



UNIVERSITÉ DE
SHERBROOKE

THE CIBC RESEARCH CHAIR ON FINANCIAL INTEGRITY

The 2015 Annual Report

By

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Faculté d'administration

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Introduction

The Chair has been created as the result of two major donations given during the Université de Sherbrooke's *Ensemble* fund-raising campaign. We would like to thank the Chair's main partner, CIBC, providing \$100,000 a year for 10 years, for a total of \$1M, and Raymond Chabot Grant Thornton (RCGT), providing \$40,000 a year for 5 years. The Faculty of Business Administration provided \$25,000 per year in the first three years and major in-kind contributions: most of the Chairholder's salary, an office for the Research Chair, and administrative support and technical assistance for computers.

Generally speaking, if we look at the academic outcomes from the four research thrusts, we should be very proud of our accomplishments this past year: 11 articles in academic journals. We are still building 2 unique databases: one in the Governance Thrust and the other in the Financial Thrust (on-going basis). These databases are the foundation of our future publications.

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I- RESEARCH PROJECTS

The Chair has the following **strategic objectives**:

- Advance knowledge in the fields of integrity and financial crime.
- Establish new methods and new prevention mechanisms such as compliance programs, trend watch, and emerging financial crime.
- Help improve the training of future managers in terms of corporate governance, ethical leadership, and ethical decision-making.
- Improve the transfer of knowledge about financial integrity between university researchers, levels of government, regulatory bodies, and the business community.
- Establish partnerships with research institutes and chairs in Canada and abroad.
- Disseminate the Chair's research as a means of preventing financial crime.

The Chair's research activities fall into four thrusts: governance, finance, legal, and procedural.

Here are the different stages and aspects of research projects we have focused on in the last year.

GOVERNANCE THRUST

This research thrust analyzes governance culture evolution, particularly in Canadian businesses, within the context of the new regulations applicable in each Canadian province.

Database on Canadian business corporations: **The database is now available for researchers** In 2010-2011, we started building a database on 241 Canadian business corporations (from 2000 to 2012) listed in the Standard and Poor's/TSX (Toronto Stock Exchange) index. The database includes information about members of boards of directors and their committees: their name, age, gender, expertise, roles, years of service on the board, related/unrelated status, the number of boards (of listed companies) of which they are members, and the number of board/committee meetings they have participated in. Through the database, researchers (U de S) will have access to information about around 35 000 directors from 2000 to 2012. **There is no other database in the whole world providing so much information about directors of listed companies.** It will help to delineate the major trends in governance structures, such as the size of the board, the number of committees, the related/unrelated status of directors, their expertise and gender as well as the duration of their term of office. It also includes information about the industries in which such business corporations are evolving as well as financial/non-financial disclosed information. In 2013-2014, work on the database (regarding the corporate governance practices of Canadian government corporations) was continued. Under the supervision of Professor Sylvie Berthelot, Catherine Gagné and Francis André, undergraduate student in accounting, significantly contributed to expanding the database content to encompass all the governance practices disclosed in the proxy circulars and covered by Regulations 58-101 – Disclosure of Corporate Governance Practices and 58-201 – Effective Corporate Governance, including information about the directors, the composition and operation of the board and its sub-committees, practices for evaluating the board, its sub-committees and directors, compensation of directors and officers, etc. We also included the accounting and financial data

necessary for various analyses of the merits of the governance practices recommended by Canadian Securities Administrators. Since January 2014, the database covering the period 2000-2012 allows comparative studies between boards of directors coming from various Canadian provinces. The database will be updated every year. From August to December 2014, Vanja Pospisil has worked on the database (During 2014-2015, the following graduate students (Master in Administration ; report) have used the database about governance practices for their own research: Jessica Sylvain, Patrick Brunelle, Francis Roquepas and Danny Coderre. Caroline Talbot (DBA ; Sylvie Berthelot, co-dir.) has also used the database, since her DBA thesis deals with the governance costs and the quality of financial information.

FINANCIAL THRUST

The financial thrust aims at describing current practices and trends pertaining to financial crime. Given the potential impact on investors and savers, the Chair focuses its efforts on understanding fraudulent stratagems within organizational culture and governance structures that characterize organizations subject to financial crime.

Phase I (2010-)

Database about financial crimes: The American database (Wall Street Journal, January 4th, 1984-October 3rd, 2013) has been finalized. It will be updated every year. Out of the 1984-2013 database, a specific database dealing with frauds and insider trading has been built up (606 cases, July 1991-June 2011).

Developing our own database became an obvious necessity following the literature review done during the summer of 2010 by Stephanie Buote, a research assistant. In February 2011, student Line Drapeau was hired to build a database about financial crimes. The database will be finalized in 2013. The database will include all types of financial crime as they are disclosed in the *Wall Street Journal* (USA) for the first time.

Our first task was to select appropriate search engines. Our selection was based on the following criteria: daily published newspapers, reliability of financial data and number of readers (i.e. a widely published newspaper). The *Wall Street Journal* (WSJ) was selected. Some sampling tests have been made with the *Globe and Mail* search engine but most of Line Drapeau's work has been done with the WSJ search engine. Now, researchers are not considering the possibility to build up a Canadian database out of the *Globe and Mail*. The WSJ database covers the period from January, 4th, 1984 to October 3rd, 2013. The choice of the main key words (fraud, crime and scandal) emerged from an extensive inquiry. Ms Drapeau examined numerous scientific publications on financial crimes in order to assess which key words authors used in their research and to have a better grasp of the topic. Only one publication revealed its key words (Karpoff and Lott, 1993)¹, which were "fraud" and "crime." Soon after, by searching formal definitions for key words in specialized dictionaries, and by screening what kind of news was found in search engines, researchers confirmed the words "fraud" and "crime" had an intrinsic juridical meaning. In order to include financial irregularities that are not just strictly juridical, the word "scandal" was selected. Another explorative period followed in order to choose specific keywords to refine

¹ KARPOFF, Jonathan M. and John R., LOTT. «The Reputational Penalty Firms Bear From Committing Criminal Fraud», *Journal of Law and Economics*, Vol.36, no°2(October 1993), p.757-802.

results within the search engines. For example, specific keywords were selected (“insider trading,” “bribery,” “misconduct,” “irregularity,” “price-fixing”, “audit failure,” “stock manipulation,” etc.). With these keywords, Venn diagrams were created to observe how many results were found in the boundaries of the general keyword results. When a large number of results were found, the specific keywords were the subjects of sampling (conversely, when few results were found – for instance, 100 out of 20,000 – no sampling was done). Ms Drapeau read an article for every ten/fifteen/twenty/etc. results and gave them a relevance score. The goal of this procedure was to discover whether our specific key word was relevant (i.e. whether it screened the type of news and articles that we were interested in). This explorative period revealed an important fact: we were quite limited in the number of results found with specific key words. Only “insider trading” identified consistently relevant article results. An American database covering 1984 until now (*WSJ*) was constructed. The keywords in the *WSJ* research engine were “fraud” or “crime” and “insider trading.” This research on insider trading identified 606 articles. Following these results, and after many discussions, we opted to explore using general keywords (“fraud”, “crime,” and “scandal”) excluding articles using keywords related to irrelevant articles. For instance, “crime” was related to events that were by no means relevant to our inquiry (rape, murder, terrorism, assault, etc.). Also, the three general keywords identified numerous events in the news that were of no interest to our database (e.g.: Congress, Senate, North Korea, Afghanistan, Iran, etc.). The same procedure was followed (Venn diagrams and sampling) but this time, we used specific key words that excluded most articles². The final database includes i) the article's title, ii) the article's publication date, iii) an abstract, iv) a relevancy score of 1 to 3 (i.e.1: highly relevant article - most often the first article of a major financial fraud; 2: relevant article, broad outlines of a trial (accusations, plea, verdict, etc.); 3: low level of relevancy). The American database (*Wall Street Journal*, January 4th, 1984-October 3rd, 2013) has been finalized. It will be updated every year. Out of the 1984-2013 *WSJ* database, a specific database dealing with frauds and insider trading has been built up (606 cases, July 1991-June 2011).

The database will be completed by adding more information about the way news have been updated, since the first announcement of the financial crime³. Henceforth, the database will incorporate follow-ups of news referring to the first published news of a financial crime.⁴ The way such updated information is disclosed should have a significant impact on company value and related-company value (for instance, suppliers, clients). There is an interval between the first announcement of a corporate event and its gradual incorporation in the equilibrium price. A high frequency of newspapers’ articles about a given financial crime should accelerate the movement on securities of « criminal-indicted » companies and amplify the cascade effect on securities which are indirectly linked to companies which have been the object of the first announcement

² The aim of the sampling is to evaluate whether the exclusion of a few relevant articles is worth the exclusion of a lot of non- relevant articles.

³ This part of Phase I was originally identified as a Phase II. Now, we consider that it makes an integral part of Phase I.

⁴ To our knowledge, no publication reports the impact of updates on the information following the first news. We believe that the circulation of updates must have a significant impact on the enterprise's value and on the related enterprises' values (suppliers, customers, auditors, etc.) This stance is notably based on the largely documented interval between the announcement of news and their gradual incorporation in equilibrium prices. A notable frequency of publications on a financial crime must accelerate the security's movement related directly to the crime and magnify the cascading effect on securities indirectly associated.

(“criminal-indicted companies”). Three kinds of variables have been taken into account: (1) media-related variables; (2) organizational variables (e.g. governance); (3) event-related information variables (e.g. amount of the fraud, type of fraud). Does the first announcement of financial crimes have any impact of company value and related-company value ? To what extent could such impact be closely linked to media-related, organizational, and event-related information variables? (students: Line Drapeau ; Marc-André Coulombe ; have joined the project in 2013: Saïd Rougani Marzouki ; Thi Ngoc Tuyen Tran)

The Impact of Financial Crimes and Irregularities on Stock Returns
(Profs. Claudia Champagne, Frank Coggins and Yves Trudel)

Description: This study develops a new methodology for event studies in finance based on conditional models of performance which control for the financial and economic contexts in which the events or announcements take place. We then use the methodology to test the effect of financial frauds on the performance and risk of firms, industries, and capital markets. This project uses the American database (*WSJ*) which has been finalized in August 2013.

Master’s Degree students: Stéphanie Buote, Line Drapeau, Magali Point

Progress:

Phase II- (2013-)

We propose to analyze the incidence of Environmental, Social, and Sound Governance (ESG) standards on the probability that an enterprise will suffer from an unfavourable event related to its reputation (such as unethical behaviours of employees, fraudulent acts, environmental disasters, etc.). In that regard, we will improve the newspaper database developed during phase I in order to incorporate environmental news, governance problems or other news related to operational risks of enterprises. As it has been done for insider trading (Phase I), we will use the first database (*WSJ*), January 4th, 1984- October 3rd, 2013) in order to select events which are connected to ESG standards. We will then measure their probability of occurrence (Altman’s Z-score) in order to set the probabilities in which enterprises may experience unfavourable events according to the level of ESG criteria. In general, this extended database and the studies that will make use of it will attempt to answer the following question: Does an enterprise with high ESG criteria (i.e. good level of responsible finance) present a significantly lower probability of experiencing an unfavorable event in terms of reputation than an enterprise with low ESG criteria (i.e. low level of responsible finance)?

Other projects under the Financial Thrust

The Impact of ESG (Environmental, Social, and Sound Governance) Criteria on Firm Performance and Risk

(Profs. Claudia Champagne and Frank Coggins, and Roland Gillet, Université Paris I Panthéon-Sorbonne). 2012-

This project studies the impact of significant positive or negative changes in a firm’s ESG criteria on performance and risk measures for a sample of North American companies. The results will allow us to answer questions such as: Do ESG criteria add value to portfolio

management? Can ESG criteria be used as leading indicators to prevent financial fraud or other types of operational risk?

Master's Degree students: Edith Breault, Maxime Brisebois-Lemelin

Post-doctoral student: Amos Sodjahin

The Relationship Between Negative Reputational Events, ESG (Environmental, Societal and Governance) Criteria and Financial Crimes (Profs. Frank Coggins and Claudia Champagne, UdeS). 2012-

(Frank Coggins and Claudia Champagne, UdeS)

In this project, we analyse the impact of ESG criteria on the probability of occurrence of an unfavorable event which can damage a firm's reputation, such as non-ethical behaviors of executives and/or employees, frauds, environmental catastrophes, etc. Results should allow us to answer the following question: do firms with high ESG criteria have significantly lower probabilities of experiencing an unfavorable event than lower-ESG-criteria firms? In the past year, we finished the collection of data and worked on the literature review.

Post-doctorate: Amos Sodjahin

Student: Maxime Brochu

The Tournament Effect and Risk Management During Bull and Bear Markets

(Profs. Claudia Champagne and Frank Coggins). 2011-

The recent financial crisis has underlined some practical issues related to risk management in financial institutions. The managerial and short term incentives based on past performance certainly deserve part of the blame. This research project is interested in certain portfolio managers' behavior in terms of risk management that may not be suitable for the investor. More specifically, we study risk exposure based on the managers' past performance rankings during bull and bear markets. For instance, according to their best interests, do worst performers increase their risk exposure while best performers copy their benchmark portfolio?

Master's Degree students : Stéphanie Buote, Maxime Dépôt, Guillaume Lamoureux-Bélaïr

The Effect of Pension Fund Freeze on Firm Performance and Risk

(Profs. Claudia Champagne, Frank Coggins, and Stéphane Chrétien (ULaval)

Pension funds are a major part of the financial sector in most developed countries and, along with social security and personal savings, typically represent one of the pillars of retirement income for the population. However, in the private sector, where the company decides to initiate and sponsor such a fund, firms appear to shirk from the commitment. Specifically, in recent years, defined benefit (DB) plans, which are associated with the most financial commitment and risk for the employer, are either cancelled or frozen by corporations who feel they are too expensive and too risky to maintain (Butrica et al., 2009). We study the impact of pension plan freeze announcements on firm performance, beta and specific risk using a new conditional event study methodology. Preliminary results show that fund freezes decrease specific risk for a significant number of firms, indicating that the market views them as part of a solution to financial problems. 2011-

Master's Degree Student : Magali Point.

Conditional Return-Based Style Analysis

(Profs. Frank Coggins and Marc-André Lapointe)

It is acknowledged in the financial literature that investment styles advertised by mutual funds are often incomplete or erroneous. The literature suggests that 40% of mutual fund styles are different from those estimated with observable past returns [Brown and Goetzmann (1997)]. As a consequence, investors rely on this information to apply optimal mutual fund weights based on their risk preferences. In this context, Sharpe (1992) has proposed a *Return-Based Style Analysis* where style measures are estimated from a constrained regression. We propose and apply a conditional framework to the Sharpe (1992) model. The major innovation is that this conditional framework allows for time varying investment style analysis based on new financial information. 2011-

Master Degree students: Philippe Ingham, Marc-André Coulombe.

The Estimation and the Forecast of the American and the Canadian Market Risk Premiums
(Profs. Frank Coggins and Claudia Champagne)

Conceptually, forecast models as well as conditional models are based on the asset pricing theory proposed by Merton (1973) with its intertemporal model. There is a debate in the academic literature on the performance of this model or related ones. Our studies on the estimation and the forecast of the risk premium are central to this debate. Our studies also contribute to develop an adequate econometric framework to analyze the effect of financial integrity or financial crime on firm risk and performance. The impacts of financial frauds, pension fund freezes and environment, social and governance events on stock returns are issues that are directly related to the appropriate estimation and forecast of the market risk premium. 2012-

Master Degree students: Philippe-Olivier Blanchet, Maxime Lemay-Crilly.

LEGAL THRUST

Given the legal issues related to criminal activities and the methods used to counter them, this thrust is complementary to the financial thrust. The legal thrust plays a critical role in analyzing fraudulent financial operations. Its purpose is to recommend bills and regulations and to develop new analysis tools.

Is silence enough? Passive complicity of the professional in fraud

(Prof. Simon Roy; Prof. Jean-Christophe Saint-Pau, Université de Bordeaux (France). 2010-

As a general rule, Canadian criminal law refuses to impose liability on someone who doesn't try to stop a crime even if he has the power to do it. This conclusion seems even more justified if the witness of the crime has a duty of professional secrecy. As logical as it may be, this rule prevents the detection of fraud the most efficient way to detect fraud is the tip from an informer. This project analyzes the possibility of creating, in Canadian law, an offense of non-divulgence of a white-collar crime similar to the one that now exists in French criminal law.

Is pan-canadian economic crimes law utopian ?

(Profs. Simon Roy and Mathieu Devinat, Fac. of Law, U de S). 2013-

The research project studies the scope of the concept of *color of right* used in section 322 of the Criminal Code, which defines theft. The research subject is based on the decision *R. vs Alain Rhéaume et Louis Tessier*, REJB 1999-10968 (C.M.) February 17th, 1999, in which an employee

had taken possession of goods of small value, probably abandoned, at his workplace (a public place) and pleaded that this property should be considered abandoned within the meaning of section 934 al. 2 of the Civil Code of Quebec. However, according to section 935 C.c.Q., things without an owner belong to whom acquires them by occupation. Consequently, under the Civil Code of Quebec, the employee would become the owner of objects of little value found at his workplace. The judgment was largely based on the employment relationship between the employee and the employer, without actually deciding the underlying issue that we would like to address: how a concept of economic criminal law provided for in the Criminal Code (that is to say, the color of law) can be determined by provincial law, in this case the Quebec civil law. This question brings to light the complex relationship between the federal law and the numerous provincial laws and allows to compare two competing values: the consistency of the application of criminal law in every province (and the right of equality before law of every Canadian citizen) and the value of provincial private law as common law (whose principle has been recognized in les *Lois d'harmonisation fédérales* which were adopted in 2001).
Master's Degree Student : Catherine Dion-Lafont

Fraudulent disclosure and ethical criteria for investing. Norms and rights in Canadian Law (Profs. Simon Roy and Catherine Choquette, Fac. of Law, U de S; Prof. Jean-Christophe Saint-Pau, Université de Bordeaux (France). 2013-

The ethical character of investing could be a decisive factor, when consumers have to make their investment decisions. Having a corporate behavior that is environmentally responsible is an integral part of marketing processes. Individual companies as well as mutual funds and union funds could attract consumers with their ethical/environmental corporate image, whether it is enhanced in their corporate social responsibility/sustainability reports, codes of ethics, or environmental policies. Can we trust that ethical characteristics of given products are indeed applied? If there is any deception about the ethical character of given products, could it be considered a fraud, although there is no financial loss for those who have bought such products? If a mutual fund has given criteria of corporate social responsibility that are applied for selecting companies in its port-folio, would there be any legal impact, if such mutual fund has not applied its ethical criteria but has a better profitability than the average of ethical mutual funds (there is no financial loss) ?

PROCEDURAL THRUST

The objective is to study internal and internationally standardized compliance and enforcement plans, as well as monitoring instruments for financial institutions. Specifically, operational risk will be examined and analyzed. Operational risk is defined as direct or indirect losses due to an inadequacy or failure of the institution's procedures, its employees, its internal systems as well as its external risks,. Particular attention will be paid to the human aspect of operational risk, i.e. errors, malice and fraud. Studies will focus on existing and prospective risk quantification methods and models, on the impact of national and international monitoring standards regarding operational risk and compliance, on the differences and similarities between financial institutions, on the presence of a systemic risk and on the interaction between operational risk and other types of risks. Compliance and management related to other financial risks, such as

credit risk and market risk, will also be studied. Research will emphasize Canadian and American financial institutions.

In the past year, we pursued the development of a number of projects on subjects related to the procedural axis. These projects often involve graduate students working on their master or doctoral theses, as well as a post-doctoral fellow. Firstly, the supervision (in collaboration with a researcher from the finance thrust) of a post-doctorate student for a second year has allowed us to continue our work on governance and operational risk. Specifically, we finished a final version of our paper on the impact of ESG (environment, social and governance) criteria on firm performance and risk. We also continued working on two other projects on governance and insider trading as well as operational risk. Secondly, two students from the DBA (doctoral) program are working on themes related to the procedural thrust. The first student is still working on her thesis that focuses on the interdependent relation between conformity, regulation and risk management for financial institutions. The second DBA student is starting to work on his research proposal on the topic of socially responsible banking and operational risk. We anticipate the first draft of his proposal to be finished by the beginning of 2015. Finally, two master-level students are currently working on theses on different subjects relevant for financial institutions. Their work is generally part of larger ongoing research projects that will ultimately lead to publications. Simultaneously, we are still working, in collaboration with researchers from the financial thrust, on completing an extensive database on financial fraud and operational risk events.

Projects overview

The Canadian syndicated loan market and systemic risk (Claudia Champagne)

The 2008 financial crisis highlighted the dangers of financial contagion and purely microprudential regulation. In this context, syndicated loans can help lenders diversify their loan portfolio or meet regulatory requirements but they also lead to increase connections between financial institutions. Theoretical models have been developed to explain the impact of individual bank diversification on systemic risk (Wagner, 2010; Duport and Goyeay, 2011) but leave out syndicated loans and their unique particularities. Cai et al. (2011) evaluate the impact of American syndicated loans on systemic risk and conclude that the most connected lenders in the market are also the main contributors of systemic risk. Our project contributes to the literature by focusing on the concentration and homogeneity of loan portfolios for Canadian financial institutions. To that effect, we use a variety of measures such as network analysis, correlations, co-integration and distance measures. 2011-

Progress to date : started in 20XX, this project is well underway. In the past year, a M.Sc. student working on her master's thesis developed a simulated market that will serve as a benchmark for the different tests of systemic risk. We expect the student to finish her thesis by the end of summer 2014. Main results from the thesis will be used to write a research paper.

M.Sc. student: Line Drapeau

Financial innovation, risk management and regulation

(Claudia Champagne)

In a complex environment, the financial industry relies more and more on financial innovation to ensure their competitiveness as well as their satisfaction of customers and investors' needs. Financial innovation, while permitting an institution to better manage its risks and offer other financing alternatives, contribute to financial security. However, it can also entail instability by creating new risks (Gennaioli et al., 2010). According to Jobst (2010), many systemic risk sources are caused by microprudential regulation as well as failing operational risk management measures that didn't keep up with financial innovation, including securitization. The objective of this project is to study the relationship between risk management, governance and conformity through financial innovation. Specifically, we focus on national and international regulatory measures surrounding risk management via securitization and analyse the impact of this regulation on operational risk. We are particularly interested in the Canadian market, which may have proven more sound and stable during and after the financial crisis but in which securitization still play an important role in the diversification of portfolios, the mortgage market and the efficiency of capital markets (Klyuev, 2009). 2011-

Progress to date: A DBA student is working on this project as part of her doctoral thesis. In the 2013-2014, she has worked on the development of her theoretical framework and research hypotheses as well as the appropriate methodology to test the research hypotheses. We anticipate a first version of the thesis proposal to be ready by the end of the summer and for the student to be able to do her residency at a host institution (perhaps CIBC) by Fall 2014. Because of personal matters, the student had to put her studies on hold for a little while. We anticipate her to resume her work by Fall 2015.

DBA student : Nébiha Zouari

Is the bond market more financially responsible than the stock market ?

(Claudia Champagne)

Are the bond market or the bank loan market more « socially responsible » than the stock market? Even though the stock market is technically longer term than the bond or loan markets, evidence appear to show that debtholders' vision is more long term than that of stockholders, which can diminish the negative effects of short-term trading. Some authors are starting to suggest that bonds and loans can even be part of the solution regarding the social responsibility of investors (e.g. Stout, 2012). Is it the case? The objective of the project is to answer the question by comparing the 2 markets and the two types of investors.

Progress to date : This project is still in development. We will be working on the literature review during the next year.

DBA student: Moussa Fall

The international syndicated loan market network : An “unholy trinity?”

(Claudia Champagne)

This project provides a descriptive analysis of the international network of syndicated loan lenders through an examination of its topology and structure using network theory measures. We study both the undirected and directed graphs that consider the role played by lenders in loan syndicates, both weighted and unweighted connections, as well as consider different sub-networks based on lender type (banks and non-banks) and geographical regions (North America, Europe and Asia). We find that the networks and sub-networks generally display an “unholy

trinity” of structural properties that can be related to network robustness and stability. Specifically, lender networks have high complexity and connectivity, have a small-world structure characterized by proximity and clustering and also display scale-free characteristics with preferential attachment. 2013-

Project’s state of advancement: During the past year, this paper underwent significant changes following comments obtained at academic conferences and from journal referees. I anticipate that a new version will be ready to submit to conferences and/or journals by the end of 2014.

Interactions between capital markets : The informational content of the loan market

(Claudia Champagne, Frank Coggins, UdeS and Stéphane Chrétien, U Laval)

This project examines the informational content of the loan market by testing whether signals based on loan market activity as well as indirect information captured by loan terms can provide valuable information regarding the performance and risk of borrowers. A portfolio approach is used to test the value of loan market information with a conditional performance model that controls for the financial and economic context surrounding the signal. Results show that primary loan announcements provide positive information regarding the performance of borrowers. Secondary market signals such as loan sales and loan price variations are also informative regarding both the performance and risk of borrowers, even more so when combined with loan term information such as spreads. 2013-

Project’s state of advancement: In the 2013-2014, the paper was presented at the Northern Finance Association (NFA) conference in September 2013. It is also submitted to a peer-reviewed academic journal and we await the editor’s decision. In 2014-2015, the paper underwent some revisions following comments from conference participants. The paper was submitted to a peer-reviewed academic journal and we await the editor’s decision.

Financial market reactions to variations in corporate social performance

(Frank Coggins, Claudia Champagne, UdeS, and Roland Gillet, Université Paris 1 Panthéon-Sorbonne)

Post-doctorate: Amos Sodjahn

This study examines the differential impacts of social performance score upgrades and downgrades on the financial performance and risk levels of 242 Canadian firms from 2010 to 2011. The use of a conditional model allows for consideration of changes in the economic context, a factor frequently ignored in event studies. Results show that a score downgrade positively affects systematic risk. The market therefore appears to penalize socially irresponsible firms with a higher financial risk level yet fails to reward the performance of firms that cultivate their social image. There is limited evidence that downgraded firms, i.e. those considered to be less socially responsible, have higher positive abnormal returns. The results support the risk/performance relationship whereby irresponsible firms must deliver better financial performance as a result of their higher risk score. It would therefore seem appropriate to include an irresponsibility risk factor in a general Asset Pricing Model. 2013-

Project’s state of advancement : In the past year, this paper was presented at the Administrative Sciences Association of Canada (ASAC) Conference in June 2013. It is also submitted to a peer-reviewed academic journal and we await the editor’s decision. In 2013-2014, the paper was significantly modified to reflect referee comments. It is now submitted to a peer-reviewed

academic journal and we await the editor's decision. In 2014-2015, the paper was significantly modified to reflect referee comments. It is now submitted to a peer-reviewed academic journal and we await the editor's decision.

II- SUPERVISED GRADUATE STUDENTS (Master and DBA degrees)

Listed here are graduate students involved in the CIBC Research Chair program. When they have received financial support as research assistants under the supervision of a member of the Research Chair, their names are underlined. Their contributions are described in section I (literature reviews; databases). We are providing here the title of the research project, the degree (DBA, Master) and the name of their supervisor. Papers which have been presented by graduate students in academic colloquia are identified in section IV.

GOVERNANCE THRUST

DBA

Abdallah, Oussama : «Qu'est-ce qu'un système de gouvernance d'entreprise efficace ? ». (Sylvie Berthelot, dir.). September 2009-

Pierre Pawliw, « Stages of Organizational Moral Development in a Company with an Ethics Program : The Case of Siemens » (Michel Dion, co-dir. with Paul Prévost). September 2004-

Caroline Talbot : «Coût des mécanismes de gouvernance et leur impact sur la performance et la publication d'information financière manipulée : est-ce que la fin justifie réellement les moyens ?». (Sylvie Berthelot, dir.). September 2011-

Master Degree

Pellerin Nadeau, Mylene , (report, 9 credits), « Impact des pratiques de gouvernance sur l'adoption du vote consultatif » (September 2012-December 2013) (Sylvie Berthelot, dir.). Master in Administration (accounting) (report)

Lacroix, Virginie, (report, 9 credits), « Les prises de contrôle hostiles dans les sociétés publiques canadiennes » (September 2012-December 2013) (Sylvie Berthelot, dir.). Master in Administration (accounting) (report)

Sylvain, Jessica (report, 9 credits), «_L'influence de l'application volontaire du vote consultatif au Canada sur la rémunération du président-directeur général » (-December 2014) (Sylvie Berthelot, dir.). Master in Administration (accounting) (report).

Brunelle, Patrick. (report, 9 credits). «_Responsabilité sociétale des entreprises, rémunération des hauts dirigeants, performance financière et risque : le cas des entreprises canadiennes » (-December 2014) (Sylvie Berthelot, dir.). Master in Administration (accounting) (report).

Roquepas, Francis (report, 9 credits). « La gouvernance et la rémunération des hauts dirigeants de sociétés cotées canadiennes » (- December 2014) (Sylvie Berthelot, dir.) Master in Administration (accounting) (report).

Coderre, Danny (report, 9 credits). « La gouvernance des sociétés canadiennes : une analyse des pratiques et des coûts » (- December 2014) (Sylvie Berthelot, dir.). Master in Administration (accounting) (report).

FINANCIAL THRUST

***Post-doctoral fellow**, Amos Sodjahn (Ph.D. Paris Dauphine), « L'utilisation des méthodes conditionnelles dans les études événementielles en finance », (Frank Coggins and Claudia Champagne, dir.). November 2011-November 2013.

Master Degree

*Maxime Brisebois-Lemelin, « L'effet de la note des entreprises en matière de saine gouvernance (MSCI ESG) sur la probabilité d'occurrence d'événement médiatique néfaste pour l'entreprise » (Frank Coggins and Claudia Champagne, dir.) (Master dissertation). September 2011-

Guillaume Lamoureux-Bélaïr, « L'effet des classements des gestionnaires sur leur gestion de risque » (Frank Coggins and Claudia Champagne, dir.) (Master dissertation). September 2012-2014.

Maxime Brochu, « Le risque de réputation » (Frank Coggins and Claudia Champagne, dir.) (Master dissertation). 2014-

Samuel Chrétien, « L'effet de la note des entreprises en matière d'impact sur l'environnement (MSCI ESG) sur la probabilité d'occurrence d'événement médiatique néfaste pour l'entreprise, » (Frank Coggins and Claudia Champagne, dir.) (Master dissertation). 2014-

*Édith Brault, « L'effet de la note des entreprises en matière d'impact sur la société (MSCI ESG) sur la probabilité d'occurrence d'événement médiatique néfaste pour l'entreprise » (Frank Coggins and Claudia Champagne) (

*Thi Ngoc Tuyen Tran, « L'effet de l'annonce d'irrégularités financières sur la valeur et les risques des titres boursiers » (Frank Coggins and Yves Trudel) (

Michel Léveillé, « La propagation des nouvelles médiatiques en lien avec des fraudes financières dans les marchés boursiers » (Frank Coggins and Claudia Champagne) (

*Lyne Drapeau, research assistant, data base.

LEGAL THRUST

L.L. D. (Doctorate in Law)

Éric Leblanc, « La fraude fiscale : une étude des avantages et inconvénients des recours administratifs, pénaux et criminels », (Simon Roy, dir.) (September 2014-)

Jeanne Huber, « La protection de la confidentialité de l'information économique par le droit criminel et pénal » (cotutelle with the Université Montesquieu – Bordeaux IV) (Simon Roy, co-dir. ; Jean-Christophe Saint-Pau, co-dir) (September 2014 -)

Tiphaine Dourges, « Vers une théorie de la répression en droit criminel économique (cotutelle with the Université Montesquieu – Bordeaux IV) (Simon Roy, co-dir. ; Jean-Christophe Saint-Pau, co-dir) (September 2014 -)

Master Degree in Law

Jonathan Tondreau-Lord, « Les caractéristiques psychologiques des fraudeurs comme éléments de prévention de la fraude future » (report), (September 2013-)

PROCEDURAL THRUST

***Post-doctoral student**, Amos Sodjahn (Ph.D. Paris Dauphine), « L'utilisation des méthodes conditionnelles dans les études événementielles en finance », (Frank Coggins and Claudia Champagne, dir.). November 2011-

DBA

Nébiha Zouari, « Risque, réglementation et innovation financière ». (Claudia Champagne and Marc-André Lapointe, dir.). September 2010-

*Moussa Fall, « Operational risk and Basel III », (supervisors: Claudia Champagne and Frank Coggins). September 2012-

Léopold Yodjeu, DBA, « Le risque systémique » (supervisor : Claudia Champagne), Sept. 2013

Master Degree

*Line Drapeau, « La contagion des portefeuilles de prêts des banques canadiennes » (Frank Coggins and Claudia Champagne, dir.) (Master dissertation). September 2011-January 2015.

Lamiaa Belkad, « Analyse du réseau du marché du capital de risque canadien » (Claudia Champagne, dir.) (Master dissertation). September 2011-

*Marie Gravel, « Le réseau canadien du capital de risque : une étude exploratoire avec la théorie des graphes », (supervisor : Claudia Champagne) (Master dissertation). September 2012-January 2015.

* Léanne Berger-Soucy, « La contagion entre les institutions financières internationales » (supervisor : Claudia Champagne) (Master dissertation). Sept. 2013 –

* Mathieu Bernard « Herding behavior in the mutual fund industry », Sept. 2014 – ongoing.

III- PUBLICATIONS

The publications of the chairholder and collaborators have contributed to advance our knowledge and understanding of various aspects of financial crime (particularly about corruption and cybercrime), corporate governance and ethical leadership. In that way, they constitute social and academic contributions to the society as well as the academic community.

GOVERNANCE THRUST

Corporate Governance and Ethical Leadership

Articles in Academic Journals

Coulmont, M. and S. Berthelot, “The Financial Benefits of a Firm’s Affiliation with the UN Global Compact”, *Business Ethics. A European Review*, vol. 24, no 2, 2014, p. 144-157.

Dion, Michel, “The economic and non-economic dimensions of social enterprises’ moral discourse: an issue of axiological and philosophical coherence”, *International Entrepreneurship and Management Journal*, vol. 10, no 2, 2014, p. 385-408.

FINANCIAL THRUST

Articles in Academic Journals

Bellemare, G. and Trudel, Y., “L’approche économique en matière de malhonnêteté et de réglementation financière : le cas des fraudes d’investissement”, *Revue de Droit de l’Université de Sherbrooke*, vol. 44, no. 1, 2014, 201-226.

Champagne C., S. Chrétien and F. Coggins, 2015, « L’effet des gels des caisses de retraite sur la performance et le risque des entreprises », *Revue Canadienne des Sciences Administratives*. (forthcoming)

Champagne, C., F. Coggins and S. Chrétien, 2015, « Should Investors Pay Attention to Domestic and US Election Regimes? A Canadian Perspective », *International Journal of Economics and Finance* 7, 105-121.

Godbout, L., Trudel, Y. and St-Cerny, S, 2014, “Differential Returns by Year of Retirement under the Canada Pension Plan”, *Canadian Public Policy*, vol. 40, no. 4.

Godbout, L., Trudel, Y. et St-Cerny, S, 2014, “Le financement à long terme des régimes publics de retraite : le cas du Régime des Rentes du Québec ”, *Le Québec Économique 2013-2014*, Cirano, 393-422.

Godbout, L., Trudel, Y. and St-Cerny, S, 2014, « Le Régime des rentes du Québec : le Rendement Différencié selon l’Année de Prise de la Retraite de 1968 jusqu’en 2056 », *Actualité Économique*, vol. 89, no. 2.

Working Papers

Champagne C., S. Chrétien et F. Coggins, « Interactions between Capital Markets: the Informational Content of the Syndicated Loan Market », *Cahier de recherche du GReFA* 004-14, 2014.

Champagne, C., F. Coggins, R. Gillet, A. Sodjahnin, 2014, « Réaction des Marchés Financiers aux risques extra-financiers liés à l’environnement, la société et la saine gouvernance ». *Cahier de recherche du GReFA* 001-14, 2014.

PROCEDURAL THRUST

Articles in Academic Journals

Champagne, C., « The international syndicated loan market network : an « unholy trinity »? », *Global Finance Journal*, 25 (2), 148-168.

Champagne, C., Stéphane Chrétien and Frank Coggins. « Les effets du gel d'une caisse de retraite sur la performance et le risque des actions de l'entreprise », *Canadian Journal of Administrative Sciences*, forthcoming.

Champagne, C., Stéphane Chrétien and Frank Coggins, "Should investors pay attention to domestic and US election regimes? A Canadian perspective", *International Journal of Economics and Finance* 7 (4), 2015.

IV- ACADEMIC COLLOQUIA

- The names of students who have been hired as research assistants are underlined.
- In some papers, researchers were required to pay registration fees and trip expenses for participating in academic colloquia; but the CIBC Chair funds have not be used to do so.

GOVERNANCE THRUST

Drapeau, M., Coulmont, and S. Berthelot, “Relation entre la gouvernance et le risque des entreprises: Cas des entreprises canadiennes”, 13^e Conférence internationale de gouvernance de l’AAIG, Dijon (France), 2014.

Berthelot, S. and M. Coulmont, « The Financial Markets and the Firm’s Affiliation with the UN Global Compact », 37th EAA Annual Congress, Tallinn, Estonia, (2014).

Coulmont, M., Berthelot, S., and V. Serret, « The Financial Markets and the Firm’s Affiliation with the UN Global Compact », 35^e Congrès de l’Association francophone de comptabilité, Lille, France, (2014).

Drapeau, M., Coulmont, M. and S. Berthelot, « Relation entre la gouvernance et le risque des entreprises : cas des entreprises canadiennes », 35^e Congrès de l’Association francophone de comptabilité, Lille, France, (2014).

PROCEDURAL THRUST

*Drapeau, Line and Champagne C. “Do syndicated loans influence systemic risk? A Canadian perspective”, *Annual conference of the Administrative Sciences Association of Canada (ASAC)*, Halifax, June 2015.

V- TRAINING SESSIONS AND NON-ACADEMIC SYMPOSIUM

GOVERNANCE THRUST

Dion, Michel. “La prévention du blanchiment d’argent dans le milieu des affaires et le risque de distorsion du discours moral corporatif”, Université d’été, Centre d’études en droit économique, Faculté de droit, Université Laval, *Colloque « Supervision et contrôle en matière de blanchiment d’argent »*, May 29th, 2014.

FINANCIAL THRUST

Godbout, L., Trudel, Y. “On the relevance of automatic adjustment mechanisms: The case of Quebec pension plan”, CD Howe Institute, Pension Policy Council, Toronto, 2015.

Godbout, L., Trudel, Y. « Le financement des régimes publics de retraite », Institut d’administration publique du Grand Montréal, 2014.

Champagne, C., F. Coggins, R. Gillet, A. Sadjahin, « Réaction des marchés financiers aux variations des performances sociales des firmes », présenté à la Caisse de Dépôt et Placement du Québec, Montréal, Canada, 2014.

Champagne, C., F. Coggins, R. Gillet, A. Sadjahin, « The Impact of Environment, Society and Governance Criteria on Financial Risk », présenté au PRI-Academic, Montréal, Canada, 2014.

VI- COLLABORATORS

The collaborators include regular professors as well as students listed in section II.

Michel Dion, Chairholder

(The Chairholder is mainly involved in the governance thrust, although he also participates in the other research thrusts of the Chair).

GOVERNANCE THRUST

Sylvie Berthelot, Responsible for the Governance Thrust (Accounting)

Michel Dion (Management)

FINANCIAL THRUST

Frank Coggins, Responsible for the Financial Thrust (Finance)

Yves Trudel (Finance)

Anastassios Gentzoglanis (Finance)

Guy Bellemare (Finance)

Claude Mathieu (Finance)

LEGAL THRUST

Simon Roy, Responsible for the Legal Thrust (Fac. Law)

PROCEDURAL THRUST

Claudia Champagne, Responsible for the Procedural Thrust (Finance)

ASSOCIATE COLLABORATORS

Jessica Lévesque (Information systems ; statistics)

Marc-André Lapointe (Finance)

Stéphane Chrétien (Finance, Université Laval, Québec)