores a global reproducibility crisis in modern science. Reproducibility is vital for generating reliable knowledge, but issues such as publication bias against null findings (i.e. papers findings no significant support for valid research hypothesis) and research waste still persist. Some key recommendations from the report were highlighted, such as open access data, which are easy to find, readily accessible, interoperable and reusable (FAIR principles). Faff, explained that his PBFJ preregistration research initiative aims to address these issues by fostering transparency and mitigating biases in research.

Preregistration involves publicly registering research protocols and analysis plans before data collection or analysis begins. Faff outlined its three primary benefits: enhancing transparency by providing a clear research roadmap, reducing risks of p-hacking through predefined analyses, and enabling more accurate replication of studies by other researchers. Drawing on work by *Nosek and Lakens* (*2014*), he explained how preregistration strengthens the scientific progress, specifically addressing the p-hacking concerns. He noted that this shift from prioritising statistical significance to methodological soundness also facilitates the publication of null results, thereby enriching scientific understanding and reducing publication bias. Concluding his presentation, Faff argued that this framework can incentivise researchers to tackle bold and risky questions grounded in solid theoretical foundations while addressing real-world problems.

Following the two motivational keynote presentations, three parallel sessions with long and short paper presentations took place. The 'Commodities and Derivative Securities' session was chaired by Professor *Mihály Ormos* from ELTE, while Professor *Péter Bíró* from CUB chaired the 'Theory' session, and Professor *Robert Faff* moderated the 'Flash talks' sessions. The latter short paper pitching session, at which PhD students and young researchers pitched ideas to receive feedback from distinguished editors, continued in the afternoon session.

The first two parallel sessions were structured to accommodate three or four 30-minute paper presentations, sometimes with expert discussants where the presenters had specifically requested formal feedback. This structured approach was implemented to enhance the quality of future publications and foster meaningful academic dialogue among participants. The morning sessions provided a comprehensive platform for researchers to present their findings and receive valuable peer feedback before breaking for lunch.

In the third interactive session, in the morning, 8 presenters were allocated 15 minutes to provide short pitches of their work and Q&A. The presenters were primarily students working on their doctoral studies at CUB and researchers from the region. One of the foreign presenters at the pitching session was Associate Professor *Rafal Sieradzki* from Cracow University of Economics, who is currently a visiting scholar at New York University (NYU) Stern School of Business. He gave a short summary of his paper, entitled 'Systemic risk indicator based on Implied and Realized Volatility' (*Sakowski et al. 2023*).

3. The first day of the AFML conference – afternoon parallel sessions and the third and fourth keynote presentations

The second block consisted of three parallel sessions. The two standard paper sessions, entitled 'Asset pricing, Macroeconomics, and Greenwashing' and 'Banking and lending' were chaired by Professor *Ágnes Lublóy* from the Stockholm School of Economics in Riga and by Professor *Álmos Telegdy* from CUB, respectively. Presentations during the afternoon sessions covered wide-ranging topics including short-term return reversals, monetary policy, inflation tax avoidance, firm-level greenwashing and the effects of export promotion.

The third parallel session was again dedicated to Flash Talks, under the mentorship of Professor *Robert Faff*. 8 presenters were given 15 minutes to pitch. Among them, *Bálint Várgedő*, a CUB PhD student, presented his paper 'Green firms are less risky: Results from a Preferential Capital Requirement Program in Emerging Europe', using unique regional data from the Magyar Nemzeti Bank, the central bank of Hungary. For every presentation, Professor Faff spent 5 minutes to share his views, which received acknowledgement from both the presenters and the audience. The afternoon parallel sessions concluded with a coffee break, followed by the third keynote presentation of the conference.

In the afternoon, the third keynote speech was delivered by Professor *Rose Liao* from Rutgers University, USA. Liao presented one of her ongoing research projects on the topic of 'Labour Laws and Responsible Sourcing' (*Hu et al. 2024*). The main empirical research questions provide an in-depth understanding of how labour laws impacted US companies' import choices and supply chain management decisions.

Using 18 million freight shipment records, Liao and her co-authors found that US firms imported 6% more from countries that improve labour conditions through mandatory workforce policy (MWP) regulations, especially from new suppliers. MWP is recognised when the policy is workforce-oriented to increase labour welfare, which is determined by the authors under the guidance provided by US labour law and worker protection. The authors manually collected MWP adoptions worldwide from the Carrots & Sticks database, a publicly available database providing information on country-level ESG policies around the world. One of the key research findings was that US firms increase imports from supplier countries that experience positive changes in labour policy, despite the higher operating costs. Liao explained that these firms could obtain more favourable evaluations (e.g. social rating or supply chain ratings) regarding employee conditions by importing more from countries which improved labour welfare despite higher operating costs. She explained that they wanted to answer the important question as to whether countries should pass labour law measures. They found that emerging market adoptions, export-oriented country adoptions and lower skilled-workers country adoptions of MWP have a stronger effect of increasing imports from US companies.

This was the first empirical study using shipment-level seaborne import information for an extended timeframe from 2007 to 2019 to examine whether and how US firms adjust global supply chains with workforce policy changes. The study concluded by highlighting its important policy relevance, showing that US firms increased imports from supplier countries that experienced positive changes in workforce policy. This effect was particularly notable when the firms were headquartered in so-called 'blue states' (i.e. US states where the weighted average of Democratic party representation in the Senate and House delegations exceeds 50%) and in industries with high human capital intensity and employee mobility. Overall, the research suggests that sustainability and human rights issues play a significant role in US firms' supply chain decisions. Additionally, it was found that after a supplier country's MWP adoption, the affected firms received increased ratings on employee welfare.

The afternoon plenary session of the conference's first day featured online a keynote speech by Professor *Thomas J. Walker* from Concordia University, Canada. The presentation, co-authored with *David Ung* and *Moein Karami*, was titled 'On the Preparedness of Local Governments and Municipalities for Natural Disasters.' Walker began by providing an overview of natural disasters in Canada, the types of disasters (e.g. blizzards, floods, storms and wildfires) and the scope of damages. He highlighted Canada's vulnerability to all major categories of natural disasters by mentioning the *Public Safety Canada* (*2024*) report and discussed the varying levels of preparedness across provinces.

In examining the existing body of research, Walker noted a predominance of studies focusing on specific local areas or individual types of natural disasters and their costs. The research presented aimed to address the limited comprehensive country coverage, by evaluating the preparedness of provinces and municipalities across Canada, investigating each region's exposure to different types of natural disasters and assessing the readiness of policymakers and emergency workers to mitigate such risks. The initial research conjecture was that areas with higher exposure to natural disasters would demonstrate more robust preparedness measures.

In terms of data collection, Walker and his team relied on the Canadian Disaster Database (CDD) and the Emergency Events Database (EM-DAT). He also highlighted the challenges of coverage in these databases and mentioned how it could be useful if the database had better coverage. Because of the challenges in measuring spending, they proposed a qualitative assessment asking whether a province had a budget, a certain timeline or any action plan for disasters or whether provinces prepared citizens by educating or having consultants to evaluate preparedness.

After that, they assigned scores considering the weight of the action plan in place in the budget, initiatives, timelines and education plans.

The findings revealed significant variations in preparedness across municipalities and provinces. Cities such as Vancouver, Ottawa and Montreal demonstrated high preparedness scores at the provincial level, while Prince Edward Island ranked relatively low. Overall, the research indicated that provinces with high exposure to natural disasters tend to exhibit better preparedness. However, some regions with substantial disaster exposure still showed deficiencies in their readiness.

Walker highlighted challenges in evaluating financial market responses to disasters, particularly with respect to provincial bond yield spreads. He explained the difficulties of conducting event studies for certain types of disasters and noted that disaster impacts are not always reflected uniformly in provincial or federal bond yields. The presentation concluded with an interactive Q&A session, during which audience members provided feedback and posed further questions about the research.

The first day of the conference concluded successfully with engaging discussions and insightful presentations, setting a strong foundation for the second day sessions. Participants exchanged meaningful ideas and discussions and networked throughout the day.

4. The second day of the AFML conference – parallel sessions and the fifth and sixth keynote speech

The second day of the conference started with keynote speaker Professor *Albert J. Menkveld* from Vrije Universiteit Amsterdam, the Netherlands, who presented his research entitled 'Pricing Variance in a Model with Fire Sales' (*Menkveld 2024*). Before his presentation, Menkveld gave a brief introduction of his prior work on Nonstandard Errors, which has received much attention in the field. Following the introduction, he focused on the motivation of his research: how and why the pricing of the second moment is relevant. He asked several questions thought-provoking questions: Can nontraded risk generate a positive volatility risk premium (VRP)? What is the size of the premium? Can nontraded risk rationalise crash patterns? To answer these questions, he proposed a Grossman-Stiglitz-type model. This model implies that the volatility risk premium is nonnegative. Second, the model also yields a relatively simple analytical expression for the VRP. Thirdly, the model can explain that the VRP is slow to decay in the months after a crisis.

This model could generate two additional facts related to the puzzling pattern of higher volume trading at lower liquidity during post-crisis periods. These additional observations were based on intraday trading data for SPY and an actively traded exchange-traded fund (ETF) that tracks the S&P 500 index. More specifically, the model consists of three stages. In the first stage, all agents are homogeneous and can buy or sell variance swaps. In the second stage, some agents suffer a nontraded risk ('endowment') shock and can trade the risky asset to hedge. The remaining agents endogenously become liquidity suppliers. In the final period, payoffs are realised, and agents consume. The key result that the model delivers is that variance swaps mitigate the utility cost due to nontraded risk shocks. In equilibrium, implied variance exceeds the expected realised variance because the benefit to those who suffer the shock exceeds the cost to those who do not. The model equilibrium yields relatively simple closed-form expressions for asset returns, market liquidity and variance swaps.

Using long time-series of real-world data from 1993 to 2022, Menkveld found that the average variance risk premium was positive and the US equity index derivatives trading volumes were elevated in post-crisis months. Furthermore, this elevated volume is traded at higher costs, as the market is less liquid during the post-crisis period. Apart from this, the empirical findings are explained by a model where agents experience fire-sale risk. These findings provided a novel perspective on VIX dynamics: regulators should become more vigilant when the VIX is abnormally high relative to the real-world volatility, as it is associated with higher risk of fire sales. Future research is encouraged to identify policies that could mitigate these post-crisis patterns. If policies make those few agents experience less fire-sale demand, markets might recover more quickly after a crisis. The extent to which such policies exist and whether they are desirable from a welfare perspective is left for future research.

The Plenary Session continued with the online presentation of Professor *Jonathan A. Batten* from RMIT University, Australia. His talk was based on the research paper titled 'Currency Portfolio Management under Exchange Rate Uncertainty'. Batten and his co-authors' empirical research focused on the importance of the US dollar in international finance. While the economies of the USA, China and the EU each contribute approximately one quarter of global GDP, the US dollar continues to maintain its strength in the global financial market. The key goal of the research is to understand the dominance of the US dollar in the foreign exchange market.

The study analysed the currency preferences of non-financial firms managing global asset and liability portfolios. Multinational corporations, for example, were exposed to multiple currencies through international financing, multi-currency revenues and offshore subsidiaries. Moreover, the US dollar maintains a strong presence in international trade, settlements, external debt, international bonds and foreign exchange reserves, according to a BIS report by *McGuire et al.* (*2024*). This raised the question: if the US dollar is so dominant, why do smaller currencies still play a role in trade and settlement? What significance do these smaller currencies hold in the financial system?

The research employed EGARCH (1,1) method combined with MIDAS (Mixed Data Sampling) to facilitate improved currency forecasting by integrating information from various data sources with varying frequencies, particularly from news. The study examined currency returns using sentiment measures. Six currencies – GBP, EUR, CHF, JPY, CAD and AUD – were analysed against USD in a portfolio, with portfolio weights adjusted in response to shocks driven by sentiment or news data. Initially, the authors examined the daily prices of these selected currencies, expressing all values in USD. They then incorporated sentiment measures into the analysis. The dataset included the currency pairs USD/GBP, USD/EUR, USD/JPY, USD/CAD, USD/AUD and USD/CHF, alongside three sentiment indicators: financial sector sentiment, monetary policy sentiment and USD-related news sentiment.

The authors' findings aligned with existing research on the dominance and stability of the US dollar in the global currency market. They explained that they began with a simple model to analyse how sentiment influences corporation's currency choices. The study assumed that an investor initially allocated wealth equally across different currencies, both with and without sentiment considerations. Using various models and technologies, Batten highlighted the significant role of smaller currencies while reaffirming the continued dominance of the US dollar. He concluded his speech by emphasising the significance of integrating sentiment data into currency analysis and real-world portfolio management.

Following the last keynote speech, attendees enjoyed a brief coffee break, providing an opportunity for informal discussions and networking. The conference then resumed with another compelling plenary session, featuring invited speakers *Gabor Pinter* and *Wenqian Huang* from the Bank for International Settlements (BIS), *Simon Jurkatis* from the Bank of England, UK, and Associate Professor *Tommy Lee* from Central European University (CEU), Austria. Chaired by Professor *Laurence Daures* from ESSEC Business School, France, the session focused on the overarching theme of Strategic Behaviour in OTC Markets, with a dedicated discussant contributing further insights. After this session, the two-day conference concluded with parallel sessions covering Corporate Finance and Market Microstructure as well as Sustainability and Social Innovation, allowing participants to explore specialised topics in depth.

5. Concluding remarks

The 15th AFML Conference concluded following a two-day intensive discourse with plenary and parallel sessions touching on various topics of the current financial literature, ranging from repo and foreign exchange markets to how extreme weather events influence bank lending. The conference featured six keynote speakers with renowned names such as Professors Renée Adams, Robert Faff, Rose Liao, Thomas Walker, Albert J. Menkveld and Jonathan A. Batten. In addition to the keynote speeches, 44 flash talks and presentations were conducted by invited speakers from domestic and international research institutions and universities.

Overall, the 15th AFML conference covered a wide range of empirical and theoretical topics, providing a unique opportunity for the participants to discuss the most recent research techniques, exchange ideas regarding current research topics and participate in networking sessions with researchers from all around the world. The event also offered opportunities for young scholars to meet with senior researchers to foster the creation of new research networks, supporting the development of the field.

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