

CONTENTS

Issue 2 2013

4

**From the
Managing Editor**

7

**Examining the equity holdings of
Australian superannuation funds**

JUSTIN WOOD

Australian superannuation funds have a high exposure to equities and growth assets by international standards, raising some concern that members face too high a level of investment risk. The asset mix reflects members' risk appetite on average and trustees' design choices. This paper argues that industry allocations to equities and growth assets may not be too high considering the defined contribution nature of schemes, the preference for allocated pensions rather than annuities and the design of Australia's taxpayer-funded age pension.

12

**The impact of capital changes
on share price performance**

DAVID BEGGS

This paper examines the impact of capital management decisions on the future share price performance of ASX-listed companies. The results indicate that changes in capital have a significant impact on future share price returns. On average, companies underperform the market following increases in capital, and outperform the market following reductions in capital. These results are consistent across the range of capital changes and robust after controlling for company value metrics.

20

**Candlestick charting in
European stock markets**

TSUNG-HSUN LU and JINJI CHEN

The purpose of this study is to investigate whether an old Japanese trading technique can function in a Western context. This paper employs a 1×4 vector to categorise two-day candlestick patterns systematically, and then examines their profitability for the FTSE 100, DAX 30 and CAC 40 component stocks. After conducting statistical tests and the bootstrap methodology, we find that three patterns can produce profits after considering transaction costs in the major European stock markets. We also investigate the effects of the global financial crisis on the efficacy of the candlestick method.

26

**The Basel III controversy: A
critical assessment of the views
of Australian regulators**

IMAD MOOSA and KELLY BURNS

This paper critically examines the arguments put forward by Australian regulators in favour of Basel III and the Basel accords, more generally. We argue that Basel II contributed significantly to the global financial crisis (GFC) and the European crisis. We also suggest that Basel III is not a 'great leap forward' when compared with Basel II, its provisions will not make banks more resilient, its architects have not learned much from the GFC and that the international unification of banking regulation is a flawed idea.

30

Stakeholder perspectives on bank performance: A preliminary survey across Australia, China and Japan

NECFI KEMAL AVKIRAN and MITSURU MIZUNO

Understanding how stakeholders evaluate bank performances can be useful for bank managers and investors, particularly as most banks' operations are multi-dimensional and serve many objectives. This preliminary study examines different stakeholder perceptions of a common set of financial ratios as revealed by a cross-country survey of three major trading partners with financial systems of differing levels of economic success and stage of development.

36

What is the key driver of bank stock returns? A comparative analysis

GWANGHOON LEE, JEEHOON PARK, DOOJIN RYU and JIN-YONG YANG

This study analyses stock price performances during the past decade and the key drivers of the stock price movements of 228 global banks, which are classified as either GEM (global emerging market) or DM (developed market) banks based on their countries and regions. Our findings suggest that strong pre-provision operating profit growth is more important than profitability as a stock return driver for banks around the world. We also find that despite their similar ROE levels, GEM banks have outperformed DM banks almost every year.

Papers from the UNSW Roundtable Conference on Regulating Culture: Compliance, Risk Management and Accountability in the Aftermath of LIBOR

Finsia acknowledges the contribution of the papers from the conference to this issue of JASSA. The conference was held in October 2012 by the UNSW Centre for Law, Markets and Regulation.

44

Introduction to the Conference Papers

Professional obligation, ethical awareness and the search for accountability in the aftermath of LIBOR

45

Incentivising compliance in the banking industry

BOB FERGUSON

One consequence of the global financial crisis has been an explosion of calls for a radical change of culture in the banking sector — for a shift to a much more responsible, prudent, long-termist business model, and for a corresponding transformation of attitudes and values. Last year's events in the UK imparted fresh impetus to the debate about what needs to be done. This paper explores the potential regulatory activity in this area and its limitations.

50

The world's most important number: How a web of skewed incentives, broken hierarchies and compliance cultures conspired to undermine LIBOR

ERIC TALLEY and SAMANTHA STRIMLING

To many observers, the recent scandal involving the widespread and recurrent manipulation of the London Interbank Offered Rate (LIBOR) may go down as one of the most significant and far-reaching events associated with the global financial crisis. And for good reason: by most estimates, an estimated 350 trillion dollars' worth of global financial contracts — ranging from mortgages to credit cards to corporate debt securities to countless financial derivatives — hinge critically upon LIBOR to govern the cash flow positions and other obligations of contractual counterparties. This paper examines the incentives, hierarchies and organisational cultures among the various players involved and floats some hypotheses about how LIBOR may be most effectively reformed in light of these factors.

57

Neofeudalism, paraethnography and the custodial regulation of financial institutions

DAVID A WESTBROOK

Regulators have turned to 'culture' in frustration. Through the global financial crisis (GFC) and now again with the LIBOR scandal, we observe market participants who simply do not abide by the spirit of the rules. They are, in a word, bad sports. So how do regulators, charged with refereeing the markets, get financiers to be good sports? Or how do we regulate culture?