SCOTT DONALD SF Fin
Director of Fiduciary Research
Russell Investment Group

From the Chair of the Editorial Board

AUSTRALASIA'S FINANCIAL SERVICES SECTOR is sophisticated and multi-faceted. Its participants, whether in industry, the public sector or academe, are avid consumers of research they can apply in their day-to-day work. This issue of JASSA reflects the diverse interests of our readership. The articles address issues in banking risk, investment strategy, stock valuation, IPO assessment, financial planning and accounting standards.

George Gabriel looks at how modern value investors (including the famous Warren Buffett) have adapted Benjamin Graham's early investment framework to apply to competitive, modern investment markets. He notes that with high levels of volatility in global equity markets and the collapse of several hedge funds, it is critical for investors to reassess the foundations of their investment strategies.

John Evans SF Fin, Robert Womersley, Danny Wong and Greg Woodbury undertake empirical analysis of operational risk in a bank. They derive a model to represent the distribution of losses, which they compare with more traditional models of operational risk. They find that the generalised extreme value distribution provides a good fit to the annual loss distribution and that conventional methods to model severity are inadequate because they neglect the extreme percentiles which are important in the type of analysis required under Basel II. They recognise, however, that the lack of data is a major limitation in the implementation of extreme value theory.

Maria Balatbat and Scott Bertinshaw examined 174 IPO prospectuses issued during 1995–2000 to investigate the specificity on the 'use of proceeds' disclosures, their accuracy and effects on shareholder returns. Their findings suggest that firms disclosing concrete intentions regarding the use of proceeds, and doing so as disclosed, perform better than firms with less disclosure of their use of proceeds. They also note that it may be useful for investors to have some clarification of why high levels of proceeds are being sought for working capital or to limit the proportion of the proceeds being raised for these and other unspecified uses.

The paper by Paul Bailey F Fin, Paul Brown, Michael Potter and Peter Wells provides practical insights into issues arising from the application of three alternative models for firm valuation, and identifies the reliability of values generated. Their research, based on a sample of listed Australian firms, indicates that the residual income model provides better estimates of firm value than two other commonly used models. It suggests that traditional discounted cash flow valuations should be supplemented with residual income model valuations when valuing firms where there are expectations of substantial long-term growth in sales and earnings.

Stefan Sudweeks and Richard Vinciullo examine the new client compensation arrangements following changes to the Corporations Law on 1 July 2007, whereby financial advisers are now required to hold 'adequate' professional indemnity insurance (PI insurance). They note that while the intended beneficiaries of the changes are the 'retail clients' of financial advisers, the upshot of this is that financial services licensees and applicants must now think very carefully about their PI insurance, or risk not fulfilling these compensation requirements.

David Parker SF Fin argues that the adoption of Australian International Financial Reporting Standards (AIFRS) may be expected to provide increased transparency in financial statements. He notes, however, that the failure by corporates to adopt the flexibility and transparency offered by AIFRS for reporting owner-occupied property potentially creates landmines and goldmines, rendering financial statements less useful to recipients and raising risk management issues for shareholders, analysts and other interested parties.

In my review of Pamela F. Hanrahan's book, *Funds management in Australia: officers' duties and liabilities*, I observe that it provides a legal guide that helps to steer financial services officers through the hellish maze of statutory rules and general law governing the industry. The number of statutory, regulatory, tortious and equitable rules is mind-numbing to the uninitiated and in this environment a trusted guide is most welcome.

Bill Lucas SF Fin also provides a review of Edna Carew's latest book, *National market national interest: the drive to unify Australia's securities markets*. He indicates that this is an excellent book covering the development of the national securities market in Australia, from the first stock exchanges introduced prior to Federation to the impact of the information technology age in the past quarter century.

I hope you find this issue of JASSA stimulating and relevant. I would also like to encourage you to consider making a contribution to a future issue. We remain committed to promoting high-quality applied research in the area of financial services from practitioners, policy makers and academics. The guidelines for submission are available at www.finsia.com/Content/NavigationMenu/Informationservices/JASSA. Your comments on any of the articles in this issue or in earlier issues are also welcome at m.fahrer@finsia.com.