Report on the 16th Annual Financial Markets and Liquidity Conference*

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1. Conference overview and opening ceremony

The 16th Annual Financial Market Liquidity Conference (AFML) was held in Hungary from 15 to 17 October 2025 and marked a significant milestone in the event's history. The meeting featured over 200 participants from 40 countries, affirming its status as a premier international platform for advancing cutting-edge research in financial markets and their broader societal implications. The AFML Conference was jointly organised by the Institute of Finance (IoF) at Corvinus University of Budapest (CUB), the Game Theory Research Group at ELTE Centre for Economic and Regional Studies, the Faculty of Economics at Eötvös Loránd University, and the Department of Finance at ESSEC Business School (under the CY Initiative of Excellence).

This year's edition was substantially larger and broader in terms of thematic coverage compared to previous years, expanding the legacy topics of game theory, financial economics, and mainstream finance topics (e.g. corporate finance, investment, asset pricing, and banking) to include Artificial Intelligence (AI) and machine learning, sustainable finance, household finance, and alternative investments such as crypto and tokenomics. Whereas earlier conferences typically lasted 1.5 to 2 days, the 2025 conference was extended to 2.5 days to create more space for meaningful academic and industry interaction.

To foster deeper collaboration, the conference opened with a half-day programme dedicated to informal engagement, featuring an editorial panel discussion followed by topic-based breakout sessions. This opening afternoon was designed to give participants an opportunity to connect even before the main sessions began, strengthening the sense of community and facilitating early-stage feedback on research ideas. The two full days that followed offered a rich schedule of parallel sessions, representing the most extensive programme the conference had ever hosted.

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This year, there were four parallel sections, more than in any previous edition. Three parallel sections featured full-length paper presentations across key topics in financial market liquidity. The fourth section was devoted to short-format "speed talk" presentations, tailored specifically for PhD students, early-career researchers, and young academics. These sessions offered fast-paced interactions with journal editors and senior scholars. Throughout the event, participants also had access to a designated discussion room, available at all times for small-group meetings, networking, and extended research conversations beyond the formal programme.[1]

One distinctive feature of the 2025 conference was the level of editorial engagement. Each session – across all of the sections – had two editors assigned, ensuring that participants received extensive, high-quality feedback on their work. This structure made the conference an exceptional platform for early-stage research development and strengthening ties between academics and the editorial community.

Overall, the expanded format, broader topical coverage, and emphasis on structured and informal interactions made the 2025 edition of the AFML conference the most dynamic and inclusive to date.

2. Pre-conference events: 15 October 2025

Official proceedings began late afternoon of 15 October 2025, following registration and a welcome reception. This was immediately followed by the Welcome Dinner, Editorial Panel discussion, and Networking Session with a wine reception.

The evening's central feature was an Editorial Plenary Session at 7 PM, featuring four distinguished current and former journal chief editors: *Luitgard Veraart* from London School of Economics and Political Science (UK), *Andrea Vedolin* from Boston University Questrom School of Business (USA), *Jeffrey Pontiff* from Boston College (USA), and *Robert Faff* from Bond University (Australia) and Corvinus University of Budapest. These editors represented a wide disciplinary range, covering expertise from mathematical finance to traditional corporate finance, investment topics, and alternative finance.

Luitgard Veraart works in financial mathematics and statistics in finance, as the Associate Editor of Applied Mathematical Finance, Mathematical Finance, and the SIAM Journal on Financial Mathematics and Operations Research. *Andrea Vedolin*, with a strong focus on theoretical asset pricing at the heart of the finance discipline, has a strong editorial presence as Associate Editor of several top finance journals, including the Journal of Financial Econometrics, the Review of Financial Studies,

[1] https://www.uni-corvinus.hu/ind/afml-conference/?lang=en#accordion-item-1001

the Journal of Finance, and the Review of Asset Pricing Studies. Jeffrey Pontiff is an experienced editor, having long served as the executive editor of the Review of Asset Pricing Studies and now as associate editor at the *Journal of Financial and Quantitative Analysis*, *Financial Management*, and the *Journal of Wine Economics*. The 5th invited editor, *Simona Mateut* from Nottingham University, the Editor-in-Chief for the Journal of Multinational Financial Management, Associate Editor for the Journal of Climate Finance, and a member of the Editorial Review Board for Small Business Economics, was not able make it to the editorial session but was an active participant at the conference, chairing the sustainable finance special session.

The panel offered candid, insightful guidance to young researchers on the most promising and, conversely, the most saturated research areas. Notably, the panel exhibited a split consensus on key research directions: while some editors advocated exploring rising new topics related to AI and Machine Learning (ML), two editors strongly suggested that researchers focus on first-order investment preferences and core risk questions, and explicitly recommended avoiding sustainable finance topics for maximising novelty and impact in top-tier publications.

Following this plenary session, four concurrent, specialised *Fireside Chat Sessions* provided further opportunities for networking and topic-specific engagement across the themes of AI and machine learning, mathematical finance and game theory, household finance, and sustainable finance.

3. Day one sessions (16 October)

The conference was formally opened by *Péter Csóka*, who introduced the Rector of the Corvinus University of Budapest *Bruno van Pottelsberghe*, who shared the new strategic vision with the audience. Following this introduction, *Zsuzsa R. Huszar* introduced the first Keynote speaker, *Jeffrey Pontiff*, who presented his research entitled, "A Century of Market Reversals: Resurrecting Volatility". His work highlighted the strong role of volatility, rather than volume, in driving autocorrelation and reversal of market returns, supporting the construction of a more robust, volatility-based liquidity risk factor.

In line with the title of conference, *Pontiff* chose financial market liquidity as the subject of the keynote address. Liquidity has long been recognised as a critical determinant of asset prices and expected returns. Theoretical models such as *Ho* and *Stoll* (*1981*) and *Grossman* and *Miller* (*1988*) posit that risk-averse liquidity providers demand compensation for absorbing order imbalances, causing short-term return reversals. Empirical work by *Campbell, Grossman,* and *Wang* (*1993*) and *Conrad, et al.* (*1994*) documents links between trading volume and return autocorrelation, inspiring *Pástor* and *Stambaugh* (*2003*) to introduce a market-

wide liquidity risk factor based on volume-induced reversals. Despite its conceptual appeal, the Pástor–Stambaugh factor has not achieved widespread adoption in practice or academia, partly due to its instability and sensitivity to specification choices (*Pontiff* and *Singla 2020*).

Based on a current working paper, "A Century of Market Reversals: Resurrecting Volatility" by *Bogousslavsky, LeBaron* and *Pontiff*, the presentation revisited the foundations of liquidity pricing using nearly a century of high-frequency Dow Jones intraday data (1933–2023). The authors argued that prior literature underemphasised volatility – a core component of inventory risk – because volatility was latent and difficult to measure precisely. The authors provided a high-powered test of inventory models: by leveraging realised volatility estimates from intraday returns, they reduced measurement error by over 86 per cent compared to daily GARCH-based estimates.

Key Contributions:

Volatility as the dominant driver of reversals: Across all subsamples, return autocorrelation is strongly and negatively related to anticipated volatility, while the effect of volume is weaker and inconsistent, significant only in certain historical periods.

Anticipated vs. shock components: The authors disentangle expected volatility and volume from shocks using rolling-window forecasts (Corsi-type models). Negative autocorrelation is driven by anticipated volatility and anticipated volume, not by shocks.

Asymmetry and Collateral Constraints: Autocorrelations are lower following negative return days, consistent with tighter funding constraints for liquidity providers. This asymmetry persists for up to three trading days, reinforcing the role of margin and collateral in liquidity provision.

Liquidity Risk Factor Innovation: Extending *Pástor–Stambaugh* (*2003*), the authors construct a volatility-based liquidity risk factor by replacing volume with anticipated volatility. These factors are associated with a higher annualised long–short return (≈7.8 per cent vs. 3.8 per cent for PS), a higher Sharpe ratio, and greater robustness in comparison with the original volume-based factor. This suggests that volatility-based measures better capture systematic liquidity risk.

Overall, *Pontiff's* ongoing research challenges the traditional reliance on volume-based liquidity proxies and resurrects volatility as a central determinant of market reversals and liquidity risk pricing. By demonstrating that anticipated volatility, not just shocks, contributes to liquidity provision, the paper offers a more theoretically coherent and empirically robust framework for asset pricing models incorporating liquidity risk.

3.1. Day one academic sessions and research highlights

The morning sessions featured a Special Session on Mathematical Finance and Game Theory alongside sessions on Asset Pricing, Corporate Finance.

The Special Session on Mathematical Finance and Game Theory, chaired by *Péter Csóka*, explored rigorous quantitative methods to model systemic risk, institutional stability, and competitive outcomes in finance. The session featured papers that developed novel frameworks for analysing complex interdependencies. *Luitgard Veraart* introduced a modelling framework for contagion in financial networks, demonstrating how interacting channels, such as funding withdrawals and price-mediated fire sales, can trigger systemic crises, with the extent of risk highly sensitive to participants' withdrawal strategies. Meanwhile, *Tamás Solymosi* presented a theoretical framework with three enterprise games, constructively proving that the core is non-empty under specific constraints of a rooted tree hierarchy, modelling cooperation issues constrained by access to a vital resource. Focusing on regulation and data, *Barbara Dömötör* addressed the practical challenge of estimating Through-the-Cycle Default Probabilities (PDs) for Internal Ratings-Based (IRB) models, offering a method for simultaneous calibration across sub-portfolios that works even with incomplete data using the Basel single risk factor model. Finally, *Tamás Vadász* analysed the policy implications of data interoperability (Open Banking/Finance), highlighting a trade-off: sharing customer data improves competition in credit services, but may increase prices in data-generating services such as payments.

The session Flash Talk I. Mathematical Finance and Machine Learning (co-chaired by *András Fülöp* and *Robert Faff*) showcased an impressive spectrum of methodological innovation at the intersection of mathematical finance and AI. The presentations ranged from rigorous theoretical work on network connectedness and copulas to machine learning applications in volatility forecasting and risk mapping across developed and emerging markets. It was particularly interesting how many speakers struck a healthy balance between theoretical depth and empirical demonstration – exactly what a flash-talk format rewards. The energy in the room was palpable, and the concise structure encouraged clear, purposeful storytelling of complex ideas. Overall, this session set a high bar for clarity, discipline, and cross-fertilisation between traditional quantitative finance and modern data-driven techniques.

The afternoon programme included two Special Sessions: Household Finance (chaired by *Zsuzsa R. Huszár*) and Flash Talk II: Banking and Regulation (co-chaired by *Robert Faff* and *Tamás Vadász*). The first session opened with a short presentation on gendered patterns in Hungarian households' financial decision-making and their implications for household investment and wealth, followed by talks by two prestigious household finance experts, *Laurent Bach* from ESSEC Business School and *Sofie R. Waltl* from the University of Cambridge. Using unique

Swedish microdata, Laurent Bach examined individual-level profitability of housing investments and found that, when accounting for all construction, furnishing, and related costs, real estate investments are generally less profitable for women; the material gain is concentrated among male investors who undertake major renovations themselves. Overall, the findings challenge the widespread belief that real estate investment consistently delivers substantial positive returns. The final presentation by Sofie Waltl was policy-charged, addressing the omission of owner-occupied housing (OOH) from the Harmonised Index of Consumer Prices (HICP), which is likely to have resulted in limitations in the European Central Bank's (ECB) inflation measurement framework. Addressing the concern that excluding OOH can lead to systematic biases in monetary policy decisions, the authors show that a suggested revised inflation measure would have signalled inflationary pressures earlier during the Covid-19 pandemic, thereby enabling more timely policy response. The findings underscore the importance of revisiting the methodological foundations of inflation measurement to mitigate risks of policy overshooting and enhance macroeconomic resilience.

The latter session was notable for its focus on acute policy concerns, such as the credibility of bail-in regulation in EU banks' bond issuance, and an empirical study of "Systemic Risk and Climate Change" in the Polish banking sector. The papers addressed an array of timely theme, such as bail-in credibility, capital requirements, climate-related systemic risk, and the strategic dynamics of liquidity provision. What stood out was the clear policy relevance of these contributions and their grounding in high-quality empirical work, often using European datasets. Presenters handled the time discipline of the flash format admirably, articulating their research questions and findings with economy and focus. The ensuing discussion was rich and collegial, reflecting AFML's culture of constructive critique and intellectual curiosity.

The day concluded with Flash Talk III: Macro Policy and Household Finance (co-chaired by *Robert Faff* and *Laurent Bach*). The "pitches" in this session – spanning topics from digital currency implications and monetary policy transmission to taxation, workforce exposure to AI, and behavioural aspects of household decision-making – demonstrated both creativity and relevance. Many of the early-career presenters demonstrated an impressive command of the pitching mindset: sharp framing, credible motivation, and clear articulation of their contribution. The breadth of macro-household linkages explored was especially refreshing, underscoring how sound empirical design can yield meaningful policy insights. The enthusiasm and preparedness of the speakers made this an enjoyable and genuinely inspiring session – an excellent example of how concise, well-crafted research pitches can energise an audience and stimulate broader collaboration.

4. Day two sessions (17 October)

The second day opened with the keynote address delivered by *Andrea Vedolin* (Boston University) on "Expectations in Asset Pricing". The session was chaired by *Helena Naffa*.

The second keynote presentation, entitled "Subjective Beliefs in Asset Pricing", by *Andrea Vedolin* from Boston University, focused on investors' heterogeneity. The presenter started with some slides of local relevance, discussing Hungarian forint and euro relation, highlighting the high dispersion of future expectations of this currency pair among market participants. The presentations building on her current research (*Crescini et al. 2025*; *Molavi et al. 2025*) explored the critical role of subjective beliefs in determining asset prices and challenged the dominant paradigm of Full Information Rational Expectations (FIRE). Traditional asset pricing models assume that investors have complete knowledge of the economy's structure, shocks and probabilities, leading to homogeneous expectations. However, this assumption is often unrealistic because information is dispersed, agents may not be Bayesian, and models can be misspecified. While the Recovery Theorem (*Ross 2015*) established the theoretical possibility of disentangling risk aversion from natural probabilities using option prices, empirical applications often struggle with the 'representative agent' assumption. Vedolin and her coauthors extend this foundation by allowing for the recovery of heterogeneous subjective beliefs. The presentation, while emphasising that asset prices are forward-looking and depend on investors' subjective expectations, reviewed empirical evidence showing systematic forecast errors, underreaction, and overreaction in expectations (*Coibion – Gorodnichenko 2015*), which contradict FIRE.

Vedolin highlighted the "wilderness" of alternative models of expectation formation, including rational inattention, sticky information, higher-order uncertainty, cognitive discounting, and behavioural biases such as overconfidence and representativeness. To address these challenges, the presentation advocated for approaches that either assume empirically grounded models of belief formation ("bottom-up") or treat expectations as primitives observed in data ("top-down"), leading to temporary equilibrium frameworks. One concrete application is provided through the term structure of interest rates, where the expectation hypothesis traditionally links long-term yields to averages of expected short rates under rational expectations (*Molavi et al. 2025*). Vedolin demonstrates that without imposing FIRE, one can still characterise relationships between yields and beliefs and test for time-varying risk premia using survey and price data. The analysis reveals that expectations across maturities are often inconsistent with temporary equilibrium relationships, especially at long horizons, suggesting that risk premia are not constant and that subjective beliefs significantly shape yield curve dynamics. The conclusion

underscores the importance of incorporating subjective expectations into asset pricing models and leveraging new data sources, including surveys and market prices, to better understand belief heterogeneity and its implications for financial markets.

4.1. Day two academic sessions and research highlights

Following the second keynote, the morning included the Special Session: AI & Machine Learning (chaired by *András Fülöp*), confirming the conference's commitment to computational finance.

Flash Talk IV: ESG and Sustainable Finance (co-chaired by *Simona Mateut* and *James Steeley*) covered a wide range of papers exploring climate risk measures and the impact of natural disasters. Highlights included the development of "A Greenwashing Index" and an analysis of "Credit Supply and Decarbonisation" in the euro area.

The final sessions featured the Special Session: Climate Finance, chaired by *Helena Naffa*, and concluded the formal academic programme. The session's first presenter was *Simona Mateut*, who, as an Editor-in-Chief of *Multinational Financial Management* and an editor at *Climate Finance*, provided valuable context while presenting her research on Indian firms' reaction to mandatory Corporate Social Responsibility (CSR) spending and stock price crash risk. This was followed by a presentation by *PhD student Xinglin Li* from Helena Naffa's Sustainable Finance Research Center, on the relationship between Biodiversity, Physical and Transition Risk, and firm financial performance. The session concluded with *Milena Petrova*'s work focusing on a sustainable/resilient portfolio approach within US real estate firms.

5. Concluding remarks

The 16th AFML Conference was a resounding success, distinguished by the depth and breadth of the research presented. The event provided a unique opportunity for participants to discuss the latest research methods, exchange ideas on current topics, and strengthen global research networks, particularly in emerging areas such as AI-driven finance and climate risk. The Organising Committee gratefully acknowledges the support of the sponsors, including the Scientific Mecenatúra Grant of the National Research, Development and Innovation Office, KELER CCP, and Morgan Stanley.

The conference concluded with a brief farewell reception held in the Main Building Courtyard and a final visit to the University's museum, which proudly displays a large sculpture of Karl Marx, recalling the institution's historical namesake before its current designation as the Corvinus University of Budapest.

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