

CAIR Newsletter

The newsletter of Manchester Business School's
Centre for the Analysis of Investment Risk

“The Conference was excellent and the academic and social interactions were very stimulating”

This summary quote from Peter Wysocki (MIT) refers to the 1st CAIR Conference organised around the theme “The Transition to International Accounting Standards; Harmonization or Discord?” The conference, jointly funded by the ESRC, CAIR and MAFG, was held on the 30 April. This event brought together academics from around the globe to discuss key issues and themes relating to the adoption of the International Financial Reporting Standards (IFRS).

The keynote speakers were Mary Barth (Stanford University and IASB) and Peter Pope (Lancaster University). Mary discussed the role of academic research in informing the policy debate relating to international financial reporting while Peter developed a theme emphasising the interaction of institutions with the IFRS. In addition, the conference included four research papers followed by comments from assigned discussants. Joanne Horton (LSE) discussed the market reaction and valuation of IFRS reconciliation adjustments with Andy Stark (MBS) providing constructive feedback. Philip Joos (Tilburg University) analysed the comparability of international earnings followed by a detailed discussion of his work by Stuart McLeay (University of Wales, Bangor). During the afternoon session, Peter Wysocki (MIT) re-visited the literature on the economic consequences of financial reporting and disclosure

regulation, with John O’Hanlon (Lancaster University) commenting on the issues raised in Peter’s paper. Finally, Aljosa Valentincic (University of Ljubljana) talked about the role of asset write-offs as a mechanism for overriding accounting standards in private companies; Steven Young (Lancaster University) provided the relevant discussion.

There were over 50 participants, mainly from UK and EU Universities but also from as far afield as Australia, providing lively discussion after each presentation. The subsequent comments received from participants were universally positive, and we plan to host a similar event next year. The conference was followed the next day by a doctoral colloquium where eight doctoral students from several European Universities presented research from their theses. Each student was also allocated a discussant to comment on their work. For information, the next conference on the theme is on 18th September 2007.

More details of the 1st CAIR Conference and colloquium, including copies of the keynote presentations and the conference papers, can be found on the CAIR website: www.mbs.ac.uk/research/analysisinvestment/seminars.aspx

Christos Grambovas

Profile of Adriana Korczak, CAIR Research Fellow



Dr Adriana Korczak
MSc (Poznan University of Economics,
Poland), PhD (European University
Viadrina, Frankfurt Oder, Germany)

I joined CAIR in October 2006 after holding a Postdoctoral Research Fellowship at Cass Business School in London. I completed my PhD at the European University Viadrina (Germany), and an integral part of my doctoral studies was a Marie Curie Fellowship at Cass. In my PhD thesis I investigated the effectiveness of different corporate governance mechanisms, including international cross-listing, ownership structure and close firm-bank relationships. My recent research projects build on my PhD research and concentrate on the role of the regulatory framework to mitigate trading on private information by corporate insiders.

One part of my PhD thesis focused on the influence of cross-listing in the United States on the profitability of UK directors' trades in their companies' shares. There is a debate among academics as well as practitioners whether cross-listing by a foreign company on one of the stock exchanges in the United States provides better investor protection. On the one hand, cross-listed companies are subject to a tighter legal framework well-known for high level of law enforcement, increased reporting requirements, more thorough investor monitoring as well as decreased information asymmetry due to higher media attention and analyst coverage. On the other hand, the US regulations exempt foreign issuers from complying with insider trading laws and there is also evidence that the Security and Exchange Commission does not attempt to enforce the law against cross-listed firms even though all firms listed in the US are subject to general antifraud prohibition law. We find that, on average, insiders' propensity to trade on private information and the level of investor protection are unchanged after cross-listing in the US.

Currently, I am involved in projects that further investigate the impact of regulations and corporate governance systems on the profitability of directors' trades and their propensity to trade on information not available to a wider public. This is a topical issue given the introduction of the European Union directives on market abuse and a current debate on the effectiveness of market

watchdogs to detect abnormal trading behaviour around major corporate events. In the first instance, we aim to analyse whether the risk of regulatory scrutiny and the overall corporate governance standards influence directors' decisions to trade in their companies' shares based on their foreknowledge about companies' prospects. Specifically, the project analyses directors' share trading decisions before disclosure of regulatory news by UK companies listed on the London Stock Exchange.

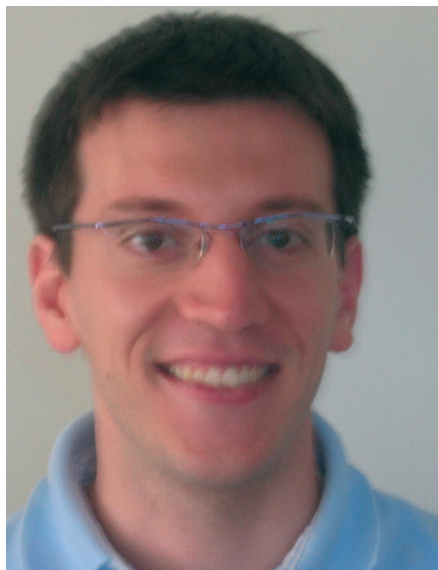
In the second project we broaden the scope of the analysis to investigate the impact of corporate governance systems on the profitability of insider trading across a group of major European countries. Although all European Union member states have to comply with the EU Directive on market abuse and the national regulations are driven by the directive, one can expect differences in corporate insider trading across countries due to different legal regimes, level of law enforcement, ownership structure and the level of market development.

Working at CAIR and MAFG gives me a unique opportunity to strengthen my current research projects and the stimulating and encouraging atmosphere here helps me develop new research ideas and foster my research abilities.

Working Papers

Korczak A. and Lasfer M. (2007) "Does Cross-Listing Mitigate Insider-Trading?", June.
Korczak A., Korczak P. and Lasfer M. (2006) "To Trade or Not to Trade: The Strategic Trading of Insiders around News Announcements", December.
Korczak A. and Korczak P. (2006) "Corporate Ownership and the Information Content of Earnings in Poland", July.

Profiles of Marie Curie Fellows



Francesco Ravazzolo
MSc, University of Venice, Italy
PhD (awaiting Viva), Erasmus University
Rotterdam

I am a fourth year PhD student at the Econometric Institute and Tinbergen Institute, Erasmus University Rotterdam, and I should defend my thesis in the next months. From May to July 2007, I am visiting Manchester Business School as a Marie Curie Fellow. From September 1 2007 I start my new job at the Research Department of Norges Bank, the central bank of Norway.

My research interest is on predictability of financial and macroeconomic time series. I concentrate on problems of model uncertainty, estimation risk, and structural instability in time series modelling and forecasting. I have just finished three papers on similar topics with different co-authors. The first paper assesses the relevance of parameter uncertainty, model uncertainty, and macroeconomic information for forecasting the term structure of interest rates. The results show that adding macro economic variables is beneficial for improving the out-of-sample forecasting performance of individual models. They also indicate that mitigating model uncertainty by combining forecasts leads to even higher gains, especially for longer maturities, and that predictive gains are consistent over time.

The second paper focuses on forecast combinations, with particular attention to

time-varying forecast combinations. We show that time-varying strategies economically and statistically outperform other strategies when the underlying data generating process is subject to location shifts. The third paper develops a new method for forecasting in the presence of model uncertainty, parameter uncertainty and structural breaks. The results suggest that the economic value of active portfolio management increases substantially when incorporating all three sources of uncertainty.

During my stay at MBS, I work with Massimo Guidolin in a project to investigate and evaluate the effects of incorporating model uncertainty and structural instability in strategic multi-asset allocation.

Working papers:

De Pooter M., Ravazzolo F. and van Dijk D. (2007), "Predicting the term structure of interest rates".

Ravazzolo F., van Dijk H.K., Verbeek M. (2007), "Predictive gains from forecast combinations using time-varying model weights".

Ravazzolo F., Paap R., van Dijk D., and Franses Ph.H. (2007), "Bayesian model averaging in the presence of structural breaks".



Stig Vinther Møller
MSc in Finance, Aarhus School of
Business, 2005.
PhD, Aarhus School of Business
(started in 1/2/2006)

I joined the Accounting and Finance Division of Manchester Business School as a Marie Curie fellow in January 2007. I am PhD student at Aarhus School of Business in Denmark, and I was very glad to be invited to visit Manchester Business School for a period of five months. The possibility of receiving research supervision as a Marie Curie fellow was very appealing to me.

My research interests are asset pricing, financial econometrics and macro-finance. My current research is conducted together with Tom Engsted and Stuart Hyde. We examine asset pricing and habit persistence in a multi-country setup. More specifically, we examine the celebrated habit persistence model developed by Campbell and Cochrane (1999, JPE). This leading asset pricing model sophisticates previous work on habit persistence models and accounts for a number of empirical observations on the US stock market, including the high equity premium, the low risk free rate, and time-varying expected returns. Since the model has been reverse engineered to match the stylised facts on the US stock market, we undertake a multi-country analysis to reach a robust conclusion about the performance of the model. Furthermore we engage in formal econometric estimation and testing of the

model, whereas Campbell and Cochrane and most subsequent applications of their model calibrate and simulate the model.

Working at Manchester Business School as a Marie Curie fellow is a great opportunity to gain valuable experience on a personal and scientific level, and my PhD dissertation will surely benefit from the research training obtained during my stay at Manchester Business School.

Working papers:

Møller S.V., Engsted T. and Tuong M. (2007) "Habit persistence and asset pricing: Evidence from Denmark".

Møller S.V. (2007) "Habit persistence: Explaining cross sectional variation in returns and time-varying expected returns".

Møller S.V., Engsted T. and Hyde S. (2007) "Habit persistence and asset pricing: A multi-country analysis".

Conference reports

EAA Doctoral Colloquium, Sintra Portugal (21-24 April 2007)

The European Accounting Association's (EAA) doctoral colloquium offers an excellent opportunity for PhD students in accounting to present their work to world leading accounting researchers. The EAA arranges the colloquium every year and in addition to waiving the registration fee, it gives doctoral students free access to the main conference that begins immediately after the colloquium.

I presented my work in this year's doctoral colloquium in Sintra, Portugal. The colloquium was organised in three streams - financial reporting, management accounting, and the kind of research that no one can really make sense of (critical accounting I think they call it). For each stream there are nine students and three faculty members.

I had one hour and fifteen minutes to present my paper. During the presentation, I received comments from both faculty members and students in the relevant stream. I was also expected to comment on other students' papers. The comments I received greatly improved my paper. There is also an extensive social side to the conference as you get to interact with students from all over Europe.

For this colloquium the deadline was November 2006. Acceptance is based on a competition, where the faculty assesses an abstract, the curriculum vitae and a reference from the supervisor of the candidate.

For more information on the EAA doctoral colloquium visit: www.eaa-online.org

Hans Bonde Christensen

CAAA 2007 Conference, Halifax, Nova Scotia (31 May – 3 June 2007)

'It was not just the lobster supreme dinner on Saturday night that made this conference exquisite!' That is my reply whenever colleagues comment on this pleasant part of my stay in Halifax for the Canadian Academic Accounting Association 2007 Annual Conference. After presenting at the conference, I realised that it was certainly worth crossing the Atlantic for the CAAA (or as Canadians say the c-triple A).

There were about eight sessions on my research area (financial accounting and capital markets) during the conference. This meant limited overlap between the sessions and as a result more challenging remarks from the

audience. Each author further benefited from an expert's discussion. In addition to providing scope for more constructive feedback, the smaller scale of the CAAA conference facilitated interaction with the participants. I had the opportunity to meet many Canadian academics who welcomed the participation of Manchester Business School at the conference and encouraged future collaboration, especially in view of the transition to international financial reporting. Heading for adoption of IFRS in 2011, Canada is currently in a position that closely resembles the situation in the EU around 2000. The main concerns lie on the overall lack of expertise on IFRSs and the uncertainty over the impact of IFRS on the Canadian market.

The conference ended with a reception in Pier 21 of the Halifax port, which during the 1930s was the main entrance point to Canada for immigrants. Fascinated by the sea view, the scent of the harbour, the lobster dinner, and the live local entertainment, I realised that this was an ideal end to an already successful conference.

For more information on the CAAA conference visit: www.caaa.ca

Vasiliki Athanasakou

Current Research Activity in CAIR

Forthcoming and Recently Published Research

Nguyen N. and Williams J. (2007), "The financial system in Asia and Australia", *Papeles de Economica Espanola*, 110, 116-144.

Grambovas C.A. (2007), book review: "The Firm as an Entity: Implications for Economics, Accounting and Law", *European Accounting Review*, Volume 16, Issue 2, July.

Athanasakou V., Strong N.C. and Walker M. (2007), 'Classificatory income smoothing: the impact of a change in regime for reporting financial performance', *Journal of Accounting and Public Policy* (forthcoming).

Hyde S., Bredin D. and Nguyen N., (2007) "Correlation dynamics between Asia-Pacific, EU and US stock returns", in S.-J. Kim and McKenzie M. (eds) *Asia-Pacific Financial Markets: Integration, Innovation and Challenges*, *International Finance Review*, 8, forthcoming.

Conferences and Seminar Presentations

February 2007: 'Classificatory income smoothing: the impact of a change in regime for reporting financial performance', Vasiliki Athanasakou, Norman Strong and Martin Walker, presented at the London School of Economics and Political Science.

March 2007: 'Conforming corporate book income and corporate taxable income: evidence of possible information loss in the EU', Willem Buijink and Christos A. Grambovas, presented at the University of Sydney, Australia.

March 2007: 'Conforming corporate book income and corporate taxable income: evidence of possible information loss in the EU', Willem Buijink and Christos A. Grambovas, presented at the University of Western Australia, Perth, Australia.

April 2007: 'Conforming corporate book income and corporate taxable income: evidence of possible information loss in the EU', Willem Buijink and Christos A. Grambovas, presented at the Global Finance Conference, Melbourne, Australia.

April 2007: 'Classificatory income smoothing: the impact of a change in regime for reporting financial performance', Vasiliki Athanasakou, Norman Strong and Martin Walker, presented at the EAA 2007 Annual Conference, Lisbon, Portugal.

April 2007: 'Conforming corporate book income and corporate taxable income: evidence of possible information loss in the EU', Willem Buijink and Christos A. Grambovas, presented at the EAA 2007 Annual Conference, Lisbon, Portugal.

May 2007: 'Does Cross-Listing Mitigate Insider-Trading?', Adriana Korczak and Meziane Lasfer, presented at the EFM Symposium on Corporate Governance and Shareholder Activism, Milan, Italy.

May 2007: 'Accruals management under changing regimes of reporting financial performance', Vasiliki Athanasakou, Norman Strong, and Martin Walker, presented at the CAAA 2007 Annual Conference, Halifax, Canada.

June 2007: 'To Trade or Not to Trade: The Strategic Trading of Insiders around News Announcements', Adriana Korczak, Piotr Korczak and Meziane Lasfer, presented at the EFMA 2007 Annual Conference, Vienna, Austria.

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