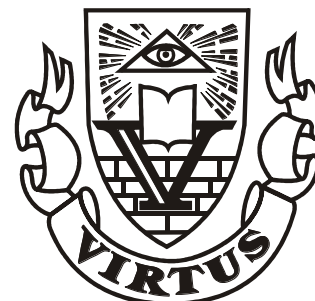


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CONTENTS



Editorial 4

**A STRUCTURAL APPROACH TO FINANCIAL STABILITY:
ON THE BENEFICIAL ROLE OF REGULATORY GOVERNANCE** 7

Benjamin Mohr, Helmut Wagner

This paper examines whether the governance of regulatory agencies – regulatory governance – is positively related to financial sector soundness. We model regulatory governance and financial stability as latent variables, using a structural equation modeling approach. We include a broad range of variables potentially relevant to financial stability, employing aggregate regulatory, banking and financial, macroeconomic and institutional environment data for a sample of 55 countries over a period from 2001 to 2005. Given the growing importance of macro-prudential analysis, we use the IMF's financial soundness indicators, a relatively new body of economic statistics which focuses on the banking sector as a whole. Our empirical evidence indicates that regulatory governance has a beneficial influence on financial stability. Thus, our findings support the view that the improvement of regulatory governance arrangements should be a building block of financial reform.

**THE RELATION OF AUDITOR TENURE TO AUDIT QUALITY: EMPIRICAL
EVIDENCE FROM THE GERMAN AUDIT MARKET** 27

Patrick Krauß, Henning Zülch

This study investigates whether and how the length of an auditor-client relationship affects audit quality. Using a sample of 1,071 firm observations of large listed companies for the sample period of 2005 to 2011, the study is one of the first to empirically analyze this auditing issue for the German audit market. The empirical results demonstrate that neither short term nor long term audit firm tenure seems to be a significant factor with regard to audit quality in Germany. In the wake of the ongoing discussion in the European Union regarding the optimal audit tenure length for the quality of the conducted statutory audits, our findings do not support the idea of a mandatory audit firm rotation rule.

CHARACTERISTICS OF REGULATORY REGIMES 44

Norolv Veggeland

The overarching theme of this paper is institutional analysis of basic characteristics of regulatory regimes. The concepts of path dependence and administrative traditions are used throughout. Self-reinforcing or positive feedback processes in political systems represent a basic framework. The empirical point of departure is the EU public procurement directive linked to OECD data concerning use of outsourcing among member states. The question is asked: What has caused the Nordic countries, traditionally not belonging to the Anglo-Saxon market-centred administrative tradition, to be placed so high on the ranking as users of the Market-Type Mechanism (MTM) of outsourcing in the public sector vs. in-house provision of

services? A thesis is that the reason may be complex, but might be found in an innovative Scandinavian regulatory approach rooted in the Nordic model.

CORPORATE GOVERNANCE IN THE MIDDLE EAST – WHICH WAY TO GO? 57

Udo C. Braendle

The Interest in corporate governance is not a new phenomenon in the transition economies of the Middle East, but corporate governance is especially important in these economies since these countries do not have the long-established (financial) institutional infrastructure to deal with corporate governance issues. This article focusses on a cross-country analysis of the most important topics in corporate codes – shareholder rights, board systems and executive remuneration. By analysing three representative MENA countries, we discuss if codes based on directives or standards are better for these economies. The introduction of corporate governance codes for these economies seems useful but should not rely on broad standards but on legally enforced binding rules accounting for the discussion of directives versus standards. The paper argues against the blindfold implementation of corporate governance codes and argues for country specific solutions.

RESEARCH OF COMPONENTS OF THE SYSTEM OF BANK DEPOSIT MANAGEMENT 65

A. A. Shelyuk

The article proves the necessity to study the components of the system deposit management in a bank. It is defined methods and techniques to attract funds from deposit sources, which play a crucial role in the formation of resources and bank's position on the deposit market.

LOSS RECOGNITION TIMELINESS IN BRAZILIAN BANKS: THE INFLUENCE OF STATE OWNERSHIP 71

Giovani Antonio Silva Brito, Antonio Carlos Coelho, Alexsandro Broedel Lopes

This paper investigates the effect of state ownership on the conditional conservatism of financial reports of Brazilian banks. State controlled banks in Brazil face additional monitoring from government authorities and managers risk litigation as individuals with potential effects on their personal wealth. Thus we hypothesize that state ownership would have a positive marginal effect on conditional conservatism in this institutional environment. Using a times series conditional conservatism model our results confirm our expectations and show that state ownership has a positive effect on the conditional conservatism of earnings in Brazil. Using a logit model we also corroborate this effect after controlling for the effect of unconditional conservatism and earnings smoothing.

SUBSCRIPTION DETAILS 89