Finance for Financial Journalists

Using Data to Find the Truth

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Shanghai Jiao Tong University

October 22, 2021

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Bankers Cast Doubt On Key Rate Amid Crisis

By Carrick Mollenkamp
April 16, 2008 12:01 am ET

LONDON -- One of the most important barometers of the world's financial health could be sending false signals.

In a development that has implications for borrowers everywhere, from Russian oil producers to homeowners in Detroit, bankers and traders are expressing concerns that the London inter-bank offered rate, known as Libor, is becoming unreliable.

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The 2003 Pulitzer Prize Winner in Explanatory Reporting

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Staff of *The Wall Street Journal*

For its clear, concise and comprehensive stories that illuminated the roots, significance and impact of corporate scandals in America. (Moved by the jury from the Public Service category.)

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JAN. 08, 2004

Scandal Reaches Far and High

It Took Many Bad Apples to Taint Fund Industry's Reputation Amid Continuing Probes of Share-Trading Abuses

By Tom Lauricella

IN THE EARLIEST stages of New York Attorney General Eliot Spitzer's investigation into the mutual-fund industry, David D. Brown IV, the lawyer quarterbacking the probe, says he wasn't expecting to uncover much in the way of widespread share-trading improprieties. His personal opinion was that the fund industry's main problems were with the way various fees were set.

Then the evidence began to roll in.

Among the boxes of material that Mr. Brown and other investigators have waded through was a document that he says shows how engrained the alleged abuses were in the fund industry. The document was a form-letter contract used by a fund company in arranging deals for certain investors to market time its funds—even though the firm, which Mr. Brown wouldn't name, had rules supposedly to combat market timing. The contract had blank spaces to fill in the names of those that the fund company executives would allow to conduct such trading.

"That just blew me away," Mr. Brown says. "There was just a total lack of judgment at some of these companies."

Four months after the investigation by Mr. Spitzer's office was unveiled, the full depth and breadth of wrongdoing in the world of mutual funds still isn't fully known. But putting together the details of civil and criminal cases already settled, the charges still being pursued by regulators and the allegations expected to come, it all adds up to the biggest scandal in mutual-fund history.

In recent years, a significant number of U.S. mutual-fund management companies allowed selected brokerage firms and hedge funds to engage in trading that fund executives and portfolio managers knew was damaging to their long-term shareholders. In return for allowing this trading, many of these executives asked for or accepted payments in the form of added investments on which the fund companies would earn greater fees—a particularly welcome source of revenue during the bear market when other fee-generating assets were often declining.

E-mails made public by investigators repeatedly depict fund executives making a cold calculation: weighing how much more money they could make by allowing market timing in their funds against the amount of disruption and damage that activity would cause those funds.

And in the process of allowing these privileged market timers in through the front door, these fund executives, perhaps inadvertently, sometimes gave away the key to the back door as well. That's because the market-timing agreements also provided the opportunity—apparently often unknown to the fund companies themselves—for the market timers to engage in late trading, an illegal practice that may have been far more prevalent than first thought.

Meanwhile, it turns out that fund investors were being fleeced in other ways. Regulators, in separate investigations, discovered that the vast majority of brokerage firms have been

OCT. 20, 2003

Two-Tier System

For Staid Mutual-Fund Industry, Growing Probe Signals Shake-Up

Investigators Find Indications Of Widespread Abuses Hurting Small Investors

Unfair Pricing for Big Players

By Tom Lauricella

The mutual-fund scandal is spreading, as it becomes clear that players throughout the $7 trillion industry could face scru-

the way analysts at brokerage firms operate, now says he intends to use the mutual-fund investigation to clean up another part of the financial world that has favored large clients at the expense of smaller ones, including millions of workers and retirees. The Securities and Exchange Commission, scrambling to keep up with him, as it did during the investigation of Wall Street analysts, is now filing civil suits of its own and is considering possible new rules aimed at preventing misbehavior in mutual-fund trading.

Industry heads have begun to roll.

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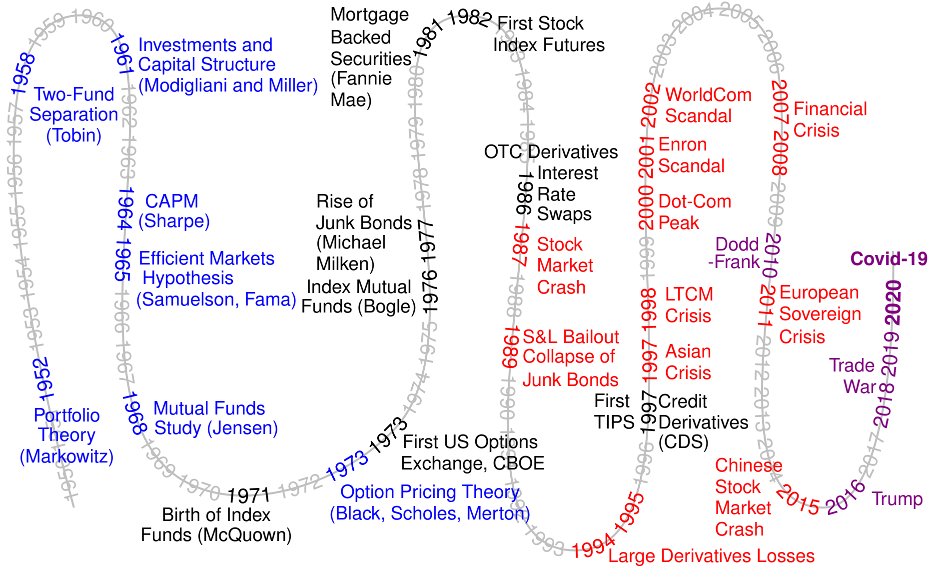
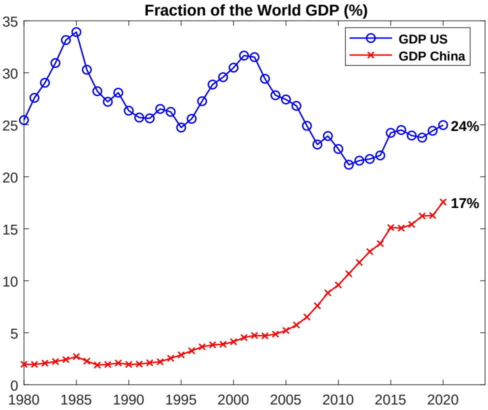
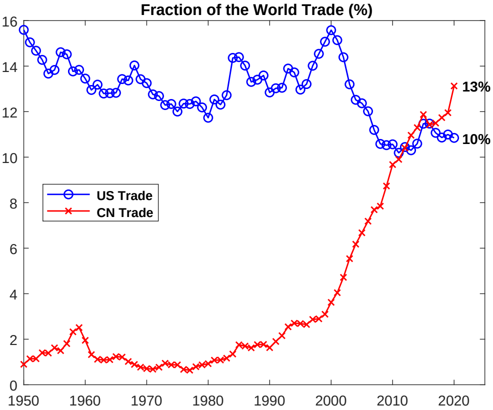
- Financial journalists: Use data to find and communicate the truth.

Modern Finance: Theory, Practice, and Lessons

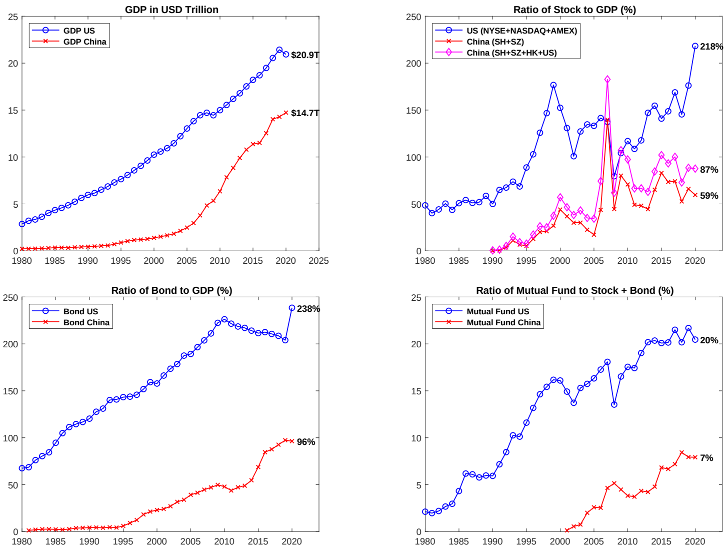


China in the World





China's Capital Markets and Asset Management



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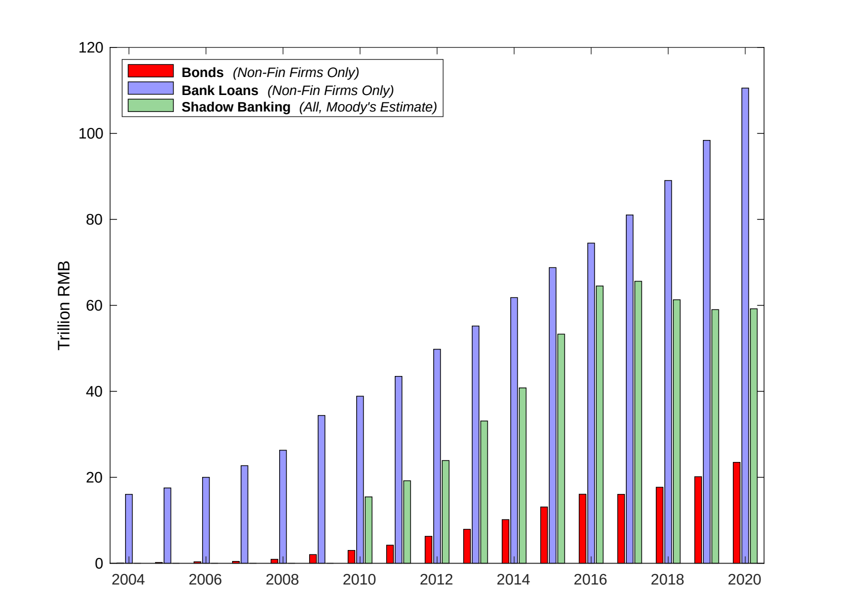

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  - The presence of government support on price discovery.
  - The real impact of allocational inefficiency: profitability and financial health.

Background on China's Credit Market

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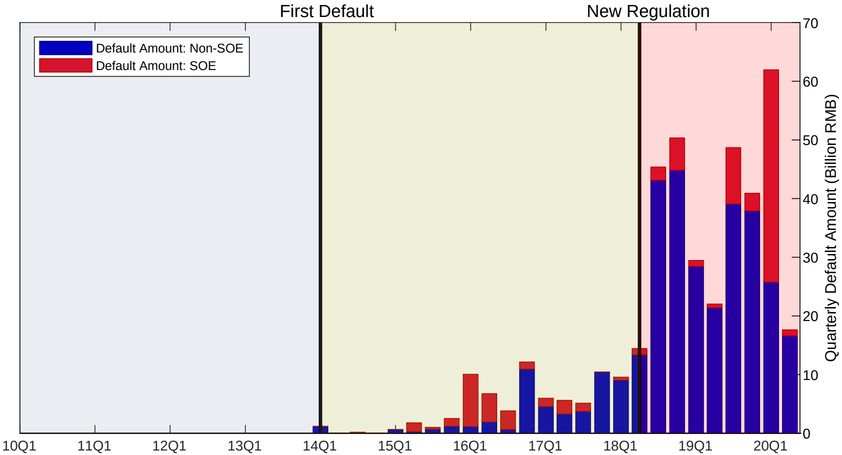
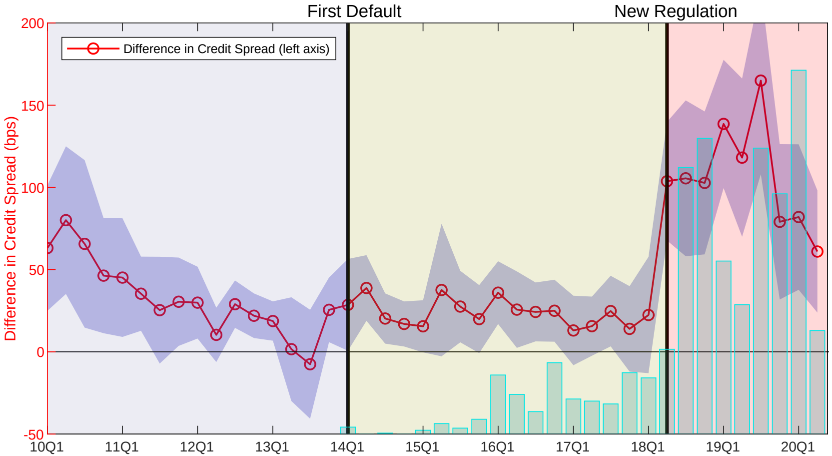
- Two landmark events: March 4, 2014 and Apr 27, 2018.



The Time-Varying SOE Premium

$$\text{CreditSpread}_{i,t} = a + \mathbf{b}\,\text{NSOE}_{i,t} + c\,\text{Rating}_{i,t} + \sum_k \text{Controls}^k_{i,t} + \epsilon_{i,t}$$



The SOE Premium and Credit Cycles

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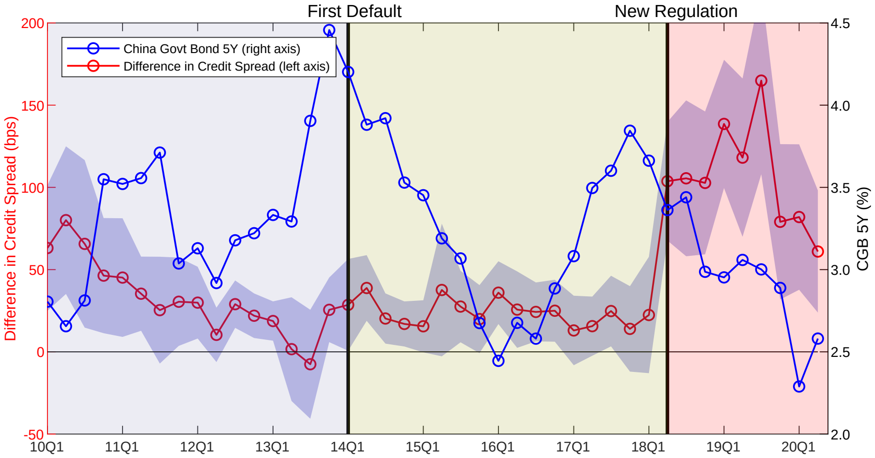

Summary of Results and Recent Developments

- From 2010-2020, we find a market of evolving and improving price discovery:
  - Post 2014Q1, credit quality becomes important in credit pricing.
  - Post 2018Q2, the <u>extent</u> of government support becomes more important.
    - ★ The main driver behind the explosive SOE premium.
    - ★ The beginning of the end: “faith” in the SOE label.
    - ★ Distortions to price discovery with respect to credit quality.
- The real impact of the allocational inefficiency.
  - Post 2018Q2, non-SOEs lost their advantage over SOEs in profitability.
  - The explosive SOE premium is a <u>reflection</u>, not the unique cause.

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- Ongoing Developments:
  - Nov 2020: wave of defaults by large local-government SOEs (e.g., Yongmei).
  - Sep 2021: China's Evergrande moment.

Main Takeaways

- Journalism: Writing for impact.
  - Not a mere marketer or information distributor.
  - Short-term intensity and long-term impact.
- Finance for financial journalists:
  - Financial theories and insights.
  - Financial markets, institutions, and policies and policy makers.
  - Use financial data to find the truth.