

James O' Donovan, Assistant Professor of Finance

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ACADEMIC APPOINTMENT	Assistant Professor of Finance, College of Business, City University of Hong Kong	2019-
EDUCATION	INSEAD, PhD in Finance	2013-2019
	University College Dublin, Ireland, M.Sc. Quantitative Finance (1st in Class)	2011-2012
	University of Limerick, Ireland, B.Sc. Financial Mathematics	2007-2011
RESEARCH INTERESTS	Empirical asset pricing and empirical corporate finance.	
PUBLISHED PAPERS	<p>"The Value of Offshore Secrets - Evidence from the Panama Papers" with Hannes Wagner and Stefan Zeume at The Review of Financial Studies (Lead Article, Editors Choice, and Michael J. Brennan Best Paper Runner Up)</p> <p><i>Abstract:</i> We exploit one of the largest data leaks to date to study whether and how firms use secret offshore vehicles. From the leaked data, we identify 338 listed firms as users of secret offshore vehicles and document that these vehicles are used to finance corruption, avoid taxes, and expropriate shareholders. Overall, the leak erased \$174 billion in market capitalization among implicated firms. Following the increased transparency brought about by the leak, implicated firms experience lower sales from perceptively corrupt countries and avoid less tax. We estimate conservatively that one in seven firms have offshore secrets.</p>	
WORKING PAPERS	<p>"Understanding the asset growth anomaly" <i>Abstract:</i> Non-investment components of balance sheet asset growth which are related to earnings management contributed to the asset growth anomaly in the past. These components of balance sheet asset growth are no longer related to returns and this contributes to the disappearance of the asset growth anomaly since 2002. I provide evidence that the Sarbanes-Oxley Act reduced earnings management and improved the integrity of accounting information: earnings manipulation has decreased, earnings predictability has increased, and analyst forecast errors have decreased. Further, the cross-sectional relationship between the accrual accounts used to manage earnings and analyst optimism has reduced. The evidence suggests that the asset growth anomaly was driven by mispricing in the past, and that this mispricing has decreased.</p> <p>"International Asset Pricing with Strategic Business Groups" (with Massimo Massa and Hong Zhang) <i>Abstract:</i> We study how firm affiliation to a business group affects stock prices. We argue that the more important a firm is to the ultimate owner to retain the control of the group ("central") the less sensitive it is to informational and cash-flow shocks. The market prices this higher stability and lower informational sensitivity by requiring a lower return on the stock. We test these pre-</p>	

dictions using a novel dataset of worldwide ownership of publicly listed firms for the 2001-2013 period for which we have information not only on firm characteristics and their prices, but also full ownership structure. We develop a measure of degree by which firms are used by the ultimate owner to retain control of the group ("centrality"). We document that central firms display lower sensitivity to information and cash flow shocks. This limits the informational advantage of informed investors, reducing short-selling, increasing liquidity, and lowering idiosyncratic volatility. These effects are priced as central firms command lower stock returns (gross and factor-risk risk adjusted). High-centrality portfolios deliver a 75 (72) basis points lower three factor (four factor) alpha than the low centrality ones. A centrality factor helps to explain the cross section of stock returns in business groups. Centrality is mostly appreciated at the times in which market uncertainty is highest.

"Merger Financing and the Information Content of Option Implied Moments"
(with Cal Muckley and Conall O' Sullivan).

Abstract: There is pre-announcement cross-sectional information assimilation in changes in option implied model-free skewness in respect to announcement period equity returns. We show that changes in the option implied model-free skewness has significantly greater predictive capacity for principally cash financed target firms. A rationale for this pre-announcement option trading is (i) that the primarily cash financed target firms exhibit the largest discontinuous price impact at announcement and (ii) this finance mechanism, unlike in primarily equity financed deals, does not facilitate equity hedging of deal risk with an equity position in the counterpart deal firm. We formalize this intuition by simulating a simple model to show the information assimilation in changes in implied moments with respect to announcement returns. The results are robust to different run-up period windows and a wide set of cross-sectional stock return predictors. Pending merger deal announcements, we therefore show that, as reflected in changes in model-free option implied skewness, the options market plays an important role in price discovery.

RESEARCH GRANTS Principal Investigator: Derivative Gamma Exposure and Underlying Asset Variance
Early Career Scheme, competitive grant of HKD\$341K, 2020 - 2022

Principal Investigator: Option Implied Informativeness: A Dynamic Perspective
CityU Start-up funding, HKD\$200K, 2020 - 2022

TEACHING EXPERIENCE 2014-2016, INSEAD - Financial Markets & Valuation Tutorial Instructor
(MBA Core Finance)
2019-2020, City University of Hong Kong - Derivatives and Risk Management
(M.Sc Finance & M.Sc Financial Engineering)

PROGRAMMING LANGUAGES Matlab, SAS, R, STATA and MySQL.

FINANCIAL DATABASES Compustat, CRSP, I/B/E/S, OptionMetrics, Datastream, Thomson One Banker.