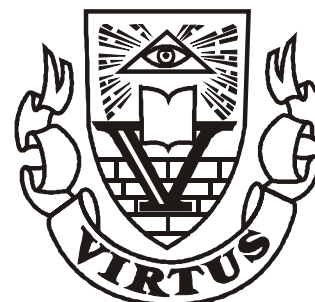


JOURNAL OF GOVERNANCE AND REGULATION

VOLUME 1, ISSUE 2, 2012

CONTENTS



Editorial 4

CORPORATE REPORTING, SECURITY REGULATION AND TRADING ON THE KUWAITI STOCK EXCHANGE (KSE) – INSTITUTIONAL IMPLICATIONS FOR RESEARCH 7

Eiman A. Algharaballi, Michelle Goyen

The regulation of equities trading in Kuwait over the period from 1983 to 2011 is documented in this paper. An eclectic approach has resulted in overlapping responsibilities for the three main regulatory and supervisory bodies. Regulation appears to be responsive to market crises. As a result, regulations have tended to change with market conditions. Kuwaiti accounting and auditing requirements are also reviewed. The institutional setting in Kuwait has a number of implications for capital market based research. Informational inefficiency precludes research that relies on the assumption that security price reflects firm value.

IS INSIDER TRADING REGULATION EFFECTIVE? EVIDENCE FROM UK TAKEOVER ACTIVITY 24

Brendan Lambe

The returns on stock prices of target companies surrounding the first publicized dates of completed takeovers in the UK between 2001 and 2010 are analyzed in this study. Two samples are created of 209 and 197 firms for announcement and rumored dates respectively. Both demonstrate statistically significant cumulative abnormal returns (CARs) prior to the release of information about the impending bid. This paper investigates whether observable factors create this price run-up or if it is the result of disclosed insider trading. Cross sectional analysis of CARs indicates that trading on material nonpublic information goes undisclosed.

THE CASH-CDS BASIS FOR SOVEREIGN COUNTRIES: MARKET STRATEGY, PRICE DISCOVERY AND DETERMINANTS 49

Alessandro Carboni, Andrea Carboni

The cash-CDS basis and its implication for market strategies and price discovery, together with the role of credit risk common factors are analysed. A positive net income is derived with a negative basis, once funding costs are considered. There exists an arbitrage opportunity for Greece in 2010, with a negative basis of more than 100 bp. Our comparison with three different basis shows that while converging markets seem adopt the same strategy, in particular for Portugal, Ireland and Greece. Results for price discovery show that the CDS market moves ahead the bond market. Finally, our empirical analysis shows that the global risk factor contributes to increase the basis, while the banking sector vulnerability proxy offers a negative contribution.

IN DEFENSE OF SHOCK THERAPY: POST-SOCIALIST TRANSITION OF THE CZECH REPUBLIC

72

Scott A. Beaulier, Peter J. Boettke, Leonid A. Krasnozhon

The authors propose that a meaningful benchmark is the experience of the Czech Republic, Russia, and other transition economies which share similar approach to the market reforms, but have solved political economy problems of credibility and commitment differently. Researchers compare the Czech Republic's economic, political, and social performance to these benchmarks in all other post-socialist countries since they began their transitions. Results show that the Czech transition is a consistent success because the Havel shock therapy has solved the political economy problems of reform's credibility and state's commitment to reform.

BANKS' INCENTIVES TO OVER-HERD

86

Marcela Giraldo

This paper evaluates the incentives that banks have to herd. It includes a complete literature review that focuses on papers from the last fifteen years, and a model of several banks and infinite time periods. The literature review looks at recent academic papers that have examined the different causes of bank herding. The model is discussed theoretically and then a numerical example explores the significance of its coefficients. The model section concludes that any policy that reduces the costs of overinvestment increases the incentives of banks to herd.

THE PERFORMANCE OF NEWLY PRIVATIZED FIRMS: THE CASE OF PORTUGAL 92

José Vaz Ferreira

The aim of this study is to investigate the pre and post privatization financial, social and operational performance of forty two Portuguese companies in most of sectors of economic activity that experience full or partial privatization through public share offering, direct sale or public contest, for the period from 1989 to 2009. That is, this work investigates, whether or not, the privatization of state-owned enterprises (SOE's) had caused improvements on the economic and financial health of those privatized companies, as it is suggested by the literature of property rights, public choice and agency theory. Firstly, significant improvements on profitability, operating efficiency, capital investment, real output, dividend payout, treasury applications, activity levels and capital structure are documented. Secondly, significant decreases in employment after privatization are experienced. Thirdly, it is observed that, following privatization, the financial equilibrium (short and long) of firms was negatively affected. Lastly, results are generally robust surviving the partition of the dataset into various sub-samples.

LOWER TAXES OR HIGHER EXECUTIVE BONUSES: HOW INVENTORY VALUATION CHOICES BEST EXHIBIT US CORPORATE GOVERNANCE FAILINGS 126

Kevin A. Diehl

This research seeks to update and finally determine for the Fortune 500 whether the market values the inventory valuation choice of last-in, first-out (LIFO) over first-in, first-out (FIFO) as some signal of reporting and management quality. The market can adjust LIFO earnings to FIFO earnings. Thus, the only issue then is that companies choosing FIFO pay higher taxes, which shareowners should disfavor. Indeed, only 20 percent of the Fortune 500 utilizes LIFO to value any inventory. However, after Spearman correlations and logistic regression, the research statistically significantly shows that investors are willing to give premiums on the price of stock for the choice of LIFO. Thus, companies should choose LIFO to reduce taxes and increase their stock prices.

SUBSCRIPTION DETAILS

130