

**CORPORATE
OWNERSHIP & CONTROL**

**КОРПОРАТИВНАЯ
СОБСТВЕННОСТЬ И КОНТРОЛЬ**

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Journal Corporate Ownership & Control is published four times a year, in September-November, December-February, March-May and June-August, by Publishing House "Virtus Interpress", Kirova Str. 146/1, office 20, Sumy, 40021, Ukraine.

Information for subscribers: New orders requests should be addressed to the Editor by e-mail. See the section "Subscription details".

Back issues: Single issues are available from the Editor. Details, including prices, are available upon request.

Advertising: For details, please, contact the Editor of the journal.

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Corporate Ownership & Control

ISSN 1727-9232 (printed version)
1810-0368 (CD version)
1810-3057 (online version)

Certificate № 7881

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Журнал "Корпоративная собственность и контроль" издается четыре раза в год в сентябре, декабре, марте, июне издательским домом Виртус Интерпресс, ул. Кирова 146/1, г. Сумы, 40021, Украина.

Информация для подписчиков: заказ на подписку следует адресовать Редактору журнала по электронной почте.

Отдельные номера: заказ на приобретение отдельных номеров следует направлять Редактору журнала.

Размещение рекламы: за информацией обращайтесь к Редактору.

Права на копирование и распространение: копирование, хранение и распространение материалов журнала в любой форме возможно лишь с письменного разрешения Издательства.

Корпоративная собственность и контроль

ISSN 1727-9232 (печатная версия)
1810-0368 (версия на компакт-диске)
1810-3057 (электронная версия)

Свидетельство КВ 7881 от 11.09.2003 г.

Виртус Интерпресс. Права защищены.

EDITORIAL

Dear readers!

Current special issue of the journal *Corporate Ownership and Control* is devoted to the International conference "Financial Distress: Corporate Governance and Financial Reporting Issues" in Rome, Italy, October 17-18, 2013. The world is recovering from a period of tremendous turmoil and instability in the capital markets, it is more important now than ever that governance system, regulations and accounting standards promote right decisions, policies and transparent financial statements that support sustainability and safe economic development. Weak accounting and not accurate financial reporting led companies to wrong governance decisions that provoked an enormous catastrophe which still echoes for the global economy. One of the major problems in modern business world is that most stockholders are divorced from the running of the business so they may not have the appropriate level of knowledge to assess their management's stewardship of their assets. This agent-principal problem can be solved by proper accounting and reporting practices and further improvement of governance standards. So ensuring the integrity of the essential reporting and monitoring systems will require boards of directors to set and enforce clear lines of responsibility and accountability throughout the organization. The main aim of the conference was a search for an effective relationship between management, financial reporting and stability of the economic system in crisis and post-crisis conditions by creating meaningful proposals by representatives of different research schools, regulatory bodies and practitioners. This wide range of relevant issues were highlighted during the conference.

This issue pays attention to the problems of capital structure choice in European emerging economies, non-bank financial companies vs. banks in the European Union, money laundering in cash-based economies in West Africa, risk management lessons, voluntary disclosure of firm, value relevance of financial information, financial risk of Bear Stearns and Lehman Brothers.

Matjaž Črnigoj provides new insights in capital structure choice in European emerging economies by extending the logic beyond the scope of modern capital structure theory, which is based on the assumption that firms are governed by shareholders and follow the goal of maximizing their wealth. *Grażyna Szustak* identifies the roles and motives of banks in the creation and development of EU NBFCs, with particular focus on the regulatory asymmetry between them. It also analyses the currently emerging and possible future negative effects of such cooperation, including a dangerous accumulation of systemic risk. *Ronald H Mynhardt and Johan Marx* give anti-money laundering recommendations for cash-based economies in West Africa. *Gordon Yale, Hugh Grove and Maclyn Clouse* develop key risk management lessons learned from Countrywide which was the largest generator of these risky, "no-doc" (no significant applicant qualifications) subprime mortgages and other high-cost loans which helped precipitate the 2008 financial crisis. *Tutino M., Regoliosi C. and D'Eri A.* found positive correlations between forward looking related variables and other debt related, asset related, profit and loss related and governance variables. *Alessandro Giosi, Silvia Testarmata and Ignazio Buscema* study the usefulness of accounting information perceived by investors and investigate the process of allocation of resources in the capital market in trouble waters. *Hugh Grove and Maclyn Clouse* use financial risk and fraud models to attempt to answer the question as to why Bear Stearns was bailed out, but Lehman Brothers was not. Based on the analysis, was the right or wrong firm bailed out?

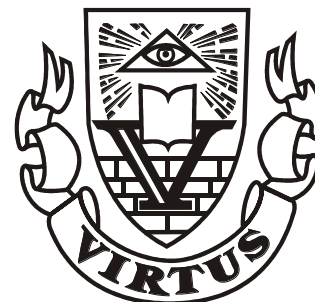
We hope that you will enjoy reading the journal and in future we will receive new papers, outlining the most important issues and best practices of corporate governance!

CORPORATE OWNERSHIP & CONTROL

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SPECIAL CONFERENCE ISSUE

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Matjaž Črnigoj

I provide new insights in capital structure choice in European emerging economies by extending the logic beyond the scope of modern capital structure theory, which is based on the assumption that firms are governed by shareholders and follow the goal of maximizing their wealth. I empirically investigate capital structure choice in these countries assuming an alternative corporate governance paradigm that puts risk averse insiders with specific objective function in the firm's governance structures. I found that firms that are owned by insiders operate with significantly lower leverage, as well as that the probability that a firm uses debt at all drops if insiders are the largest shareholders.

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Grażyna Szustak

This paper discusses the urgent need to regulate the parallel banking system, an issue which is growing in strength – and which is both topical and very important for the security and stability of the EU financial market. It aims to identify the roles and motives of banks in the creation and development of EU NBFCs, with particular focus on the regulatory asymmetry between them. It also analyses the currently emerging and possible future negative effects of such cooperation, including a dangerous accumulation of systemic risk.

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Ronald H Mynhardt, Johan Marx

Money laundering can boost corruption, worsen poverty, and bankrupt vulnerable financial institutions. In view of this, a study was conducted amongst the banks in West Africa, in cash-based economies, with the objective to ascertain the level of their Financial Action Task Force implementation. The study found that the implementation of the Financial Action Task Force recommendations in these countries was at different stages due to these countries being cash-based economies. The majority of these countries have anti-money laundering legislation but lack the capability to monitor and counter money laundering activities. This may be ascribed to a lack of adequate resources, expertise, investigations and prosecution capabilities. Some amendments to the Financial Action Task Force recommendations are proposed to incorporate cash-based economies in order to effectively combat money laundering.

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Gordon Yale, Hugh Grove, Maclyn Clouse

The forensic accounting report was used to develop key risk management lessons learned from Countrywide which was the largest generator of these risky, "no-doc" (no significant applicant qualifications) subprime mortgages and other high-cost loans which helped precipitate the 2008 financial crisis.

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Tutino M., Regoliosi C., D'Eri A.

The topics of voluntary disclosure of firm is an open debate. Literature has been variously focused on different path take into account the Stakeholder Theory (Freeman, 1984). In this paper we deal with an emerging issue related to the IASB document "Management Commentary. A framework for presentation". In particular, objective of the research is to provide evidence on the potential relations between financial and governance-related variables with measures of the existence and quality of forward-looking information in the Annual Reports. Adopting a content analysis approach with the help of statistical analysis, we considered annual disclosure reports of a sample of 218 Italian industrial listed firms in the period 2006- 2010. We found positive correlations between forward looking related variables and other debt related, asset related, profit and loss related and governance variables.

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Alessandro Giosi, Silvia Testarmata, Ignazio Buscema

Stemming from value relevance research, this study investigates the ability of accounting and financial data to provide useful information about the economic value of the firm in trouble waters. Because the firm is at the center of a network of interests of many stakeholders, that put some expectations on it, the investors requires useful financial statements information in order to take rational investment decisions about financial instruments, such as equity and corporate debts. Academic literature define value relevant the accounting information able to change the expectations but also to induce a change in the behavior of the decision makers. To ensure that the accounting information reported in the financial statements are value relevant they need to be related to the company current value. The aim of this research is to study the usefulness of accounting information perceived by investors and to understand the process of allocation of resources in the capital market in trouble waters.

A FINANCIAL RISK AND FRAUD MODEL COMPARISON OF BEAR STEARNS AND LEHMAN BROTHERS: WAS THE RIGHT OR WRONG FIRM BAILED OUT?

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Hugh Grove, Maclyn Clouse

In March 2008, the US government bailed out a failing Bear Stearns by arranging a sale to JP Morgan Chase, with US government guarantees for many Bear Stearns' toxic assets that came with the acquisition. In September 2008, the US government failed to bail out a failing Lehman Brothers, which then went into bankruptcy. Soon thereafter, the US government established a bailout program for many other failing financial institutions. This paper uses financial risk and fraud models to attempt to answer the question as to why Bear Stearns was bailed out, but Lehman Brothers was not. Based on the analysis, was the right or wrong firm bailed out? In summary, these financial risk and fraud models show potential for developing effective risk management monitoring and stronger corporate governance in order to enhance relationships between management, financial reporting, and the stability of the economic system in crisis and post-crisis conditions.

SUBSCRIPTION DETAILS

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