

Dear Marius Luta,

Welcome to the latest edition of SAFE Update, the Leibniz Institute SAFE digital newsletter. In this issue, we focus on sustainable finance and look at research into the effects of local bankruptcies on households' investment behaviors.

We hope you find this newsletter of interest and would welcome your feedback to the editorial team at newsletter@safe-frankfurt.de.

Focus: Watching sustainability standards



SAFE fosters debate on sustainable finance to develop data

As one of the megatrends of our time, climate change also affects financial research. At SAFE, experts from different research areas such as Financial Markets, Financial Intermediation, and Law & Finance are looking into whether sustainable finance can contribute to the green transition – and if it can, how. One area they are analyzing is the role of disclosure in green finance or ESG ratings. These experts are part of a larger group consisting

of researchers from SAFE, Goethe University Frankfurt, the Senckenberg Biodiversity and Climate Research Centre, and the Potsdam Institute for Climate Impact Research who have come together to form the Frankfurt Panel on Sustainability Research (FPSR), a newly-founded group designed as a neutral platform for a science-based, critical assessment and evaluation of sustainability standards.

With the aim of initiating a critical debate around its core mission, the FPSR is organizing the first Sustainability Standards Watchers Conference on 12 July 2022 in a hybrid format at Campus Westend, Goethe University Frankfurt, and online. The event aims to foster debate among biodiversity, climate, economic, and legal scholars with decision-makers of the financial industry, the European Commission, central banks, and the International Sustainability Standards Board (ISSB). Announced by the International Financial Reporting Standards (IFRS) Foundation as a new standard-setting body for reporting on sustainability on a global scale during the UN Climate Change Conference in Glasgow, the ISSB was founded in late 2021 and is based in Frankfurt.

At the conference, SAFE professor [Loriana Pelizzon](#) will chair a panel on how sustainability standards affect decisions of firms. [Tobias Tröger](#) from SAFE's Law & Finance Cluster will chair a panel on the reaction of investors to climate risks as well as a high-level

debate on the way sustainability standard-setters compete, coordinate, and collaborate with each other. Furthermore, the conference agenda includes a keynote by Robert F. Stambaugh, Professor of Finance at the Wharton School of the University of Pennsylvania, and the ISSB's vice-chair Sue Lloyd will present the ISSB exposure drafts. [Register here for the first Sustainability Standards Watchers Conference.](#)

Research Highlight: Local influences on trading behavior



The trading response of individual investors to local bankruptcies

by [Christine Laudenbach](#), SAFE Professor for Household Finance, Benjamin Loos (TU Munich), Jenny Pirschel (University of Bonn) and Johannes Wohlfart (University of Copenhagen).

In the paper “The trading response of individual investors to local bankruptcies”, published

in the Journal of Financial Economics, the authors analyze how households' investment behaviors are affected by adverse local experiences, namely local bankruptcies. In their study, they link transaction data from a large German brokerage with data from the German credit bureau on all bankruptcy filings of firms in Germany. The authors find that an increase in local bankruptcies is associated with significant adjustments trading activity and portfolio risk among nearby investors.

In more detail, the authors find that retail investors sharply reduce risk taking in response. This can be explained through more pessimistic expectations about aggregate stock returns and increased risk aversion. Changes in background risks (e.g., increased unemployment rates through a higher level of bankruptcies) or wealth effects cannot explain the findings.

Consequently, the authors argue that, especially in the short term, bankruptcies of small local firms – 99 percent of bankrupt firms in the sample are not publicly listed – affect households' trading behaviors.

Especially in surrounding areas, insolvency cases are often recognizable through closing signs, coverage in the local press, and word-of-mouth. This may draw investors' attention to the downside risk of equity investments, hence making the possibility of large losses more salient.

[Find the research paper here](#)

#SAFEtheDate



Outlook

SAFE is organizing the sixth Household Finance Workshop on 7 and 8 July 2022 at the House of Finance in Frankfurt. The workshop aims to strengthen the field's research community as well as to provide a platform to discuss ongoing research. Please note this is planned as an in-person-only event. [Register here to attend the workshop.](#)

Review

In a joint Policy Web Seminar by SAFE and the Centre for Economic Policy Research on 14 June 2022, John Fell, Deputy Director for General Macprudential Policy & Financial Stability of the ECB, assessed the latest Financial Stability Report (FSR), which was published in May. Moderated by Lorian Pelizzon, Director of SAFE's Research Department Financial Markets, Fell argued that the FSR identifies corporate balance sheets and housing prices as the sore points. [Read the follow-up report and rewatch the session here.](#)

Handpicked

Tobias Tröger, Director of SAFE's Research Cluster Law & Finance, recommends an article on "Contracting for Innovation: Vertical Disintegration and Interfirm Collaboration" published in the Columbia Law Review:

"I recommend rereading an old piece by Ronald J. Gilson, Charles F. Sabel, and Robert E. Scott from 2009. Why? Like most of the visionary work in law and finance, it is still incredibly helpful in understanding current developments more than a decade later! Many sectors of the economy, such as automotive manufacturing, for instance, are facing disruptive changes; others, like the pharmaceutical industry, rely on very strong first-mover advantages on the basis of large scale investments. As a result, business models face Knight'ian uncertainty. The article I recommend explains convincingly which specific contractual structures allow innovation under these circumstances by turning unpredictable uncertainty into probabilistic risk."



[Find the article here](#)

News & Latest

- **News:** [SAFE young researchers present their work at international conferences](#)
- **Video:** [In a SAFE-CEPR Policy Lecture, ECB board member Fabio Panetta explains that it will take gradual steps to reach the medium-term inflation target](#)
- **SAFE Finance Blog:** [Spillovers of funding dry-ups \(by Andreas Barth\)](#)
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