

MFAC 2018

20th Malaysian Finance Association
Conference 2018

Conference Handbook

August 1-2
Langkawi Island,
Kedah, Malaysia

ORGANISERS



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Universiti Utara Malaysia

MFA
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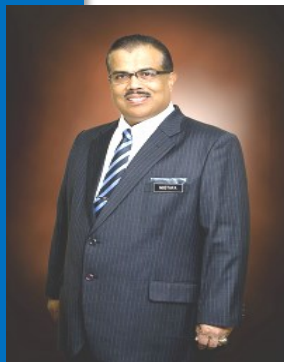
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WELCOME REMARKS



**Vice-Chancellor
Universiti Utara Malaysia**

Prof. Dato' Seri Dr. Mohamed Mustafa bin Ishak

Assalamualaikum wrb and Salam Sejahtera

It is my great pleasure, on behalf of Universiti Utara Malaysia, to bid a warm welcome to all distinguished guests, keynote speakers, delegates and participants to the 20th Malaysian Annual Finance Conference 2018 and to the beautiful and legendary island of Langkawi. First and foremost, I would like to express my sincere thanks to the MFA Executive Committee for entrusting our School of Economics, Finance and Banking (SEFB) to host this conference.

At this juncture, I would also like to congratulate the UUM SEFB and MFA for converting the idea of the Malaysian Annual Finance Conference 2018 into a palpable reality. It is testimony to their untiring efforts in continuing to promote research scholarship in the related fields.

The Malaysian Annual Finance Conference 2018 is, to my mind, an excellent platform for both local and international researchers and policy makers to exchange ideas and share views through research findings, knowledge and experiences in the fields of finance, economics and accounting. It also provides fellow participants with openings to meet new acquaintances. I graciously believe that this is an ideal arrangement to create research collaborations and networks.

Over the past years, we have witnessed some of the best product designs ever developed in the history of the financial services industry. It is no exaggeration to say that we are in the midst of a defining moment for financial revolution. Some expect that the new technologies will cause a complete disruption of traditional financial institutions, giving access to businesses and households to more convenient and customized services. This prospect is close to becoming a reality as financial tools inspired by social innovation are now being designed and are set to answer specific social needs, as opposed to the virtual wealth created by the stock markets.

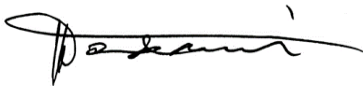
In line with the digital transformation on the economy in embracing the Fourth Industrial Revolution (Industry 4.0), we present this year's conference theme, "Innovative Ecosystem for Financial Revolution". This timely gathering of experts, distinguished scholars, professionals, academics and policy makers from government and non-governmental agencies as well as the corporate sector at the Malaysian Annual Finance Conference 2018 will be a watershed for the fields of economics, finance and banking studies. It is therefore, my fervent hope that your deliberations on matters related to the fields of economics, finance and banking will achieve all the noble objectives of the Malaysian Annual Finance Conference 2018.

I would like to take this opportunity to express my sincere thanks and gratitude to the MFA executive committee and the SEFB organising committee for their commitment and cooperation in ensuring the successful hosting of this conference.

I would also like to extend my utmost gratitude and appreciation to the sponsors, keynote speakers, presenters, participants and delegates who have generously shared their insights and ideas to make this conference a resounding success. It is hoped that this conference will be an impetus for exploring new possibilities and frontiers in economics, finance and banking.

In closing, I once again would like to express my heartfelt thanks to all participants and delegates for their kind support in making this conference a successful event. I wish everyone, especially our international delegates, a very pleasant stay and a most fruitful conference in this beautiful legendary island of Langkawi.

Thank you.



Prof. Dato' Seri Dr. Mohamed Mustafa bin Ishak
Vice-Chancellor
Universiti Utara Malaysia



Conference Chairperson

Prof. Dr. Nur Adiana Hiau Abdullah

Assalamualaikum wrb and Greetings to all

It gives me great pleasure to welcome all presenters and participants to the 20th Malaysian Finance Association Conference 2018. I would like to express my gratefulness to the MFA Executive Committee for giving us the mandate, and we graciously accept the honour of becoming the host of this conference. This event is the culmination of an enormous collective effort by various parties.

Congratulations to the organising committee who has put on tremendous amount of work to ensure the success of the conference. They have work diligently on a number of situations and managed to overcome several limitations. They truly deserve our commendation and appreciation.

My utmost gratitude to the sponsors, namely, Bank Islam Malaysia Berhad (BIMB), Finance Accreditation Agency (FAA) and Perusahaan Otomobil Kedua Sdn. Bhd. (PERODUA). This conference would not be possible without the involvement of the sponsors.

I would also like to express my gratitude to the editors of the Pacific Basin Finance Journal, Emerging Markets Review, Journal of International Financial Markets, Institutions and Money, International Journal of Business and Society, International Journal of Economics and Management, International Journal of Banking and Finance, International Journal of Management Studies and Malaysian Management Journal. My appreciation also goes to the reviewers who have assist in evaluating the conference papers.

Last but not least, my heartfelt thanks to all participants and presenters for your support. It is hope that the sharing of your research findings and experiences would be beneficial not only to the conference participants but to society as a whole.

Again, cheers to all the outstanding and remarkable people who have chosen to contribute their energies to support this conference, directly or indirectly.



Professor Dr Nur Adiana Hiau Abdullah
Conference Chairperson
School of Economics, Finance & Banking
Universiti Utara Malaysia



President, Malaysia Finance Association

Professor Dr Catherine S F Ho

On behalf of the Malaysian Finance Association and its executive committee, I am delighted to welcome all of you to the 20th Annual MFA Conference 2018 at beautiful Langkawi, Malaysia. This year's host, Universiti Utara Malaysia has decided on the theme "Innovative Ecosystem for Financial Revolution".

It is no exaggeration to say that we are in the midst of a defining moment for innovation in financial services. There is expectation that new technology will cause a complete disruption of traditional financial services and institutions, giving businesses and household access to more convenient and customized services. Fintech has created a lot of excitement but no one knows for sure what its developments will ultimately mean for business or the financial system. Although some of the technology may be revolutionary, its overall effect on the financial system is likely to be evolutionary. Financial institutions that adapt will survive, and new service providers will become part of the financial ecosystem. Now is therefore the time for financial institutions, new entrants and policy-makers to work together to create the right environment for modernizing the financial sector and sensibly managing the risks that arise. One major focus is on preserving financial stability and maintaining the safe and sound operation of core financial markets in Malaysia as well as the world.

A brief history, MFA was established in September 1998 with the main objective to stimulate interest in financial research and encourage discussion on finance related issues with special reference to Malaysia. These objectives are achieved through dialogues on current financial and economic environment, particularly via our annual meetings. This has started as an inaugural half-day workshop in 1999, grown to a full-day symposium and later to an annual conference more than 10 years ago with overwhelming response. It has been our tradition since then to organize annual conferences in collaboration with local institutes of higher learning and received tremendous support from the industry, academia and practitioners.

Many individuals and institutions have helped to make this 20th Annual conference possible. I extend my gratitude and appreciation to the School of Economics, Finance and Banking at UUM and the organising committee for hosting the event; the Pacific Basin Finance Journal with a special issue on Islamic Finance and sponsoring two best paper awards, special thanks to Prof Robert Faff, the Managing Editor and Prof Mansor Ibrahim, the Guest Editor. Not forgetting the MFA committee, the numerous reviewers, judges, conference authors and delegates for making this conference a success.

Several institutions have also helped by way of financial support and I would like to extend my sincere appreciation to Finance Accreditation Agency, Bank Islam and Perodua Corporation. Special thank also goes to Bursa Malaysia, who has been our partner in publishing the Capital Markets Review. To all these sponsors, we record our heartfelt acknowledgment.

I would like to take this opportunity to wish each and every one of you a fruitful exchange of ideas and opportunity to strengthen network, a safe trip home and see you again at MFAC 2019.



Professor Dr Catherine S F Ho

President, Malaysian Finance Association
Faculty of Business & Management
Universiti Teknologi MARA, Malaysia



Keynote Speaker

Professor Dr Jonathan A. Batten

Jonathan A. Batten is the CIMB-UUM Chair in Finance at Universiti Utara Malaysia. Prior to this position he worked as a Professor in Finance at the Hong Kong University of Science & Technology, Monash University and Seoul National University, Korea. He is the managing editor of Elsevier's highly ranked *Emerging Markets Review*, and *Journal of International Financial Markets Institutions and Money*, and co-editor of *Finance Research Letters*.

Jonathan's research crosses several disciplines: in the business area he has published in journals used by the Financial Times for ranking business schools (e.g. *Journal of Business Ethics*, *Journal of Financial and Quantitative Analysis* and the *Journal of International Business Studies*). In addition, he has also published work in leading journals in applied mathematics (e.g. *Chaos and Physica A*), in environmental studies (*Energy Economics*, *Energy Policy* and *Resources Policy*), and importantly in economic policy (e.g. *Applied Economics* and the *World Bank Research Observer*). His current research focus is based on assessing the impact to financial markets of the expected worldwide shift to renewable energy.

In addition, he has received several external research grants from the Asian Development Bank, the World Bank, the international payments organisation SWIFT, and the international regulator, the Bank for International Settlements. He is the current President of the Eurasian Business and Economics Society (EBES) and has served on many national external research committees in economics and finance. He is currently an external appointee on the Academic Council of the University of Economics, Ho Chi Minh City, Vietnam.

PROGRAM OVERVIEW

1-Aug-2018 (Wednesday)

Time	Event	Venue
8:00 - 9:30	Registration	First Floor Foyer
9:30 - 10:00	Opening Ceremony	Main Hall (Adya 1 & 2)
10:00 - 10:15	Coffee Break	First Floor Foyer
10:15 - 11:30	Keynote Speech: Dynamic Co-Movements Between Crude Oil and Commodity Markets <i>Speaker: Prof. Dr. Jonathan A. Batten (CIMB-UUM Chair in Finance at Universiti Utara Malaysia)</i>	Main Hall (Adya 1 & 2)
11:30 - 12:45	Parallel Session A	Adya 1, 2, 3, 4
12:45 - 14:00	Lunch	Jelapang Restaurant
14:00 - 15:30	Parallel Session B	Adya 1, 2, 3, 4
15:30 - 15:45	Coffee Break	First Floor Foyer
15:45 - 17:45	Parallel Session C	Adya 1, 2, 3, 4
17:45 - 18:45	MFA AGM	Adya 5/Boardroom

2-Aug-2018 (Thursday)

Time	Event	Venue
8:30 - 10:00	Parallel Session D	Adya 1, 2, 3, 4
10:00 - 10:15	Coffee Break	First Floor Foyer
10:15 - 12:15	<u>Forum</u> <i>Progress and Challenges of Crowdfunding in Malaysia</i> <i>Panelists: Mr. Sam Shafie (CEO of Pitch Platforms Sdn Bhd) Ms. Angelld Quah (COO of Fundedbyme Malaysia) Moderator: En. Khairul Nizam Md. Som (CEO of Finance Accreditation Agency)</i>	Main Hall (Adya 1 & 2)
12:15 - 14:00	Lunch	Jelapang Restaurant
14:00 - 15.30	Parallel Session E	Adya 1, 2, 3, 4
15:30 - 17:30	Hi-Tea - MFA President Speech - Best Paper Awards Presentation - MFAC2019 Host Welcoming Speech - Closing Ceremony	Al Fresco, Lobby



FORUM

2018



Title

**Progress and
Challenges of
Crowdfunding in
Malaysia**



Panelists

Mr. Sam Shafie
Ms. Angelld Quah



Moderator

En. Khairul Nizam
Md. Som



PANELIST

Mr. Sam Shafie

CEO of Pitch Platforms Sdn Bhd

Sam is the CEO and Co-Founder of pitchIN, a registered market operator by the Securities Commission to offer Equity Crowdfunding and a pioneer of crowdfunding in Malaysia. pitchIN is best described as Malaysia's premier crowdfunding platform, having championed crowdfunding since 2012 and offering both Equity and Reward crowdfunding services. In 2017, 60% of the funds raised on equity crowdfunding in Malaysia was done on pitchIN. More information at www.equity.pitchin.my

Sam is also the Founder of WatchTower and Friends (WTF) Accelerator, a tech accelerator company that invests in early stage tech startups. To date, WTF has invested in 43 startups. Notable of them include logistic company, TheLorry, CARdio, Runningman, Lapasar and PostCo, FinTech startups, MoneyMatch and MyCash Online, to name a few. More information at www.watchtowerfriends.com

Prior to this, Sam spent a total of 15 years in the public sector, first as a Deputy Public Prosecutor in the Commercial Crime Unit of the Attorney-General Chambers and later in the Market Supervision Division of the Securities Commission and in the Security, Trust and Governance Division of the Malaysian Communications and Multimedia Commission. He is a law graduate from University Kebangsaan Malaysia.

He has been named by Digital News Asia in their 2016-2017 Digerati 50 that will shape the digital economy of Malaysia and most recently, FinTech's Prominent Personality of the Year in 2018.



PANELIST

Ms. Angelld Quah

COO of FundedbyMe Malaysia

Angelld is from Butterworth, Penang. She is the co-founder and Chief Operating Officer of FBM Crowdtech Sdn Bhd which is the only Malaysian company that registered to operate, both equity crowdfunding and P2P financing platform namely FundedByMe Malaysia and AlixCo.

She graduated and major in International Business specialized in Management and Marketing from Emirate Aviation University in Dubai, UAE

As a serial entrepreneur, she has over 10 years of entrepreneurship experience with international exposure in cross border marketing strategy and business development, is expert in innovation management with a focus on financial technology assessment from research to market.

Her passion for seeing through SME and start-up companies being successful is the key motivator in helping them source funding on an equity crowdfunding platform such as FundedByMe or P2P financing platform as AlixCo.



MODERATOR

Khairul Nizam

CEO of Finance Accreditation Agency

Khairul Nizam is the Chief Executive Officer of Finance Accreditation Agency (FAA), based in Kuala Lumpur, Malaysia. Established and supported by Central Bank of Malaysia and Securities Commission Malaysia. FAA provides independent accreditation and quality assurance services on academic, learning and training programmes relating to finance as well as accreditation and competency assessment services for finance professionals to support human capital development for the international finance industry.

Khairul was previously Deputy Secretary General of Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) – the international organization responsible for development and issuance of standards on Shariah, accounting, auditing, ethics and governance for the global Islamic finance industry. Khairul served AAOIFI, based in Manama, Bahrain, for over 10 years in various positions.

Prior to AAOIFI, Khairul was with Malaysia's largest financial services group for over 10 years and was the Head of Islamic Banking in the group's offshore banking arm. He also served in various areas of the group's operations, including corporate banking, auditing, and international banking. Khairul Nizam graduated from the University of Nottingham, United Kingdom, and is a Certified Islamic Professional Accountant (CIPA).

SESSION SCHEDULE

Schedule	Session	1	2	3	4
1-Aug 9:30 - 10:00		Opening Ceremony			
1-Aug 10:15 - 11:30		Keynote Speech			
1-Aug 11:30 - 12:45	A	Banking Crises & Banking	Risk Management	Accounting and Financial Reporting	Corporate Governance & Accounting and Financial Reporting
1-Aug 14:00 - 15:30	B	Corporate Governance & International Finance	Corporate Finance & Banking	Asset Pricing	Derivatives & International Finance
1-Aug 15:45 - 17:45	C	Investment	Corporate Finance	Corporate Governance	Financial Economics
2-Aug 8:30 - 10:00	D	Banking & Corporate Finance	Corporate Governance	Financial Economics	Real Estate Finance
2-Aug 10:15 - 12:15		Forum: “Progress and Challenges of Crowdfunding in Malaysia”			
2-Aug 14:00 - 15:30	E	Corporate Finance	Real Estate Finance	Asset Pricing	-

PARELLEL SESSIONS SCHEDULE

A1 Banking Crises & Banking		1-Aug, 11:30 -12:45 Venue: Adya 1
Chair: Siew Peng Lee		
Paper No	Title/Author	Discussant
157	Islamic Bank Capital Steering Nur Hazimah Amran, Universiti Teknologi MARA Wahidah Ahmad, Universiti Teknologi MARA	Siew Peng Lee
187	The Determinants and Effects of the Discount in the FDIC-Assisted Failed Bank Acquisitions Abdullah Mamun, University of Saskatchewan George Tannous, University of Saskatchewan Shuang Wu, University of Saskatchewan	Nur Hazimah Amrana
123	Corporate Governance, Risk Committee and Risk-Taking in Conventional and Islamic Banks Siew-Peng Lee, University Tunku Abdul Rahman Mansor Isa, Universiti Malaya Rubi Ahmad, Universiti Malaya Obiyathulla Bacha, International Centre for Education in Islamic in Finance (INCEIF)	Abdullah Mamun
A2 Risk Management		1-Aug, 11:30 - 12:45 Venue: Adya 2
Chair: Zairihan Abdul Halim		
Paper No	Title/Author	Discussant
132	Asymmetric Information and Securitization Design in Islamic Finance Zairihan Abdul Halim, Universiti Malaysia Terengganu Janice How, Queensland University of Technology Peter Verhoeven, Queensland University of Technology Mohammad Kabir Hassan, University of New Orleans	Siok Jin Lim
135	Exploring Portfolio Diversification Opportunities in Islamic Capital Markets through Bitcoin: Evidence from MGARCH-DCC and Wavelet Approaches Lim Siok Jin, International Centre for Education in Islamic in Finance (INCEIF) Mansur Masih, International Centre for Education in Islamic in Finance (INCEIF)	Adilah A. Wahab
155	The Impact of Foreign Exchange Exposure on Firm's Decision to Practise Hedging Adilah A. Wahab, Universiti Kebangsaan Malaysia Ruzita Abdul Rahim, Universiti Kebangsaan Malaysia Hawati Janor, Universiti Kebangsaan Malaysia	Zairihan Abdul Halim

A3 Accounting and Financial Reporting		1-Aug, 11:30 - 12:45 Venue: Adya 3
Chair: Norzarina Md Yatim		
Paper No	Title/Author	Discussant
116	An Investigation of the Level of Compliance with Malaysian Public Sector Accounting Standards (MPSAS 1) by Federal Statutory Bodies in Malaysia Norzarina Md Yatim, Multimedia University Abdullah Sallehuddin Abdullah Salim, Multimedia University Mariati Norhashim, Multimedia University Ruzanna Ab Razak, Multimedia University	Philip Jehu
168	The Effect of Audit Committee Characteristics on Financial Restatements in Nigeria Philip Jehu, Federal University Kashere Mohammad Azhar Ibrahim, Universiti Utara Malaysia	Dody Hapsoro
180	Does Carbon Emission Disclosure Moderate the Effect of Firm Size, Profitability and Liquidity on the Firm Value? Evidence of ASEAN Listed Firms Dody Hapsoro, YKPN School of Business Zaki Naufal Falih, YKPN School of Business	Norzarina Md Yatim
A4 Corporate Governance & Accounting and Financial Reporting		1-Aug, 11:30 - 12:45 Venue: Adya 4
Chair: Mujeeb Al-Absy		
Paper No	Title/Author	Discussant
177	Audit Committee Chairman Characteristics and Earnings Management: The Influence of Board Chairman Who Is a Family Member Mujeeb Saif Mohsen Al-Absy, Universiti Utara Malaysia Ku Nor Izah Ku Ismail, Universiti Utara Malaysia Sitraselvi Chandren, Universiti Utara Malaysia	Eko Lo
184	The Influences of Status Quo and Endowment Biases on Earnings Management Eko Widodo Lo, YKPN School of Business	Ei Yet Chu
190	Does Foreign Ownership Reduce Financial Constraints in Family-Controlled Firms? Ei Yet Chu, Universiti Sains Malaysia Saw Imm Song, Universiti Teknologi MARA Tian So Lai, Universiti Utara Malaysia	Mujeeb Al-Absy

B1 Corporate Governance & International Finance		1-Aug, 14:00 - 15:30
Chair: Nazrul Hisyam Ab Razak		Venue: Adya 1
Paper No	Title/Author	Discussant
110	What Determines Executives' Remuneration in Malaysian Public Listed Companies? Maziar Ghasemi, Universiti Putra Malaysia Nazrul Hisyam Ab Razak, Universiti Putra Malaysia	Lian Yee Lee
174	Does Private Information in Executive Compensation Influence Board Decision for Firm Internationalization? Lian Yee Lee, Universiti Sains Malaysia Ei Yet Chu, Universiti Sains Malaysia	Hanita Kadir Shahar
195	The Impact of Board Structure and Government Ownership on Director Remuneration: Empirical Evidence of Government Linked Companies Hanita Kadir Shahar, Universiti Utara Malaysia Adilah Azhari, Universiti Utara Malaysia Siti Khadijah Saleh, Kolej Polytech Mara	Suresh Kumar Oad Rajput
189	Does Exchange Rate Changes Have Symmetric or Asymmetric Effect on International Trade Integration? Nadia Anjum, Sukkur IBA Univeristy Suresh Kumar Oad Rajput, Sukkur IBA Univeristy Niaz Hussain Ghumro, Sukkur IBA Univeristy	Nazrul Hisyam Ab Razak

B2 Corporate Finance & Banking		1-Aug, 14:00 - 15:30
Chair: Mohd Edil Abd Sukor		Venue: Adya 2
Paper No	Title/Author	Discussant
199	The Capital Structure Decisions of Shariah Compliant and Non-Compliant Firms: Evidence from Malaysia Mohd Edil Abd Sukor, Universiti Malaya Asyraf Abdul Halim, Universiti Malaya Obiyathulla Ismath Bacha, International Centre for Education in Islamic Finance (INCEIF)	Norfhadzilahwati Rahim
202	Determinants of Capital Structure for Malaysian Shariah-Compliant Firms: The Impact of Revised Screening Methodology Norfhadzilahwati Binti Rahim, Universiti Sains Islam Malaysia Fauzias Binti Mat Noor, Universiti Sains Islam Malaysia Nurainna Binti Ramli, Universiti Sains Islam Malaysia Ainulashikin Binti Marzuki, Universiti Sains Islam Malaysia	Chin Wei Koh
127	How Economic Recovery Affects Capital Structure Speed Adjustment? South Asian Context Muhammad Mushtaq, Universiti Sains Malaysia Ei Yet Chu, Universiti Sains Malaysia Muhammad Tahir, Universiti Sains Malaysia Badal Khan, University of Turbat	Mohd Edil Abd Sukor
144	Non-Interest Activities Affect the Bank Performance in the Asia Pacific Region. Koh Chin Wei, Tunku Abdul Rahman University College Dr. Nazrul Hisyam Ab Razak, Universiti Putra Malaysia Dr. Fakarudin Kamarudin, Universiti Putra Malaysia	Muhammad Mushtaq

B3 Asset Pricing			1-Aug, 14:00 - 15:30
Chair: Wee-Yeap Lau			Venue: Adya 3
Paper No	Title/Author	Discussant	
121	The Contribution of Life Expectancy to Stock Market Development in Africa Bamanga Umar, Modibbo Adama University of Technology Sabri Nayan, Universiti Utara Malaysia	Md Hamid Uddin	
125	Common Risk Factors in the Return on Sukuk Investment Md Hamid Uddin, Taylor's University Mohammed Sawkat Hossain, Taylor's University Sarkar Humayun Kabir, Coventry University	Wee-Yeap Lau	
193	Modelling Trading Behavior in Bursa Malaysia during QE and Post-QE Exit: Who is the Dominant Player? Wee-Yeap Lau, Universiti Malaya Tien-Ming Yip, Universiti Malaya	Ahmad Maulin Naufa	
119	Foreign Ownership, Return Volatility, Trading Volume, and Risk of Stocks in Indonesia Ahmad Maulin Naufa, Universitas Gadjah Mada I Wayan Nuka Lantara, Universitas Gadjah Mada	Bamanga Umar	
B4 Derivatives & International Finance			1-Aug, 14:00 - 15:30
Chair: Siew-Voon Soon			Venue: Adya 4
Paper No	Title/Author	Discussant	
134	Intraday Lead-Lag Relationship between Futures and Stock Markets: Evidence from Malaysia Jude W. Taunson, Universiti Malaysia Sabah Mohd. Fahmi Bin Ghazali, Universiti Malaysia Sabah Minah Japang, Universiti Malaysia Sabah	Imtiaz Sifat	
164	An Empirical Test of Implied Volatility in Singaporean Structured Warrants Najmi Ismail Murad Samsudin, International Islamic University Malaysia Azhar Mohamad, International Islamic University Malaysia Imtiaz Sifat, International Islamic University Malaysia	Jude Taunson	
183	Price Discovery in the Malaysian Gold Futures Market Jude W. Taunson, Universiti Malaysia Sabah Mohd. Fahmi Bin Ghazali, Universiti Malaysia Sabah Minah Japang, Universiti Malaysia Sabah	Siew-Voon Soon	
150	Causality between Exchange Rate and Prices: Evidence from Heterogenous Mixed Panels Siew-Voon Soon, Universiti Malaya Ahmad Zubaidi Baharumshah, Universiti Putra Malaysia	Imtiaz Sifat	

C1 Investment

1-Aug, 15:45 - 17:45

Venue: Adya 1

Chair: Obiyathulla Ismath Bacha

Paper No	Title/Author	Discussant
124	Behavioural Asset Pricing in a Factor and Style Investing Framework Jasman Tuyon, Universiti Teknologi MARA Zamri Ahmad, Universiti Sains Malaysia	Obiyathulla Ismath Bacha
133	Managerial Optimism, Overconfidence and Capital Structure Decisions in the Presence of Inflation Uncertainty: Evidence of Malaysian Shari'ah and Non-Shari'ah Firms Khairul Nizam Bin Osman, Universiti Sains Malaysia Zamri Bin Ahmad, Universiti Sains Malaysia	Aminah Shari
159	The Effect of Diversification and Portfolio Risk Taking on Performance: Evidence from Capital Market Aminah Shari, Universiti Putra Malaysia Fauziah Mahat, Universiti Putra Malaysia	Saw Imm Song
166	The Accuracy of Analysts' Recommendations on Malaysian Stock Prices Saw-Imm Song, Universiti Teknologi MARA Ei-Yet Chu, Universiti Sains Malaysia David Yew, Affin Hwang Investment Bank Tian-So Lai, Universiti Utara Malaysia	Jasman Tuyon

C2 Corporate Finance

1-Aug, 15:45 - 17:45

Venue: Adya 2

Chair: Woei Chyuan Wong

Paper No	Title/Author	Discussant
103	UK REIT Conversion and Institutional Ownership Dynamic Wong Woei Chyuan, Universiti Utara Malaysia	Jing Chi
118	Institutional Stock Ownership and Firm Innovation: Evidence from China Jing Chi, Massey University Jing Liao, Massey University Jingjing Yang, Guangdong University of Foreign Studies	Ai-Xin Lee
109	State Ownership and Risk-Taking Behavior: Evidence from Malaysia's Banking Industry Lee Ai Xin, Universiti Sains Malaysia Hooy Chee Wooi, Universiti Sains Malaysia	Kian-Ping Lim
165	Stock Liquidity and Firm Value: Nonlinearity, Corporate Political Connections and Investor Heterogeneity Yee-Ee Chia, Universiti Malaysia Sabah Kian-Ping Lim, Universiti Malaya Kim-Leng Goh, Universiti Malaya	Woei Chyuan Wong

C3 Corporate Governance		1-Aug, 15:45 - 17:45 Venue: Adya 3
Chair: Chee-Wooi Hooy		
Paper No	Title/Author	Discussant
107	Party Committee Secretary Serving on Corporate Boards and Firm Bribery Channels Jing Chi, Massey University Hamish Anderson, Massey University Jing Liao, Massey University Martin Young, Massey University Jingjing Yang, Guangdong University of Foreign Studies	Yu Qing Soong
179	The Effect of Institutional Quality on Corporate Governance and Firm Value in Emerging Markets Soong Yu Qing, Universiti Sains Malaysia Hooy Chee Wooi, Universiti Sains Malaysia Abdul Hadi Zulkafli, Universiti Sains Malaysia	Ya-Hsueh Chuang
139	Does High Corporate Governance Quality Increase Firm Value? The Roles of Corporate Social Responsibility and Product Market Competition Ya-Hsueh Chuang, Providence University Cho-Min Lin, Providence University Ci-Yan Li, Providence University	Chee-Wooi Hooy
175	Investor Protection and Private Information Trading: Does Corporate Governance Matter? Chun-Teck Lye, Multimedia University Chee-Wooi Hooy, Universiti Sains Malaysia	Jing Liao

C4 Financial Economics		1-Aug, 15:45 - 17:45 Venue: Adya 4
Chair: Mansur Masih		
Paper No	Title/Author	Discussant
154	The Role of Institutions in Human Development-Growth Nexus: Evidence from 120 (OIC and Non-OIC) Developing Countries based on Dynamic System GMM and Quantile Regression Approaches Mansur Masih, International Centre for Education in Islamic Finance (INCEIF) Md Akther Uddin, University of Creative Technology Md Hakim Ali, Taylor's University	Law Siong Hook
176	An Empirical Investigation of Finance-Led Growth Hypothesis in Selected ASEAN Countries Rana Muhammad Adeel-Farooq, Universiti Utara Malaysia Nor Aznin Abu Bakar, Universiti Utara Malaysia Dr. Jimoh Olajide Raji, Universiti Utara Malaysia	Mazila Md-Yusuf
122	Effect of Ringgit on Malaysia Islamic and Conventional Equity Market Mazila Md-Yusuf, Universiti Teknologi MARA Zarina Hussin, Universiti Teknologi MARA	Sabariah Nordin
203	Effects of Business Credit and Household Credit on Economic Performance: Evidence from an Easy Credit Economy Siong Hook Law, Universiti Putra Malaysia Wei Theng Lau, Universiti Putra Malaysia Naseem, N. A. M, Universiti Putra Malaysia	Mansur Masih
205	An Empirical Study on the Dynamic Relationship between Oil Prices and Malaysian Exchange Rates, Stock Market and Interest Rate Sabariah Nordin, Universiti Utara Malaysia Afiruddin Tapa, Universiti Utara Malaysia Hamdan Al-Jaifi, Taylor's University	-

D1 Banking & Corporate Finance			2-Aug, 8:30 - 10:00
Chair: Mansor Isa			Venue: Adya 1
Paper No	Title/Author	Discussant	
169	Can Shariah Committee Influence Risk-Taking and Performance of Islamic Banks in Malaysia? Mansor Isa, Universiti Malaya Siew-Peng Lee, University Tunku Abdul Rahman	Karren Lee-Hwei Khaw	
206	The Reality of GCC Banking Sector: A Descriptive Analysis Abdulazeez Y.H. Saif-Alyousfi, Universiti Utara Malaysia Rohani Md-Rus, Universiti Utara Malaysia	-	
171	Ethical Beliefs and Firm Risk: From the Shariah Certification Perspective Karren Lee-Hwei Khaw, Universiti Malaya Sabariah Nordin, Universiti Utara Malaysia Woei-Chyuan Wong, Universiti Utara Malaysia	Mansor Isa	
204	Predicting Firms' Financial Distress: An Empirical Analysis Using F-Score Model Dr. Md Mahfuzur Rahman, Universiti Malaya Cheong Li Sa, Universiti Malaya	Abdulazeez Yousef Hazzaa Saif	
D2 Corporate Governance			2-Aug, 8:30 - 10:00am
Chair: Jennifer Tunga Janang			Venue: Adya 2
Paper No	Title/Author	Discussant	
142	Effectiveness of Shariah Governance in a Double Layer Governance Structure Model Sofi Mohd Fikri, Universiti Utara Malaysia M. H. Yahya, Universiti Putra Malaysia	Chai-Aun Ooi	
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PARALLEL SESSIONS ABSTRACTS

Keynote Speech

DYNAMIC CO-MOVEMENTS BETWEEN CRUDE OIL AND COMMODITY MARKETS

Jonathan A. Batten, Harald Kinateder, Peter G. Szilagyi, Niklas F. Wagner

Universiti Utara Malaysia, University of Passau, Central European University, University of Passau

Abstract

This paper extends existing work on modelling oil and stock prices to establishing the relationship between oil and various commodities. Using a two asset portfolio setting (comprising the asset and the asset used for hedging) we show that information from oil-commodity comovements can effectively be used for hedging purposes. These finding are important since during periods of high asset integration, diversification is not possible since all asset prices move together. These results are also relevant for producers of single commodities, those firms that sell specific commodities as well as large agribusiness firms. In addition, the method used provides important insights into the time-varying properties of hedge effectiveness, an accounting standard requirement (e.g. IFRS 9).

Keywords: Beta-Hedge; Commodities; Gold; Hedge Ratio; Hedge Effectiveness; Industrial Metals; International Asset Pricing; Market Risk; Silver; Systemic Risk; WTI Oil

A1

ISLAMIC BANK CAPITAL STEERING

Nur Hazimah Amran, Wahida Ahmad

Universiti Teknologi MARA, Malaysia

Abstract

The awaken of financial crisis alarming the needs of more stringent Basel standard in banking sector. Among other, capital risk is one the major culprit to the collapsed of major financial institutions in the world. Focusing on Islamic banking sector in Malaysia, the study aims to investigate the influential determinants of capital risk. The study employs fixed effect model (FEM) for unbalanced panel data of 14 Islamic banks from 2007 to 2015. The finding reveals financial crisis plays a significant role in determining capital risk and hence the study develops the financial crisis interaction model. Financial crisis significantly moderates the effect of profitability during the crisis and non-crisis period. Considering the interaction effect, banks with higher profitability are exposed to lower capital risk during the financial crisis and vice versa for non-crisis period. Additionally, the interaction model prove the existing of moral hazard of too-big-to-fail when bigger Islamic bank holds lesser equity capital and thus have greater capital risk exposure. This is especially true during the financial crisis period. The study also discloses other important determinants of capital risk in Malaysian Islamic banks. This includes asset quality, and liquidity level.

Keywords: Capital, Banking Risk, Financial Crisis, Basel, Islamic banks, Malaysia

A1

THE DETERMINANTS AND EFFECTS OF THE DISCOUNT IN THE FDIC-ASSISTED FAILED BANK ACQUISITIONS

Abdullah Mamun, George Tannous & Shuang Wu
University of Saskatchewan

Abstract

Based on a unique sample of the FDIC-assisted whole-bank transactions in the recent financial crisis, we measure discount using accounting information, investigate what factors lead to larger discount and larger reporting of BPGs (bargain purchase gain), and further examine the effects of discount on the post-merger performance of the acquiring institutions. Consistent with prior literature, we identify bidding competitiveness, relative size between the failed bank and the acquirer, and loss sharing agreement as significant determinants. However, DIF reserve ratio, the proxy for the financial condition of the FDIC, is not found to have enough explanatory power for variation in discount. As expected, we document that discount can inflate the post-merger profitability of acquirers. Overall, our study provides insights about the intrinsic connection between the discount determinants and the features of the FDIC-assisted failed bank resolution.

Keywords: bank failures, discount, bargain purchase gain, post-merger performance

A1

CORPORATE GOVERNANCE, RISK COMMITTEE AND RISK-TAKING IN CONVENTIONAL AND ISLAMIC BANKS

Siew-Peng Lee, Mansor Isa, Rubi Ahmad and Obiyathulla Bacha
University Tunku Abdul Rahman, University of Malaya, INCEIF

Abstract

This study examines whether the structure of board of directors and the risk management committee is associated with bank risk-taking in conventional and Islamic banks in Malaysia. Our sample consists of 30 Malaysian banks over a ten-year period (2007-2016). We find that outside directors and frequency of board meeting reduce risk taking but number of directors with finance and banking experience seem to promote risk taking. However, board size, gender diversity and duality are unrelated to risk-taking. We also find that the size and independence of risk management committee and having a designated risk officer leads to reduced risk-taking. In addition, we find some differences between conventional banks and Islamic banks risk taking behaviour. Independent directors with financial expertise has a positive association with Islamic banks risk-taking but not with conventional banks. The size of risk management committee has no relation with Islamic bank risk-taking activities but it is significant in reducing conventional bank risk taking.

Keywords: risk-taking, corporate governance, risk management committee, conventional banks, Islamic banks

A2

ASYMMETRIC INFORMATION AND SECURITIZATION DESIGN IN ISLAMIC FINANCE

Zairihan Abdul Halim, Janice How, Peter Verhoeven, Mohammad Kabir Hassan

Universiti Malaysia Terengganu, Queensland University of Technology, University of New Orleans

Abstract

This paper examines the determinants of securitization in Islamic finance, an increasingly popular funding source for corporations. We test asymmetric information and market segmentation hypotheses using a sample of 335 sukuk offerings comprising 3,491 tranches. We find information asymmetries are the primary concern for sukuk securitization design. Specifically, sukuk offerings with poor quality assets and which are highly information-sensitive and originated by informationally opaque firms have more tranches and a higher level of subordination. Islamic finance principles also influence sukuk securitization design, with results showing that sale-based sukuk have more tranches and lease-based sukuk are less likely to be subordinated. Market segmentation in terms of investors' maturity and risk preferences also explain the extent of sukuk tranching.

Keywords: Tranching, subordination, sukuk, asymmetric information, market segmentation

A2

EXPLORING PORTFOLIO DIVERSIFICATION OPPORTUNITIES IN ISLAMIC CAPITAL MARKETS THROUGH BITCOIN: EVIDENCE FROM MGARCH-DCC AND WAVELET APPROACHES

Lim Siok Jin, Mansur Masih

International Centre for Education in Islamic in Finance (INCEIF)

Abstract

Bitcoin is a form of digital currency that is circulating without the backing of any central bank and monitoring authority. Therefore, sceptics regularly question the status of Bitcoin as a legal tender. Nevertheless, due to increasing popularity and importance of Bitcoin, practitioners and researchers have recently started to assess Bitcoin from the perspective of business, economics and finance. This paper explores possibilities of using Bitcoin as a portfolio optimisation tool for Islamic fund managers. We use three recent and appropriate methodologies: M-GARCH-DCC, Continuous Wavelet Transforms (CWT), and Maximum Overlap Discrete Wavelet Transform (MODWT). The results significantly tend to indicate that Bitcoin and Shari'ah stock indices are lowly and negatively correlated, suggesting that Islamic stock investors can benefit from diversification with Bitcoin and that the fundamentals of such cryptocurrencies can be further investigated for the benefit of Islamic capital markets.

Keywords: Islamic stocks, Bitcoin, portfolio diversification, MGARCH-DCC, Wavelets

A2

THE IMPACT OF FOREIGN EXCHANGE EXPOSURE ON FIRM'S DECISIONS TO PRACTICE HEDGING

Adilah A. Wahab, Ruzita Abdul Rahim, Hawati Janor

Universiti Kebangsaan Malaysia

Abstract

This study investigates the impact of foreign exchange foreign exchange (FX) exposure on the firm's decision to practise hedging. In measuring FX exposure, this study uses two proxies that are foreign sales (FS) and number of invoicing currencies (NOIC). Furthermore, the study employs panel multiple logistic and panel multinomial logistic regression on 792 firm-year observations from 132 Malaysia non-financial listed firms over the period from 2010 to 2015. The panel multiple logistic random effect (RE) regression result shows that both proxies (foreign sales and number of invoicing currencies) influence firms to practise hedging. The paper also examines the impact of foreign exchange (FX) exposure on FX hedging based on the total number of hedging instruments used by the firms. Our evidence deliberates that only foreign sales are more likely to hedge with derivatives. Meanwhile, number of invoicing currency shows significant value but the coefficient is in the opposite direction from the study hypothesis.

Keywords: Foreign Exchange Exposure, Hedging, Number of Invoicing Currency

A3

AN INVESTIGATION OF THE LEVEL OF COMPLIANCE WITH MALAYSIAN SECTOR ACCOUNTING STANDARDS (MPSAS 1) BY FEDERAL STATUTORY BODIES IN MALAYSIA

Norzarina Md Yatim, Abdullah Sallehuddin Abdullah Salim, Mariati Norhashim, Ruzanna Ab Razak

Multimedia University

Abstract

Federal Statutory Bodies in Malaysia received financial assistance from Government annually based on the Budget tabled at the Parliament every year. Being a semi-independent organization, financial statements are the only medium accessible by the stakeholders to discharge accountability and transparency. This study aims to investigate the level of mandatory compliance with Malaysian Public Sector Accounting Standards (MPSAS 1), Presentation of Financial Statements, by Federal Statutory Bodies (FSB) in Malaysia who adopted the standards for the first-time. A disclosure index is used to measure the level of compliance with MPSAS 1. Each of the 15 sampled firms' financial statements was examined against the index for the financial year ending 31 December 2016. The results reveal an overall compliance of minimum 50 percent. This study should be particularly relevant to regulatory bodies such as Accountant General's Department of Malaysia and National Audit Department for strategizing and encouraging compliance with MPSAS 1. Additionally, this study contributes to financial reporting literature relating to public sector accounting, mainly Malaysia. It is appealing to examine how FSB in Malaysia presents its financial statements and to users of financial information and the level of compliance with MPSAS 1 since its first adoption in 2016.

Keywords: accounting, disclosure, MPSAS, public sector, financial reporting

A3

THE EFFECT OF AUDIT COMMITTEE CHARACTERISTICS ON FINANCIAL RESTATEMENTS IN NIGERIA

Philip Jehu, Mohammad Azhar Ibrahim

University Kashere, Gombe, Universiti Utara Malaysia

Abstract

This study examines the effect of audit committee attributes as identified by the code of corporate governance on the incidence of annual financial restatement. We examined a sample of 96 firms (66 of which were restatement firms) for the period 2009 to 2016, and controlled for firm size. We document that audit committee independence is negative and significantly associated with the likelihood of restatement. We also show a negative and significant nexus between audit committee meeting and restatement. Our results are robust for the average marginal effects, and correctly classified. Our findings underlie the regulatory action to strengthen the oversight function of audit committees in financial reporting.

Keywords: financial restatement, audit committee independence, size, financial expertise, meeting

A3

DOES CARBON EMISSION DISCLOSURE MODERATE THE EFFECT OF FIRM SIZE, PROFITABILITY AND LIQUIDITY ON THE FIRM VALUE? EVIDENCE OF ASEAN LISTED FIRMS

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YKPN School of Business

Abstract

The purpose of this study was to examine the effect of carbon emission disclosure in moderating the effect of firm size, profitability and liquidity on firm value. The sample used in this study was firms engaged in the oil, gas and coal fields and operating in non-Annex 1 member countries registered in the Osiris database. The study period is in accordance with the commencement of the Kyoto Protocol's second commitment from 2013 to 2016. The carbon emission disclosure measure uses a checklist developed under the CDP (Carbon Disclosure Project). An assessment of the extent of disclosure is made using content analysis methods. The independent variables in this study are firm size, profitability and liquidity. The dependent variable in this study is firm value and moderation variable is carbon emission disclosure. Data analysis using Partial Least Square (PLS) with Warp PLS 4.0 application. The test results indicate that firm size and liquidity have positive and significant effect on firm value. However, profitability has no effect on firm value. While carbon emission disclosure moderates the effect of firm size and profitability on firm value and carbon emission disclosure does not moderate the effect of liquidity on firm value.

Keywords: Firm Size, Profitability, Liquidity, Carbon Emission Disclosure, Firm Value.

AUDIT COMMITTEE CHAIRMAN CHARACTERISTICS AND EARNINGS MANAGEMENT: THE INFLUENCE OF BOARD CHAIRMAN WHO IS A FAMILY MEMBER

Mujeeb Saif Mohsen Al-Absy, Ku Nor Izah Ku Ismail, Sitraselvi Chandren
Universiti Utara Malaysia

Abstract

The aim of this study is to examine the influence of the characteristics of audit committee chairman (ACC) (tenure, age, gender, ethnicity, accounting expertise and directorship) on earnings management (EM) practices. The Jones Model and Modified Jones Model (MJM) by Dechow et al. (1995) were used to determine the discretionary accruals (DA) of 288 Malaysian listed companies with lowest positive earnings for the years 2013 to 2015. The results of the Ordinary Least Squares (OLS) regression indicate that only tenure, gender and ethnicity of the ACC are associated with DA. A further test was conducted by dividing firms into: firms whose boards are chaired by a family member and firms whose boards are chaired by a non-family member. The results reveal that it is possible for firms whose boards are chaired by family members to cause the corporate governance (CG) mechanisms, particularly the audit committee (AC), to lose its impact on overcoming the EM problem. In addition, robustness tests were conducted by using panel data regression, where the results were found to be similar to the original regression results. This study alerts policy-makers, firms and their stakeholders, as well as researchers, to the importance of having an independent ACC, who is not the founder or who has no relationship with any directors or major shareholders, as this may hinder the effectiveness of CG mechanisms in curbing EM, especially in emerging countries, such as Malaysia, where it is very difficult to stop members of the family from becoming board directors.

Keywords: Corporate governance, Audit committee chairman, Earnings management, Malaysia

THE INFLUENCES OF STATUS QUO AND ENDOWMENT BIASES ON EARNINGS MANAGEMENT

Eko Widodo Lo
YKPN School of Business

Abstract

This study investigates the effects of status quo and endowment biases on earnings management behaviors. This research conducts a survey method. The questionnaire validity and reliability are examined by factor analysis and Cronbach's alpha. The sample consists of accounting students at a business school in Yogyakarta, Indonesia. Research hypotheses are tested by multiple regression analysis. Results of hypotheses testing reveal that status quo and endowment biases positively influence earnings management. This study gives two contributions. First, this study tries to link status quo bias and endowment bias to earnings management behaviors. This contributes additional theoretical explanations of earnings management behaviors among accountants. Second, research conclusions can be utilized in determining appropriate psychological characteristics of accountants for certain earnings management decisions.

Keywords: Status Quo bias, Endowment Bias, Earnings Management, Agency Theory, Transaction Cost Theory

DOES FOREIGN OWNERSHIP REDUCE FINANCIAL CONSTRAINTS IN FAMILY-CONTROLLED FIRMS?

Ei Yet Chu, Saw Imm Song, Tian So Lai

Universiti Sains Malaysia, Universiti Teknologi MARA, Universiti Utara Malaysia

Abstract

The paper investigates whether foreign investors can promote good corporate governance practices in an emerging country. The paper sets the platform of family-controlled firms and financial constraints in Malaysia, which face declining in investments. The ineffectiveness of CEO's duality and independent directors prompt family firms to use more internal cash and less external debt-equity for investments. The study finds no evidence of foreign investors in improving financial constraints in family firms in the country. However, the effectiveness of foreign investors in exerting mobility of corporate governance is dependent on the interplay and non-linear relationship between foreign investors and the largest shareholder. It is difficult for foreign investors to improve CEO's duality for better corporate governance. The alignment of interest only happens when foreigner investors and large shareholders' controlling interest is low, respectively. However, there is a non-linear relationship between foreign investors and the largest shareholders in enhancing independent directors as a governance mechanism. The study builds on the integration of agency theory and rent-seeking theory. CEO's Duality associates with higher agency costs and rent-seeking path and causes the improvement in governance difficult. The effectiveness of corporate governance by foreign investors on independent directors follow the alignment of interest which improve financial constraints at the lower and higher controlling stake of the largest shareholder. There are sharing of private interest between foreign investors and the largest shareholder at the specific threshold of controlling interest which cause financial constraints, confirming rent-seeking path theory. CEO's Duality and independent directors are not effective corporate governance mechanisms and lead to lower investments in emerging countries. An economy with foreign investors can expedite the improvement in corporate governance and increase investment in the country.

Keywords: Emerging markets, foreign investors, ownership, financial constraints, family-controlled firms, international corporate governance

B1

WHAT DETERMINES EXECUTIVES' REMUNERATION IN MALAYSIAN PUBLIC LISTED COMPANIES?

Maziar Ghasemi

Universiti Putra Malaysia

Abstract

This paper examines the impact of executives' ownership, firm performance, board size and its components, as well as some other financial factors, on executives' compensation in the context of Malaysia as an emerging economy. The data from 267 firms during 2006-2014 in the main market of Bursa Malaysia has been used. This paper finds that firm performance, leverage and number of non-executive directors have negative effects on executives' compensation. Conversely, dividends, percentage of executives' directors, board size and size of firms have positive effects on executives' compensation. There is no evidence that executives' ownership has significant effects on their compensation. From the viewpoint of the agency theory about the effects of larger boards, firm profitability, and executive percentage on executives' compensation, it is perceived that the weak governance exists among listed companies in the Malaysian market. Considering the power of concentrated ownership in Malaysia, the insignificant impact of executives' ownership on their remuneration is an important finding of this research.

Keywords: Agency Theory, Bursa Malaysia, Board of directors, executive compensation, executive ownership.

DOES PRIVATE INFORMATION IN EXECUTIVE COMPENSATION INFLUENCE BOARD DECISION FOR FIRM INTERNATIONALIZATION?

Lian Yee Lee & Ei Yet Chu
Universiti Sains Malaysia

Abstract

The main purpose of this study is to examine the roles of private information when firms pursuing internationalization. The private information roles of compensation are observed through executives' cash salary and bonus that conditional on the effects of corporate governance mechanisms - independent directors, CEO's duality, board size on the setting of internationalization of Malaysian firms. A sample of 285 Malaysia Public Listed Companies was selected from 2008 to 2011. The study used foreign sales (FS) and foreign assets (FA) as the measurement for internationalization, while the executive compensation is measured as private information. Apparently, private information is prevalent in CEO duality firms involved in FS, which indicates CEO duality has private information. While there is a negative relation between board independent and private information. Therefore, the presence of board independence reduces the private information in executive compensation. Meanwhile, the measurement involves FA is insignificant to private information. Hence, there is no private information involving corporate governance found in FA. As a result, the practice of CEO duality increases the private information in firms with export. However, with the presence of board independence reduce the private information, indicating strong governance on the firms invest in foreign sales. This paper contributes to the private information on executive compensation to firm internationalization.

Keywords: Private Information, Corporate Governance, Executive Compensation and firm Internationalization

THE IMPACT OF BOARD STRUCTURE AND GOVERNMENT OWNERSHIP ON DIRECTOR REMUNERATION: EMPIRICAL EVIDENCE OF GOVERNMENT LINKED COMPANIES

Hanita Kadir Shahar, Adilah Azhari , Siti Khadijah Saleh
Universiti Utara Malaysia, Kolej Polytech Mara

Abstract

This paper investigates some of corporate governance practices namely board characteristics, government ownership and performance in Malaysian public listed companies with a particular interest in selected government linked corporation (GLCs), participating under the government transformation programme (GTP). The study is conducted based on balanced data under 6 years period (2010-2015). Using pooled OLS and Panel data regression techniques, it is found that board characteristics – independent directors and board meeting are negatively significant to the directors' remuneration. However, the government ownership and performance is not significant. Thus, the steward theory is rejected due to difference in political and policy applied by sample companies. Moreover, firm size, growth and leverage show significant positively relationship to the director remuneration. Finally, the agency theory is more relevant in explaining the corporate governance issues to determine director remuneration of GLC under the in Malaysia.

Keywords: Directors' remuneration, board characteristics, government ownership, performance, agency theory and steward theory.

DOES EXCHANGE RATE CHANGES HAVE SYMMETRIC OR ASYMMETRIC EFFECT ON INTERNATIONAL TRADE INTEGRATION?

Nadia Anjum, Suresh Kumar Oad Rajput, Niaz Hussain Ghumro
Sukkur IBA Univeristy

Abstract

This paper investigates whether exchange rate changes have symmetric or asymmetric effects on international trade integration, using quarterly time series data of U.S.A from 1980:Q1 till 2016:Q3. Recent innovation in cointegration techniques allow us to estimate nonlinear effects. This study employs both ARDL and non-linear ARDL models. The ARDL result indicates that there exists negative and significant relationship between exchange rate and international trade integration in short-run as well as in long-run, whereas nonlinear ARDL model result shows that an asymmetric relationship exist between exchange rate international trade integration in the short run as well as in long run-meaning that real effective exchange rate has negative and significant effect on international trade integration. The results are important to understand because when we separate currency appreciation from the depreciation it has significantly different effect on international trade integration. We also examine direction of causality via linear granger-causality and nonlinear granger-causality. Granger-causality result indicates bidirectional causality exist between variables understudy, whereas nonlinear granger-causality result shows that a unidirectional granger-causality exist between the variables when the shocks are negative.

Keywords: Nonlinear ARDL, International trade integration, Symmetry, Asymmetry, Exchange rate

THE CAPITAL STRUCTURE DECISIONS OF SHARIAH COMPLIANT AND NON-COMPLIANT FIRMS: EVIDENCE FROM MALAYSIA

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University of Malaya & International Centre for Education in Islamic Finance (INCEIF)

Abstract

The capital structure puzzle remains largely unanswered. Although some light have been shed on the dynamic forces that shapes the typical firm's debt-to-equity mix, the case of the Shariah-compliant firm's capital structure behaviour remains even more of a mystery. This paper attempts to investigate the capital structure behaviour of Shariah compliant firms of various levels as well those firms who are consistently Shariah non-compliant in Malaysia. The paper utilises a unique dataset of firms of heterogeneous level of Shariah-compliance status over a 20 year period from the year 1997 to 2016. The paper focuses on the effects of dynamic forces behind capital structure variation such as the optimal capital structure behaviour based on the trade-off, pecking order, market timing and firm fixed effect models of capital structure. This study documents significant evidences in support of the trade-off theory with a high speed of adjustment (SOA) as well as for the time-invariant firm fixed effects across all Shariah compliance group. Nevertheless, this study's findings show that there are evidences to suggest a moderate trend whereby as the Shariah compliancy group descend, stronger and stronger evidences of market timing behaviour appear amongst other things. This study suggests that segregating firms into different Shariah compliancy groups reveals a rich and diverse area of study which has never been delved in.

Keywords: capital structure, market timing, trade-off theory, equity risk premium, Shariah-compliant firms

DETERMINANTS OF CAPITAL STRUCTURE FOR MALAYSIAN SHARIAH-COMPLIANT FIRMS: THE IMPACT OF REVISED SCREENING METHODOLOGY

Norfhadzilahwati Binti Rahim, Fauzias Binti Mat Noor, Nurainna Binti Ramli, Ainulashikin Binti Marzuki
Universiti Sains Islam Malaysia

Abstract

The Securities Commission (SC) has revised the screening methodology on not only the operating activities but also the financing and investing aspects of listed firm's business operations. Due to this revision, the reduction number of Shariah-compliant firms making only 653 firms (71.4 percent) out of the total 914 firms from the total listed securities on Bursa Malaysia. The reduced number of Shariah-compliant firms after revision is due to firms having a higher level of conventional debt which is more than the benchmark given by the Securities Commission Malaysia. Driven by this fact, this research aims to investigate the determinants of capital structure by each sector among Malaysian Shariah-compliant firms and to examine the speed of adjustment to target capital structure. This research employed panel data analysis by using generalized method of moment (GMM). The results found that the firm has target capital structure with faster speed of adjustment. There are also specific determinants affecting capital structure of Shariah-compliant firms in Malaysia. The results found the positive impact of firm's size on leverage, and negative relationship between profitability and leverage for Shariah-compliant under all sectors. Shariah-compliant firms with high profitability will use less leverage in their financial activities. Thus, the results therefore strongly support the pecking order theory. This paper provides the understanding of capital structure behaviour in Malaysia.

Keywords: Target Capital Structure, Malaysian Shariah-compliant Firms, Panel Data Analysis

HOW ECONOMIC RECOVERY AFFECTS CAPITAL STRUCTURE SPEED ADJUSTMENT? SOUTH ASIAN CONTEXT

Muhammad Mushtaq, Ei Yet Chu, Muhammad Tahir, Badal Khan
Universiti Sains Malaysia & University of Turbat, Baluchistan

Abstract

This study aims to identify the capital structure speed adjustment of South Asian firms, during 2007-2008 post crisis period. Using a total sample firms of 685 observations, the study found that the speed adjustment of Indian and Pakistani firms is 11.88% and 17.25 %, respectively. On average, Indian firms take 4.21 years to adjust partially whereas it is 2.9 years for firms in Pakistan. Secondly, this paper examines the regional variation among South Asian countries adjustment speed and the determinants which affect this speed. To examining the post-global crisis behavior of firm's capital structure in the South Asian market, this study to our best knowledge is the first attempt to understand the regional macroeconomic variation in the capital structure. The Two-stage linear regression estimator is used due to its reliability over other estimation methods. The analysis provides an understanding that how economic stimulus packages affect the adjustment speed of capital structure in India, but its effect in Pakistan is not significant. It also shed lights on the other variables like size, profitability, tangibility, and GDP that affect the financial leverage and the speed of adjustment towards target leverage.

Keywords: Capital structure, Target leverage, Speed adjustment, Economic recovery, Two stage regression, partial adjustment, Gross Domestic Product (GDP)

NON-INTEREST ACTIVITIES AFFECT THE BANK PERFORMANCE IN THE ASIA PACIFIC REGION

Koh Chin Wei, Nazrul Hisyam Ab Razak, Fakarudin Kamarudin
Tunku Abdul Rahman University College & Universiti Putra Malaysia

Abstract

This paper's objective is to investigate whether the bank non-interest activities with bank specific and economic factors affect the bank performance in Asia Pacific region over the years 2000-2015. We employ the pooled OLS and panel regression to assess the effect on bank performance through 61 representative banks from Australia, Hong Kong, Korea, Malaysia, Singapore and Thailand. This paper categorizes Australia, Hong Kong and Singapore as developed countries while Malaysia, Korea, and Thailand as developing countries. We measure bank performance by using risk-adjusted ROA, ROE and Tobin'Q. The empirical findings indicate that the bank non-interest based activities do have overall impact on Asia Pacific banks' performance across overall, developing and developed countries but vary throughout bank performance proxies. This study suggested that with non-interest activities element, bank specific and economic factors have significant impacts on bank performance. We also find that the bank performance also affected by subprime crisis only for overall Asia Pacific countries especially developing countries but not developed countries by factor in bank non-interest activities. The findings from this study are expected to contribute significantly toward decision-making for regulators, policy-makers, bank managers, investors, and also to the existing knowledge on performance of the Asia Pacific banking sector.

Keywords: Bank's non-interest activities; Bank Performance; Asia-Pacific Banking sector

THE CONTRIBUTION OF LIFE EXPECTANCY TO STOCK MARKET DEVELOPMENT IN AFRICA

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Modibbo Adama University of Technology, Universiti Utara Malaysia

Abstract

Despite the increased number of stock exchanges in Africa, the markets remain underdeveloped due to low market capitalization, volume, and illiquidity. Efforts of previous policies to promote stock market development and restore investors' confidence in the region did not yield a positive outcome and they are yet to meet the rising demand for capital needed by domestic firms. This paper investigates the relationship between life expectancy and stock market development in Africa, using pooled mean group (PMG) model for the sample period of 1996 to 2016. The findings suggest a positive relationship between the series as additional years of living can be incentive to make a long-term investment. Furthermore, the aftershock of financial crisis exacerbates the poor market condition with an attendant decrease in investment. For policy prescription, the government should increase expenditure in the health sector through a quality of medical and health services to address challenges of poor health and rising mortality rate as it prevalence can adversely affect productivity and investment.

Keywords: Africa, PMG model, Life expectancy, Stock market development, Financial crisis

COMMON RISK FACTORS IN THE RETURN ON SUKUK INVESTMENT

Md Hamid Uddin, Mohammad Sawkat Hussain, Sarkar Humayun Kabir

Taylor's University & Coventry University

Abstract

Sukuk, an Islamic replication of bond, has been in the market for nearly two decades, but practitioners use LIBOR or Islamic interbank benchmark rate (IIBR) to assess sukuk performance. However, it is hard to find a fair valuation of sukuk - as a valuation model based on asset pricing theory has not been developed yet, which captures the common risks in sukuk investment. Such a model is needed because sukuk is a new class of financial asset that is inherently different from a bond or equity, and this asset is exposed to Shari'ah risk. To fill this gap in knowledge, we identify two common risk factors for sukuk that need risk premium, which are (i) sukuk market risk and (ii) information asymmetry risk. With these two risk factors are known now, the market analysts and practitioners can better assess the performance of Islamic assets.

Key Words: Sukuk pricing, Reference rate, Systematic risk factors, Two factor model.

MODELLING TRADING BEHAVIOR IN BURSA MALAYSIA DURING QE AND POST-QE EXIT: WHO IS THE DOMINANT PLAYER?

Wee-Yeap Lau, Tien-Ming Yip

University of Malaya

Abstract

This study investigates the trading dynamics between institutional, foreign and retail investors during QE and post-QE exit in Malaysian stock market. A theoretical framework is developed to classify all transactions into trading, short-selling or information flow. Using data from 2014 to 2015, notably our results show: Firstly, during QE tapering, there is short-selling by Foreign Investor. There is also information flow from Foreign Sales to Institutional Sales as well as Institutional Purchases to Foreign Purchases. Net buyers are Local Institution followed by Foreign Fund; Secondly, in Post-QE exit, Foreign Sales is the most endogenous variable. Net sellers are Foreign, followed by Local Retail; Thirdly, from 7 to 12 months in Post-QE exit, there are short-selling by Foreign and Local Institution corresponding to sharp market downtrend. Net sellers are Foreign and Retail. Overall, Local Institution has provided market support as the net buyer in all sub-periods while Foreign fund is the net seller during Post-QE periods. As policy suggestion, local retail investors should be provided with more incentive to trade as they also have the role in triggering buying or selling cue in different periods as shown in the results although their trading volume may be relatively smaller than the foreign fund.

Keywords: Quantitative Easing, Institutional Investors, Foreign Fund, Market Microstructure, Malaysia

B3

FOREIGN OWNERSHIP, RETURN VOLATILITY, TRADING VOLUME, AND RISK OF STOCKS IN INDONESIA

Ahmad Maulin Naufa, I Wayan Nuka Lantara
Universitas Gadjah Mada

Abstract

This study investigates the relationship between foreign ownership and the return volatility, trading volume, and risk of stocks listed on the Indonesia Stock Exchange (IDX). We employed the panel data of selected companies listed on the Kompas 100 Index of the IDX for the period between 2011 and 2014. Using generalized least square (GLS) regression, we found that foreign ownership positively affects stock return volatility but is negatively related to fundamental risk. However, we failed to provide empirical evidence of the impact of foreign ownership on stock trading volume. The finding that increased foreign ownership reduces the fundamental risk of the selected companies and enhances stock return volatility contributes to existing literature.

Keywords: Indonesia, foreign ownership, return volatility, trading volume, fundamental risk

B4

INTRADAY LEAD-LAG RELATIONSHIP BETWEEN FUTURES AND STOCK MARKETS: EVIDENCE FROM MALAYSIA

Jude W. Taunson, Mohd. Fahmi Bin Ghazali, Minah Japang
Universiti Malaysia Sabah

Abstract

This paper investigates the price discovery role of index futures in the emerging Malaysian market. Using high-frequency data and the partial adjustment model, we find that the index futures returns lead stock index returns even after controlling for thin trading effects. Further, there is evidence to suggest that futures prices over-react in relation to its intrinsic values. The relationship between these two markets is not completely unidirectional.

Keywords: lead-lag relations, high frequency data, futures market

AN EMPIRICAL TEST OF IMPLIED VOLATILITY IN SINGAPOREAN STRUCTURED WARRANTS

Najmi Ismail Murad Samsudin, Azhar Mohamad, Imtiaz Sifat
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Abstract

Options traders regard implied volatility a vital variable to determine profitability in options trading and use it to estimate the underlying stock's volatility in the future. While it cannot predict market direction, it has a reputation for forecasting—to a certain extent—potential for large swings by the underlying stock. Once implied volatility is calculated, traders can estimate how high and low the stock can swing by the option's expiration, and this probable estimation aids in making informed trading decisions. In this paper, we examine the information content of implied volatility of structured warrants in Singapore Stock Exchange (SGX). Using a daily dataset for 252 trading days for a period between August 1, 2014 and July 31, 2015, we test whether implied volatility is an unbiased estimate of realized volatility, if implied volatility contains information on future realized volatility, scrutinize the efficiency of implied volatility and its predictive power compared to historical volatility. Our findings suggest that for although implied volatility does contain some relevant information about future volatility, it is a biased forecast of realized volatility, the efficiency threshold of implied volatility is nugatory, and its predictive power is not superior to historical volatility.

Keywords: Implied volatility, historical volatility, Singapore, structured warrants

PRICE DISCOVERY IN THE MALAYSIAN GOLD FUTURES MARKET

Jude W. Taunson, Mohd. Fahmi Bin Ghazali, Minah Japang
Universiti Malaysia Sabah

Abstract

This paper examines the price discovery process of the gold futures contracts (FGLD) in the Bursa Malaysia Derivatives (BDB) over the period from 2003 to 2018. Using daily data, for both spot gold (London gold market) and the FGLD, and vector error correction model (VECM), we find that although both markets contribute to price discovery, the gold futures play a larger role on average. This is undoubtedly as a consequence of the lower transaction costs and other associated advantages of trading in the gold futures market as opposed to the spot gold. In conclusion then, the FGLD contracts could be used as the bellwether instrument in predicting its underlying movement.

Keywords: Gold Futures. Price Discovery. Lead-lag. Bursa Malaysia Derivatives

B4

CAUSALITY BETWEEN EXCHANGE RATE AND PRICES: EVIDENCE FROM HETEROGENOUS MIXED PANELS

Siew-Voon Soon & Ahmad Zubaidi Baharumshah
University of Malaya, Malaysia & Universiti Putra Malaysia

Abstract

This paper re-examines the time-series properties of purchasing power parity, using data from 13 Asian countries. Our findings revealed that the nominal exchange rate is directly responsible for mean-reverting behavior before but not after the Asian Financial crisis. Large macroeconomic shocks triggered price adjustments in the Asian countries after the crisis.

Keywords: Asian countries, Purchasing power parity, Breaks

C1

BEHAVIOURAL ASSET PRICING IN A FACTOR AND STYLE INVESTING FRAMEWORK

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Abstract

This paper investigates the equity risk and returns properties using behavioural asset pricing ideology in a factor and style investing framework. First, a quasi-rational multifactor asset pricing model with fundamental and behavioural risk factors is introduced. Then, the risk and return analysis is performed in a factors and style investing framework. The empirical tests are performed based on a sample of 238 Malaysian firm stock returns using the panel regression method. The analyses provide evidence to support the dynamic of risk and returns relationships due to quasi-rational risk determinants and given different characteristics in consideration. As a potential industry application, this research suggested the behavioural style quadrant as a diversification strategy. In specific, the risk and return characteristics are organized in the multi-style (i.e. firm, industry, market, and calendar) equity portfolio layers to form a mix of equity portfolio that is seems to be resilient on the influence of behavioural risks. Briefly, this paper extends the behavioural perspectives on asset pricing and discusses its possible applications in investment practice.

Keywords: Behavioural finance, Behavioural portfolio management, Multifactor asset pricing, Factor investing, Style investing.

C1

MANAGERIAL OPTIMISM, OVERCONFIDENCE AND CAPITAL STRUCTURE DECISIONS IN THE PRESENCE OF INFLATION UNCERTAINTY: EVIDENCE OF MALAYSIAN SHARI'AH AND NON-SHARI'AH FIRMS

Khairul Nizam Bin Osman & Zamri Bin Ahmad
Universiti Sains Malaysia

Abstract

This conceptual paper is derived from the ongoing PhD thesis, which provides new alternative determinant factors of capital structure on Malaysian public-listed firms, by considering both macroeconomic uncertainty factor and managerial behavior biases from the perspective of behavioral finance research. In particular, we examine the effect of dynamic interaction between two interest variables, inflation uncertainty and managerial optimism and, or overconfidence on Shari'ah and non-Shari'ah firms in Bursa Malaysia from 2006 to 2016.

Keywords: Inflation uncertainty, Optimism, Overconfidence, Shari'ah-compliant

C1

THE EFFECT OF DIVERSIFICATION AND PORTFOLIO RISK TAKING ON PERFORMANCE: EVIDENCE FROM CAPITAL MARKET

Aminah Shari & Fauziah Mahat
Universiti Putra Malaysia

Abstract

This study analyzes the relationship between portfolio asset class diversification, risk taking and performance of equity market. The purpose of the study are to examine the relationship between diversification and equity performance that has a potential to enhance portfolio profitability and reduce risk diversification of portfolio performance. Next the empirical model to examine the mediating effect of risk taking measured as portfolio Beta and standard deviation on the relationship between diversification and performance are also investigated. This study apply Sharpe ratio and Carhart four factor model to measure the portfolio performance of the equity market. The study expect that risk taking will have a positive impact on performance and that diversification values and associate benefits will contribute positively to investor's investment decision. The study propose at least part of the diversification benefit will be realized through risk taking. The data will be analyzed by using generalized methods of moments estimator for the period of ten years from 2007 to 2017. The study further show the consistency of the findings using a series of model robustness checks.

Keywords: Diversification, Risk, Performance, Capital Market

THE ACCURACY OF ANALYSTS' RECOMMENDATIONS ON MALAYSIAN STOCK PRICES

Saw-Imm Song, Ei-Yet Chu, David Yew, Tian-So Lai

Universiti Teknologi MARA, Universiti Sains Malaysia, Affin Hwang Investment Bank, Universiti Utara Malaysia

Abstract

This study examines the price performance of Malaysian stocks recommended by the analysts of major stock broking firms in Malaysia. Two questions are raised: whether investors can profit from the Malaysian stock market by following those analyst recommendations; and whether buying (or selling) those recommended stocks could yield a higher return than the market during the same period of time. We conduct this research based on the information released by the major stock broking firms, which were obtained from the popular blogs or websites providing information regarding market performance and target share prices in Malaysia. The samples period is in 2016, and a total of 139 recommendations issued by 9 professional Malaysian brokerage houses were identified. The performances of the recommended stocks were compared to the market returns based on one week (5 Days), three months, and six months after the trading recommendations were released. It is found that stocks covered by analysts in general outperformed the market as those stocks would usually draw the attention of the investors. The majority of the recommendations are favourable either in Buy or Hold categories. If investors follow the analysts' recommendations to buy and sell, shareholders are likely to profit in the mid- to long-run and as compared to the benchmark index. However, the study does not find the evidence that the longer the duration, the price will converge more to the target prices. This study provides a novel attempt to assess to a certain extent, the institutional efficiency and the characteristics of the share market from the perspective of an emerging market.

Keywords: Analysts' recommendations, target prices, accuracy of analysts' forecast, Malaysia, stock prices.

UK REIT CONVERSION AND INSTITUTIONAL OWNERSHIP DYNAMIC

Wong Woei Chyuan

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Abstract

This study examines the impact of adoption of REIT status on the level of institutional ownership of former property companies in the UK. Controlling for factors known to affect institutional ownership, changing to REIT status lead to a 7.0% increase in institutional ownership. We find institutional investors changed their investment focus after the conversion event by placing more emphasize on the liquidity (proxied by firm size, stock price and stock turnover) of REIT shares. Contrary to prudence motives' predictions, we find dividend yield becomes substantially less important, while development activities and beta become more important during the post-conversion period. Consistent with the literature examining the relationship between REIT performance and institutional ownership, we find the announcement effects of REIT conversion to be positively related to institutional ownership.

Keywords: REIT conversion, Institutional ownership, Event Study, Investors' preferences

INSTITUTIONAL STOCK OWNERSHIP AND FIRM INNOVATION: EVIDENCE FROM CHINA

Jing Chi, Jing Liao, and Jingjing Yang

Massey University & Guangdong University of Foreign Studies

Abstract

This paper investigates different institutions' ability to influence firm innovation, measured by patent applications. We show that mutual funds' holdings significantly increase firm innovation in Chinese listed firms, but grey institutional holdings (including insurance companies and pension funds) and Qualified Foreign Institutional Investor (QFII) holdings have less or no significant impact on innovations. We suggest this is due to the high equity holdings and less business connections of mutual funds on (with) portfolio firms in comparison with other institutional investors. Our results are robust after applying different measures of firm innovation and controlling for firm financial performance, firm governance, regions, listing boards and possible endogeneity. Our paper sheds new light on the effect of institutional ownerships on firm innovation in emerging economies.

Keywords: institutions, mutual funds, firm innovation, China

STATE OWNERSHIP AND RISK-TAKING BEHAVIOR: EVIDENCE FROM MALAYSIA'S BANKING INDUSTRY

Lee Ai Xin & Hooy Chee Wooi

Universiti Sains Malaysia

Abstract

Does state ownership breed risk-taking behavior in the corporate undertakings? This paper examines this issue using a panel of Malaysian commercial banks. In developing country such as Malaysia, financial sector is the dominant sector that plays an essential role to ensure long term economic development. In this paper, we investigate on whether non-performing loans (NPL), capital adequacy ratio (CAR) and liquidity ratio (LR) are affected by the degree of ownership by Malaysian government through the five largest investment arms of Malaysia. These five investment institutions hold more than 50% of the whole market capitalization. They are known as Employees Provident Fund (EPF), Permodalan Nasional Berhad (PNB), Khazanah Nasional Berhad (KNB), Lembaga Tabung Angkatan Tentera (LTAT) and Lembaga Tabung Haji (LTH). We further investigate the relationship with corporate governance mechanisms. The findings of this study shows significant negative impacts on NPL and CAR. These findings suggest that state ownership holds by Malaysian government in banks do not necessarily associated with higher default risk. In addition, we find that banks with higher state ownership have higher risk-taking in terms of CAR. We also find that there is no significant impact on LR and this shows that the degree of ownership by Malaysian government in banks have no direct relationship with banks' liquidity risk. However, it is found to have significant impacts on banks' LR through the channels of corporate governance mechanisms. The significant findings suggest that the composition of board of directors play a significant role in bank governance.

Keywords: State ownership, Risk-taking, Corporate governance, Board of directors

C2

STOCK LIQUIDITY AND FIRM VALUE: NONLINEARITY, CORPORATE POLITICAL CONNECTIONS AND INVESTOR HETEROGENEITY

Yee-Ee Chia, Kian-Ping Lim, Kim-Leng Goh
Universiti Malaysia Sabah & University of Malaya

Abstract

Against the backdrop of a consensus on the positive relationship between stock liquidity and firm value, this study argues against the assumption of linearity and presents robust evidence that the relationship is U-shaped. Using data for all non-financial firms traded on Bursa Malaysia over the sample period of 2000-2015, the results from the baseline quadratic model suggest stocks must be traded at a higher level of liquidity before reaping the benefit of larger firm value. Our key finding of a nonlinear relationship remains robust to alternative liquidity measures and estimators, as well as passing a series of endogeneity checks. Further interaction analyses uncover three important moderating variables in the liquidity-firm value relationship, in which liquidity exerts a much larger value impact for firms with political connections, higher foreign nominee ownership and higher foreign institutional ownership. These new findings provide indirect evidence of the mechanisms linking liquidity to firm value, which we hypothesize operate through the channels of cost of equity, stock price informativeness and corporate governance.

Keywords: Stock liquidity; Firm value; Nonlinearity; Political connections; Investor heterogeneity; Malaysia

C3

PARTY COMMITTEE SECRETARY SERVING ON CORPORATE BOARDS AND FIRM BRIBERY CHANNELS

Jing Chi, Hamish Anderson, Jing Liao, Martin Young, Jingjing Yang
Massey University & Guangdong University of Foreign Studies, China

Abstract

We investigate the influence of Party Secretaries who simultaneously serve as top executives, on firm bribery channels. Using abnormal management expenses (AMEs) and entertainment and travel costs (ETCs) as common firm bribery channels, we find dual role Party Secretaries are associated with greater use of these bribery channels. The effect is more pronounced in government agency controlled firms. Following President Xi's anti-corruption campaign, firms significantly reduce the use of ETCs but increase their use of AMEs. AMEs are subject to less scrutiny and remain a common bribery channel during the post-anti-corruption period. We find that firms with dual role Party Secretaries significantly reduce the use of both AMEs and ETCs during the post-anti-corruption period. We argue personal political motivations of dual role Party Secretaries is a driven factor of bribery in Chinese listed firms.

Keywords: Party secretary, bribery, SOE, anti-corruption campaign, China

THE EFFECT OF INSTITUTIONAL QUALITY ON CORPORATE GOVERNANCE AND FIRM VALUE IN EMERGING MARKETS

Soong Yu Qing, Hooy Chee Wooi, Abdul Hadi Zulkaffli
Universiti Sains Malaysia

Abstract

We examine the effect of country institutional quality on firm value in 21 emerging markets. Using panel data regression, from the year 2007 to 2016, we find an insignificant relationship between firm corporate governance and firm value in emerging markets. Subsequently, we investigate whether country institutional quality has an effect on firm corporate governance and firm value. Results show that better country institutional quality increase firm value. Better control of corruption, rule of law, voice and accountability, government effectiveness, political stability and absence of violence improve firm corporate governance and drive the increase of Tobin's Q in emerging markets context. For robustness test, the effect of corporate governance revision as the independent variable was tested. This study offers insight to government and regulators of emerging markets the importance to improve their country institutional quality.

Keywords: Institutional Quality, Corporate Governance, Emerging markets, Firm Value

DOES HIGH CORPORATE GOVERNANCE QUALITY INCREASE FIRM VALUE? THE ROLES OF CORPORATE SOCIAL RESPONSIBILITY AND PRODUCT MARKET COMPETITION

Ya-Hsueh Chuang, Cho-Min Lin, Ci-Yan Li
Providence University

Abstract

This study investigates whether firm value will be affected by corporate social responsibility (CSR) engagements and good corporate governance practices at different levels of product market competition using a sample of 5,540 listed companies in Taiwan from 2005 to 2014. The empirical results show active CSR engagements have a particularly positive effect on firm value for companies with higher degrees of product market competition. This indicates that CSR has a moderating effect on firm value. On the other hand, corporate governance does not show this moderating effect in companies with higher degrees of product market competition. Overall, the marginal effects of CSR engagements and good corporate governance practices on firm value are statistically significant and positive. This is the first observation of these effects in the relevant literature and is the major contribution of this study to the related literature. Moreover, this study finds that the more CSR engagements, the higher the firm value, particularly for good companies (i.e., companies having higher firm value) in competitive industries. The better the quality of corporate governance, the higher the firm value for bad companies (i.e., companies having lower firm value). This is another contribution of this study.

Keywords: Product Market Competition, Corporate Social Responsibility, Corporate Governance, Firm Value

INVESTOR PROTECTION AND PRIVATE INFORMATION TRADING: DOES CORPORATE GOVERNANCE MATTER?

Chun-Teck, Lye, Chee-Wooi Hooy

Multimedia University & Universiti Sains Malaysia

Abstract

The integrity of financial markets is challenged by illegal insider trading. This study, therefore, reexamines the effectiveness of investor protection and study the potentials of corporate governance mechanisms in mitigating private information trading. This study incorporates the persistence of private information trading and the interaction effects of corporate governance mechanisms into the relationship between investor protection and private information trading, and also addresses the potential endogeneity issue by using the two-stage least squares and the dynamic generalized method of moments estimators in a panel setting. The results show that investor protection and product market competition are generally effective and can substitute each other in mitigating private information trading, however, the latter's function is restricted when egoistic insiders obstinately exploit the private information. The results also imply that for a mechanism to be effective in preventing private information trading, it should, at best, be independent from insiders.

Keywords: Private information trading, Insider, Investor protection, Corporate governance, Product market competition, Financial leverage

THE ROLE OF INSTITUTIONS IN HUMAN DEVELOPMENT-GROWTH NEXUS: EVIDENCE FROM 120 (OIC AND NON-OIC) DEVELOPING COUNTRIES BASED ON DYNAMIC SYSTEM GMM AND QUANTILE REGRESSION APPROACHES

Mansur Masih , Md Akther Uddin, Md Hakim Ali

INCEIF, University of Creative Technology, Taylor's University, Malaysia

Abstract

This paper is the first attempt to study (i) the roles of political, economic and financial institutions as transmission channels in the human development-growth nexus and (ii) how their roles differ depending on the 'initial' stage of growth of a country. To address these issues we apply two relatively advanced but appropriate analytical techniques, dynamic system GMM and quantile regression, on a panel of 120 (OIC and non-OIC) developing countries for the period covering 1996-2014. The findings tend to indicate: (i) Yes, institutions ---political, economic and financial ---- as transmission channels do have a significant interactive effect on the human development-growth nexus in the developing countries. (ii) The effect of institutions, however, differs significantly depending on the 'initial' stage of growth of a country as evidenced in the ---- lower, middle and upper income ---- OIC and Non-OIC countries. The developing OIC countries need to focus more on educational attainment and health care spending as they are lagging behind the non-OIC. In terms of human development, the Asian OIC countries appear to outperform their African counterpart countries. The policy makers should bear in mind the critical role played by the institutions (political, economic and financial) and the 'initial' stage of growth of a country in making their education and health policies more effective and successful.

Keywords: human development, economic growth, political, economic and financial institutions, system GMM, and quantile regression

AN EMPIRICAL INVESTIGATION OF FINANCE-LED GROWTH HYPOTHESIS IN SELECTED ASEAN COUNTRIES

Rana Muhammad Adeel-Farooq, Nor Aznin Abu Bakar, Jimoh Olajide Raji
Universiti Utara Malaysia,

Abstract

This study empirically examines the financial development led growth hypothesis in the selected five ASEAN countries, namely Indonesia, Malaysia, Philippines, Thailand, and Vietnam over the 1992-2015 period. It uses Kao and Fisher-Johansen co-integration tests to examine the existence of long-run association between the economic growth and financial development, among other explanatory variables. Furthermore, FMOLS method is used to determine the long-run estimates of the influences of financial development, trade openness, human development index (HDI), and gross fixed capital formation (GFCF) on the economic growth. The empirical outcomes suggest that financial development and HDI have significant long-run impacts on economic growth in these countries. Nonetheless, trade openness and GFCF are found to exert significant negative influence on economic growth. Based on the findings, this study recommends ASEAN countries to embrace measures to improve financial sector and human development further in order to achieve sustainable economic growth.

Keywords: Financial development, Economic growth, Co-integration, FMOLS, ASEAN

EFFECT OF RINGGIT ON MALAYSIA ISLAMIC AND CONVENTIONAL EQUITY MARKET

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Universiti Teknologi MARA

Abstract

Currency value is one of the macroeconomic factors that affect a country's economic performance including its equity market. Since Malaysia financial system which includes the equity market is runs on a dual basis, Islamic and conventional, the objective of this study is to investigate the effect of ringgit value and other controllable macroeconomic factors on both the Islamic and conventional equity markets of Malaysia. In this study, the ringgit value is proxied by the real exchange rate of ringgit Malaysia per U.S. dollar. This study applied the Ordinary Least Squares (OLS) multipleregression estimation and found that only ringgit value and money supply significantly affect the conventional equity market. The currency value and the controllable macroeconomic factors had significant relationship with the Islamic equity market. The results showed that real exchange rate has a negative effect on Malaysia Islamic and conventional equity market. Thus, it could be concluded that when ringgit appreciates in value (due to the negative sign of real exchange rate), conventional and Islamic equity market of Malaysia would be bullish.

Keywords: currency value, exchange rate, conventional equity market, Islamic equity market

EFFECTS OF BUSINESS CREDIT AND HOUSEHOLD CREDIT ON ECONOMIC PERFORMANCE: EVIDENCE FROM AN EASY CREDIT ECONOMY

Siong Hook Law^{*} Wei Theng Lau, Naseem, N. A. M
Universiti Putra Malaysia

Abstract

This study examines empirically the effects of business (enterprise) credit and household credit on economic performance in Malaysia. The World Bank's Doing Business (2014) report ranked Malaysia at number one in terms of ease of getting credit in the six years since 2008. This empirical study is based on quantile regression estimations, using quarterly time series datasets from 1999: Q4 to 2015: Q2. The empirical findings reveal that business credit is positively associated with economic performance whereas household credit is an insignificant determinant of economic performance. We also conducted the interaction term between credits and institutional quality, an emerging key fundamental variable that determines economic performance. The results demonstrate that only the interaction terms between business credit and institutions are statistically significant. In short, business credit outperforms household credit in promoting economic performance in Malaysia, and the results are robust to alternative estimation techniques.

Keywords: Business credit, household credit, economic performance, quantile regression

AN EMPIRICAL STUDY ON THE DYNAMIC RELATIONSHIP BETWEEN OIL PRICES AND MALAYSIAN EXCHANGE RATES, STOCK MARKET AND INTEREST RATE

Sabariah Nordin, Afiruddin Tapa, Hamdan Al-Jaifi
Universiti Utara Malaysia, Malaysia & Taylor's University

Abstract

The study intends to identify the relationship between oil price, exchange rates, stock market and interest rate in the context of Malaysia. Weekly data from 1 January 2006 until 22 April 2018 were used. Unit root tests of ADF and PP reveal that all variables are non-stationary at the level and become integrated and stationary at first differential series, hence ratify that these variables can be used for further long run investigation. An ARDL bound test and Johansen and Juselius cointegration test suggest the existence of actual long-run relationship between oil price, stock price index, exchange rate and interest rate in Malaysia. Results of Granger causality indicates the presence of unidirectional causality between oil prices and Malaysian stock market running from oil prices to the stock price index. Results also suggest that there is a presence of bi-directional causality between interest rate and oil prices which means causality is running from interest rate to oil prices and from oil prices to the interest rate. Lastly, the results also propose that there is an existence of uni-directional causality between exchange rate and oil prices, running from exchange rate to oil prices at 10 percent significance level.

Keywords: Oil price, ARDL bound test, Granger causality

CAN SHARIAH COMMITTEE INFLUENCE RISK-TAKING AND PERFORMANCE OF ISLAMIC BANKS IN MALAYSIA?

Mansor Isa & Siew-Peng Lee

University of Malaya & University Tunku Abdul Rahman

Abstract

This is an exploratory investigation on whether the shariah committee in Islamic banks affects banks' risk-taking behaviour and performance. Our sample is based on a panel data of 15 Islamic banks in Malaysia over the period 2007-2016. In general, we do not find strong linkages between shariah committee and bank risk-taking behaviour and performance. This may be due to the fact that currently, the major role of shariah committees is to ensure Shariah compliance of banking products and somewhat unrelated to risk-taking behaviour and performance per se. We suggest the roles of shariah committees be revised to give greater emphasis on the business aspects of banking operation.

Keywords: risk-taking behaviour, shariah committee, bank performance, Islamic banks

THE REALITY OF THE GCC BANKING SECTOR: A DESCRIPTIVE ANALYSIS

Abdulazeer Y.H. Saif-Alyousfi & Rohani Md-Rus

Universiti Utara Malaysia

Abstract

In this paper, we analyze the evolution of the banking sector in the six GCC countries including concentration, ownership, trends in Credit Growth, balance sheets, and financial safety over the period 2000-2015. In general, our analysis finds that the level of capitalization of banks in GCC countries appears comfortable despite the adverse effect of the financial crisis. Despite apparent financial soundness, there are certain weaknesses in the banking sector of GCC countries which needs investigation. Firstly, GCC countries have registered sharp growth in of credit in consonance with the steady rise in the price of oil straining the liquidity position of banks. Secondly, some banking systems in GCC countries are highly exposed to households secured by their salaries especially in Bahrain (50 to 60%) and Qatar 70%). Thirdly, although the overall NPLs ratio in the GCC banking sector is at historically low levels, however, it has remained high when compared to the average NPLs ratio of the global banks over the period of 2005-2017. Finally, we find that banks in GCC countries seem to keep low levels of liquidity compared to international standards.

Keywords: Banking sector, Credit growth, Financial statements, Financial soundness, GCC countries.

ETHICAL BELIEFS AND FIRM RISK: FROM THE SHARIAH CERTIFICATION PERSPECTIVE

Karren Lee-Hwei Khaw, Sabariah Nordin, Woei-Chyuan Wong

University of Malaya & Universiti Utara Malaysia

Abstract

The wide acceptance of Islamic finance leads to the development of Shariah-compliant securities. Shariah-compliant firms must not primarily involve in any Islamic prohibited business activities or products. In addition to meeting the qualitative screening, Shariah-compliant firms are screened based on a set of quantitative criteria that includes the business and financial activities benchmarks. Securities Commission of Malaysia through its Shariah Advisory Council is responsible to screen and announce the list of Shariah-compliant firms on semiannual basis. In this study, we show that Shariah certification leads to risk-reduction benefit, consistent with those studies on business ethics and social responsibility. In general, firms that engage in business ethics are associated with lower firm risk. Likewise, Shariah certification is negatively related to firm risk, particularly for Shariah-complaint firms that managed to retain their Shariah certification in the subsequent years. The evidence is in line with Shariah principles that prohibit controversial business activities and uncertainty. Shariah-compliant firms have to be more selective with their investment choices. On the corporate policies, Shariah-compliant firms do not employ conservative financial and operating leverage to mitigate risk, but shift their investment to tangible assets. Overall, our results imply that Shariah certification could be a significant mechanism to mitigate risk.

Keywords: Shariah certification, Business Ethics, Firm Risk, Corporate Policies

PREDICTING FIRMS' FINANCIAL DISTRESS: AN EMPIRICAL ANALYSIS USING F-SCORE MODEL

Md Mahfuzur Rahman & Cheong Li Sa

University of Malaya

Abstract

The financial performance of firms is very important for bankers, shareholders, potential investors and creditors. The inability of firms to meet their liabilities will affect all its stakeholders and will result in negative consequences in the wider economy. This study explore the applicability of a distress prediction model which uses F-Score and its components to identify firms which are at high risk of going into default. The study was done using a sample of 162 publicly listed firms from the United States. This study found that the relationship of F-Score and probability of firms going into financial distress is significant. This study also demonstrated that firms which are at risk of distress tend to record a negative cash flow from operations (CFO) and showed greater decline in return on assets (ROA) in the year prior to default. This study contributes to existing literature by supporting a model which has not been widely used in the area of financial distress predictions.

Keywords: F-Score, bankruptcy prediction, financial distress prediction, logistic regression, accounting-based bankruptcy

EFFECTIVENESS OF SHARIAH GOVERNANCE IN A DOUBLE LAYER GOVERNANCE STRUCTURE MODEL

Sofi Mohd Fikri & M. H. Yahya

Universiti Utara Malaysia & Universiti Putra Malaysia

Abstract

Shariah governance is perceived beneficial to shareholders in safeguarding the secondary shareholder interest by increasing the level of monitoring of Shariah compliant investment. Additional layer of monitoring is, however, counterproductive due to the marginal cost outweighing the marginal shareholder wealth. This paper examines the effect of Shariah Advisory Panel that complements the governance structure comprising 1) the board size, 2) the board independence fraction, 3) the board manager fraction and tenure, 4) the Chief Executive Officer duality function, and 5) management expenses on both the level of agency cost and performance, against conventional corporate governance, between Shariah and conventional mutual fund, in an emerging economy of Malaysia during the period 2008-2015. Adopting panel data regression, the method is deemed most appropriate within corporate governance research due to empirical issues of unobserved heterogeneity to avoid spurious evidence. Shariah Advisory Panel found positively affects agency cost at the negative effect on accounting measure. Nonetheless, this Shariah governance proxy is not a good mechanism for controlling agency cost inconsistent with performance maximizing (agency cost minimizing) outcomes.

Keywords: Shariah Governance; Corporate Governance; Agency Cost; Agency Theory; Mutual Fund; Shariah Advisory Panel

DOES CORPORATE OWNERSHIP MATTER IN REDUCING INFORMATION ASYMMETRY: U.S. EVIDENCE

Mable Lim Soon Hong, Teh Chee Ghee, Liang Zhang, Gary John Rangel

Monash University Malaysia & Universiti Sains Malaysia

Abstract

This paper provides one of the first comprehensive analyses of the impact of ownership concentration and the identity of the largest shareholder on management earnings forecasts' accuracy (ex-post) and precision (point forecasts as opposed to range forecasts and open-ended forecasts) within the context of *expectation adjustment hypothesis*. Using 4,210 firm-years data from 2003 to 2013, the results show that lower (higher) ownership concentration results in more (less) precise and accurate earnings forecasts. This inverse relationship reverses for forecast accuracy when the level of information asymmetry reaches 75th percentile and above (fourth quartile), suggesting that the perceived benefits gained from rent-seeking activities overshadow the associated litigation costs. Family firms tend to issue more precise and accurate forecasts. Firms with an institution investor or foreign investor as the largest shareholder are more likely to issue more accurate forecasts. The presence of other substantial shareholders in the firms is associated with more accurate forecasts, but as the level of information asymmetry moves beyond the 75th percentile (fourth quartile), this relationship reverses, exacerbating the adverse effect on corporate transparency by the largest controlling shareholder. Government/State-owned firms are associated with more precise but less accurate forecasts. However, when information asymmetry level is beyond the 50th percentile (third and fourth quartiles), these firms issue more accurate forecasts, suggesting that government/state ownership supports better disclosure policies.

Keywords: Voluntary Disclosure; Expectation Adjustment; Management Earnings Forecast; Ownership; Corporate Governance

THE EFFECTIVENESS OF CORPORATE GOVERNANCE CODE REVISIONS IN MUSLIM-MAJORITY AND NON-MUSLIM COUNTRIES: INTERNATIONAL EVIDENCE

Chai-Aun Ooi & Chee-Wooi Hooy
Universiti Sains Malaysia

Abstract

This study examines country-level exogenous shock in terms of CG code revisions to explain the potentially endogenous relationship between CG and firm value. Our results are highlighted in different institutional context as shown by Muslim and non-Muslim countries. Our samples include firms from five Muslim-majority countries and nine non-Muslim countries over 2008-2017. We find that CG code revisions in Muslim-majority countries have positive and significant influence on the relationship between CG and firm value. The results are robust to various sampling countries and macroeconomic performance of the countries. We further analyze and find that the results are more significantly shown by the firms from Muslim-majority countries adopting mixed legal system of civil law and Islamic law, and those with high foreign shareholding pressure.

Keywords: Muslim, Corporate Governance, Code Revision, Firm value, Islam, Exogenous

TECHNICAL INEFFICIENCY EFFECTS OF CORPORATE GOVERNANCE ON GOVERNMENT LINKED COMPANIES IN MALAYSIA

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Universiti Teknologi MARA & Universiti Malaysia Sarawak

Abstract

This paper investigates corporate governance mechanisms and their effects on firms' productive efficiency. The key corporate governance variables include share ownership structure, board structure, director's incentive and board independence. The study uses the stochastic frontier analysis (SFA) with technical inefficiency effects model on a panel dataset of 31 listed Malaysian government linked companies (GLCs) and covering a period from year 2001 through 2012. The results of the analysis highlighted a gradual but slow improvement on the firm efficiency levels, while exhibiting a labor-congested and capital-saving output generation. While incorporating corporate governance variables into the inefficiency effects model, and controlling for firm sector and size, the results reveal board remuneration, change in board members, board size and independence, and independence of the audit committee tend to significantly influence efficiency. Thus, this study recommends further investigation on the government continual stake, remuneration package and the effective role of the board to address the long term economic growth of the GLCs.

Keywords: Corporate Governance, Technical Efficiency, Government-linked Companies, Stochastic Frontier Analysis

THE GLOBAL VIEW OF BITCOIN WITH ITS ECONOMIC IMPACT AND PERSPECTIVE

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Abstract

China is the home of many of the world's biggest Bitcoin miners, accounts for about 70% of the daily Bitcoin contains huge bubble, and the usage of it has 1% in contributing in the real economy while the rest more than 80% is for the purpose of speculation which brings more negative impact to the economy. However the bubble will burst when new innovations solve the weaknesses of Bitcoin and government announce strict regulation framework of Bitcoin. However, as long as the legal tender over issued which leads to currency inflation, people will put relative trust in this new technology. Despite of all the negative sides of Bitcoin, cryptocurrency has huge potential to drive simplicity and efficiency in financial services. One thing is very important that government cannot simply banned it, the only way is to regulate it.

Keywords: Cryptocurrency, Bitcoin, Economy Bubble.

GOLD INVESTMENT: HOW FAR ECONOMIC FACTORS AFFECT TOTAL VOLUME OF GOLD INVESTMENT ACCOUNT IN KUWAIT FINANCE HOUSE (M) BERHAD

Nur Badriyah Mokhtar & Logasvathi Murugiah

Kuwait Finance House (M) Berhad & Universiti Utara Malaysia

Abstract

The ideas to make use of gold as a good asset to back up during economic recession have encouraged people to diversify their investment and asset by choosing gold during that time. This investment has shown a huge increment in the last ten years as investor are now days wisely and seeking for more alternative or option to balance and segregate their investment type and portfolio as to be more diversity in order to protect from any uncertainty or economic breakdown. Hence, the aim of this research paper is to determine the impact of economic variables towards gold investment account in Kuwait Finance House (M) Berhad over the period of 2010 to 2016. This research tests the relationship between gold price, employment, inflation and gold investment account. In this research applied the OLS Regression to examine the impact of economic variables on gold investment account. The findings show that gold price, employment and inflation have significant impact towards gold investment account.

Keywords: Gold investment, economic variables, gold price, employment, inflation

COMMODITY PRICE CYCLES: LINKAGES AND OIL IMPACTS

Ruo-Qi Kang, Tze-Haw, Chan
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Abstract

The supply-demand uncertainties and price volatilities of commodities have accelerated in recent decades, causing worldwide vulnerabilities on financial investments and economic activities. This study has two aims – first, to explore the potential commodity price cycles and linkages, and second, to examine the oil impact in the commodity market. Our analysis comprises seven commodity groups, e.g. crude oil, agriculture, fertilizers, metals & minerals, precious metals, natural gas and coal, covering four sub-periods (proxy by oil crisis, energy crisis, Asian crisis, subprime crisis) during 1970M1-2017M9. The Band-Pass (BP) filtering technique reveal that common price cycle is more evident after the post-subprime crisis, in line with the increased cross-border capital flows and hedging investment. Likewise, the causal effects and price linkages among commodities are getting stronger over the years. In addition, the extensive influence of crude oil has proven its role in the commodity market during and after the global financial crisis. The study has extended the understanding of commodity price cycle behavior by considering the implication of the four major global crises to the commodity market. The findings provide important insights to the building of portfolio investment, hedging strategies and early warning system in global finance.

Keywords: Commodity price cycle, Crude oil, Band-pass filtering, Granger causality, Global crises, investment

TACKLING INFLATION IN NIGERIA: MONETARY OR FISCAL POLICY? AN EMPIRICAL ASSESSMENT OF THE EFFECTIVENESS OF THE SIMULTANEOUS IMPLEMENTATION OF THE POLICIES

Ibrahim Abdulhamid Danlami, Mohamad Helmi Bin Hidthiir, Sallahuddin Hassan
Universiti Utara Malaysia

Abstract

The study is aimed at empirically assessing between monetary policy and fiscal policy, the most effective in combating and tackling inflation in Nigeria especially when implemented simultaneously – the effect of the concurrent implementation of the two policies on inflation. The research makes use of Autoregressive Distributed Lag model (ARDL) on Nigerian time series data for the period 1970 – 2016. The results show that monetary and fiscal policies can be implemented concurrently as monetary policy is best for a short-run solution while fiscal policy for a long-run solution. The findings of the study are based on Nigerian data utilized for the period 1970 – 2016 and the method of data analysis adopted – ARDL. The findings of the study clearly show that monetary and fiscal policies can be used simultaneously to tackle inflation in Nigeria successfully, being effective in combating inflation in different periods (short-run or long-run). The study attempted to harmonize the incompatible theories and their policies to see whether the policies can be utilized concurrently since the policies are aimed at effecting price stability. The research's findings confirm the feasibility of implementing the two policies concurrently and their effects to be felt or realized in different periods – short-runs and long-runs.

Keywords: ARDL, Fiscal policy, Monetary policy, Nigeria, Stabilization policies.

ISLAMIC MORTGAGES VERSUS CONVENTIONAL MORTGAGES: A COST COMPARISON ANALYSIS

Tanveer Ahmed, Sarkar Kabir, Aqsa Aziz
Coventry University

Abstract

It is a generally held view that Islamic mortgages are more expensive than conventional mortgages. This study compared a sample of 18 different conventional mortgages with their Islamic equivalent in order to evaluate the competitiveness of Islamic mortgages in the UK. Meanwhile, a side-by-side cost comparison analysis revealed that the lifetime cost of 14 out of 18 conventional mortgages was higher than that of Islamic mortgages. Islamic mortgages were also found to be penalty free from early redemption charges as opposed to the majority of conventional mortgages. From a negative angle, Islamic mortgages lacked diversity in low deposit options in comparison to mainstream mortgages.

Keywords: Islamic home finance, Islamic mortgages, Islamic finance.

MUSHARAKAH MUTANAQISAH AS AN ISLAMIC FINANCING ALTERNATIVE: WHY IS IT MORE SUSTAINABLE?

Shazida Jan Mohd Khan, Rosylin Mohd Yusof, Lim Hock Eam, Akhmad Affandi Mahudz
Universiti Utara Malaysia & Asian Banking and Finance Institute Indonesia of PERBANAS

Abstract

The current practice of MM in home financing contains significant shortcomings particularly pertaining to the issue of partnership. In the event of default payment, banks do not want to share the risk and let the customers suffer. In this case, the principle of partnership is lacking where no joint ownership (shirkatul milk) as the core value of MM. In addition, most of banks prefer to undertake shirkatul uqd instead of shirkatul milk as it does not contradict with the tenets of Shariah principles. In other words, Islamic banking industry today apply Shirkah al-uqud since the banks generate profit and will not incur losses since the customer is liable to buy all shares of the bank. This paper demonstrates how using Shirkatul milk the bank still able to gain profit and customers able to counter their losses in the event of default. This paper will contribute by providing real evidence and allow for further research to be encountered in the future.

Keywords: Musharakah Mutanaqisah (MM), Islamic Financing, joint ownership, default, Malaysia

ISLAMIC HOME FINANCE IN THE UK: EVIDENCE FROM INDUSTRY PRACTITIONERS' PERSPECTIVE

Tanveer Ahmed, Sarkar Kabir, Aqsa Aziz
Coventry University

Abstract

Most of the existing literature that attempts to assess the prospects of Islamic home finance lacks professional insights. Using primary data, our study aims to explore the prospects of Islamic home finance in the United Kingdom (UK) from a professional viewpoint using independent financial experts. The results from a sample of ten financial consultants reveal that factors such as affordability (i.e., higher deposits), acceptability (i.e., strict criteria), accessibility (i.e., lack of products and banks) and a lack of understanding of Islamic finance restrict the uptake of Islamic home finance in the UK. The findings also show that the Muslim community in the UK does not provide a sufficiently large market for Islamic home finance and as such it has limited scope in the UK market.

Keywords: Islamic finance, Islamic house finance, Islamic mortgages

DOES SECTORAL DIVERSIFICATION IMPROVE BANK RETURN AND RISK IN DUAL-BANKING SYSTEMS?

Mirzet Seho and Mansor H. Ibrahim
INCEIF

Abstract

The issue of whether banks should diversify or focus their portfolios is theoretically and empirically open to debate. Traditional wisdom in banking argues that diversification can reduce risk and improve returns. The theory of corporate finance, however, contends that diversification increases earnings volatility, write-downs and write-offs, agency problems and inefficiency. While the former suggests that banks should be as diversified as possible, the latter recommends that banks should focus their activities. In an attempt to test these arguments, numerous empirical studies have been conducted – primarily on conventional banks in single-banking systems from developed economies and large emerging market countries. However, there is no consensus thus far as there is evidence supporting both arguments. In other words, no single strategy can be uniformly applied across banks from different countries. Given this unresolved controversy and that previous studies are mostly on single-banking systems, our dissertation contributes to the literature by examining which strategy suits banks in dual-banking systems. Islamic banks, a significant component of the dual-banking systems, are inherently different from their conventional counterparts. This paper addresses this important question by analyzing the effects of the sectoral loan and financing diversifications on returns and risk of 46 Islamic and 60 conventional banks from Malaysia, Bahrain, Kuwait, Qatar, Saudi Arabia and UAE over the period 2000-2015 by using the system and difference GMM estimators. In addition, we introduce a new diversification dimension for Islamic banks' financing, i.e. contractual diversification.

Our analysis reveals the following. First, sectoral diversification reduces the returns and increases the risk of both Islamic and conventional banks, and there is no difference in the impact of sectoral diversification on the two bank types. Second, the impact of sectoral diversification on returns varies across risk levels, with negative effects at low- and no effect at moderate- and high-risk levels. The differences in impact on Islamic and conventional banks across risk levels are marginal. Third, diversification did not provide any cushion against the 2008 financial crisis. On the contrary, it exacerbated the negative effects of the crisis. Fourth, the effects of sectoral diversification across countries are heterogeneous. Fifth, contractual diversification has no significant effect on returns or risk of Islamic banks. These findings provide valuable implications for all stakeholders. First, bank managers can improve the returns and safety nets for all bank stakeholders by de-diversifying across sectors. Second, our results suggest that "bad management" is likely one of the causes for worsening loan and financing quality and bank performance. Therefore, internal monitoring and evaluation systems need to be enhanced. Third, regulators can improve overall financial stability by allowing banks to pursue the concentration or focus strategy. Fourth, diseconomies of sectoral diversification suggest that the optimal organization of the banking sectors in dual-banking systems might be one that is made up of several focused banks instead of a large number of diversified banks. Last but not least, the findings point to a heavy reliance on debt-based contracts and that there is no intrinsic diversity in the risk-return profiles of the contracts that Islamic banks use. While this may look like a rational choice on the part of Islamic bankers given the contracting environments which favour debt-like over equity-like instruments, the regulators need to realize that such environments hinder Islamic banks in fostering their axiomatic competencies. Therefore, creating a level-playing field is the least they should do.

Keywords: Diversification, Sectoral, Islamic banks, dual-banking, GMM

BOARD GENDER DIVERSITY, INVESTOR PROTECTION AND PRIVATE INFORMATION-BASED TRADING

Chun-Teck Lye, Jiunn-Shyan Khong, Chee-Wooi Hooy
Multimedia University & Universiti Sains Malaysia

Abstract

This study examines the effects of board gender diversity and investor protection on the private Information-based trading and its persistent form. The potential endogeneity issue is addressed via the two-stage least squares and the dynamic generalized method of moments estimators in a panel setting with data spanning from year 2002 to 2015. The results generally show that the board gender diversity, measured by the percentage of women director in the board and the Blau's index, play a significant part in preventing stock trading activities based on private information as well as persistent private information-based trading. The investor protection, too, is found to be significant and more pronounced in mitigating private information-based trading but its function is hindered by the persistence of private information-based trading. Overall, the finding suggests that, besides strengthening the investor protection, policy-makers should also encourage the involvement of women in board of directors as this not only improve the firm financial performance, but also helps to raise the investors' confidence and the integrity of the firm.

Keywords: Gender Diversity, Insider, Investor Protection, Private Information, Women Director

DIVIDEND PAYMENT BEHAVIOUR AND ITS DETERMINANTS: THE MALAYSIAN PROPERTY SECTOR

Nur Adiana Hiau Abdullah, Fadhurul Hisham Aziz
Universiti Utara Malaysia & Universiti Teknologi Mara

Abstract

This study investigates whether or not disappearing dividend phenomenon exists in the Malaysian property sector by observing dividend pattern and examining factors that influence companies' decision to pay or not to pay dividends from 2000 to 2013. Trend analysis was used to describe the dividend pattern while logistic regression analysis was utilised to determine factors that influence companies' payout decisions. Findings revealed an upward trend in the amount of dividends paid and the number of dividend payers. Dividend concentration existed in the property sector as there was a large portion of dividend paid out from the ten largest payers throughout the period of study. Dividend premium, retained earnings to total equity, profitability, size, leverage, and past year dividend were found to be significant in influencing dividend payout decision, supporting the implication stated in the catering theory, lifecycle theory and dividend smoothing theory.

Keywords: Dividend Payment, Property Sector, Catering Theory, Lifecycle Theory, Dividend Smoothing

THE ROLE OF COUNTRY-LEVEL DIFFERENCES IN INFLUENCING ASEAN FIRMS' CROSS-BORDER MERGERS AND ACQUISITIONS (CBMAs) SUCCESS

Nurhazrina Mat Rahim & Ruhani Ali

Universiti Teknologi MARA & Universiti Sains Malaysia

Abstract

The preference of using CBMAs as an external growth strategy spurs the interest to examining whether or not the CBMA transaction creates value that leads to a CBMA success. The decreasing trend of completed CBMA and non-value creation indicated that CBMA is a riskier transaction compared to the domestic M&As, which might be due to the risks related to cross-border transactions. A CBMA involved firms from different countries with different culture, location, and level of economic development. Thus, this study explores the effect of the cultural distance, geographic distance, and the level of economic development in the ASEAN CBMA success. A total of 348 CBMA transactions involving the ASEAN bidder and 246 CBMA transactions involving the ASEAN target, announced and completed during the year 2002 to 2013, were analysed. Consistent with the social identity theory, a large cultural distance (power distance dimension) between the target and bidding country could adversely affect the CBMA success of ASEAN firms. Meanwhile, the geographic distance has no significant effect on the ASEAN CBMA success. The different level of economic development between the target and bidder also has a negative effect on the ASEAN CBMA success, contradicting the resource-based view theory.

Keywords: CBMAs, CBMA Success, Cultural distance, Geographic distance, Level of Economic Development

MARKET TIMING AND CAPITAL STRUCTURE CHOICE: A STUDY ON MALAYSIA MANUFACTURING FIRMS

Tengku Muhammad Farhan Tengku Md Yusoff , Faizah Ismail, Kamarun Nisham Taufil Mohd

Universiti Utara Malaysia

Abstract

The objective of this study is to investigate the effect of market timing on financing decision of Malaysia manufacturing firms. A limited number of studies have been conducted in the emerging or developing countries on the effect of market timing. Our sample comprises of 140 firms in the manufacturing sector who issued IPO on the Bursa Malaysia between 2000 and 2015. If they were mostly made through net equity issues, then we imply on the relevance of the market timing behavior. Financing decision, which is measured by looking at the changes in leverage, is further segregated to account for changes in new equity issues, retained earnings and long-term debt. If a firm time their equity issuance to coincide with rising stock prices, market timing behavior holds. The findings of this study after controlling for profitability, asset tangibility and size show that firms time their equity issuance. The descriptive analysis indicates one notable finding when the mean of net equity issues increases at IPO+5 with the decreasing mean of book leverage and market leverage. We also test market-to-book, profitability, asset tangibility and size against book leverage. We find that these determinants support most of the past studies in market timing. In sum, this study concludes on the inclination or sign that Malaysian firms do follow the market timing behavior.

Keywords: Book leverage, Market leverage, Market-timing, Market-to-book ratio, Net equity issue

A HEDONIC PRICING MODEL ANALYSIS ON THE EFFECT OF FLOOD ON INDUSTRIAL LAND PROPERTY VALUE

Nur Hafizah Ismail, Mohd Zaini Abd Karim & Bakti Hasan Basri

Universiti Tunku Abdul Rahman & Universiti Utara Malaysia

Abstract

Natural disaster often causes significant economic and social disruption. In Malaysia, like any other disaster, flood often results in significant economic loss in term of physical damage of land, properties and infrastructure. Recent major flood event in 2014 have resulted in an ongoing discussion on the impact of flood on land property value. The argument of possible land property value depreciation in flood-labile area has been discussed in previous literatures. However, existing studies on flood impact in Malaysia are limited and does not focus on industrial land property. Hence, this study examines the effect of flood on industrial land property value in Malaysia by estimating the Hedonic Pricing Model (HPM). The results of this study show that frequent flood events significantly reduced the value of industrial land property by 19.2 per cent. The results of this study can help the landowners to understand the negative effect of flood events on industrial land property value. This will help policy makers and landowners to design ways to minimize losses due to flood.

Keywords: flood, land property, Hedonic Price Model (HPM), valuation

SUPPLY ELASTICITY OF NEW HOUSING IN MALAYSIA: AN ANALYSIS ACROSS HOUSING SUB-MARKETS

Geok Peng Yeap, Hooi Hooi Lean

Universiti Sains Malaysia

Abstract

This paper estimates the price elasticity of new housing supply in Malaysia by using Autoregressive Distributed Lag (ARDL) approach. The study period covers 2002 to 2015 at both aggregate and disaggregates levels. The results show that housing start is positively related to house price. An increase in house price pushes the quantity supplied of new houses but the magnitude is less than unity showing that new housing supply is price inelastic in Malaysia during the period. Among the four types of houses, the supply of high-rise houses has the highest elasticity while the supply of detached houses has the lowest elasticity. The results imply that the substantial rise in Malaysia's house prices could be due to inelastic supply of housing in the country. Government should develop policy to accelerate the supply of new housing.

Keywords: housing supply, elasticity, house prices, Malaysia

STRUCTURING FUND FOR AFFORDABLE HOUSING INVESTMENT: AN EXPLORATORY RESEARCH

Mohd Ariff Mohd Daud, Saiful Azhar Rosly, Zulkarnain Muhamad Sori
INCEIF

Abstract

This study attempt to investigate the potential structure of a Shari'ah compliant fund that can be developed to attract investment in affordable housing initiatives. In doing so, the study undertakes to structure a property trust fund that serves as the investment vehicle. This fund is structured in such a way that government participation is minimal, yet the risk to the investors is relatively low, creating a low-risk asset suited for social investment. A qualitative technique via interviews with institutional investors and regulators are conducted to achieve this aim. The study discovers that a more dynamic fund structure need to be adopted, which allow for the fund to evolve based on current situation and needs. The fund can be structured initially as a closed-ended fund, and with sufficient track record transformed into a public real-estate investment trust, and later on to tap into capital market via issuance of sukuk. The fund can also adopt mezzanine structure of funding, which able to reduce risk for investors with minimal government intervention. These findings may provide valuable insight for policy makers in structuring investment vehicle to attract investment in affordable housing from investors.

Keywords: Fund Development, Affordable Housing, Institutional Investors, Social Investment

COST EFFICIENCY IN THE DUAL BANKING SYSTEM

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Abstract

Malaysia is one of the pioneer countries that embark into the dual banking system. Islamic banks work in parallel with their conventional peers providing intermediary services related to financial products. Abiding to two (2) different regulatory frameworks, the study aims to investigate and contrast the cost efficiency models for the two groups of banks. Cost efficiency is measured using the operating cost as an input relative to their revenue. Highly efficient banks promise bright future to the bank in particular and to the country as a whole. The study utilizes panel data estimation for three (3) models; the Islamic bank, the conventional banks and the pooled of all commercial banks in Malaysia. Covering 9-year data from 2009 to 2017, the study considers 29 commercial banks in Malaysia in the estimations. The findings reveal there are similarities as well as significant differences between Islamic banks and conventional banks models. Profitability, asset quality and capital are discovers as important determinants for cost efficiency of both Islamic and conventional banks. In addition to that, growth is also an essential factor in determining conventional banks cost efficiency. There are negative associations between capital and cost efficiency for the Islamic banks, but the opposite association for the conventional banks. The concerning issue is the study also finds evidence that Malaysian Islamic banks experience significantly lower cost efficiency than the Malaysian conventional banks.

Keywords: Cost Efficiency, Islamic Banks, Conventional Banks, Malaysia

THE RELATIVE IMPORTANCE OF CASH FLOW NEWS AND DISCOUNT RATE NEWS AT DRIVING STOCK PRICE CHANGE

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Abstract

Which component is the main driver of stock price movement? Using vector-auto-regression-based (VAR) decomposition method, the literature finds that stock price movements are almost entirely derived by discount rate variation (DR) at the aggregate-level. Recently, extracting variations by the VAR system has been criticized based on several grounds such as predictive variables selections, sampling choice, and residual-based cash-flow-news modeling. To overcome these problems, a new method is being developed to distinguish contribution of each component using implied cost of capital (ICC). Employing a sample of 809 companies over the period of 2000 to 2015, new findings demonstrate that cash flow variations (CF) are significant at aggregate-level, as well as portfolio-level. This study also finds that CF variation rises when the horizon extends from one-year ahead to five-year ahead. Running return decomposition at the portfolio-level shows that there are significant rising CF variations from small/large growth portfolios to small/large value portfolios. The results also show that DR demonstrates a good tracking power of the actual return for the period before 2005, but CF dominates at tracking after this period. Current research contributes to the literature by providing a fundamental explanation for the value anomalies. The findings of the present study provide new evidence regarding the importance of the cash flow risk which academics and practitioners should be concerned with when modeling asset prices.

Keywords: cash flow news, discount rate news, return decomposition, size and value.

EFFECTS OF MARKET CAPITALIZATION, DIVIDEND YIELD, EARNINGS PER SHARE, PRICE EARNING MULTIPLES AND TRADING VOLUME ON STOCK PRICES: A REVIEW OF THE LITERATURE

Fatima Ruhani, Md. Aminul Islam, Tunku Salha Tunku Ahmad

Universiti Malaysia Perlis

Abstract

Stock market plays a pivotal role for firms' expansion and in turn economic growth. In the literature, because of the importance of stock markets to the real economy, the smooth and risk-free operation of the stock market has attracted significant attentions. The finance literature contains a large number of studies that examine the stock price behavior with some emphasis on the determinants of the relationship between the equity prices and the financial market activities. The present study reviews the previous works of the effect of financial market variables and stock price. Five selected financial market variables, market capitalization, earnings per share, price earning multiples, dividend yield and trading volume are reviewed in this study.

Keywords: Market Capitalization, Dividend Yield, Earnings per Share, Price Earnings Multiples, Trading Volume and Stock price.

INTERACTION EFFECTS OF COUNTRY-LEVEL GOVERNANCE QUALITY AND DEBT ON STOCK RETURNS IN DEVELOPING NATIONS

Bolaji Tunde Matemilola, Bany-Arifin, A.N, Annuar MD Nassir
Universiti Putra Malaysia

Abstract

This study examines the moderating effects of country-level governance quality on the relationship between debt and stock returns, using 3,891 firms from 23 developing countries covering the period from 2006 to 2014. Applying the panel generalized method of moments to control for endogeneity, the findings reveal that country-level governance quality has positive moderating effects on the relationship between book debt and stock returns. Robustness check using market debt show that country-level governance quality has positive moderating effects on the relationship between market debt and stock returns. Additional analysis controls for the financial crisis years and the results are broadly similar, except that the coefficients of some variables change. The results suggest that strong governance quality lowers financial risk which encourage firms to raise debt capital needed to maximize stockholders' returns.

Keywords: Stock returns; Debt; Governance quality; M &M theory with taxes; GMM estimation; Financial crisis; Developing nations

DO LOCAL RISK AND FIRM-LEVEL IMPLICIT DETERMINANTS MATTER IN A HIGHLY LIBERALIZED EMERGING MARKET? EVIDENCE FROM MALAYSIA

Yin Yin, Koay, Chee-Wooi, Hooy
Universiti Sains Malaysia

Abstract

Since 2009, all of the foreign and local investors in Malaysia have faced a single set of rules, have had equal access to the same set of financial instruments and have enjoyed the international level of minority investor protection. Malaysia is thus expected to be highly integrated with the world market. However, based on the results of the mildly segmented International Asset Pricing Model from Errunza and Losq (1989) on the Morgan Stanley Capital International (MSCI) series for 2009-2016, we reported that the local market risk still has a significant price in Malaysia, as it does in the other Asia emerging economies, including China, India, Indonesia, Philippine, Korea, Taiwan and Thailand, which are all still mildly segmented from the world market. We further investigate whether the ownership concentration, foreign ownership and price delay are important implicit drivers of the integration level in Malaysia. The ownership concentration has a significant positive but nonlinear effect on the integration level at which the effect becomes negative after a level of 62.8% ownership concentration, whereas the foreign ownership has a significant positive effect on the integration level, and a significant negative effect of price delay on the integration level is documented.

Keywords: asset pricing, integration, risk pricing, ownership concentration, foreign ownership, price delay

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The Malaysian Finance Association (MFA) was officially established in September 198 and is currently registered under the Faculty of Business Management, Universiti Teknologi MARA (UiTM). It was formed through the initiative of a group of finance academicians from various public higher learning institutions in the Kuala Lumpur who feels the need to consolidate effort in promoting awareness and interest in the field of finance.

The objectives of MFA are to:

1. Stimulate public interest in finance related studies
2. Encourage and promote research and discussion of finance related issues with special reference to Malaysia
3. Play a supporting role in promoting Kuala Lumpur as the regional financial centre.

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