出國報告（出國類別：國際會議）

European Finance Association 2016 Annual Conference
歐洲財務學會2016年研討會

服務機關：國立暨南國際大學
　　　　　財務金融學系
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目次

目的

　　歐洲財務管理學會(European Financial Management Association，以下簡稱 EFMA)於1994年由 Prof. John Doukas 所創立，目的在於鼓勵研究、傳播各個財務領域關於歐洲的公司、金融機構與資本市場的知識，為了達到這個目的，EFMA 提供會員可投稿的期刊（European Financial Management），並且每年六月底七月初定期舉辦研討會，與會者可以於研討會期間發表與討論自己的研究。與會者包括來自全球各洲學術界、產業界與學生，還有其他來自世界各地對於財務管理實務有興趣或是熱衷於於瞭解與解決財務問題的人。

　　EFMA 迄今已於歐洲舉辦過25屆歐洲財務管理學會年會 (European Financial Management Association Annual Meeting)，透過跨國、跨世代、跨產官學界的交流強化財務知識的傳遞與啟發。此次『第25屆年會』由瑞士巴賽爾大學主辦，於2016年6月29日至7月2日在瑞士巴賽爾大學舉行，會議期間有4場座談會、3場大會專題演講、約90場分組報告，合計約300篇研究論文發表，共有來自將近30個國家超過500位相關領域的研究者與實務工作者與會。

　　後學此次與會主要目的是進行一篇研究論文發表，並且同時評論發表的論文，希望透過與會與相關領域國際學者的交流能更提升文章的品質以及研究的能力。

過程

　　歐洲財務學會第25屆年會於6月29日一早開始，當天有多場針對博士班學生論文發表與指導的場次，由資深學者針對每篇文章深入講評與指導，精闢的見解對於論文發表的學習上提供非常棒的學習機會與幫助。當天造上還有一場大會專題演講，由 Stockholm School of Economics 的 Prof. Giannetti，講題為 "The Corporate Finance Benefits of Short-Term Investors"，剛好與後學近期正在進行的研究主題相關，獲得許多研究上的進一步想法。6月30日早上，後學在 Session D8 Behavioral Finance II 場次中負責評論來自西班牙的學者 Prof. Ferrer 所發表的文章 "Does Analysts' Information Influence the Cost of Debt? Some International Evidence"，該場次主席剛好是歐洲財務學會裡的資深學者 Prof. Manuel Armada，針對每篇文章都額外提供許多有見解，評論之餘收穫很多。與會同場次還有來自政治大學財務學界的資深教授，也間接提升自己在學界的曝光度。隔天7月1日早上，後學於 Session F10 Agency Issues II 發表論文 "Multiple Bank Relationships and Corporate Risk Management"，此篇文章利用台灣法規制度對於所有上市櫃公司強制揭露使用衍生性金融商品進行避險的規定，探討借款銀行結構對於借款公司風險管理政策的影響，當天評論此篇文章是一位來自中國目前在英國教書多年的會計相關領域的學者，因此獲得財務以外領域學者對後學所發表論文不同角度的建議與評論，且當天還意外獲得一位來自美國資深財務學者對於後學文章有諸多的興趣，在當天場次發表完後還有非常多對於後學此篇論文相當多的討論，收穫良多。

　　除了參與評論場次與論文發表場次以外，後學也把握機會參予多場與近期研究相關領域的論文發表場次以及大會專題演講，包括 Session G1 Takeovers V (併購相關議題)、Session H9 Behavioral Finance V (行為財務學相關議題)、Session J2 Agency Issues III (代理問題與公司治理相關議題)等，及聽講來自 University of Texas-Austin 的 Prof. Sheridan Titman 的演講，演講主題為 "Does Ownership Structure Matter?" 談到過去四十年以來公司股權結構的改變，以及影響股權結構改變的因素，領受大師的風采，也學習到大師

在探究問題的角度與思維。還參予論文獎的頒獎典禮，同時大會還公布2017年第26屆歐洲財務學會年會暨研討會將會在2016年6月28日到7月1日於希臘舉行。

心得與建議

　　歐洲財務學會年會是財務領域每年重要的研討會之一，後學非常榮幸能有機會在會議期間發表論文、評論論文並與其他學者互動交流，從中得到許多寶貴的學習經驗與想法，包括如下:

1. 透過研討會的參與，可以掌握財務金融研究發展的最新趨勢，讓新的趨勢與新的想法融入目前正在進行的研究。

2. 透過研討會的參與，可以拓展學術人脈，強化在國際學術的能見度與連結。

3. 透過研討會的參與，可以獲得論文修改的建議以提升論文品質，提升將來論文發表的機會與層級。

綜合以上，持續投稿並參與國際學術研討會是個值得繼續努力投入並參予的方向。也希望能夠繼續獲得科技部與學校的支持。

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Multiple-Bank Relationship and Corporate Risk Management

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2016.7.1

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Objectives

1. Extending Carletti et al. (2007) and Lookman (2009), we address whether multiple banks do in fact manage the risks of their borrowers more aggressively compared to single-bank lenders.

   ⇨ Examining the relationship between number of lending banks (lending diversification) and borrowing firm's hedging activities.

2. According to the monitoring cost difference between domestic and foreign lending banks, we also study the impact of the number of foreign banks on the borrowing firms' risk policy and examine whether foreign banks can successfully reduce the risk-shifting activities of borrowing firms with high distress risk.

3. According to Carletti et al. (2007), multiple-bank lending is optimal when firms and banks are subject to moral hazard and monitoring is essential. We divided the sample companies according to firm age, growth opportunity, and profitability to explore whether monitoring by multiple banks has a significantly different effect on the risk management policies and risk-shifting activities of these borrowing firms with higher monitoring costs.

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Motivation (I)

- The literature regarding **relationships with banks** mostly discusses it **from the perspective of borrowing firms**; there is less **discussion** regarding the preference between a single bank or a multiple-bank relationship **from lending banks**.
- According to the theory of financial intermediation, if banks could expand infinitely and achieve fully diversified portfolios, an exclusive bank-firm relationship involving **a single monitor would be optimal because it would avoid free-riding problems and duplication of monitoring efforts** (Allen, 1990; Diamond, 1984; Ramakrishnan and Thakor, 1984).
- **If monitoring is one of the main functions of banks, why should banks share firm financing if it diminishes their monitoring role?** Carletti et al. (2007) firstly develop a static model to show that multiple-bank lending results from a tradeoff between the benefits of risk diversification (sharing) and the costs of free-riding and duplication of effort. Their model predicts that multiple-bank lending is optimal when firms and banks are subject to moral hazard and monitoring is essential. In line with this argument, when a highly leveraged or distressed borrowing firm has extra financial needs, its primary lending bank has an incentive to share lending and thus will urge the borrowing firm to develop multiple bank relationships.
- Extending Carletti et al. (2007), we study **the effect of lending bank structures on the risk management policies of borrowing companies to examine the monitoring effectiveness of the multiple-bank relationship**.

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Literature Review and Hypothesis (I)

- When lending banks are financially **sound**, have low risk, and have low monitoring costs, the main bank will not have incentives to diversify risk and the other banks will be free-riders, as risk is low. In this situation, **single bank monitoring will be more efficient than multiple bank monitoring**.
- As the financial **distress risk and monitoring costs increase**, the moral hazard problem between the lending bank and the borrowing firm increases because the borrowing firm has an incentive to shift risk. Hence, the main bank will not be willing to provide more financing to the company; this will drive the borrowing firm to develop multiple-bank relationships. Once other lending banks are willing to provide loans, risk information will circulate, and these banks will strengthen their monitoring of the borrowing firm, and free-riding and duplication of monitoring efforts will decrease. Therefore, **monitoring via multiple-bank relationships will be superior to that from a single-bank relationship**.

  ➔ H_1: The willingness to hedge and the extent of hedging is higher in a multiple-bank relationship than in a single-bank relationship for borrowing firms with high distress risk.

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Motivation (II)

- Debt financing engenders the agency problem of **risk-shifting**. Recent studies provide evidence of the effect of **risk-shifting on corporate hedging** and investment decisions for distressed firms (Eisdorfer, 2008; Purnanandam, 2008).
- Lookman (2009) suggests that **banks** have a comparative advantage over **non-bank** lenders in information collection and integration, which make them a better party to monitor firm operations as well as to prevent risk-shifting behavior. Lookman (2009) argues that banks use hedging covenants as a channel for risk mitigation, with explicit requirements for hedging being more common for larger loans. Additionally, Datta et al., (1999), Campello et al. (2011) and Chen and King (2014) confirm that corporate hedging is a channel for obtaining better loan conditions.
- Hence, the risk-shifting behavior in the hedging activities of borrowing firms provide us with a good setting to investigate the monitoring effectiveness of lending bank structure.
- In contrast to Lookman (2009), which emphasizes monitoring effectiveness from the perspective of different types of lenders, we focus on the association between the **structure of lending banks and borrowing firms' hedging strategies**.

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Literature Review and Hypothesis (II)

- **The effect of foreign bank**
  - As the physical distance between the lender and borrower increases, prior considerations and subsequently lender monitoring become more difficult, which increases the agency cost.(Stein, 2002; Esty, 2004) Therefore, foreign banks are often unwilling to lend to borrowers given this high monitoring cost. (Khanna and Palepu, 1999; Petersen and Rajan, 2002; Buch, 2003; Esty, 2004; Mian, 2006)
  - Based on the disadvantage of distance for foreign banks, we expect that foreign banks do not provide sufficient effective monitoring on borrowing firms' risk-shifting behavior.

  ➔ H_2: The risk-shifting incentive of corporate hedging is not correlated with the number of foreign lending banks.

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Literature Review and Hypothesis (III)

- **The effect on firms with higher monitoring costs**
  - As banks cannot completely diversify for each loan, the incentive for bank monitoring is determined by their credit rights, monitoring costs, firm profitability, and the loan structure. (Winton, 1995; Carletti et al., 2007)
  - We expect multiple banks to more effectively monitor those borrowers with higher monitoring costs, including younger firms, firms with less profit, and firms with more growth opportunity; hence the following hypothesis is provided:
- → **H_3: The positive correlation between corporate hedging and the number of lending banks is stronger when borrowing firms are more difficult to monitor.**

The Impact of Lending Bank Structure on Corporate Hedging

Parameter	Dummy for Effective Hedging				Effective Hedge Ratio			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
RSI	-0.6414 ***	-0.3701 **	-0.6343 ***	-0.6712 ***	-0.0411 ***	-0.0287 ***	-0.0393 ***	-0.0423 ***
	(-3.19)	(-2.32)			(-4.63)		(-4.42)	
Bkno					-0.0003			
					(-0.46)			
RSI*Bkno			0.0706 **				0.0025 **	
			(2.17)				(2.24)	
Inv_HHI				-0.1236				-0.0057
				(-0.79)				(-0.78)
RSI*Inv_HHI				0.8217 **				0.0369 **
				(2.14)				(2.07)
Bank_Loan	0.2434				0.0138			
	(1.04)				(1327)			
RSI*Bank_Loan	1.1867 **				0.0515 **			
	(1.99)				(1.94)			
Sbank		0.0432				0.00004		
		(0.37)				(0.01)		
RSI*Sbank		-0.1043				-0.0029		
		(-0.34)				(-0.19)		
Controls	Yes	Yes	Yes	Yes	Yes	Yes		
Year Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes		
# of observations	2777	2777	2777	2777	2777	2777		
Pesudo R-square	0.0789	0.0769	0.0784	0.0781	0.3532	0.3449	0.3505	0.3492

Risk shifting in corporate hedging

Supporting H_1: The willingness to hedge and the extent of hedging is higher in a multiple-bank relationship than in a single-bank relationship for borrowing firms with high distress risk or high monitoring cost.

Sample and data sources

- **Data sources**: The derivatives holdings, bank loans, and financial accounting information of the non-financial listed firms in Taiwan are compiled from the TEJ .
- **Sample period**: 2005 ~ 2009 .
- **Sample size**: 2978 firm-year observations.

The Impact of Lending Bank Structure on Corporate Hedging
Endogeneity

- The first-stage *RSI* logit regression is as follows:

$$RSI_{it} = \gamma_0 + \gamma_1 \ln(TA_{it}) + \gamma_2(CF\_sigma_{it}) + \gamma_3 Quick_{it} + \gamma_4 MB_{it}$$
$$+ \gamma_5(PPE/TA)_{it} + \gamma_6 ModifiedZ_{it} + \gamma_7(DA/TA)_{it}$$
$$+ Industry\_Dummies + Year\_Dummies + \mu_{it}$$

  - IV: Modified Z

- The first-stage multiple-bank structure Tobit regression is as follows:

$$Multiple\_Bank_{it} = \theta_0 + \theta_1 AVGNPL_{it} + \theta_2 \ln(AVGBKTA_{it})$$
$$+ \theta_3 DSyndicated_{it} + \theta_4 ROA_{it} + \theta_5 \ln(TA_{it}) + \theta_6 R \& D_{it}$$
$$+ \theta_7 Leverage_{it} + \theta_8 Industry\ Comovement_{it} + \theta_9 AGE_{it}$$
$$+ Industry\_Dummies + Year\_Dummies + \nu_{it}$$

  - IV1: *AVGNPL*: Average share of nonperforming loans on loanable funds across relationship bank
  - IV2: *AVGBKTA*: the logarithm of the average size of each relationship bank to each frim
  - IV3: *Dsyndicated*: a dummy variable that equals one for firms obtaining a syndicate loan

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Empirical model

- The Logit or Tobit regressions for the firm's hedging decision are used to investigate our hypothesis.

$$H_{it} = \alpha_0 + \alpha_1 RSI_{it} + \alpha_2 Multiple\_Bank_{it} + \alpha_3(RSI_{it} \times Multiple\_Bank_{it})$$
$$+ \alpha_4 Ln(TotalAssets)_{it} + \alpha_5 CF\_sigma_{it} + \alpha_6 Quick_{it} + \alpha_7 R \& D\_Ratio_{it}$$
$$+ \alpha_8 MB_{it} + \alpha_9 Leverage_{it} + \alpha_{10} Industry\_HHI_{it} + Year\ Dummies + \varepsilon_{it}$$

- H_{it} is the measurement of corporate hedging strategy.
  - ① Dummy variable of hedging (effective hedging).
  - ② hedge ratio (effective hedge ratio).
- RSI_{it} is measure of the risk-shifting incentive of a firm.
  - → we rank the sample firms by their leverage ratio every year and set dummy *RSI* equal to one for firms in the top 10% of the ratio.
- *Multiple_Bank$_{it}$* are measurements of multi-bank structure.
  1. The number of long-term lending banks of a firm (*bkno*).
  2. The inverst Herfindalh index of bank loans (*Inv_HHI*) : One minus the Herfindalh index of long-term bank loans.

The Impact of Lending Bank Structure on Corporate Hedging
Endogeneity → Results of Two Stage Regression

	Second Stage Regressions for Corporate Hedging			
	Dummy for Effective Hedging		Effective Hedge Ratio	
	(4)	(5)	(6)	(7)
Parameter	Estimate	Estimate	Estimate	Estimate
RSI	-0.6002 ***	-0.6283 ***	-0.0406 ***	-0.0400 **
	(-2.49)	(-2.52)	(-3.52)	(-3.30)
Bkno	0.0154		0.0005	
	(0.66)		(0.52)	
RSI*Bkno	0.0810		0.0046 **	
	(1.61)		(2.14)	
Inv_HHI		0.1360		-0.0021
		(0.51)		(-0.17)
RSI*Inv_HHI		1.0524 *		0.0553 *
		(1.68)		(1.93)
Controls	Yes	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes
# of observations	2777	2777	2777	2777
Pesudo R-square	0.0773	0.0773	0.3438	0.3415

The Impact of Lending Bank Structure on Corporate Hedging
The Results of Subsample with non-zero bank loan

Parameter	Dummy for Effective Hedging		Effective Hedge Ratio	
	(1)	(2)	(3)	(4)
	Estimate	Estimate	Estimate	Estimate
RSI	-0.4625 *	-0.4992 *	-0.0356 ***	-0.0386 ***
	(-1.95)	(-1.87)	(-3.35)	(-3.02)
Bkno	-0.0097		-0.0006	
	(-0.59)		(-0.86)	
RSI*Bkno	0.0669 *		0.0026 **	
	(1.84)		(2.08)	
Inv_HHI		-0.1848		-0.0093
		(-0.96)		(-1.02)
RSI*Inv_HHI		0.7559		0.0359 *
		(1.64)		(1.67)
Controls	Yes	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes
# of observations	1616	1616	1616	1616
Pesudo R-square	0.0922	0.0917	0.4157	0.4134

The Impact of Number of Foreign and Domestic Banks on Corporate Hedging

Parameter	Dummy for Effective Hedging		Effective Hedge Ratio	
	(1)	(2)	(3)	(4)
	Estimate	Estimate	Estimate	Estimate
RSI	-0.3816 **	-0.6560 ***	-0.0283 ***	-0.0408 ***
	(-2.51)	(-3.54)	(-3.86)	(-4.77)
Fbkno	0.1255		0.0132 ***	
	(1.09)		(3.19)	
RSI*Fbkno	-0.0414		-0.0017	
	(-0.18)		(-0.22)	
Dbkno		-0.0096		-0.0006
		(-0.64)		(-0.99)
RSI*Dbkno		0.0802 **		0.0030 **
		(2.33)		(2.48)
Controls				
Year Fixed Effect				
# of observations				
Pesudo R-square				

> The effective monitoring function on highly leveraged firms is mainly driven by domestic lending banks. **Supporting H2**

The Impact of Lending Bank Structure on Corporate Hedging
Robustness of Threshold of Risk-Shifting Incentive

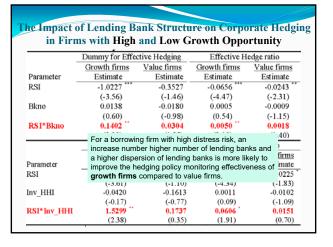| Parameter	Effective Hedge Ratio					
	RSI70	RSI75	RSI80	RSI70	RSI75	RSI80
	(7)	(8)	(9)	(10)	(11)	(12)
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
RSI	-0.032 ***	-0.034 ***	-0.036 ***	-0.029 **	-0.033 ***	-0.034 ***
	(-4.81)	(-4.98)	(-4.95)	(-4.04)	(-4.34)	(-4.30)
Bkno	-0.001	-0.001	-0.001			
	(-1.23)	(-0.98)	(-1.13)			
RSI*Bkno	0.002 **	0.002 **	0.003 **			
	(2.53)	(2.37)	(2.89)			
Inv_HHI				-0.005	-0.006	-0.006
				(-0.64)	(-0.68)	(-0.82)
RSI*Inv_HHI				0.017	0.019	0.027 *
				(1.29)	(1.43)	(1.85)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes
# of observations	2777	2777	2777	2777	2777	2777
Pesudo R-square	0.3519	0.3537	0.3535	0.3464	0.3494	0.3479

The Impact of Lending Bank Structure on Corporate Hedging in Old and Young Firms

Parameter	Dummy for Effective Hedging		Effective Hedge ratio	
	Old firms	Young firms	Old firms	Young firms
	Estimate	Estimate	Estimate	Estimate
RSI	-0.5934 ***	-0.6912 ***	-0.0384 ***	-0.0424 ***
	(-2.27)	(-2.61)	(-2.93)	(-3.73)
Bkno	0.0006	-0.0278	0.0007	-0.0018 *
	(0.03)	(-1.19)	(0.81)	(-1.94)
RSI*Bkno	0.0685	0.0811 *	0.0025	0.0036 **
	(1.55)	(1.65)	(1.33)	(2.45)

> For **young firms** with higher information asymmetry under high distress financial status, a higher number of lending banks and more diverse lending bank relationships will improve monitoring effectiveness and lower risk-shifting activity.

Parameter				
RSI				0.0450 ***
				(3.64)
Inv_HHI	0.1721	-0.6007 **	0.0151	-0.0329 ***
	(0.81)	(-2.47)	(1.44)	(-3.03)
RSI*Inv_HHI	0.5226	1.2644 **	0.0268	0.0524 **
	(1.01)	(2.06)	(1.03)	(2.00)

The Impact of Lending Bank Structure on Corporate Hedging
Robustness of Alternative Measure of Hedge Ratio

Parameter	Effective Hedge Ratio	
	(1)	(2)
	Estimate	Estimate
RSI	-0.0408 ***	-0.0416 ***
	(-3.34)	(-3.00)
Bkno	0.0018 **	
	(2.07)	
RSI*Bkno	0.0033 **	
	(2.08)	
Inv_HHI		0.0259 **
		(2.47)
RSI*Inv_HHI		0.0424 *
		(1.65)
Controls	Yes	Yes
Year Fixed Effect	Yes	Yes
# of observations	2777	2777
Pesudo R-square	0.5310	0.5139

The Impact of Lending Bank Structure on Corporate Hedging in Firms with High and Low Growth Opportunity

Parameter	Dummy for Effective Hedging		Effective Hedge ratio	
	Growth firms	Value firms	Growth firms	Value firms
	Estimate	Estimate	Estimate	Estimate
RSI	-1.0227 ***	-0.3527	-0.0656 ***	-0.0243 **
	(-3.56)	(-1.46)	(-4.47)	(-2.31)
Bkno	0.0138	-0.0180	0.0005	-0.0009
	(0.60)	(-0.98)	(0.54)	(-1.15)
RSI*Bkno	0.1402 **	0.0304	0.0050 **	0.0018

> For a borrowing firm with high distress risk, an increase number higher number of lending banks and a higher dispersion of lending banks is more likely to improve the hedging policy monitoring effectiveness of **growth firms** compared to value firms.

Parameter				
RSI				0225 *
	(-3.01)	(-1.10)	(-4.34)	(-1.83)
Inv_HHI	-0.0420	-0.1613	0.0011	-0.0102
	(-0.17)	(-0.77)	(0.09)	(-1.09)
RSI*Inv_HHI	1.5299 **	0.1737	0.0606 *	0.0151
	(2.38)	(0.35)	(1.91)	(0.70)

The Impact of Lending Bank Structure on Corporate Hedging in **More** and **Less** Profit Firms

Parameter	Dummy for Effective Hedging		Effective Hedge ratio	
	More Profit Firms Estimate	Less Profit Firms Estimate	More Profit Firms Estimate	Less Profit Firms Estimate
RSI	-0.6361 **	-0.6739 ***	-0.0368 **	-0.0387 ***
	(-2.01)	(-2.87)	(-2.39)	(-3.92)
Bkno	0.0175	-0.0264	0.0004	-0.0010
	(0.79)	(-1.39)	(0.44)	(-1.29)
RSI*Bkno	**0.0741**	**0.0886** **	**0.0006**	**0.0035** ***
	(1.08)	(2.28)	(0.29)	(2.75)

> For a borrowing firm with high distress risk, an increase number higher number of lending banks and a higher dispersion of lending banks is more likely to improve the hedging policy monitoring effectiveness of **less profit firms** compared to more profit firms.

Parameter	More Profit Firms	Less Profit Firms	More Profit Firms	Less Profit Firms
RSI				2 ***
				1)
Inv_HHI	0.0235	-0.2942	0.0071	-0.0197 **
	(0.10)	(-1.34)	(0.62)	(-2.07)
RSI*Inv_HHI	**1.0835**	**0.8879** *	**0.0088**	**0.0522** ***
	(1.49)	(1.88)	(0.25)	(2.61)

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Conclusions

- This study used public non-financial companies in Taiwan from 2005 to 2009 as a sample to explore whether multiple-bank relationships provide more effective monitoring to mitigate expropriation via risk shifting by examining their borrowers' hedging strategies.
- We find that
    - firms that borrow through **multiple bank relationships** tend to **hedge a significantly greater fraction** of their exposure compared to firms with a single bank relationship. As the number of lending banks increases and the source of loans becomes more dispersed, banks more diligently fulfill their monitoring responsibility and urge these companies to hedge and reduce potential damage to the creditor, thus reducing the risk-shifting activity of companies with high distress risk.
    - Further, for **younger** high distress firms, firms with **higher growth opportunities** and **lower profit**, multiple banks are more effective in influencing corporate hedging policies.

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Discussion on
Does Analysts' Information Influence the Cost of Debt?
by **Elena Ferrer, Rafael Santamaría, and Nuria Suárez**

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2016.6.30

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Comments and Suggestions (II)

- The dependent variable 'average cost of corporate debt' is computed as the ratio of financial expenses (interest charges plus financial assets write off) to the average corporate debt in year t and year t-1.
  » Mostly, cost of debt is measured by bond spreads or loan spreads. Why choose this way to measure the cost of corporate debt? Any reference?
  » In numerator, financial assets write off is not suitable to be included as cost of corporate debt. Additionally, in denominator, current liability is also not suitable to be considered as the funds received from lenders. For example, accounts payable, a kind of current liability, is mainly driven from firms operating activities.
  » This measure contains two source of funding financing, bank loan and corporate bond. From the view of lending banks, they have a lot of channel to get soft information from borrowing firms, and how to explain the lending bank will consider the information from analyst.

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Purpose of This Research

- This paper examines the contribution of analysts' forecasting accuracy in reducing the average cost of debt to firms using the data from France, Germany, Spain, the U.K. and the U.S.
- **Four main findings:**
  » Analyst accuracy is effective in reducing information asymmetries between lenders and borrowers and thereby significantly reducing the average cost of debt to firms.
  » The effect tends to be greater in those that are hard to value and difficult to arbitrage.
  » The effect is significant only for firms operating within the civil law system, where there are fewer corporate governance mechanisms to monitor and control management.
  » A significant level of institutional ownership (in firms in common law countries) or a significant level of bank-held ownership (in firms in civil law countries) serves as a substitutive mechanism which mitigates the capacity of analyst forecasting accuracy to reduce information risk.

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Minor Comments and Suggestions

- H2: **Firm characteristics** moderate the impact of analyst accuracy on the average cost of corporate debt.
  » Clear point which firm characteristics
- Over 70% observation is from the firms of US, will the results mainly driven from the US sample?
- Both FACTSET and I/B/E/S provide global analyst data, why choose FACTSET?
- Why choose France, Germany, Spain, the UK, and the US? Why not test by using global firms in 35 countries as Boubakri et al. (2013)?
- Why the measure of institutional investors is dummy variable? Why not use percentage of ownership directly?
- Table 12 present the results of the influence of the Business cycle on the relationship between analysts' forecasting accuracy and the cost of debt, why not use the interaction term of ACC and △GDP and the interaction term of ACC and △unemployment?
- If this study focuses on the relationship of analyst forecast accuracy and the cost of debt, suggesting to treat auditing (Big4), and institutional ownership just as control variables, and put the main results of Table 6 directly from Table 3.

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Comments and Suggestions (I)

- Contribution
  » Mansi et al. (2011) have examined the relationship between analyst forecasts and bond spread based on US data.
  » Boubakri et al. (2013) have tested the relationship between analyst activity and bond spread, and the effect of corporate governance on this relationship using the sample in 35 countries not including the US.
  » Need differentiate the contribution from above literature.
- Information asymmetry vs information quality
  » Accounting information quality, institutional ownership (bank ownership), and analyst forecast are treated as proxies of information asymmetry in this paper. Mostly, the role of auditor and institutional investors, including bank, are mentioned as one of the corporate governance mechanism in literature, and, hence, a firm with big 4 auditor and higher institutional ownership reveal the firm with better or reliable information quality. Further, less analyst forecast error maybe results from better information quality.
  » In literature, information asymmetry measured by analyst activities mostly use **analyst coverage**, not analyst accuracy.
  » Need choose to focus on the channel of information asymmetry or information quality.

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