FROM THE
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In this issue of *JASSA* we include papers examining various drivers of bank and corporate performance and shareholder returns, as well as stakeholder perceptions of different financial ratios used to assess the longer term value of an organisation. A number of important questions are also raised for regulators in terms of their approach to Basel III and bank risk management, more broadly.

First, Justin Wood addresses the important issue of whether Australian superannuation fund members face too high a level of investment risk because their superannuation funds have a high exposure to equities and growth assets by international standards. Woods argues that this asset mix reflects members' risk appetite on average and trustees' design choices. He also suggests 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. He notes that most members of default funds are likely to have a claim on the age pension that will swamp the value of their superannuation savings and they will also tend to have other assets with low equity exposure. This suggests that despite a relatively high proportion of equity exposure in default funds, the overall equity exposure measured across the total resources available to support retirees, excluding their own home, is much more modest.

David Beggs' paper provides evidence which will be of interest to investors on how decisions by Australian companies about capital management affect shareholder returns. The results indicate that, on average, companies underperform the market following increases in equity capital, and outperform the market following reductions in capital. Both the rank of capital changes relative to other stocks in the benchmark and the absolute size of the capital changes are shown to be strong signals for determining future share price movements. These results are consistent with those found in overseas markets, and a common explanation is that managers 'time' the market — such as issuing shares when, on the basis of their private information, they are overvalued. Beggs also examines whether the results differ between value and growth stocks, categorised using price-to-book ratios, and finds that increases and decreases in capital provide similar signals for both groups. His approach does not distinguish between the type of capital change made (such as decreases in capital due to share buybacks versus special dividends) suggesting scope for further research to identify whether such differences have different information content for investors.

Next, Tsung-Hsun Lu and Jinji Chen investigate whether a well-known form of technical analysis, candlestick charting, provides information about future stock price movements. They provide an overview of candlestick charting and apply it to European stock markets. Returns from trading strategies based on two-day candlestick patterns following prior periods of up and down trends in stock prices are examined systematically for the component stocks of the FTSE 100, DAX 30 and CAC 40. The authors find that certain strategies generated value for investors in these three main European stock markets over the period studied, but the strategies differed across the markets. They also find that the global financial crisis has reduced the efficacy of candlestick patterns in these markets.

The following three papers focus on banking. The paper by Imad Moosa and Kelly Burns critically examines the arguments put forward by Australian regulators in favour of Basel III and the Basel accords, more generally. Moosa and Burns believe that the enthusiasm of Australian regulators for Basel III is unwarranted and that the proposed provisions of Basel III are problematic while failing to address the fundamental shortcomings of Basel II. Among other topics, they take issue with arguments that Basel III is a great leap forward, that it will improve bank resilience and that international harmonisation of regulation (such as through Basel III) is required. They suggest that Basel III is less about risk management than it is a pure compliance exercise. The issues addressed by Moosa and Burns are important ones worthy of further research and debate.

The study by Necmi Kemal Avkiran and Mitsuru Mizuno examines different stakeholder perceptions of bank performance based on a common set of financial ratios using a cross-country survey of Australia, China and Japan. They maintain that understanding bank performance from a multiple stakeholder perspective could help bank managers as well as investors better evaluate the underlying longer term value of an organisation. They also suggest that a more holistic or global approach to assessing bank performance could help to better understand the often-complex relationships between banks and their various stakeholders, which cannot be gained by simply considering current indicators such as share prices or price-to-earnings ratios. They find some apparent differences in importance attached to various financial indicators by stakeholders such as customers, management and regulators, which accord with intuition — although the small sample size of their study limits the scope for assessing statistical significance of the differences. Avkiran and Mizuno hope that their preliminary study may prompt further interest in larger-scale investigation of such stakeholder differences in perceptions of performance.

Gwanghoon Lee, Jeehoon Park, Doojin Ryu and Jin-Yong Yang analyse the key drivers of the stock price movements of 228 global banks, which they classify as either GEM (global emerging market) or DM (developed market) banks. Their study is prompted by the fact that over the past decade, higher bank stock returns for GEM banks over DM banks do not look to be associated with differences in accounting returns on equity, but appear to be associated with the rate of growth of profit. The authors find that despite their similar ROE levels, GEM banks have, on average, outperformed DM banks almost every year. Their findings indicate that growth in pre-provision operating profit is more important than current profitability as a driver of bank stock market returns. They observe that although regulators stress risk management and strong capital as determinants of bank stability and profitability, it is also critical for them to consider policies that help to cultivate healthy growth in bank balance sheets.

The final section of this issue of *JASSA* is devoted to papers from the UNSW Roundtable Conference on Regulating Culture: Compliance, Risk Management and Accountability in the Aftermath of LIBOR, which was held in October 2012 by the UNSW Centre for Law, Markets and Regulation. While not subject to the usual double-blind process, each of these excellent papers has been reviewed by our guest editor Prof Justin O'Brien and by me, prior to inclusion. See p. 44 for Prof O'Brien's introduction to these papers.

We are very keen to encourage discussion about topical issues relating to applied finance that are relevant for both practitioners and those in academia, and we look forward to your contributions on some of these issues throughout the year. ■

JASSA articles

Contributions:

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