

AFAANZ Research Fund 2020-21

Report for Grant Outcomes

(1) Name, Position, Contact Details of applicant

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Position: Senior Lecture in Finance

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(2) Project Title

Short selling risk around the world

(3) Updated Project Summary

This study examines whether short selling risk predicts lower stock returns due to its impediment to stock trading trade across 38 countries in the world. We measure short selling risk by predicting the volatility of short selling fee. Unlike a typical U.S. study, the international setting allows us to exploit cross-country differences in firm characteristics, regulations, and short selling costs as well as exogenous shocks in short selling risk to uncover the channels behind the return predictability. Our project provides guidance to policymakers on the impact of short selling regulations and to investors on price discovery and market efficiency.

(4) Funds Granted

AUD 6,321

(5) Detailed Report on Expenditure of Funds against Budget Items

We used \$6,283.52 for research assistance in data collection. The research assistant spent around 130 hours in five batches. All worked hours were approved by the research director at the Department of Finance, Faculty of Business and Law, Deakin University.

The summary expenditure is as follows:

<u>Batch</u>	<u>Hours</u>	<u>Amount</u>
1	40	\$1,963.60
2	20	\$981.80
3	22	\$1,079.98
4	16	\$785.44
5	30	\$1,472.70
<u>Total</u>	<u>128</u>	<u>\$6,283.52</u>

(6) Outcomes

With the help of our research assistants, we collected most of the necessary data for our study. Specifically, our sample covers the period from July 2006 through December 2018. We obtained daily stock-specific data for every stock in 38 countries around the world from Datastream, Compustat Global, and Markit. We collected data on:

(1) equity lending/short selling: lending fees, loan volume, utilization rate, number of trades, etc.

(2) firm characteristics: market capitalization, book-to-market ratio, past returns, liquidity measures, etc.

Since the project was underfunded, we could not complete the whole paper, which includes all the extensive analyses and robustness tests we had in mind. At this stage, we are able to complete the main parts of our project. We are in the process of collecting more data for robustness checks and extensive analyses.

(7) Future Intentions for this Project

a. Conference submissions

We plan to submit our working paper to domestic and international conferences next year for exposure and feedback to improve our paper.

b. Journal submissions

Once our paper is well polished and circulated, we intend to submit it to either a general journal, such as the *Journal of Financial Economics*, the *Journal of Quantitative and Financial Analysis* or *Management Science*; or a field journal, such as the *Journal of Financial Markets* or *Journal of Corporate Finance*.

c. Grant applications

We may apply for a top-up grant for our project to cover any additional expenses related to data collection (e.g. to update our sample or for robustness checks) and journal submissions.

d. Projects

This project is an extension of our previous project on short selling risk in Australia.

(8) Summary of Outcomes and Benefits

We are very grateful for the AFAANZ grant as the success of our project largely depend on it. With the AFAANZ funds, we managed to complete most of the work related to data-collection, cleaning, and consolidation. We wrote a working paper, titled “Short Selling Risk around the World”. We are in the process of finishing the write up for a complete, polished working paper.

Our results may inform policymakers in their decision to change short selling regulations (e.g. reporting and the disclosure of short selling activities) in the future. Practitioners around the world may be interested in arbitrage trading strategies that are inspired by our findings. Our findings may also educate interested traders in making informed trading decisions about short selling and stock trading in general. Our results may provide academics with the explanations for the returns predictability of short selling risk.

In general, we contribute to the asset pricing and international finance literature. Specifically, we extend the literature on short-selling and impediments to arbitrage.

Prepared by

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