

FINANCIAL MARKETS RESEARCH CENTER

Owen Graduate School of Management

Vanderbilt University

Nashville, TN 37203

Conference on Conflicts of Interest in Financial Markets

April 20-21, 2006

In many realms of financial markets, principals rely on agents to accomplish their goals. Because agents have their own interests at heart, conflicts arise between the goals of agents and the goals of principals. Examples of potential conflicts are many. Investors hire brokers to achieve best execution, while brokers have an incentive to trade where they receive payment for order flow. Investors hire money managers to trade their assets most efficiently, but money managers have an incentive to trade with brokers that provide soft dollar credits that can be used to pay for research services. As Enron and other recent scandals have shown, street-side research analysts can neglect their obligation to their investor clienteles by writing reports favorable to the corporate clients of the brokerage firm rather than accurately depicting the state of the corporation. In corporations, managers have incentives to shrink their obligations to shareholders in favor of their own interests, perhaps leading to distortion of accounting numbers and to overly generous management compensation plans. What is the evidence on the presence and severity of these various conflicts? Should regulators limit activities that may lead to conflicts or would transparency, full disclosure and competition be adequate to deal with conflicts? These and related issues will be discussed at the conference.

Participants include academics, industry leaders, and regulators. Expenses of academic presenters will be reimbursed. Attendance is by invitation.

The conference is sponsored by the Financial Markets Research Center and by a special grant from Hirtle, Callaghan & Co., Chief Investment Officers.

The conference takes place all day Thursday, April 20, and half day Friday, April 21, followed by post conference activities.

Conference hotel: Loews Vanderbilt Hotel, 2100 West End Avenue, 1-800-336-3335
(Vanderbilt University – Financial Markets Research Center block)

Alternative hotels: Hampton Inn Vanderbilt, 1919 West End Avenue, 615-329-1144
Courtyard by Marriott, 1901 West End Avenue, 615-327-9900
Embassy Suites, 1811 Broadway, 615-320-8899
Hampton Inn & Suites, 2330 Elliston Place, 615-320-6060
Marriott at Vanderbilt, 2555 West End Avenue, 615-321-1300

Conference locations

- Thursday, April 20: Caterpillar Financial Building, 2120 West End Avenue, 2nd floor Auditorium
- Thursday dinner: Loews Vanderbilt Hotel
- Friday, April 21: Owen Graduate School of Management, Averbuch Auditorium

More information

Contact Pat Scott at 615-322-3671, pat.scott@owen.vanderbilt.edu. For more information on the Financial Markets Research Center, check the website, <http://mba.vanderbilt.edu/fmrc/>.

PROGRAM

Thursday, April 20, 2006: Caterpillar Financial Building (8:00 AM – 5:00 PM)

8:00 AM – 8:45 AM	Continental Breakfast
8:45 AM – 9:00 AM	Welcome. Hans Stoll, Owen School. Ed Scott, Executive VP and CFO, CAT Financial. Jim Bradford, Dean, Owen School.
9:00 AM – 10:00 AM	<u>Managing and Regulating Conflicts</u> . Chair: Hans Stoll, Owen School Jon Hirtle, CEO, Hirtle Callaghan. “Investment management and conflicts” Chester Spatt, Chief Economist, SEC. “Regulating conflicts of interest in the securities industry” Jim Cochrane, Senior VP, NYSE, retired. “Unresolved conflicts of interest in the financial markets”
10:00 AM – 12:15 PM	<u>Securities Analysts and Conflicts</u> . Chair: Bob Whaley, Duke University.
10:00 AM – 10:30 AM	“Banker fee and acquisition premia for targets in cash tender offers: Challenges to the popular wisdom on banker conflicts,” Donna Hitscherich, Columbia University (with Charles Calomiris)
10:30 AM – 11:00 AM	Break
11:00 AM – 12:15 PM	“Information leakage and opportunistic behavior before analyst recommendations: An analysis of the quoting behavior of Nasdaq market makers,” Xi Li, University of Miami (with Hans Heidle)

“Conflicts of interest and stock recommendations: The effects of the global settlement and related regulations,” Ohad Kadan, Washington University (with Leonardo Madureira, Rong Wang, and Tzachi Zach)

Commentary: Craig Lewis, Owen School

12:15 PM – 1:15 PM

Luncheon

1:15 PM – 2:30 PM

Panel on Conflicts in Markets. Chair: Richard Lindsey, President, Bear Stearns Securities Corp.

Richard DuFour, Executive Vice President, Chicago Board Options Exchange

Eric Noll, Head of Strategic Relationships, Susquehanna International Group

Jim Overdahl, Chief Economist, Commodity Futures Trading Commission

John Damgard, President, Futures Industry Association

2:30 PM – 3:45 PM

Conflicts in the IPO market. Chair: Rick Kilcollin, Sanborn Kilcollin Partners

“Venture capital investments by IPO underwriters: Certification, alignment of interest, or moral hazard?” Ron Masulis, Owen School (with Xi Li)

“Universal banking, asset management, and stock underwriting,” Jennifer Marietta-Westberg, Michigan State University (with William Johnson)

Commentary: Cindy Alexander, Assistant Chief Economist, Securities and Exchange Commission

3:45 PM – 4:15 PM

Break

4:15 PM – 5:00 PM

Hedge Funds. Chair: Rick Cooper, Chief Investment Officer, CTS Strategic Investments.

“Why is Santa so kind to hedge funds? The December return puzzle,” Naveen Daniel, Purdue University (with Vikas Agarwal and Narayan Naik)

Commentary: Nick Bollen, Owen School

Thursday Evening, April 20, 2006: Loews Vanderbilt Plaza Hotel

