FROM THE *Managing Editor*

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The first few papers in this issue of *JASSA* address a range of important corporate governance and corporate financing issues for practitioners, with the remainder of the issue being devoted to edited versions of papers presented at the 18th Melbourne Money and Finance Conference — Financial Sector Evolution: Prospect and Determinants — held in July 2013. The conference was organised by the Australian Centre for Financial Studies and sponsored by ANZ, APRA, the Reserve Bank of Australia and Finsia. While not subject to the usual double-blind process, each of these papers was reviewed by a member of the Editorial Board and by me prior to inclusion.

Using the annual reports of Hastie Group as an example, Andrew McRobert SF Fin examines whether there are any warning signals in the annual accounts about likely corporate failures. He suggests that every corporate collapse can be attributed to one or more of the well-documented causes of failure, and a few simple calculations and the determination to read and think beyond the purple prose set out by the directors (and the brokers) will, in many cases, identify a company heading inexorably towards failure. McRobert says, for example, it is net operating cash flow that pays the bills, not profits, and Hastie's very thin cash debt service cover is remarkable in view of the positive statements of the directors prior to its failure and the consistently bullish analyses of Hastie issued by brokers.

Next, Hung Chu and Wayne Lonergan SF Fin highlight the pitfalls in adjusting merger ratios for mergers involving a cash payout. They indicate that derivation of the technically correct post-cash payout merger ratio is case-specific, requiring a proper assessment of the equity value of the merged entity, which inherently involves taking into account the expected synergies (net of implementation costs) from the merger. They say this critical input is wrongly excluded in the derivation of the post-cash payout merger ratio under an alternative short-cut adjustment method, resulting in the cash receiving merging party's share of the value of the expected synergies being understated.

Following the strengthening of corporate governance codes in many countries over the past decade in response to large and high-profile corporate collapses, the paper by Christofer Adrian, Sue Wright and Alan Kilgore examines directors' views on the relative importance of corporate governance mechanisms or attributes. The authors note that although previous studies in Anglo-American countries (such as Australia and the US) place more emphasis on board composition as an integral attribute affecting corporate governance, the findings of their study show that Australian directors perceive CEO duality to be the most important corporate governance attribute. The results also confirm that Audit Committee composition and Board composition are important to directors. These results provide feedback to regulators which may help to inform any potential future amendments of corporate governance codes in Australia.

In the first of the papers from the 18th Melbourne Money and Finance Conference, Rodney Maddock raises the question of whether Australia's financial sector, which is large by global standards, is too big. Maddock finds that most of the growth within the sector over the past decade has been the result of outward shifts in the demand for financial services driven by household preferences, the availability of a wider range of financial tools, and active government policy. He also suggests that it is not surprising that Australian banks are among the most profitable banks globally because they have driven productivity faster than most of their international peers and have been able to retain more of the benefits for shareholders without excessive (but still substantial) margins.

The paper by Carl Schwartz and Tom Carr focuses on the evolution of shadow bank-based finance in Australia and a number of other countries around the recent crisis, and, for Australia, around the late 1980s/early 1990s period of financial upheaval and regulatory reform. The authors find that recent history internationally and in Australia suggests a general procyclical pattern in shadow banking. They note that shadow banking has mainly flourished in an environment where solid risk appetite has tested the limits of the regulatory and supervisory framework, with subsequent contraction when risk appetite falls and regulatory and supervisory frameworks are tightened. They indicate that Australia's past experience suggests the financial crisis-related shock to risk attitudes and global regulatory focus on shadow banking will remain considerable near-term headwinds for aggregate shadow banking sector activity but, nonetheless, regulators should remain focused on fast-growing components and their linkages to other parts of the financial system.

Charles Littrell explores the difference between macroprudence and macroprudential supervision as well as some emerging international and Australian themes in safety and stability, in the context of systemic effects. Littrell notes that regulators, as with bankers, are tempted to act with the cycle, when acting against the cycle should be a core competence. He also says APRA considers that the global deployment of macroprudential supervision, while generating much that is positive, risks muddling the role and effectiveness of prudential supervisors; and APRA's preferred strategy is a broader reliance, with its colleague agencies, on proactive macroprudence.

With legislation coming into effect in March 2014, allowing credit providers such as banks and other lenders to share positive information about consumers through a credit bureau, Steve Johnson examines the implications for consumer lending. He says that the Australian transition from negative reporting to comprehensive reporting is largely an unprecedented and unique approach that will create challenges for government, regulators and the industry. He also believes that taking into account the rational response to competitive threats and technology impediments of some lenders, it is likely that a fully comprehensive credit environment will not be in place until late 2015.

Also focusing on the impact of regulatory change, Brad Carr indicates that the banking sector's response to the Basel III reforms will present both potential challenges and opportunities for Australian superannuation funds due to the significant interactions between these segments of the financial services industry. He says these regulatory changes will create an added layer of investment complexity, and new risk management and liquidity considerations for super funds, particularly against the backdrop of other prevailing market trends. He notes that APRA has indicated that superannuation funds will be treated as 'financial institutions', while self-managed super fund (SMSF) depositors are eligible for the more generous 'retail' treatment.

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