ABSTRACTS

1. INTERNAL AUDIT QUALITY, ACCOUNTING TRANSPARENCY AND FINANCIAL REPORTING EFFECTIVENESS: EVIDENCE FROM THAI LISTED FIRMS

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ABSTRACT

The purpose of this study is to examine the relationships between internal audit quality and financial reporting effectiveness through mediating effect of accounting transparency. Internal audit quality focused on functional level including five dimensions: staff expertise, scope of service, effective audit planning, fieldwork and controlling, and effective communication. Here, 115 internal audit directors or internal audit managers from the listed firms in the Stock Exchange of Thailand (SET) were selected as key informants of this study. The results present that five of the dimensions of internal audit quality, only effective communication has a significant positive effect on both accounting transparency and financial reporting effectiveness, and fieldwork and controlling has a positive effect on accounting transparency only. Accounting transparency has a significant mediating effect between internal audit quality and financial reporting effectiveness. In contrast, staff expertise, scope of service, and effective audit planning force do not affect accounting transparency and financial reporting effectiveness. Moreover, both governance culture and stakeholder force do not have a moderating effect in this study. Thus, further study may consider finding practical reasons why it is so by reviewing extensive literature, or collecting a larger sample, for example. Potential discussion with the research results is effectively implemented in the study. Theoretical and managerial contributions are explicitly provided. Conclusion and suggestions and directions of the future research are highlighted.

Keywords: *Internal Audit Quality; Accounting Transparency; Governance Culture; Stakeholder Force; Financial Reporting Effectiveness*

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2. FACTORS AFFECTING U.S. FREE CASH FLOWS: ADDITIONAL EVIDENCE

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ABSTRACT

Over the past decade, cash balances have been increasing at record levels. This study examines this phenomenon and provides empirical evidence on the effect of factors such as capital expenditures, R&D spending, foreign income, dividend payouts, classification of the firm, and reporting regulation on free cash flow levels. This study also examines the value relevance of free cash flows and their association with earnings and stock prices. We find the level of free cash flow is negatively associated with dividend payments and capital expenditures. Owing to the tax-based incentive, firms appear to hold excess cash as a result of retaining income in foreign operations as opposed to foregoing the repatriation of income. In terms of the precautionary motive and agency theory motives, firms with higher free cash flow levels are more highly leveraged, spend more on R&D projects, and hold more treasury stock. Glamour-based stocks and variables representing firms' economies of scale are found to be positively associated with free cash flow. This paper also contributes to the literature by building on the value relevance literature relating earnings and stock prices to free cash flow. While the results show that free cash flow is marginally associated with stock prices, its association with contemporaneous earnings is not significant.

Keywords: *free cash flow, glamour-value, tax burden, repatriated income, Sarbanes-Oxley Act*

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3. THE EFFECT OF ENVIRONMENTAL DISCLOSURE ON THE FIRM'S CAPITAL STRUCTURE AND VALUE

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ABSTRACT

Our paper analyzes the effect of environmental disclosure on the firm's long term capital structure decision and its financial performance. Our results show that the value of the firm is affected by the firm's commitment on environmental reporting because the firm's capital structure decisions and ultimately its cost of capital are positively related to the firm's environmental disclosure. The evidence that environmental accounting influences the behavior of investors is further strengthened. Thus, good environmental disclosure will reduce the firm's environmental risk and increase the market value of the firm. Conversely, bad environmental performance is expected to be negatively correlated with the value of the firm.

Keywords: *Environmental Disclosure, Capital Structure, Cost of Capital and Value.*

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4. DO DEFICITS CROWD OUT PRIVATE BORROWING? EVIDENCE FROM FLOW OF FUNDS ACCOUNTS

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ABSTRACT:

Heim (2010) found a strong negative relationship between deficits and private consumer and investment spending, controlling for other key variables. The study did not directly test the mechanism by which deficits were related to consumer and investment spending, only the result. Crowd out theory hypothesizes the mechanism is consumer and investment credit shortages induced by borrowing - financed government deficits. This paper examines that mechanism directly for the first time, testing to see if private borrowing is related to deficits. It uses Federal Reserve Flow of Funds accounts data on borrowing. The paper finds a strong negative relationship between deficits and private borrowing, with deficits reducing private borrowing dollar for dollar. The borrowing estimates are very similar to the Heim (2010) estimates of deficit effects on consumer and investment spending, suggesting crowd out effects work through the borrowing channel and fully offset the stimulus effects of deficits. Flow of Funds data on savings and investment, confirm the econometric findings of full crowd out, provided savings remain constant. JEL Codes: C50, C51, E12, E21, E22

Keywords*: Consumption, Investment, Deficits, Savings, Borrowing, Stimulus*

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5. PRICING OF IDIOSYNCRATIC RISK IN DEVELOPED FINANCIAL MARKET

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ABSTRACT

Capital Asset Pricing Model (CAMP) predicts that only systematic risk is priced in stock returns. However, theories such as Merton (1987) predict a positive relation between idiosyncratic risk and expected return. Empirical evidences have been mixed. Some studies show that idiosyncratic risk is positively priced; some studies show that idiosyncratic risk is negatively priced; while others show that there is no relationship. Using GARCH model to estimate idiosyncratic risk in a developed financial *market, we find a significantly positive relation between the idiosyncratic risk and realized return. Thus, even in a developed financial market, investors do not seem to fully diversify away firm specific risk.*

Keywords*: Idiosyncratic risk; Cross-sectional returns; GARCH*

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6. INADEQUACY AND MISUSE OF MATHEMATICAL SYSTEMS LEADING TO MARKET FAILURES AND BUSINESS CYCLES

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ABSTRACT

In recent years, large financial institutions attempted to outwit the markets and eliminate risk by creating and trading enormous volumes of a variety of derivative securities such as Mortgage-Backed Securities (MBS), Collateralized Debt Obligations (CDO), and Credit Default Swaps (CDS),etc. According to several financial economists, the origins of this menagerie of derivative securities, can be traced to the Black-Scholes-Merton option-pricing-formula and a host of other related mathematical models. The increased complexity of these securities coupled with trillions worth of high-leverage transactions, instead of reducing the risk as surmised in the theories, amplified the risk in the markets that eventually led not only to the global financial crisis of 2008 but also to the ongoing worldwide systemic risk. This paper examines the questions and criticisms raised by a significant number of financial economists about the weaknesses or the flaws in the Black-Scholes-Merton option-pricing-formula and related mathematical models.

Keywords: *Option pricing formula, systemic risk, financial crisis, and derivative securities*

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7. ARE AGENCY COSTS RELATED TO THE TYPE OF OWNERSHIP? EVIDENCE FROM UK

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ABSTRACT

Agency costs arise when there is separation of ownership between the owners and the managers. The interests of the managers who run the company on behalf of the owners are not aligned with that of the owners resulting in increased costs and lower performance. This study investigates whether the ownership structure of a company affects the agency costs incurred by it. Different types of ownership structure results in different levels of control which in turn manifests in varying levels of expenses and performance. The study uses data from UK to compare two ratios - expense ratio and asset utilization ratios for a single owner independent company with those for other ownership structures. The study finds some interesting insights that may help to reduce agency costs through appropriate ownership structures.

Key words: *Agency Cost, Ownership Structure, Ownership and Control, Assets Utilization, Firm Performance.*

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8. VENTURE CATALYST OR VULTURE CAPITALIST?

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ABSTRACT

This paper analyzes how the venture capital (VC) investment affects the ownership structure in a venture through the impacts of industrial and organizational changes. Using a game-theoretic approach, we show *that an investor's required ownership rises during the inception of the venture and falls when business matures. In addition, ownership percentage is negatively driven by the perception of risk distribution, but positively by its magnitude. Furthermore, the optimal ownership is positively related to the future value of the VC investment.*

Keywords: *Venture Capital; Optimal Ownership Structure; Strategic Complements*

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9. A MIXTURE OF NORMALS MODEL OF MARKET EFFICIENCY

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ABSTRACT

The abrupt market adjustments that usually succeed a long period of positive returns from foreign currency speculation negate the observed deviation from market efficiency known as the 'forward premium puzzle', the theoretical underpinning of sustained trading profits. This analysis presents the conjecture that abrupt adjustments support the original hypothesis of zero expected returns. In a mixture of normal distributions, market efficiency seems to manifest itself in abrupt adjustments. The resulting fat tails for single distributions of speculative returns are in line with earlier results, in which nonlinear sensitivities of speculative returns to interest rate differentials sustain profits, only within certain ranges. Outside the ranges where the forward premium anomaly prevails, sustained profits give way to either abnormal growth, or ultimate bust, in a manner that supports efficiency.

Keywords: *Forward Premium Puzzle, Speculation, Mixture of Normals, Parametric Lags*

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10. U.S.-BASED INTERNATIONAL EQUITY INDEX FUNDS: PERFORMANCE AND RISK DURING UP AND DOWN MARKET CONDITIONS

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ABSTRACT

How well do international index funds perform compared with the average of all U.S.-based international mutual funds? Investors first need to be aware that some self-identified international index funds do not behave like index funds. These "non-ideal" international index funds we identify in this paper charge higher expense ratios and incur higher turnover rates than category averages. After purging the sample of these "in name only" index funds, our results show that both index mutual funds and exchange-traded funds exhibit lower expense ratios, lower turnover rates, and mostly lower tax cost ratios than category averages. Index mutual funds exhibit higher returns and lower risks than category averages during both up and down market conditions; and higher risk-adjusted returns during up market conditions. Exchangetraded funds exhibit higher returns than category averages during down market conditions, but exhibit lower risk-adjusted returns during up market conditions. Index mutual funds have performed well, and are better than category averages and exchange-traded funds. Taken as a whole, international index funds, including both index mutual funds and exchange-traded funds, appear to provide better defense than actively managed mutual funds during down market conditions; whereas index mutual funds also shine during up market conditions.

Keywords: *international index funds, portfolio performance, risk-adjusted return*

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11. THE INFLUENCE 2007-2009 FINANCIAL CRISIS ON SIFs POSITION AT BUCHAREST STOCK EXCHANGE

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ABSTRACT:

The financial crisis of 2007-2009 had an important impact on financial markets all over the world. Bucharest Stock Exchange was also hit by the financial crisis propagation. The present paper will try to investigate if the financial crisis of 2007-2009 had an impact on SIFs position within the exchange or not. The results indicate that SIFs position remained relatively unchanged during 2008, 2009 and 2010; however it must be highlighted that new developments at Bucharest Stock Exchange during 2011 might end, at least for a while, SIFs dominance.

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12. RATING AGENCIES ADD VALUE IN CREDIT RISK ASSESSMENT?

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Alberto Shigueru Matsumoto, Universidade Católica de Brasília
José Luiz Barros Fernandes, Universidade Católica de Brasília
Benjamin Miranda Tabak, Universidade Católica de Brasília
Paulo César Chagas, Universidade Católica de Brasília

ABSTRACT

Credit rating is an index for classifying credit risk that attributes scores based on investor trust and confidence in the company issuing bonds in the financial market. This article studies rating as signs of default (insolvency) in companies. Fitch Ratings was used due to the transparency of its evaluations in its annual publications on default. The sample included a total of 268 companies that were listed as going into default in the period from 1990 to 2009. This study tested whether the rating has the power to predict bankruptcy. The results confirmed the predictive power of the rating regarding company defaults. We found a significant relation between rating and default probability: the worse the credit quality of a company according to the classification agency's analysis, the higher its probability of default was.

Keywords: *Crediting Rating. Default. Credit Risk*

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13. SIZE, BOOK-TO-MARKET, AND THE LONG-RUN RETURN OF NEW ISSUES

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ABSTRACT

This study examines the role of size and book-to-market in explaining long-run returns of new issues. Size is generally insignificant and book-to-market is negative and significant in explaining new issue returns. The relationships display signs inconsistent with the general cross-section of stocks and are fully consistent neither with the traditional risk based explanation for the role of size and book-to-market nor overreaction arguments. The risk of equity issuing firms appears to be different than the general cross-section of stocks and the contrary signs on size and book-to-market may be capturing this result.

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14. FACEBOOK VALUATION: DID GOLDMAN SACHS GET IT RIGHT?

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ABSTRACT

Facebook is a cultural phenomenon and therefore provides a unique case study opportunity. In early 2011, Goldman Sachs had valued the company at $50 billion. The purpose of the paper is to shed light and create transparency to the possible model that Goldman Sachs values the company. In this paper, we explore the world of social media and Internet advertising to determine a valuation for Facebook based on free cash flow projections, comparable analysis, and real option valuation. Based on the above methods, we maintain that Facebook is overvalued to the extent that Facebook mimics the growth pattern of Google.The remaining issue is how long Facebook can maintain their supernormal growth rate.

Keywords: *Facebook Valuation, Social Media, Goldman Sachs, Google, Free Cash Flows*

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15. EARNINGS-RETURN RELATION AND THE MODERATING EFFECT OF INTANGIBLES: EVIDENCE FROM UTILITY AND COMPUTER TECHNOLOGY FIRMS

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ABSTRACT

In this paper, we empirically examine the contemporaneous relationship between accounting earnings per shares and stock returns. We also test whether this relation is moderated by the amount of intangible assets carried by firms. We predict that intangibles strengthen the contemporaneous earnings-return relation. Hierarchical Moderated Multiple Regression analyses are conducted to test for the direct and moderated relationships. Using the utility industry to proxy for the low intangible group and computer technology to proxy for the high intangible group, we find that firms with higher intangibles have closer earnings-return relation than industry with lower intangibles. However, when we use the absolute book value of intangible assets as the measure of intangibles, we fail to detect any statistical difference. We conclude that the industry proxy better captures the moderating effect than the absolute book value of intangible assets. We attribute this to the inadequacy of the current intangibles assets recognition standards. With the concern of inflating balance sheets, the amount of recognized intangible assets reported by firms are significantly understated and distorted.

Keywords*: Earnings-return relation, Intangible assets, Earnings Response Coefficients*

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16. THE CAUSAL MODEL OF NON- LIFE INSURANCE PLANNING IN THAILAND

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ABSTRACT

The objective of this research are to study Thai non-life insurance buyers, to construct a causal model of non-life insurance planning in Thailand and to find out if the causal model and empirical data are congruent by using LISREL.. The sample group, which was derived by quota sampling, consists of Thai insurance policy buyers in Northern, Central, Southern, Northeast Thailand and Bangkok. Non-life *insurance planning is directly affected by individual factors and organization image, both at the significant level of .01. The analysis of effect between variables in terms of causal model of non-life insurance planning can be concluded that the model and the empirical data are congruent as follows:* χ^2 */df = 0.987, p-Value = .501 ,GFI = .985, CFI = 1.00, RMSEA = .000, all of which meet standard criterion.*

Keywords: Insurance planning, non-life insurance, corporate image, insurance sale representative, risk management ,Risk management strategy , Chance of Risk ,Valuation, Risk management method ,Risk management process, the causal model

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17. GLOBALIZATION IN THE BANKING SECTOR: DO FIRM CHARACTERISTICS MATTER?

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ABSTRACT

Despite the cross-border diversification benefits theorized in the literature, a far less degree of globalization is actually achieved in the banking sector. The conventional FDI paradigm/OLI model has been proposed and examined in a separate study to explain such perplexing inertia. To shed more light on this seemingly overlooked issue in the literature, this paper utilizes firm-level and more banking-industry specific data to facilitate better understanding. The analyses on the firm characteristics of globalizing and domestic banks suggest that the lack of superior efficiency and profitability required to overcome the incremental costs and risk associated with globalization might impede many banks' globalization effort. Overall, the bank characteristics in efficiency and profitability as well as corporate governance may very well explain the relative sluggishness of cross-border diversification in the banking sector.

Keywords: *Globalization; Mergers and Acquisitions; M&A; Foreign Direct Investments; FDI; Cross-Border Diversification; Banking; Firm Characteristics; Efficiency; Profitability; Corporate Governance*

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18. DIRECTORS' LIABILITY INSURANCE AND STOCK MARKET LIQUIDITY

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ABSTRACT

In this paper, we explore the link between directors' liability insurance and stock market liquidity in Taiwanese companies. We find that firms with directors' liability insurance have greater stock market liquidity than firms without such insurance. The positive association between directors' liability insurance and stock market liquidity is robust after controlling for a set of important determinants on stock market liquidity, and using different measures of stock market liquidity. In addition, stock market liquidity tends to increase after firms purchase the directors' liability insurance.

Keywords*: D&O Insurance, Directors' liability insurance, Liquidity*
