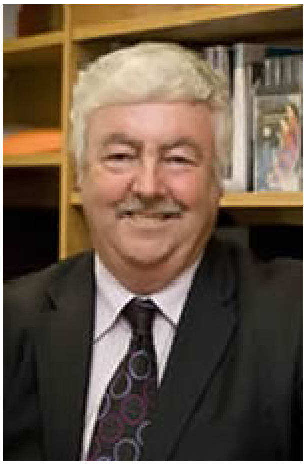
The 21st Annual Conference on Pacific Basin Finance, Economics, Accounting, and Management

Current Version: 17-June-2013

4-5 July 2013, Park Hyatt Melbourne, Australia

Welcome Message



Dear Conference Participants,

It is my pleasure to welcome you to the 21st PBFEAM conference hosted by the School of Accounting, Economics, and Finance at Deakin University. You will find this year's program diverse, with papers across a number of different areas. These range from corporate finance, asset pricing, and market microstructure in Finance to corporate social responsibility, financial accounting, auditing, and taxation in Accounting. Such diversity sits comfortably with our School, which actively engages in research across all these areas and more.

I would like to especially thank my colleagues in the Finance discipline in the School who have organized this truly international event with more than 75% of the papers coming from overseas. We are also pleased to welcome two keynote speakers, namely Professor Steve Brown, David S. Loeb Professor of Finance at the Leonard N. Stern School of Business, New York University and Professor Ron Masulis, Scientia Professor of Finance and MacQuarie Group Chair of Financial Institutions at the Australian School of Business, University of New South Wales. In addition, I wish to advise that selected papers from the conference will be published in the special issues of *Review of Quantitative Finance and Accounting* and *Review of Pacific Basin Financial Markets and Policy*.

I trust you will all enjoy this conference with its extensive program of a wide range of papers and prestigious keynote speakers.

Professor Barry J Cooper
Head of School
School of Accounting, Economics, and Finance
Deakin University

The 21st Annual Conference on
Pacific Basin Finance, Economics, Accounting, and Management

Conference Organizers:

Deakin University, Australia
Rutgers University, USA
Foundation of Pacific Basin Financial Research and Development, Taiwan

Sponsors:

School of Accounting, Economics and Finance, Deakin University, Australia
Fubon Financial Holding Co., Ltd., Taiwan
Wintek Corporation, Taiwan

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Michael Chng, Deakin University
Ed Lin, Deakin University

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Chien-chung Nieh, Tamkang University, Taiwan
Dan Palmon, Rutgers University, USA
John KC Wei, Hong Kong University of Science &Technology, Hong Kong
Chau-Chen Yang, National Taiwan University, Taiwan
Gillian Yeo, Nanyang Technological University, Singapore

History of the Conference:

Year	Venue/Country	Host Organizer
1993	U.S.A.	Rutgers University, New Jersey
1994	Hong Kong	Hong Kong Chinese University, Hong Kong
1995	Taiwan	Taiwan Institute of Economic Research, Taipei
1996	U.S.A.	Rutgers University, New Jersey
1997	Singapore	Nanyang Technological University, Singapore
1998	Hong Kong	Hong Kong Polytechnic University, Hong Kong
1999	Taiwan	National Taiwan University, Taipei
2000	Thailand	Chulalongkorn University, Bangkok
2001	U.S.A.	Rutgers University, New Jersey
2002	Singapore	Nanyang Technological University, Singapore
2003	Taiwan	National Chiao Tung University, Hsinchu
2004	Thailand	The Consortium of Thai Universities, Bangkok
2005	U.S.A.	Rutgers University, New Jersey
2006	Taiwan	Foundation of Pacific Basin Financial Research and Development
2007	Vietnam	Ho Chi Minh City University of Technology, Ho Chi Minh City, Vietnam
2008	Australia	Queensland University of Technology, Brisbane, Queensland, Australia
2009	Thailand	University of the Thai Chamber of Commerce, Bangkok, Thailand
2010	China	Graduate University of Chinese Academy of Sciences, Beijing, China
2011	Taiwan	Foundation of Pacific Basin Financial Research and Development, Taiwan & National Chiao Tung University, Taiwan
2012	U.S.A.	Rutgers University, New Jersey
2013	Australia	Deakin University, Melbourne, Victoria, Australia

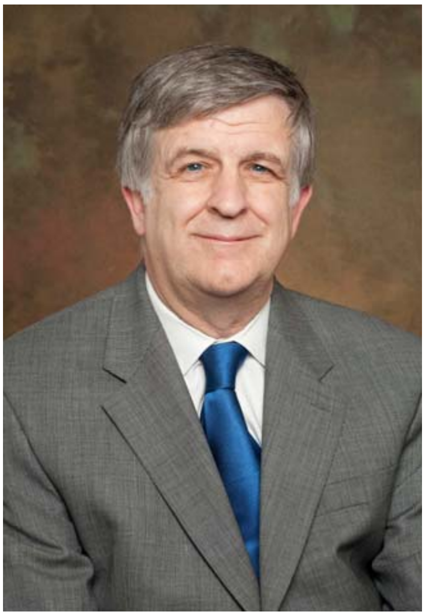
☙ Conference Agenda: Day 1 ❧

Thursday, 4th July 2013		
9:00a.m. – 9:15a.m.		Opening & Welcoming Speech: Professor Barry J Cooper
9:15a.m. – 10:45 a.m.	BREAKOUT SESSION I	
	Session 1	Corporate Social Responsibility
	Session 6	Banking
	Session 17	Investments I
	Special Session	Professor Cheng-Few Lee (Rutgers University): **Dividend Policy & Payment Behavior: Theory & Evidence**
10:45a.m. – 11:00a.m.	Morning Break	
11:00a.m. – 12:30 p.m.	First Keynote Speech: Professor Stephen Brown (NYU) **Economic Uncertainty and the Cross-Section of Hedge Fund Returns**	
12:30p.m. – 1:30p.m.	Lunch	
1:30p.m. – 3:00p.m.	BREAKOUT SESSION II	
	Session 8	Ownership and Corporate Control
	Session 11	Derivatives
	Session 14	Market Efficiency II
	Session 15	Investor Coverage and Trading Quality
3:00p.m. – 3:30p.m.	Afternoon Break	
3:30p.m. – 5:00p.m.	BREAKOUT SESSION III	
	Session 2	Earnings and Accruals
	Session 4	Asset Pricing I
	Session 12	Market Microstructure
	Session 18	Investments II
6:30p.m. onwards	Conference Dinner	

Conference Agenda: Day 2

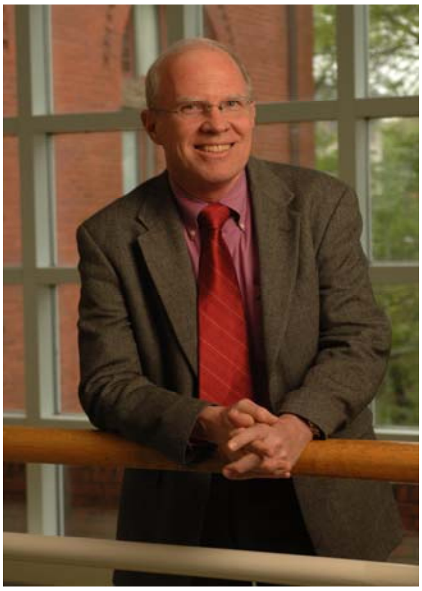
Friday, 5th July 2013		
9:15a.m. – 10:45 a.m.	BREAKOUT SESSION IV	
	Session 5	Asset Pricing II
	Session 10	Capital Raising
	Session 13	Market Efficiency I
10:45a.m. – 11:00a.m.	Morning Break	
11:00a.m. – 12:30 p.m.	Second Keynote Speech: Professor Ronald Masulis (UNSW) **Recent Findings in Corporate Governance: A Selective Review**	
12:30p.m. – 1:30p.m.	Lunch	
1:30p.m. – 3:00p.m.	BREAKOUT SESSION V	
	Session 3	Valuation and Tax Issues
	Session 7	Corporate Finance
	Session 19	Regulatory Issues
	Session 20	Information, Trading and Market Microstructure
3:00p.m. – 3:30p.m.	Afternoon Break	
3:30p.m. – 5:00p.m.	BREAKOUT SESSION VI	
	Session 9	Corporate Governance
	Session 16	Investor Clientele and Cross-Market Trading
	Session 21	Issues in Research Methodology
5:00p.m	End of Conference	

First Keynote Speaker: Professor Stephen Brown, NYU



Stephen J. Brown is David S. Loeb Professor of Finance at the Leonard N. Stern School of Business, New York University. He graduated from Melbourne High School and Monash University in Australia and studied at the University of Chicago, earning an MBA in 1974 and a Ph.D in 1976. Following successive appointments at Bell Laboratories and Yale, he joined the faculty of New York University in 1986. In 2002 he was appointed Professorial Fellow at the University of Melbourne. He has served as President of the Western Finance Association and Secretary/Treasurer of that organization, has served on the Board of Directors of the American Finance Association, and was a founding editor of the Review of Financial Studies. He is a Managing Editor of The Journal of Financial and Quantitative Analysis and has served on the editorial board of The Journal of Finance and other journals. He has published numerous articles and five books on finance and economics related areas. He has served as an expert witness for the US Department of Justice and has testified on his research before a Full Committee Hearing of the U.S. Congress House Financial Services Committee in March 2007. In 2010 he served as a member of the Research Evaluation Committee of the Excellence in Research Australia initiative on behalf of the Commonwealth Government of Australia.

Second Keynote Speaker: Professor Ronald Masulis, UNSW



Ron Masulis is the Scientia Professor of Finance and MacQuarie Group Chair of Financial Institutions at the Australian School of Business, University of New South Wales. Ron received his MBA and PhD from the University of Chicago. His research interests include Corporate Finance, Corporate Governance, Investment Banking, Venture Capital and International Finance. Ron is one of the Pacific Basin's highest ranked financial economists in terms of number of publications and citations across a range of top tier journals including the *Journal of Financial Economics, Journal of Finance, Review of Financial Studies, Journal of Law and Economics* and *Journal of Accounting and Economics.* Ron has won a number of top research awards, including five Journal of Financial Economics All Star Paper Awards. He has served on the Board of Directors/Executive Committee of the American Finance Association, the Western Finance Association and the Financial Management Association. He currently serves as an advisory editor of *Financial Management*, associate editor of the *Journal of Financial and Quantitative Analysis* and the *Pacific-Basin Finance Journal*, and vice president for international services at the Financial Management Association and is past associate editor of all three top finance journals. He is also a research associate at the European Corporate Governance Institute (ECGI) and senior academic fellow at the Asia Bureau of Finance and Economic Research.

Special Speaker: Professor Cheng-Few Lee, Rutgers University

Cheng-Few Lee is a Distinguished Professor of Finance at Rutgers Business School, Rutgers University and was chairperson of the Department of Finance from 1988–1995. He has also served on the faculty of the University of Illinois (IBE Professor of Finance) and the University of Georgia. He has maintained academic and consulting ties in Taiwan, Hong Kong, China and the United States for the past three decades. He has been a consultant to many prominent groups including, the American Insurance Group, the World Bank, the United Nations and The Marmon Group Inc., Wintek Corporation and Polaris Financial Group, etc.

Professor Lee founded the *Review of Quantitative Finance and Accounting* (RQFA) in 1990 and the *Review of Pacific Basin Financial Markets and Policies* (RPBFMP) in 1998, and serves as managing editor for both journals. He was also a co-editor of the *Financial Review* (1985–1991) and the *Quarterly Review of Economics and Business* (1987–1989). In the past 40 years, Professor. Lee has written numerous textbooks ranging in subject matter from financial management to corporate finance, security analysis and portfolio management to financial analysis, planning and forecasting, and business statistics. Professor Lee has also published more than 200 articles in more than twenty different journals in finance, accounting, economics, statistics, and management. Professor Lee has been ranked the most published finance professor worldwide during 1953–2008. In May 2013, Professor Lee earned the Siwei Cheng Award in Quantitative Management at the International Academy of Information Technology and Quantitative Management (IAITQM).

☙ Breakout Session I ❧

SESSION 1: CORPORATE SOCIAL RESPONSIBILITY

#34 The Impact of Technology and Regulatory Changes on the Relationship between a firm's External Governance Index and its Financial Performance and Earnings Management

Sung S. Kwon, Haiping Wang and Taslima Nasreen, York University

Abstract: This paper examines whether there is indeed any positive relationship between stronger CG practice and higher firm valuation, as suggested in prior research studies, and whether this valuation (derived from differential practices of CG) differs significantly between high-tech and non-high-tech firms. This research also investigates whether stronger CG practice is supported by a lower level of earnings management (EM) especially in HT firms which have more incentives to engage in earnings management than NHT firms. Furthermore, we explore in this paper whether HT firms, vis-à-vis NHT firms, have been affected more by regulatory changes such as the Sabanes-Oxley Act (SOX) intended to improve corporate governance and reduce opportunistic earnings management practice. In other words, since the corporate scandals that led to the enactment of SOX in 2002 involved mostly HT firms, HT firms are expected to show a higher degree of association between stronger governance and firm valuation and also between stronger governance and lower earnings management than NHT firms in the post-SOX period. The empirical results based on a widely-used external governance index support these hypotheses.

#41 Voluntary Greenhouse Gas Emission Disclosure – Impact on Market-Based Performance

Zahra Borghei Ghomi & Philomena Leung, Macquarie University

Abstract: Based on a cost-benefit framework, we investigate the consequences of voluntary greenhouse gas emission (GHG) disclosure of non GHG registered companies on market-based performance. Previous studies mostly assess the impacts of GHG disclosure (in Carbon Disclosure Project (CDP) questionnaire) on market-based performance from firm value perspective. However, we employ a number of proxies for market-based performance such as return volatility, bid-ask spread and cost of finance. The content analysis of annual reports for the period from 2009 to 2011 shows that a high level of finance cost in previous year is an incentive for voluntary GHG disclosure. Further, it presents that high quality and quantity of GHG disclosure reduces bid-ask spread and return volatility significantly.

#57 CSR Disclosure and Audit Fees

Li Liu, Wen Qu and Peter Carey, Deakin University

Abstract: We investigate the relationship between CSR disclosure and audit fees. Using the population of firms listed on the Chinese stock market between 2007 and 2011, we find a positive association, which is consistent with the argument that Chinese firms with a stakeholder orientation seek to reduce information asymmetry through both CSR disclosure and audit assurance of the financial reports. CSR reporting and auditing therefore appear to be complementary mechanisms used to manage the firm-stakeholder relationship.

DISCUSSANTS

#34: Li Liu, Deakin University (li.liu@deakin.edu.au)

#41: Sung S. Kwon, York University (sungkwon@yorku.ca)

#57: Zahra Borghei Ghomi, Macquarie University (z.borghei@gmail.com)

SESSION CHAIR: Li Liu, Deakin University

SESSION 6: BANKING

#39 Financial system components – substitutes or complements?

Yen Ngoc NGUYEN, Katherine AVRAM and Michael SKULLY, Monash University

ABSTRACT: Prior studies have examined the development of the financial system and its impact on economic growth, but little has been said about the relationship between its four major components: banking, the stock market, the bond market (private and public bond) and insurance (life and nonlife). Using a dynamic panel of 106 countries over the period 1980-2007, we use the GMM (generalized-method-of-moments) system estimator to observe the pair-wise relationships between these components. Our findings show a high level of interdependence. When evaluated at the average level of each component's development, the majority of the pair-wise relationships reveal that one component will act as a substitute for the other. This should be taken into consideration for policies relating to growth in the financial sector.

#76 Does China require an explicit deposit insurance system?

Fu Shuen Shie, National Taichung University of Science and Technology

ABSTRACT: This study indicates that there is no explicit evidence supporting the fact that banks in China lack strength and are exposed to the risk of bankruptcy. That is, the financial industry structure in China is healthy and an increased investment and facilities in this industry should be considered. However, the empirical results of the deposit insurance pricing model show that it is necessary to establish a deposit insurance system for the banks in China as all the estimated deposit insurance premiums are significantly positive. It is suggested, therefore, that an explicit deposit insurance system should be introduced in China. Without establishment, the cost that should be borne by the banks will be shifted to the public and thus lower the operation costs of banks.

#103 Analyzing changes in bank capital ratios by size decile from 2002 to 2012

Elizabeth D. Capener, Dominican University of California

Dan J. Jordan, Dominican University of California

Jacques Sanchez, Bank of the West

Donald H. Wort, California State University

Abstract: This paper examines all of the banks that submitted "call reports" to the FDIC (Federal Deposit Insurance Corporation) for quarters ended from December, 2002, to June, 2012. We stratified four variables (Tier 1 Risk Based Capital to Total Assets Ratio, Efficiency Ratio, Percentage of Insured Deposits, and Percentage of Non-Accrual and Over-90 Loans plus ORE (Other Real Estate Owned) to Total Assets) by asset size decile, finding that significant differences exist for each of the variables. We find that big banks have lower mean capital ratios than smaller banks and that big banks have increased their mean capital ratios by one-half to one percentage point since December, 2008, while the smallest banks experienced deterioration in capital ratios from September, 2007 through June, 2012. In addition, we find that while the percentage of insured deposits jumped significantly for all size groups with the increase in FDIC insurance maximums, the largest banks did not jump as much as the other banks. We also find that bigger banks (deciles 1 and 2) have lower efficiency ratios than smaller banks. However, efficiency ratios appear to be in a state of flux since 2008. Finally, we find that by December, 2010, bad assets averaged over 3.5% of total assets for the top two deciles, the worst experience of all the size deciles. It is interesting to note that the smallest banks, deciles 9 and 10, weathered the "housing crisis" much better than the bigger banks.

DISCUSSANTS

#39: Elizabeth D, Capener, Dominican University of California (elizabeth.capener@dominican.edu)

#76: Yen Nguyen, Monash University (yen.nguyen@monash.edu)

#103: Fu Shuen Shie, National Taichung University of Science and Technology (fsshie@nutc.edu.tw)

SESSION CHAIR: Elizabeth D. Capener, Dominican University of California

SESSION 17: INVESTMENTS I

#65 Coping with Risks in Sovereign Debt: A Risk-Sharing Model

David Sun, Kainan University, Taiwan

ABSTRACT: This study aims at recalibrating corporate bond idiosyncratic risks in the context of international portfolio diversification. With a more discriminating risk decomposition scheme, we will demonstrate in this study that portfolio diversification can be improved accordingly. Pricing of innovative financial instruments can also benefit from the application of the scheme introduced in this very study. Based on the idea of Dastidar and Phelps (2011) and findings from Jarrow, Lando and Yu (2005) and Churm and Panigirtzoglou (2007), we extend the empirical framework of Sun, Lin and Nieh (2007) in credit spread decomposition to corporate bonds in a multinational framework. In light of the rapid integration of international capital markets, the decomposition is to include not only systematic and idiosyncratic credit spreads within each country, but also a cross-country systematic component of credit spread. This framework therefore helps substantially in the practice of diversifying international of fixed income portfolios for fund managers and multinational corporations.

#98 The determinants of institutional holdings in Taiwan: Prudent or speculative?

Yu-Fen Chen, Da-Yeh University

Fu-Lai Lin, Da-Yeh University

Abstract: To identifywhether institutional investors are prudent or speculative investors, we classify firm attributes based on prudent investment characteristics into three dimensions (financial characteristics, corporate governance mechanism and speculative intensity) and investigate the relationship between institutional ownership and the three types of firm attributes. The results indicate that the three types of institutional investors are averse to preserve stocks of high speculative intensity, which implies that institutional investors in Taiwan stock markets are more likely to abide by the prudent investment rules. But as observing how institutional investors adjust their portfolios, we find that foreign institutional investors adhere to prudent investment rules. On the contrary, mutual fund managers in Taiwan select stocks with high speculative intensity. We also find that institutional are more likely to form homogeneously beliefs in selling and buying stocks as facing the financial crisis. They are more likely to adhere to the prudent investment rules during the financial crisis.

#52 Diversification and home bias in international investments: Evidence from ADRs of Chinese firms in US markets

Han Yan, Rutgers University

Abstract: This paper takes a close look at US institutional investors' investment behavior on foreign assets by studying the ownership after considering capital control in the foreign countries, explicit transaction costs and implicit transaction costs, and confirms there is clear home bias existing among US institutional investors. Further tests on the sources of such bias show that irrationality of investment behaviors, such as neglect of diversification benefits and choosing stocks by familiarity rather than information advantage, are the main causes.

DISCUSSANTS

#65: Han Yan, Rutgers University (yanhan@pegasus.rutgers.edu)

#98: David Sun, Kainan University, Taiwan (davidsun0769@gmail.com)

#52: Yu-Fen Chen, Da-Yeh University (yfchen@mail.dyu.edu.tw)

SESSION CHAIR: Han Yan, Rutgers University

Breakout Session II

SESSION 8: OWNERSHIP AND CORPORATE CONTROL

#38 Insider Ownership and Financial Flexibility

Naiwei Chen and EN Hsiao, National Chung Cheng University,

Abstract: The study examines financial flexibility of firms from the perspective of the agency by focusing on whether and how insiderownership affects financial flexibility. Given the documented relationship between corporate governance and cost of external financing, insiderownership, an important proxy of corporate governance, is expected to affect financial flexibility through the agency cost channel. A review of US non-financial firms over the period 1992–2009 indicate increased financial flexibility with greater insiderownership, particularly when CEO ownership is considered as opposed to non-CEO insiderownership. In addition, this parallel relationship between insiderownership and financial flexibility is more pronounced infinancially constrained firms than in unconstrainedfirms.

#78 The Effects of Corporate Governance and Product Market Competition on Payout Policy under Agency Problems and External Financing Constraints

Lee-Hsien Pan, National Chung Cheng University

Chien-Ting Lin, Deakin University

Hsing-Hua Huang, National Chiao Tung University

Abstract: We examine the effects of corporate governance and product market competition on payout policy when firms are subject to agency problems and external financing constraints. We find that corporate governance and competition alone affect a firm's payout decisions. In particular, payout can be an outcome or a substitute of governance and competition among firms depending on the firms' agency costs of free cash flows and external financing costs. When examining both effects together, we find that product market competition subsumes corporate governance in relation to payout policy. Our results suggest that competition as a governance tool can be more effective than other monitoring mechanisms.

#56 Ultimate Controlling Shareholders and Dividend Payout Policy in Chinese Stock Market

Jianan Guo, Deakin University

Abstract: Departing from the traditional cash flow rights-dividend policy framework, this study investigates whether the level of control rights and the types of control of the ultimate controlling shareholders (UCSs) of listed firms in China influence their cash dividend policy. We find that the level of control rights is positively associated with both the propensity to pay and the level of cash dividend payout, which indicates that the ultimate controlling shareholders are likely to use cash dividends to redirect financial resources from the firms as other channels of tunnelling are blocked by Chinese security regulatory body. Furthermore, different types of ultimate controllers exert dissimilar influences on the controlled firms' cash dividend policy. The difference might stem from the historical nature of these ultimate controlling shareholders originating from China's unique partial share issuance privatization process.

DISCUSSANTS

#38: Jianan Guo, Deakin University (johnguo@deakin.edu.au)

#78: Naiwei Chen, National Chung Cheng University (finnwc@ccu.edu.tw)

#56: Lee-Hsien Pan, National Chung Cheng University (actlhp@ccu.edu.tw)

SESSION CHAIR: Jianan Guo, Deakin University

SESSION 11: DERIVATIVES

#32 Alternative Methods for Option Bounds: A Review and Comparison

Hongwei Chuang, Academia Sinica, Taiwan

Cheng-Few Lee, Tzu Tai and Zhaodong (Ken) Zhong, Rutgers University, USA

Abstract: Option pricing is a central issue in the derivatives literature. After the seminal papers by Black and Scholes (1973) and Merton (1973), there has been an explosion in option pricing models developed over the past few decades. However, in incomplete markets, option prices can no longer be priced by replication and no preference-free option pricing model can be constructed. Rather than proposing new option pricing models, some researchers establish option bounds with only modest assumptions on the price distribution and/or investors' utility function. While there are several papers that have reviewed and compared the empirical performance of alternative option pricing models, there is no survey paper that provides a comprehensive review and comparison of the major theoretical models and empirical developments in the literature on option bounds. The purpose of this paper is to fill this gap. The derivations of option bounds can be classified into several categories: searching for arbitrage conditions, stochastic dominance, linear programming, and semi-parametric or non-parametric methods. These studies can also be distinguished by their different approaches to tighten bounds: imposing restrictions on investor preferences or pricing kernels, selection of risk neutral measures, and using observed prices of other securities. These option bounds have been shown useful in many empirical applications, such as providing qualitative properties of option prices and screening market data for mispricing. To our best knowledge, this is the most complete review paper that discusses the evolution of option bounds.

#43b Equilibrium-based volatility models of the market portfolio rate of return

David Feldmana and Xin Xu, UNSW

Abstract: Volatility models of the market portfolio's return are central to financial risk management. We introduce an implementation method of equilibrium-based volatility models. We propose a family of such models and compare their predictive power to that of the three currently popular models in academia and industry. Our proposed models are as easy to implement but outperform the current ones, in three out-of-sample forecast evaluations in different time periods, by standard criteria [including Andersen and Bollerslev's (1998)]. This is also the case during high-volatility periods, whether the market is rising or falling. Within the equilibrium framework, we can explain why our models perform better.

#101 Valuation of spread and basket options with the Johnson distribution family

Ting-Pin Wu, National Central University

Hsuan-Ku Liu, National Taipei University of Education

Abstract: This paper adopts the unbounded-system distribution of the Johnson distribution family (1949) to approximate the basket/spread distribution and derive a versatile pricing model. The pricing model can price both basket and spread options, and thus the risks of issuing both options can be consistently and efficiently integrated and managed. The pricing model can instantly price basket/spread options (almost as short in time as the Black-Scholes (1973) model), and the results are shown to be quite accurate by comparing with the results of Monte Carlo simulation. The method for computing Greeks is also presented. We also provide numerical examples to demonstrate the implementation of our pricing model and show the economic intuitions of Greeks for basket and spread options and for an option portfolio consisting of both options.

DISCUSSANTS

#32: Ting-Pin Wu, National Central University (wutingpin@gmail.com)

#43b: Tzu Tai, Rutgers University (tzutai@pegasus.rutgers.edu)

#101: David Feldmana, UNSW (d.feldman@unsw.edu.au)

SESSION CHAIR: Ting-Pin Wu, National Central University

SESSION 14: MARKET EFFICIENCY II

#64 Explaining the performance of Chinese equity funds.

Xiaohong Huang and Qiqiang Shi, University of Twente, NL

Abstract: This paper examines the determinants of Chinese equity fund performance measured by market benchmark adjusted returns and Jensen's Alpha. The sample covers 157 equity funds from January 2006 to December 2010, including both bear (2008 and 2010) and bull (2006, 2007 and 2009) market conditions. The fund characteristics of size, expense ratio and turnover ratio are found to significantly influence the fund performance under all market conditions. Fund age and management structure show varying impact under bull and bear market conditions. Management education is shown to be not relevant in explaining fund performance in China.

#40 The Myth of the Unbeatable Random Walk

Imad Moosa and Kelly Burns, RMIT

Abstract: It is demonstrated that the conventional monetary model of exchange rates can, irrespective of whether it is estimated with constant or time-varying parameters, outperform the random walk in out-of-sample forecasting if forecasting power is measured by direction accuracy and profitability. The failure of conventional macroeconomic models to outperform the random walk in terms of the root mean square error should be expected rather than considered to be a puzzle. For reasons pertaining to their sound theoretical foundations, micro-structure models can outperform the random walk in terms of the root mean square error and in the true sense of forecasting.

#79 Dynamic Measures of Technological Progress and Post-IPO Performance and Survival

Re-Jin Guo, University of Illinois at Chicago

Nan Zhou, State University of New York at Binghamton

Abstract: This paper studies how firms' technological progress is related to their stock performance and eventual survival, for a sample of 114 biotech IPO firms. We create dynamic measures of firms' technological progress by tracking the changes in R&D expenses, number of products, patents, strategic alliance, and product development stage for our sample firms, as disclosed in their IPO prospectuses and the third post-IPO 10-K filings. Our findings indicate that technological progress is critical to stock performance and firm survival. Biotech IPO firms are more likely to succeed in the long run, if they are able to transform research inputs successfully into research outputs.

DISCUSSANTS

#64: Nan Zhou, State University of New York at Binghamton (nzhou@binghamton.edu)

#40: Xiaohong Huang, University of Twente, NL (x.huang@utwente.nl)

#79: Kelly Burns, RMIT (kelly.burns@rmit.edu.au)

SESSION CHAIR: Nan Zhou, State University of New York at Binghamton

SESSION 15: INVESTOR COVERAGE AND TRADING QUALITY

#17 Does analyst coverage affect share price informativeness of Chinese listed firms?

Rong Ding, Middlesex University
Wenxuan Hou, University of Edinburgh
Jing-Ming Kuo, University of Durham
Edward Lee, The University of Manchester

Abstract: This paper investigates the association between analyst coverage and stock price informativeness in China. The analysis of a sample of Chinese listed firms between 2003 and 2008 supports our conjecture that there is a positive association between stock price informativeness and analyst coverage. We further find that such association is more pronounced in non-state-owned enterprises (NSOE i.e. private firms) in that NSOEs are more dependent on external equity capital for financing and therefore have to maintain good relationship with analysts by timely responding to their enquiry and request, which results in more firm-specific information being incorporated into stock prices. Finally, we show that the association between analyst coverage and stock price informativeness is more pronounced in less developed regions, which indicates that analyst coverage plays a more significant role in enhancing corporate information environment in regions of weak investor protection. Our results are robust to alternative specifications of analyst coverage, measures of stock informativess and to the control of other determinants of stock price informativeness documented by previous literature.

#58 Media Coverage and Investor Attention

Chen-Hui Wu, National Dong Hwa University,

Abstract: This paper examines the effect of media coverage that has an impact on investors' attention to earnings announcements. Investors face hundreds of financial reports to search and attend when firms announce their earnings and media coverage is likely to drive investors' attention. Firms without news tend to be distracted by other contemporaneous news. The empirical results of this paper show that media coverage has little effect on firms reporting good earnings news, but a significantly negative impact on firms reporting bad earnings news. This paper also finds support to the "investor recognition hypothesis", in which firms with low media coverage need to offer higher returns to investors for being imperfectly recognized.

#99 Stock returns and volatility dynamics in China: Does controlling state-owned enterprises matter?

Pornsawan Evans, Swansea University
Davil McMillan, University of Stirling

Abstract: This paper examines the nature of equity ownership of state-owned enterprises (SOEs) for over 2000 listed firms in China. Notably, the paper examines both the pattern of state ownership and the dynamics of stock returns and volatility. Firms under the control of SOEs dominate the Chinese stock markets and currently account for over three quarters of total Chinese market capitalization. Central SOEs are focused in strategic industries, with firms in Shanghai eight times the size of counterparts in Shenzhen. Local SOEs, on the other hand, concentrate on pillar industries related to consumer goods and services. Furthermore, on average, SOEs have a controlling stake of 40% among listed firms, with much higher shareholding of Central SOEs among firms in strategic industries. We also report an increase in state control among listed firms when compared to earlier reported figures. This is contradictory to expectation that the Chinese government would be obliged to lower state influence post joining the World Trade Organization in 2001. In examining the behaviour of stock returns we find evidence of daily and monthly autocorrelations that are larger and of a different sign to that reported for Western markets. We also report evidence of volatility persistence but little evidence of volatility asymmetry, again in contrast to that often reported for other markets. Finally, we find evidence of either no or a negative relationship between returns and volatility (risk) that differs from our usual view of risk aversion. It is hoped, knowledge of these dynamics will increase our understanding of the Chinese equity market, which in turn is important for those engaged in international portfolio management and micro structure modelling.

DISCUSSANTS

#17: Pornsawan Evans, Swansea University (p.evans@swansea.ac.uk)
#58: Rong Ding, Middlesex University (R.DING@MDX.AC.UK)
#99: Chen-Hui Wu, National Dong Hwa University (chenhui@mail.ndhu.edu.tw)

SESSION CHAIR: Pornsawan Evans, Swansea University

Breakout Session III

SESSION 2: EARNINGS AND ACCRUALS

#42a Pricing Discretionary Accruals: Code vs. Common Law Firms

Xiaofeng (Sheldon) Peng, Washburn University
Pervaiz Alam, Kent State University
Yue (York) Qi, Nankai University

Abstract: The purpose of this study is to investigate whether the U.S. stock market differentially and rationally prices discretionary accrual components of earnings of U.S.-traded foreign companies from different legal systems – code and common law. Our sample covers 1,426 U.S.-traded nonfinancial foreign firm-years (265 firms) from 1981 to 2000 including 686 common law firm-years (126 firms) and 740 code law firm-years (139 firms). We specifically select the sample period of 1981-2000 to avoid the market effects of the post Dot.com period, the Sarabanes-Oxley Act of 2002, and the major recession in 2008-2009. Hedge portfolio tests show that higher excess abnormal returns is earned on a portfolio based on discretionary accruals for code law firms compared to the portfolio of common law firms. The Mishkin (1983) tests show that the U.S. market, on average, does not rationally price discretionary accruals for the full sample of firms, but rationally prices discretionary accruals of code and common law firms.

#97 Earnings targets, volumtary disclosure and product market competition

Hao-Chang Sung and Min-Teh Yu, National Chiao Tung University, Taiwan

Abstract: This paper addresses how firms use real earnings management to meet or beat their earnings targets, and how this influences sequential product market competition. We study this issue in a two-period non-cooperative R&D competition with one-sided incomplete information in which the informed firm could be either the maximizing type or the target-meeting type (or target-beating). We show that when cost uncertainty does not exceed expectations, the privately informed firm has no incentive to set a higher R&D investment level to circumvent high cost uncertainty and further to mislead its rival's belief about the privately informed firm's objective type. However, once the cost uncertainty realized is realized to exceed expectations, the privately informed firm could hide its identity by adopting a mixed strategy and setting its R&D investment and output level higher than in the separating equilibrium. Contrary to popular claims that meeting or beating short earnings targets induces an R&D investment reduction, we show that R&D overinvestment can give an opportunity to create some reserves to be used later to earn a higher profit and reach the target. Our result also supports the observation of firms meeting or beating the earnings target, but not necessarily using earnings management.

#54a Distress Risk and Stock Returns: Evidence from Earnings Announcements

Chewie Ang, Deakin Univeristy

Abstract: Stocks with high distress risk earn an average market-adjusted return of 0.62% in the five days before earnings announcements and a corresponding average return of -0.96% in the five days after earnings announcements. The five-day post-announcement return accounts for a large portion of the negative cross-sectional relation between distress risk and stock returns. Changes in risk around earnings announcements and cross-sectional differences in risk cannot explain the run-up and subsequent reversal in distressed stocks' returns. Consistent with the mispricing hypothesis, the return pattern only exists in distressed stocks with binding short-sales constraints and large divergence in investors' opinion.

DISCUSSANTS

#42a: Chewie Ang, Deakin University (c.ang@deakin.edu.au)

#97: Xiaofeng (Sheldon) Peng, Washburn University (sheldon.peng@washburn.edu)

#54a: Hao-Chang Sung, National Chiao Tung University, Taiwan (hcsung0205@gmail.com)

SESSION CHAIR: Chewie Ang, Deakin University

SESSION 4: ASSET PRICING I

#48 On the relation between asset returns and market returns.

Bernard Bollen, University of New England

Philip Gharghori, Monash University

Abstract: This paper analyses the relevance to asset returns of two well documented specifications of the CAPM, the standard CAPM and the downside CAPM (DCAPM). The study also introduces two new nonlinear specifications of the CAPM, the logarithmic CAPM (LCAPM) and the exponential CAPM (ECAPM). Whereas the standard CAPM weights positive and negative returns equally in the estimation of beta, the DCAPM only takes negative returns to be relevant to the estimation of beta. The other two specifications of the CAPM, the LCAPM and ECAPM are something in between the CAPM and DCAPM in that positive and negative returns are both relevant to the estimation of beta but that they are given different weightings. Empirical tests of these four asset pricing models employing conditional tests of beta on equities traded at the NYSE reveal that the CAPM, LCAPM and ECAPM are well specified asset pricing models. In contrast, the DCAPM is found to be a mis-specified asset pricing model. The beta produced by all of the asset pricing models considered is found to be highly related to asset returns.

#43a Linear beta pricing with inefficient benchmarks

George Diacogiannis, University of Piraeus

David Feldman, UNSW

Abstract: Current asset pricing models require mean-variance efficient benchmarks, which are generally unavailable because of partial securitization and free float restrictions. We provide a pricing model that uses inefficient benchmarks, a two-beta model, one induced by the benchmark and one adjusting for its inefficiency. While efficient benchmarks induce zero-beta portfolios of the same expected return, any inefficient benchmark induces infinitely many zero-beta portfolios at all expected returns. These make market risk premiums empirically unidentifiable and explain empirically found dead betas and negative market risk premiums. We characterize other misspecifications that arise when using inefficient benchmarks with models that require efficient ones. We enhance Roll (1980), Roll and Ross's (1994), and Kandel and Stambaugh's (1995) results by offering a "Two Fund Theorem," and by showing the existence of strict "zero relations" everywhere inside the portfolio frontier.

#95 Corporate Hedging and the High Idiosyncratic Volatiltiy Low Return Puzzle

Victor Fang and Michael Chng, Deakin University

Abstract: Ang, Hoddrick, Xing and Zhang (AHXZ, 2006) document the high idiosyncratic volatility low return puzzle. Subsequent papers have offered various explanations to either support or refute the AHXZ (2006) puzzle. Fu (2009) incorporates the time-varying asymmetric nature of idiosyncratic volatility, which possibly explains an inverse risk-return relation. He finds a significantly positive contemporaneous relation between return and EGARCH idiosyncratic volatility. In our paper, we stratify Australian firms according to their consecutive hedging endeavours. We find that the main result in Fu (2009) applies only to firms that do not consecutively hedge. For firms that hedge for at least three consecutive years, idiosyncratic volatility, whether contemporaneous or lagged, is insignificant in Fama-MacBeth regressions. The results are robust to adjustments for size, book-to-market, momentum and liquidity effects. Intuitively, consecutive hedging suppresses firm-specific risks, which dilutes the role of idiosyncratic volatility in explaining cross-sectional stock returns.

DISCUSSANTS

#48: Victor Fang, Deakin University (v.fang@deakin.edu.au)

#43a: Bernard Bollen, University of New England (bbollen@une.edu.au)

#95: David Feldman, UNSW (d.feldman@unsw.edu.au)

SESSION CHAIR: Victor Fang, Deakin University

SESSION 12: MARKET MICROSTRUCTURE

#80 How do housing wealth and financial wealth affect consumption? Evidence from micro data in Taiwan

Yating Yang, National Chiao Tung University, Taiwan

ABSTRACT: This paper investigates the correlation among consumption, housing wealth and financial wealth by using the annual household level data in Taiwan over the period 1998 to 2011. In the first part, we construct the housing price indices for 20 cities and counties in Taiwan by estimating hedonic price equations with a comprehensive data set for residential sales, and using changes in housing prices to proxy the housing wealth. We use Taiwan Stock Exchange Capitalization Weighted Stock Index(TAIEX) to proxy financial wealth. Then, by the use of the large survey data, we find that real consumption growth is positively correlated with real housing wealth growth, although the effect is not significant. Consumption is positively and significantly related to household income, though.

#06 Analysis of Sentiment, Order Type Choice and Returns

Matthew C. Chang, Hsuan Chuang University, Taiwan

Chih-Ling Tsai, University of California, Davis

Chung-Fern Wu, National Taiwan University

Ning Zhu, University of California, Davis and Shanghai Jiaotong University

Abstract: We use a unique data set from the Taiwan Futures Exchange to investigate the order type choices of retail and institutional investors. The results indicate that individual investors submit more orders, especially market orders and sell orders, during periods when market sentiment is highly fearful. In contrast, institutional investors are less sensitive to market sentiment and sometimes display the opposite trading behaviour, especially when the market is liquid. Furthermore, we find that market order ratios of retail investors have significant impact on contemporaneous and future price movements and order imbalance. The pattern is particularly strong for sell orders and for intraday high-frequency horizons. Accordingly, our research provides important insights for regulators on how to better defuse market turmoil and avoid market crashes.

#94 The Restudy of the Relationship between Market Orders and Stock Returns in Taiwan

Chiao Yi Chang, National Taichung University of Science and Technology

Abstract: Unlike previous studies that adopted "price" as the reference point, this paper employs the adjusted order imbalance related to "volume" as a reference point to examine the relationship between a firm's characteristics and stock returns. Adjusted order imbalance, including trading direction of stock index and trading volume of individual stock and stock index, is freely and easily obtained by investors in Taiwan. Employing the panel regression model, this paper found prior adjusted order imbalance has a significantly positive relationship with individual stock returns. Additionally, empirical results show that adjusted order imbalance enhances the impacts of value and size variables.

DISCUSSANTS

#80: TBA

#06: Chiao Yi Chang, National Taichung University of Science and Technology (cyc@nutc.edu.tw)

#94: Matthew C. Chang, Hsuan Chuang University, Taiwan (a04979@gmail.com)

SESSION CHAIR: Chiao Yi Chang, National Taichung University of Science and Technology

SESSION 18: INVESTMENTS II

#14 Country Origins and Types of Institutional Investors, and Firm-specific Information Flows: Evidence from Worldwide Institutional Ownerships

Li Jiang, The Hong Kong Polytechnic University

Jeong-Bon Kim, City University of Hong Kong

Cathy Lei Pang, Hong Kong Baptist University

Abstract: Using quarterly firm-level data on worldwide institutional ownership from 40 countries during the period of 1998–2006, this study investigates whether and how shareholdings by institutional investors affect the information environment, particularly the relative flow of firm-specific versus common information in the market. We find that shareholdings by foreign (especially U.S.), high-stake, and short-term institutions contribute more to the incorporation of firm-specific information into stock return, thereby reducing stock return comovement, compared with domestic, low-stake, and long-term institutions, respectively. Our change analyses show that an increase in foreign (particularly U.S.), high-stake, and short-term institutional ownership leads to a subsequent decrease in stock return comovement, but not vice versa. Overall, our results are robust to a variety of sensitivity checks.

#67 Multiple large shareholders and investment efficiency: Evidence from China

Ying-Ju Tsai, National Central University

Yi-Pei Chen, Chung Yuan Christian University

Jung-Hua Hung, Administration, National Central University

Abstract: We examine the governance role of multiple large shareholder structures (MLS) to determine corporate investment efficiency in a sample of Chinese listed firms. We examine whether the presence, voting power and relative power of multiple large shareholders beyond the dominant shareholder effectively manage internal governance and enhance firms' investment efficiency. We further define the identity of the second largest shareholder to test whether types of the second largest shareholder- the state, domestic legal person and foreign legal person have different impacts on investment efficiency. We find that the presence of MLS distort firms' investment behaviors and leads to investment inefficiency. We also find that the identity of the second largest shareholder is important to determine the investment efficiency. Our results show that the presence of the domestic legal person as the second largest shareholder can exert an internal governance role in enhancing investment efficiency. However, the presence of the foreign legal person as the second largest shareholder may induce to collude with the dominant shareholders, which result in decreasing investment efficiency.

#89 A Revisit of the Investor Sentiment and Stock Market's Reaction to Federal Reserve Monetary Policy

Hou-Jen Chao, National Chiao Tung University

Han-Hsing Lee, National Chiao Tung University

Abstract: This paper explores the effectiveness of changes in federal monetary policy on both stock market returns and investor sentiment in different market regimes. Our empirical results show that in full data period the monetary policy actions have significant effect on stock returns and investor sentiment. Most of their effects are owing to the level surprises, while timing surprises have no influence on market reaction. However, in the more recent period from 2005 to 2010, our results reveal that the monetary policy effect has disappeared for both stock returns and investor sentiments.

DISCUSSANTS

#14: Han-Hsing Lee, National Chiao Tung University (hhlee@mail.nctu.edu.tw)

#67: Jeong-Bon Kim, City University of Hong Kong (achead@cityu.edu.hk)

#89: Yi-Pei Chen, Chung Yuan Christian University (epchen@cycu.edu.tw)

SESSION CHAIR: Han-Hsing Lee, National Chiao Tung University

☙ Breakout Session IV ❧

SESSION 5: ASSET PRICING II

#59 Do Investors Use Fund Holdings to Infer Managerial Skill?

.Teodor Dyakov, Erasmus University

Abstract: This paper investigates the sensitivity of fund ows to a simple portfolio-based measure of managerial skill (the difference between the reported fund return and the hypothetical return of the fund's most recently disclosed portfolio holdings (the “return gap"). I document a number of empirical patterns consistent with the hypothesis that investors use the return gap as an information variable for inferring managerial skill. The sensitivity of fund ows to the return gap is: 1) strong and positive; 2) increasing with investor sophistication; 3) highly non-linear, potentially due to in- formation acquisition costs; and 4) decreasing with the informativeness of past fund returns. I further show that the response to the return gap helps investors enhance their performance. The results in this paper suggest that there is a sophisticated mass of investors who can process publicly available information on fund holdings and identify funds likely to add value in the future.

#54b Are Firms with Negative Book Equity in Financial Distress

Chewie Ang, Deakin University

Abstract: This study decomposes realized returns into expected and unexpected returns and shows that the persistently low unexpected returns two years before a firm’s delisting due to financial distress (the pre-delisting period) drive the negative cross-sectional relation between distress risk and realized stock returns documented in previous studies. Investors are surprised by lower-than-expected firms’ earnings and stock returns in the pre-delisting period, especially around earnings announcements when they correct their valuation errors about the firms’ future prospects.

#96 Negative book equity stocks in the value Premium debate: Unimportant and Inconvenient?

Bob Li, Deakin University

Abstract: It is common practice in asset price modeling to omit negative book equity stocks from the data sample. If we interpret the value premium as a proxy for distress risk, it makes no sense to exclude negative book equity stocks, since they are, prima facie, most prone to distress risk. Instead, we allocate negative book equity firms to the size/value portfolios which share similar systematic risks. We analyze the default risks in each size/value portfolio and find that negative book equity stocks do carry higher default risks than their positive book equity counterparts. However, whether the higher risks are compensated by higher returns is conditional on firm size and book-to-market ratio. Our findings further confirm that book-to-market ratio acts as a proxy for default risk not only for positive book equity stocks, but for negative book equity stocks as well.

DISCUSSANTS

#59: Bob Li, Deakin University (bob.li@deakin.edu.au)

#54b: .Teodor Dyakov, Erasmus University (tdyakov@rsm.nl)

#96: Chewie Ang, Deakin University (c.ang@deakin.edu.au)

SESSION CHAIR: Bob Li, Deakin University

SESSION 10: CAPITAL RAISING

#82 A Study of The IPO's Initial Excess Return Under Vietnam's Stock Market

Shaio-Yan, Huang, National Chung Cheng University, Taiwan
Bich Hanh Nguyen Thi, National Chung Hsing University
Chao-Hsiong, Lee, National Chung Hsing University
Lee-Hsien Pan, National Chung Cheng University, Taiwan

Abstract: The study examined whether finance performance and other ability factor affect the short-run's initial public offerings return under Vietnam stock market. Using the data on 118 on both Hochiminh and Hanoi Stock Exchange from 1 January 2006 to 30 June 2010, I found that the average initial excess return on the 30-day of trading are over1.92%. OLS regression model can explain the affects on Vietnam stock return. The result shows that Vietnam stock market is consistent with the underpricing phenomanon. Underpricing of Ho Chi Minh stock exchange center is higher than Hanoi stock exchange's. From initial exess abnormal return analysis and mean of short-run cumulative excess abnormal return, it proposed Vietnam stock has positive effect on short-run IPO return. Finance performance, IPOs size, firm's capital had strong effects on Vietnam short-run IPO stock return. The IPO cummulative abnormal return was not only affected by the issue place of IPO, but also affected by the year of IPO and industry of IPO.

#84b Capitalizing or Expensing Intangible Assets: the Impact of SFAS 142 on Corporate Future Benefits

Chien-Chen Chiu, National Cheng Kung University

She-Chih Chiu, National Cheng Kung University

Abstract: This study aims to examine the impact of the issuance of SFAS 142 on corporate earnings variability over the period from 1990 to 2010. The findings indicate that firms' R&D outlays generate higher future earnings variability than capital expenditures. In an investigation into the sub-periods before and after the enforcement of SFAS 142, we find that the positive effect of R&D expenses on future earnings variability is higher than that of capitalized R&D expenditures under SFAS 142, which suggest that R&D expense under SFAS 142 implies more uncertain future benefits due to the capitalization of feasible and qualified R&D expenditures. For highly leveraged firms, we find that recognition of more capitalized R&D expenditure implies lower future benefits.

#100 Cross-country variations in capital structure adjustment: The role of credit ratings

Yu-Li Huang, Shih Chien University

Chung-Hua Shen, National Taiwan University

Kun-Li Lin, Feng Chia University

Abstract: The paper investigates how cross-country variations in institutional variables affect firms adjust their capital structure and focus on credit rating changes. The results show that the firms' capital structure is affected by credit ratings and the effect is asymmetric. The leverage ratio is reduced when the ratings are downgraded but is insignificant when the ratings are upgraded. Second, our results demonstrate that the leverage ratios adjust faster in strong legal and institutional countries but almost no adjustment in weak ones regardless of the upgraded and downgraded rating changes. Hence, the legal and institutional environments are more important in affecting the leverage ratios adjustment than the directions of rating changes.

DISCUSSANTS

#82: Yu-Li Huang, Shih Chien University (ylhuang@mail.usc.edu.tw)

#84b: Shaio-Yan, Huang, National Chung Cheng University (actsyh@yahoo.com.tw)

#100: Chien-Chen Chiu, National Cheng Kung University (skygreen2007@hotmail.com)

SESSION CHAIR: Yu-Li Huang, Shih Chien University

SESSION 13: MARKET EFFICIENCY I

#10 Information Dissemination and Investors Sensitivity

Chia-Hao Lee, University of Science and Technology, Taiwan

Pei-I Chou, National Open University, Taiwan

Abstract: We investigate the effect of price information dissemination and the information sensitivity of investors. To observe the price information dissemination, we employ the nonsynchronous trading property of American Depositary Receipts (ADRs) and their underlying stocks in Asia-Pacific markets. The empirical results show that the effect of price information dissemination induces the relation between trading activity and price changes in the ADR market to become asymmetric. This finding implies that the price information disseminated from underlying stocks affect the trading behavior of ADR investors. Furthermore, the results indicate that ADR investors are more sensitive to the price information of underlying stocks in more developed financial systems and economies, as well as in stronger legal environments.

#61 Japan is not Different: Evidence on Conditional Momentum

Matthias Hanauer, Technische University

Abstract: Recent evidence for the U.S. indicates that momentum pro_ts are conditional on market dynamics. This result is consistent with the behavioural model of Daniel et al. (1998). However, the evidence does not hold for Japan in former studies. We instead observe that momentum returns, also for the Japanese market, are signi_cantly higher when the market stays in the same condition than when it transitions to the other state. This pattern is more pronounced after periods of poor market performance. Finally, our results are robust to various speci_cations and also hold for other countries with low average momentum returns. We conclude that momentum strategies, when studied depending on di_erent market dynamics, cannot be seen as a failure in Japan anymore as previous studies argue.

#19 Market Liquidity and Macroeconomic Factors: Evidence from the Shanghai Stock Exchange

Xinwei Zheng, Deakin University

Yong Li, University of Queensland

Abstract: In this paper, we examine macroeconomic factors relating to market liquidity on the Shanghai Stock Exchange. We use Amihud (2002) illiquidity ratio as the measure of market liquidity and the Vector Autoregressive (VAR) model for the estimation. Our empirical results show that market liquidity can be determined by market return, M2 and turnover.

DISCUSSANTS

#10: Xinwei Zheng, Deakin University (xinwei.zheng@deakin.edu.au)

#61: Pei-I Chou, National Open University, Taiwan (autumn227@gmail.com)

#19: Matthias Hanauer, Technische University (matthias.hanauer@tum.de)

SESSION CHAIR: Xinwei Zheng, Deakin University

Breakout Session V

SESSION 3: VALUATION AND TAX ISSUES

#63 The Effect of Corporate Tax Avoidance on the Cost of Equity

Beng Wee Goh, Jimmy Lee and Chee Yeow Lim, SMU

Terry Shevlin, University of California at Irvine

Abstract: While prior studies have examined how investors perceive extreme forms of tax avoidance behavior such as tax sheltering and uncertain tax position (e.g., Hanlon and Slemrod 2009; Wilson 2009; Koester 2011; Hutchens and Rego 2012), there is little evidence on how investors perceive less extreme forms of tax avoidance. This study fills this void by examining the relation between corporate tax avoidance and a firm's cost of equity, using three measures that capture less extreme forms of corporate tax avoidance: book-tax differences, long-run cash effective tax rates, and discretionary permanent book-tax differences. We find that less aggressive forms of corporate tax avoidance significantly reduces a firm's cost of equity. Further analyses reveal that this effect is stronger for (i) firms with better outside monitoring, (ii) firms that likely realize higher marginal benefits from tax savings, and (iii) firms with better information quality. Our study presents large-sample results on how investors perceive corporate tax avoidance in general and shows that tax planning is a value-enhancing activity.

#70 Lease Characteristics, Agency Costs and Tax Considerations

Kun-Chih Chen and Kevin Ow Yong, SMU

Gerald Lobo, University of Houston

Abstract: We examine the determinants that influence managers' decision as to whether a lease is structured as a financing lease or an operating lease. Specifically, we find firms with higher marginal tax, lower credit ratings, and more severe agency problem are more likely to use both operating leases and financing leases. However, tax considerations and debt capacity have little effects on the financing lease versus operating lease decision. More importantly, we find that firms with different kinds of agency problem may take different kind of leases. Our study provides a better understanding of the extent of risks and benefits associated with the use of leased assets.

#77 Comparative Analysis of Accounting Based Valuation Models

Shih-Cheng Lee, Yuan Ze University

Chien-Ting Lin, Deakin University

Abstract: We empirically compare the reliability of the residual income valuation (RIV) model of Ohlson (1995) and the abnormal earnings growth model (AEG) of Ohlson and Juetnner-Nauroth (2005). We find that valuation estimates from the RIV model are generally more reliable than those from the AEG model. Although the RIV model anchored by book value gets off to a poor start when compared to the AEG model led by capitalized next-year earnings, its subsequent abnormal book value growth outperforms AEG's abnormal earnings growth. The overall findings suggest that the reliability of a valuation model rests primarily with the accuracy of subsequent growth forecasts.

DISCUSSANTS

#63: Shih-Cheng Lee, Yuan Ze University (sclee@satrun.yzu.edu.tw)

#70: Beng Wee Goh, Singapore Managemnet (bwgoh@smu.edu.sg)

#77: Kevin Ow Yong, Singapore Management University (kevinowyong@smu.edu.sg)

SESSION CHAIR: Chien-Ting Lin, Deakin University (edlin@deakin.edu.au)

SESSION 7: CORPORATE FINANCE

#08 Fourfold pattern of managerial risk attitude

Michael K Fung, Hong Kong Polytechnic University

Abstract: Majority of past studies on managerial risk-taking have examined the determinants of risk taking from the agency perspective. However, a substantial body of evidence has shown that expected utility theory does not provide an adequate description for individuals' decision-making under risky prospects. This study investigate whether managerial incentives to take risks follow the fourfold pattern of risk-attitude predicted by cumulative prospect theory (CPT) – managerial risk-taking is higher over low-probability reference gains or high-probability reference losses, and is lower over high-probability reference gains or low-probability reference losses. Reference gains and losses are respectively defined as positive and negative deviations of the firm's actual accounting-based performance from the mean rival performance. Risk taking is measured by R&D intensity, asset tangibility and leverage. This study's findings empirically support CPT's fourfold incentive pattern.

#26 Are Bondholders Happy With Shareholder Proposals? An Empirical Examination of Pay-Performance Activism

Sanjian Zhang, McGill University

ABSTRACT: We investigate bondholder reactions to shareholder proposals by studying an emerging pay-performance activism under a natural setting of performance-focused shareholder proposals (PSPs) concerning top management compensation. We find that: (1) PSP sponsors successfully identify firms that suffer from a misalignment of managers and shareholders' interests; (2) CEOs' pay-for-performance sensitivity increases in the post-proposal period; and (3) shareholders benefit through positive stock returns surrounding proposal filing dates; while (4) bondholders suffer significant negative returns, and even more so for high leverage firms. We also find an increase in stock return volatility but no significant changes to analyst forecasts of annual earnings surrounding proposal filling dates. These results imply that perceived risk increase is the main driver of observed negative abnormal bond returns. Further analysis shows that PSPs are significantly different from other shareholder proposals that are not focused on performance. Collectively, our results indicate that shareholders benefit from this emerging pay-performance activism, but potentially at the expense of bondholders.

#33 Board of Directors and Shareholder Value: New Evidence

Anne-Marie Anderson and Nandkumar Nayar, Lehigh University

Abstract: Historically, NYSE rule 452 permitted broker discretionary voting in routine voting matters such as election of directors. Since broker discretionary voting typically follows managements' recommendation, managements' nominees receive more votes than would otherwise be the case. Thus, any expression of true shareholder sentiment about directors is muted. Rule 452 was amended in 2009 to eliminate discretionary broker voting in the election of directors. We employ this regulatory event as a natural experiment to examine whether there is indeed any evidence of links between shareholder value and corporate boards. We find that the elimination of discretionary broker voting is value enhancing, on average. Importantly, the effect is more pronounced for firms with weak corporate governance, which suggests that effective boards of directors, if elected, can influence firm value.

DISCUSSANTS

#08: Nandkumar Nayar, Lehigh University (nnayar@lehigh.edu)

#26: Michael K Fung, Hong Kong Polytechnic University (afmikef@polyu.edu.hk)

#33: Sanjian Zhang, McGill University (sanjian.zhang@mcgill.ca)

SESSION CHAIR: Nandkumar Nayar, Lehigh University

SESSION 19: REGULATORY ISSUES

#29b Impacts of capital regulation and market discipline in China

Yishu Fu, University of Adelaide

Shih-Cheng Lee, Yuan Ze University

Lei Xu, University of South Australia

Abstract: Since the deregulation of foreign entry in 2001, China has introduced, at an unprecedented speed, banking capital regulation to strengthen its banking industry. Through the China Banking Regulatory Commission, it has introduced most standards of Basel I for setting capital requirements. The average bank capital adequacy ratio has increased from -2.98% in 2003 to 12.2% in 2010. This has occurred at the same time as China has experienced remarkable economic growth. This study examines empirically the underlying driving forces of banking capital movements in this country. Through disequilibrium tests as suggested by Barrios and Blanco (2003) and Wall and Peterson (1995), as well as simultaneous tests similar to Rime (2001), we discover that the remarkable improvement in banking capital is primarily driven by government regulation rather than market forces. In addition, capital regulation has effectively reduced risk-taking behaviours among the Chinese banks.

#93 City-of-Origin Effects

Jen-Hung Huang, National Chiao Tung University, Taiwan

Abstract: Numerous studies have examined the effects of country of origin (COO). However, previous studies mainly focus on consumers' quality evaluations and intentions to purchase a product. Only a very limited number of research address strategic issues for those unfortunate firms suffering from negative COO stereotype. This study proposes and tests the effects of adding a city name in the COO label. A city conjures a better image than a country. Thus, adding city in the COO label can enhance the attitude toward the product and intention of purchasing the product. Two experiments were conducted to test the city-of-origin effects. Results show that for high-involved product, city-of-origin enhances quality perception and preference, but not purchase intention. For low-involved product, city-of-origin enhances quality perception, preference and purchase intention.

#25 The Effects of Environmental Regulation on Corporate Performance: A Chinese Perspective

Vikash Ramiah, RMIT

Jacopo Pichelli, Politecnico di Milano

Imad Moosa, RMIT

Abstract: This paper presents empirical evidence on the effects of environmental regulation announcements on corporate performance in China when performance is proxied by stock returns. While some results indicate the effectiveness of environmental regulation, others point to the opposite. The perverse results are explained in terms of the lack of enforcement of environmental regulation, which is attributed to legislative shortcomings, poorly designed policy instruments, an unsupportive work environment for environmental regulators, a pro-growth political and social environment, and a cultural predisposition to harmony and consensus-building among those involved in the process.

DISCUSSANTS

#29b: Vikash Ramiah, RMIT (vikash.ramiah@rmit.edu.au)

#93: Lei Xu, University of South Australia (xulei86531@hotmail.com)

#25: Jen-Hung Huang, National Chiao Tung University (jhh509@hotmail.com)

SESSION CHAIR: Vikash Ramiah, RMIT

SESSION 20: INFORMATION, TRADING AND MARKET MICROSTRUCTURE

#104 Determinants of Real Exchange Rates: An Empirical Investigation

Vikas Kakkar and Isabel Yan, City University of Hong Kong

Abstract: The large and persistent deviations of nominal exchange rates from their purchasing power parities comprise a key stylized fact in international economics. This paper sheds light on these persistent deviations by combining two disparate strands of empirical work. The first strand focuses on real economic shocks such as sectoral technology shocks suggested by the celebrated Balassa-Samuelson model, whereas the second strand emphasizes monetary shocks which create persistent effects on both the real interest rate and the real exchange rate. We also hypothesize a third factor which may affect real exchange rates – shocks to the global financial system, which we proxy by the real price of gold. Although each factor in isolation has limited explanatory power, we find that these three factors in conjunction can successfully explain the medium to long run movements in 14 bilateral U.S. dollar real exchange rates from 1970 to 2006. The three factors are sectoral total factor productivity differentials, real interest rate differentials, and the real price of gold, representing real shocks, monetary shocks, and shocks to the global financial system, respectively. We document evidence suggesting that bilateral U.S. dollar real exchange rates are cointegrated with these three factors.

#105 The Information Content of the Limit-order Book and the Corresponding Trading Strategy

William T. Lin, Tamkang University and Zhejiang University; Pei-Yau Lung, Tamkang University

Shih-Chuan Tsai, Taiwan Normal University Zhenlong Zheng, Xiamen University

Abstract: This paper explores the information content in the limit-order book and aims to predict the future price change in the Taiwan futures market. By exploring the relationship between order aggressiveness and returns, we find that the five quotes of the limit-order book can predict the price change, especially when there is an uptrend in the market. The predictability of the price change also increases when the imbalance in the price impact between the demand and supply is extreme. According to these findings, we use the order aggressiveness of the limit-order book to propose a trading strategy. We find that this trading strategy earns positive returns, even when transaction costs are taken into account.

#37 Brokers' Stock Ratings Distributions and the Returns from their Stock Recommendations: Evidence post-NASD Rule 2711

Chih-Ying Chen and Kun-Chih Chen, Singapore Management University

Abstract: NASD Rule 2711 requires brokers to disclose their overall ratings distribution and the percentage of their investment banking customers within each rating. Based on research reports of 50 large brokers between January 2003 and May 2011, we find an upward trend in the overall buy percentage (BUY percentage) and a decrease in the percentage of investment banking customers in the buy recommendations (IB percentage). Furthermore, the profitability of upgrade to buy (initiation as buy) recommendations is negatively (positively) associated with the disclosed IB (BUY) percentage, and IB (BUY) percentage is negatively (positively) associated with analysts' earnings forecast accuracy. Together, the evidence is consistent with a relatively high BUY percentage largely stemming from brokers' selective coverage of better firms and the IB percentage mainly capturing the degree of optimistic bias in analysts' recommendations. We also find evidence that investors do not fully understand the implications of BUY and IB percentages.

#51 Market Uncertainty, Market Sentiment, and the Post-Earnings Announcement Drift

Ron Bird, UTS and University of Waikato Daniel FS Choi, University of Waikato Danny Yeung, UTS

Abstract: Post-earnings announcement drift (PEAD) which was first identified over 40 years ago seems to be as much alive today as it ever was. Numerous attempts have been made to explain its continued existence. In this paper we provide evidence to support a new explanation: that the PEAD is a reflection of the level of market uncertainty and sentiment that prevails during the post-announcement period. The overriding conclusion from our analysis is that both uncertainty and sentiment play a central role in determining investor behaviour and it is this behaviour that ultimately determines the pricing that is observed in financial markets.

DISCUSSANTS

#104: William Lin, Tamkang University and Zhejiang University (yungshuncn@hotmail.com)
#105: Vikas Kakkar, City University of Hong Kong (efvikas@cityu.edu.hk)
#37: Danny Yeung, UTS (danny.yeung-1@uts.edu.au)
#51: Chih-Ying Chen, SMU (cychen@smu.edu.sg)

SESSION CHAIR: Danny Yeung, UTS

SESSION 9: CORPORATE GOVERANCE

#66 Managerial Compensation and Growth Options over the Business Cycle

Hsing-Hua Huang and Wei-Liang Chuang, National Chiao Tung University

Abstract: This paper studies the impact of business cycle on the agency conflict of investment distortion between the firm and manager in a growth option framework. The numerical results show three main findings as follows. First, the agency conflict would be lower when business cycle is taken into account. It implies that the agency conflict may be overestimated in the absence of the effect of business cycle. Second, the agency conflict could be mitigated when the economic recession becomes shorter or when business cycle is more persistent. Finally, the firm could eliminate the agency conflict by offering lower optimal incentive compensation when the effect of business cycle is considered.

#81 An Empirical Study of the Effects of Corporate Governance and Product Market Competition on the Value of Spinoff Firms

Meng-Jou Lu and Keh-Lu Wang, National Chiao-Tung University, Hsin Chu Taiwan

Ying-Chou Lin, Missouri University of Science and Technology, Missouri, U.S.A.

Lee-Hsien Pan, National Chung Cheng University, Taiwan

Abstract: This paper examines the relationship between corporate governance and cumulative abnormal return (CAR) for spinoff firms. Using a sample of 269 completed spinoffs between 1983 and 2009, we find a negative non-linear relationship between corporate governance and the value of spinoff firms around announcement period. This supports our speculation that spinoff firms experience significantly higher announcement-period abnormal returns only when their corporate governance quality reaches a certain threshold. Moreover, we find a significant positive relationship between abnormal returns and the interaction of corporate governance and product market competition, suggesting that stronger governance mechanism mitigates managerial slacks primarily on spinoff firms in non-competitive industries. As a result, the magnitude of cumulative abnormal returns for less competitive and better-governed firms is more pronounced around spinoff period. Our finding sheds light on why better-governed spinoff firms in less competitive industry lead to higher announcement-period abnormal returns.

#84a Does Corporate Governance Curb Managers' Opportunistic Behavior of Exploiting Inside Information for Early Exercise of Executive Stock Options?

Chien-Chen Chiu and She-Chih Chiu, National Cheng Kung University

Cheng-Few Lee, Rutgers University, U.S.A

ABSTRACT: This paper aims to investigate the role of corporate dividend policy and corporate governance in managers' decision of timing executive stock options exercises. Specifically, we develop a model to decompose discretionary accruals into reversion of discretionary accruals and new discretionary accruals initiated. We find that managers maintain relatively higher level of discretionary accruals prior to exercise, and tend to depress earnings with negative new discretionary accruals initiated in the post-exercise years. We fail to find well governed companies with abnormally large ESOs exercises have opportunistic earnings management, but we find that these firms have significantly higher level of dividends prior to exercise. We also find that change in cash dividends is positively associated with the likelihood of managers' early exercise decision.

DISCUSSANTS

#66: Chien-Chen Chiu, National Cheng Kung University (skygreen2007@hotmail.com)

#81: Wei-Liang Chuang, National Chiao Tung University (weiliangchuang@gmail.com)

#84a: Meng-Jou Lu, National Chiao-Tung University, Hsin Chu Taiwan (mangrou@gmail.com)

SESSION CHAIR: Chien-Chen Chiu, National Cheng Kung University

SESSION 16: INVESTOR CLIENTELE AND CROSS-MARKET TRADING

#21 Performance of ICT industry in six Asian countries

Mohd Fazli Mohd Sam, Aichi University and University of Technical Malaysia Melaka

Yasuo Hoshino, Aichi University and University of Tsukuba

Abstract: This study explores the performance of ICT industry through Sales Growth Rate and Profitability Ratio between ASEAN and East Asia and also through individual country. Data from Orbis Database (OVBD) were analyzed; 24 ICT companies in ASEAN region which involve Thailand, Malaysia, and Philippines; and 231 ICT companies in East Asia; Japan, China and South Korea by using t test and ANOVA techniques. Our empirical results shows that East Asia shows a good performance in Sales Growth Rate but low performance in Profitability Ratio compare to ASEAN in the ICT industry. By comparing the performance of each country, China shows positive performance in the Sales Growth while Malaysia has the low performance in Profitability Ratio; ROSF, ROCE and Korea with its ROA, Profit Margin and EBITDA. Various resources were used to support our findings such as Global Information Technology Report, China Internet Network Information Center, Asian Development Bank and also implying sales maximization theory in this study.

#18 Dynamic Stock Market Integration and Financial Crisis: the Case of China, Japan, and Korea

Jinho Jeong, Korea University

Abstract: This study examines the relationships between three Northeast Asian stock markets of China, Japan, and Korea during the period between January 1, 2000 and September 30, 2010, with particular attention placed on the global financial crisis period. The findings of this study are as follows. Firstly, China is influenced more by regional markets rather than the global market. On the other hand, Japan is influenced more by the global market rather than regional markets. Korea has the most balanced level of integration between the regional and global markets. Secondly, a portfolio created through an integrated market in the region would result in a significant decline in the unsystematic risk of each country, benefiting both the investor and local economies. Thirdly, the recent global financial crisis has caused a shift in the pattern of integration in the region. All three countries show a higher level of integration with the global market after the financial crisis. Finally, for China, the global market risk has become even greater than the domestic unsystematic risk since 2010. Overall result suggests that the degree of integration among countries tends to change over time, especially around periods marked by financial crisis and there is a diversification benefit of integrated regional market.

#53 Short Selling by Individual and Institutional Investors and Its Impact on Stock Returns: Evidence from the Taiwan Stock Market

Chih-Yuan Huang, National Sun Yat-sen University

Tai Ma, National Sun Yat-sen University

Shu-Fan Hsieh, National Kaohsiung First University of Science and Technology

Abstract: This paper investigate individual and institutional short selling and their interactions with returns by using data from the Taiwan stock market. We find that individual investors sell short when they possess or observe the information related to stocks and when they find overvaluation of stocks. Individual short sellers can predict subsequent negative returns during four weeks after their trading. Thus, our results suggest that at least some individual investors are informed and contribute to market efficiency. Moreover, we find evidences that institutional investors sell short following negative returns and their shorting is mainly for hedging demands.

DISCUSSANTS

#21: Shu-Fan Hsieh, National Kaohsiung First University of Science and Technology (shufan@nkfust.edu.tw)

#18: Mohd Fazli Mohd Sam, University of Technical Malaysia Melaka (mohd.fazli@utem.edu.my)

#53: Jinho Jeong, Korea University (jayjeong@korea.ac.kr)

SESSION CHAIR: Shu-Fan Hsieh, National Kaohsiung First University of Science and Technology, Taiwan

SESSION 21: ISSUES IN RESEARCH METHODOLOGY

#16 A Latent Class Cluster Analysis Study of Financial Ratios and Industry Characteristics

Sook Lu Yong, University of Malaya

Hilary Ingham, Lancaster University Management School

Abstract: This paper investigates homogeneity of firms, with the aim of establishing if the current classification systems are able to separate them into homogeneous groups. Going beyond the traditional cluster analysis, a latent class cluster analysis is proposed to separate firms into homogeneous and heterogeneous groups. As for the Malaysia SIC manufacturing sector, our results suggest that the system of classification used is economically more meaningful than many previous researchers have feared. The results are new and lead us to believe that this is an approach which could be used more widely.

#106 Monitoring Tests of Predictive Ability in the Presence of Parameter Instability

Chih-Chiang Hsu, National Central University,.

Abstract: In this paper we propose new tests to compare the out-of-sample forecasting performance of two competing models in the presence of possible instabilities. In contrast with Giacomini and Rossi (2010), we use the forward-looking methods to monitor out-of-sample predictive ability and to see if a model's forecasting ability may disappear over time. Following Leisch et al. (2000), we develop the maximum and range of recursiveand moving-estimates tests based on general conditional loss functions. The asymptotic distributions of the proposed tests are established. Because it may not have closed-form result for the crossing probability of the asymptotic distributions, we use Monte Carlo method to simulate the appropriate critical values for the corresponding boundary functions. Some simulations are conducted to show that the proposed tests have proper finitesample properties. To illustrate the usefulness of the new techniques in analyzing out-ofsample predictive ability, an empirical application for foreign exchange rate forecasting models is presented.

#27 Alternative Errors-in-Variables Models and Their Applications in Finance Research

Cheng-Few Lee, Rutgers University
Hong-Yi Chen, National Central University

Abstract: The main purposes of this paper are (i) to review and extend existing errors-in-variables (EIV) estimation methods; and (ii) to discuss how these estimation methods have been used in finance research. We first show how EIV problems affect estimators in the regression model. We further extend seven alternative estimation methods dealing with EIV problem. Classical method, grouping method, instrumental variable method, mathematical programming method, maximum likelihood method, LISREL method, and Bayesian approach will be discussed and extended from the original simple regression case to multiple regression case. Finally, we investigate how EIV estimation methods have been used to determine cost of capital, capital structure, and investment equation, and test capital asset pricing model.

DISCUSSANTS

#16: Hong-Yi Chen, National Central University (fnhchen@ncu.edu.tw)

#106: Sook Lu Yong, University of Malaya (yong.sook.lu@gmail.com)

#27: Chiih-Chiang Hsu, National Central University (cchsu@mgt.ncu.edu.tw)

SESSION CHAIR: Hong-Yi Chen, National Central University