Lingnan University 嶺南大學 香港 Hong Kong

Faculty of Business 嶺南大學商學院

Department of Finance
Hong Kong Institute of Business Studies

Talking Their Own Book: Brokerage Proprietary Trading and Analyst Bias

We identify a novel conflict of interest arising from brokerage proprietary trading in China. While conflicts involving direct proprietary equity positions are strictly regulated, we show that brokers exploit indirect equity exposure through proprietary investments in mutual funds, inducing their analysts to issue more optimistic recommendations for the underlying stocks. Several identification strategies confirm that this bias is driven by strategic incentives rather than superior information. Cross-sectionally, the bias is weaker in more transparent information environments, but stronger when incentives are more skewed toward proprietary interests. Overall, our findings reveal a subtle but important channel through which proprietary interests compromise analyst independence, enabling brokerages to capture investment benefits at the expense of investors who suffer from subsequent stock underperformance.

Prof Zilin CHEN

Zilin CHEN is an Associate Professor of Finance at the School of Finance, Southwestern University of Finance and Economics. He earned his B.S. in Economics from Guangdong University of Foreign Studies, and an M.A. in Statistics from the National University of Singapore. He received his Ph.D. in Finance from Singapore Management University. His research interests span asset pricing, behavioral finance, FinTech, and machine learning. His work has been published in the *Journal of Financial Economics*, *Journal of Banking and Finance*, *Journal of Economic Dynamics and Control*, and *Journal of Business Finance & Accounting*.

Date: 1 April 2026 (Wednesday)
Time: 10:00am-11:30am
Venue: SEK210
Language: English

For enquiries, please contact 2616-8373 or by email (hkibs@ln.edu.hk).
Due date: 2 April 2026

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