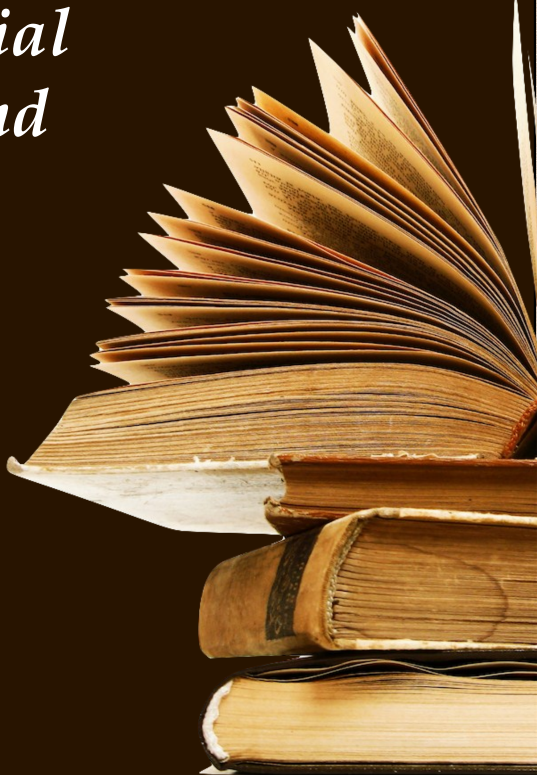
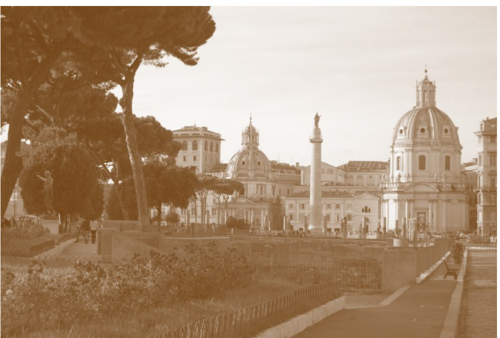
REPORT

International Conference *"Financial Distress: Corporate Governance and Financial Reporting Issues "*



October, 17-18, Rome, Italy



International conference "Financial Distress: Corporate Governance and Financial Reporting Issues" was held in Rome, October 17-18, 2013 with the joint organizational participation of Link Campus University, the Second University of Naples, publishing house "Virtus Interpress" and International Center for Banking and Corporate Governance. The event was sponsored, among others, by publishing house "Financial Reporting" and international company KPMG. The idea of the conference has been developed by Professor Alexander Kostyuk and Professor Michele Pizzo in 2012 and was approved during the negotiations at the international conference "Corporate Governance and Regulation: Outlining New Horizons for Theory and Practice" that took place in Pisa in September 2012.

The main purpose of the conference was to 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.

The conference took place at the main building of Link Campus that is a university with a strong international vocation. Its primary ambition is to educate and form professionals capable of responding to the challenging demands of the changing world.

The conference started with the welcome and opening remarks of the representatives from Link Campus University and Ukrainian Academy of Banking of the National Bank of Ukraine (President of the Link Campus University Vincenzo Scotti, Rector of the Link Campus University Gianni Ricci, Acting Rector of Ukrainian Academy of Banking of the National Bank of Ukraine) and co-chairs of the conference (professor from University of Naples II, Link Campus University Michele Pizzo, professor from Ukrainian Academy of Banking of the National Bank of Ukraine, Chair of the International Center for Banking and Corporate Governance Alexander Kostyuk).

Speakers highlighted the relevance of the conference topics to the current global financial trends, greeted participants and wished them fruitful work so that they were successful in contributing to the solution of important financial issues and expressed their hopes that the conference should become efficient platform for the creation of new partnerships and contacts.

Further the word was given to the fist key-note speaker – Francesco Giunta, Professor at University of Florence (Italy). His speech was devoted to the issues of insolvency in Europe, earning manipulations, the role of the Certified Fraud Examiner. The audience was very interested in the topic of the research, so many questions and feedbacks were addressed to the presenter.

Professor Benjamin E. Hermalin from University of California (USA), visiting professor at Nuffield College, University of Oxford (UK) contributed with his key-note speech to the topic of Defense of Theory in the Study of Corporate Governance. Professor Hermalin hypothesized that two common ideas (better governance causes better firm performance; limiting executives' contingent compensation will lead to worse firm performance), if not wrong, are at least incomplete. He also concluded that firms have better governance when there is a reason for them to have better governance; that reason is arguably profit potential, which explains much of the empirical correlation.

Professor's Wenger speech was named "Market equilibration, local vs global pricing measures and the onset of metastability". He emphasized that it is necessary to implement perpetually a scale-dependent decomposition of instruments, isolating in a time-varying manner the part of the market microstructure noise that is driven by arbitrage and the time-variation of preferences. These components should be distinct. This (dynamic) decomposition is at once the yardstick to measure arbitrage decay, model risk, business risk, spreads and appropriate portfolio decompositions suitable for aggregation – incl. Liikanen Group proposal.

Professor Maha Khemakhem Jardak from University of Sfax (Tunisia) prepared her research in collaboration with professor Hamadi Matoussi from University of Manouba (Tunisia). First, the presenter compared the information content of insider trading disclosure policy for the ten first listed companies in the USA and in France. Second, she contributed to the corporate governance literature by comparing two disclosure ownership structure policies: the insider trading disclosure and the crossing of shareholder thresholds disclosure. The results of the event study methodology, comparing market reaction to the insider trading and crossing shareholder thresholds in US and France context, shows that while the market doesn't react to the disclosure of insider trading in American context, the insider trading has a significant effect on the market in France.

Many interesting and recently demanded issues have been presented by participants. Example given, Masaki Kusano from Graduate School of Economics, Kyoto University (Japan) examined the relationship between fair value accounting and procyclicality paying considerable attention to securitization transactions to investigate this relationship before the recent financial crisis. The presenter found that sale accounting increases the capital ratio compared with that before a securitization transaction. Banks' executives have incentives to increase both assets and debt within the limits of their target capital ratio (leverage ratio) for executive compensation and market reputation; assets (lending) will be increased. When banks conduct securitization transactions and adopt sale accounting to enhance short-term profits, the capital ratio increases under the certain condition. Thus, banks will increase assets (lending) within the limit of their target capital ratio . As banks increase and expand their lending during economic booms, the economic booms are accelerated. It is expected that both sale accounting and fair value accounting promote procyclicality during economic booms.

Renee E. Weiss from Queens College, CUNY (USA) presented results of her research made in cooperation with John J. Shon from Fordham University. They collected the voluntary disclosures of the 19 banks that were targeted by the Federal Reserve during the 2007 credit crisis and found that voluntary disclosures related to counterparty credit risk and Level 3 holdings increase bid-ask spreads (controlling for actual Level 1, 2 and 3 holdings), while disclosures that discuss managerial judgment in SFAS 157-related categorizations tends to decrease spreads. Authors concluded that one particular disclosure (related to valuation uncertainty) reduces illiquidity. The vast majority of disclosures, however, seem to have no discernible impact on the examined measures.

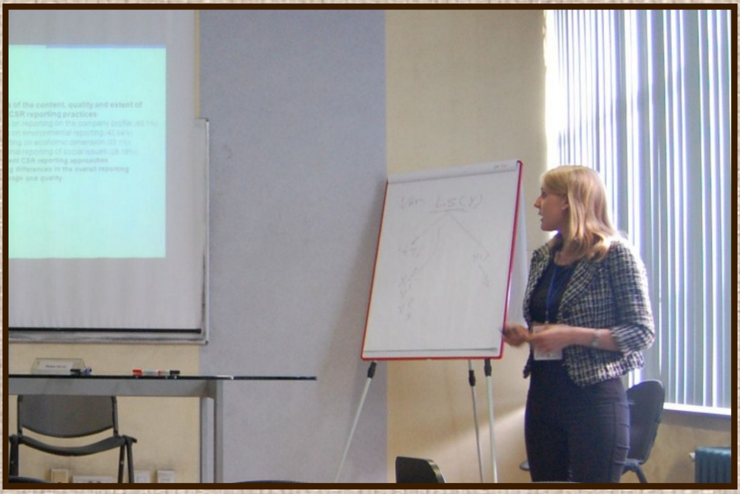
Maclyn Clouse from University of Denver (USA) presented the paper, which was written in cooperation with Hugh Grove. They used financial risk and fraud models to attempt to answer the question as to why Bear Stearns was bailed out, but Lehman Brothers was not. Based on the analysis, was the right or 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. Professor Clouse also mentioned that audit opinions appear not to be a tool for assessing the risk of financial distress for these institutions.

Nurul Nazlia Jamil from University of Manchester (UK) investigated the effectiveness of the GLCs Transformation Program through their audit committee and financial reporting quality and came to the conclusion that the GLCs for post transformation are likely to have higher number of audit committee independence in ensuring audit committee effectiveness as recommended by the Green Book to improve their financial reporting quality. However, no evidence was found to support the effect of audit committee meetings, audit committee size and audit committee expertise on the board effectiveness subsequent to post transformation program.

Mohamed Abulgasem Zakari from Tripoli University (Libya) investigated the extent of sufficiency and appropriateness of audit evidence obtained by auditors in the Libyan context. He mentioned that that auditor's opinion or report have effected by evidence type. It appears that there is some trust issues between the different professional branches along with concerns about official documentation and the reliability of originals which are stamped and dated. This issue about the validity and reliability of original documents in the Libyan practice will required further investigation as it implies that there is potential issues that practitioners within Libya face that may not be occurring in more developed audit environments.

Zazy Khan from University of Verona (Italy) made an analysis of the impacts of hedge fund's activism on target firms' performance, and examines whether activism strategies as well as its effect changes after the financial crisis of 2007 -2008. The findings of the study suggest that in the short-run market reacts favourably to the hedge fund activism around the announcement of 13D filings. The longest event-window days generates CARs about 5.34% which is consistent with the prior documented literature. Most of the CARs accrue to the funds targeting the firms with the intended goal of reforming the capital structure followed by business-related activism. The author made very significant conclusion: hedge funds do not succeed in improving the long-term performance of their target companies.

The fruitful and interesting conference day was concluded by the pleasant dinner at the restaurant. On the second conference day conference participants had an opportunity to present the results of their research within 3 parallel sessions: Financial Reporting and Disclosure (Chair – Michele Pizzo), Risk Governance and Control Issues (Chair – Electra Pitoska), Accounting and financial Crisis (Chair – Riccardo Tiscini).



Antonio Chirico and Bassam Baroma from University of Rome "Tor Vergata" (Italy) tested and examined the relationship between specific firm characteristics in Egypt and the level of risk disclosure in the annual reports of Egyptian firms listed on the Egyptian Stock Exchange. The results show that firm size is significantly positive with the level of risk disclosure. Industry type variable, is found being insignificantly associated with the level of risk information disclosed in the annual reports for all the three years. The study represents the first approach for studying the association between the level of risk disclosure and corporation characteristics in the annual reports of Egyptian companies, provides an initial understanding of risk management disclosure in the annual reports of Egyptian companies, and tries to provide enough information about risk that help investors to assess risk in their investment decision-making.

Irma Malafronte and Maria Grazia Starita from University of Naples "Parthenope" (Italy) empirically investigated disclosure practices in the European insurance industry, over the 2005-2010 time period. The main results show that the annual reports are difficult to read; it is not documented an effort by companies to enhance their understandability, as readability levels are quite constant over time, thus a problem of readability raises. The level of risk disclosure has increased over time, with a stronger growth between 2008 and 2010. There is no significant relationship between the quality and the quantity of disclosure. Finally, the analysis also shows that insurers' characteristics significantly affect the amount of risk information disclosed; in the years affected by the financial crisis, the level of risk disclosure increases.

Electra Pitoska from School of Management & Economics, Technological Education Institute of Western Macedonia (Greece) paid considerable attention to the fact that despite the careful optimistic reports of the government concerning the economy of Greece, the reality of the economic and entrepreunal world is rather different. More particularly, according to the results of researches, seems that the vast majority of the enterprises are in a really bad situation. The situation of most of the Greek enterprises is bad as they face many problems, such as: liquidity, access to bank funding, difficulties and delays in entering state programs or funding programs, reduction of their turnover and difficulties in collecting overdue debts from their costumers.

Massimo Costa and Giusy Guzzo from University of Palermo (Italy) attempted to find a link between the formal syntactic that rule the accounting system as well as the production of the financial reports, and the judgment in deciding which general criterion of evaluation to adopt. This choice becomes of particular relevance in a context of crisis where the same accounting regulation might be accused of some responsibility for not being able to stabilize the economic system. The main conclusion is that according to the nature or businesses, there are basically two main kinds of combinations: real and financial. In real economy, the concept of physical maintenance of capital should prevail and, in it, the "original" series should be restricted to the "numeraire" values (cash and cash substitutes). The other elements of financial reports should be considered as "derivative" value and then evaluated by means of the only reliable method, the HCA. This would ensure stability to the values and an anti-cyclical role of accounting regulation.

Alessandro d'Eri, Marco Tutino and Carlo Regoliosi from Roma Tre University (Italy) provided 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, authors considered annual disclosure reports of a sample of 218 Italian industrial listed firms in the period 2006- 2010. Authors found positive correlations between forward looking related variables and other debt related, asset related, profit and loss related and governance variables.

Organizers of the conference would like to express their gratitude to all participants and supporters who joined our international network and visited Rome to make their deposit by high quality presentations, interesting discussions and feel unique atmosphere of the fruitful scientific gathering.

Members of the International Center for Banking and Corporate Governance and executive team of the Publishing House "Virtus Interpress" would like to express great appreciation to Italian colleagues from Link Campus University and Second University of Naples Michele Pizzo, Rosella Vinciguerra, Nicola Moscariello, Nadia Cipullo and Master's students from Link Campus University for their contribution to the conference.

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