Editorial

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Biographical notes: Edward Altman is the Max L. Heine Professor of Finance at the Stern School of Business, New York University, and Director of the Credit and Fixed Income Research Program at the NYU Salomon Center. He has an international reputation as an expert on corporate bankruptcy, high yield bonds, distressed debt and credit risk analysis. He was named Laureate 1984 by the Hautes Etudes Commerciales Foundation in Paris for his accumulated works on corporate distress prediction models and procedures for firm financial rehabilitation and awarded the Graham & Dodd Scroll for 1985 by the Financial Analysts Federation for his work on default rates and high yield corporate debt. He was inducted into the Fixed Income Analysts Society Hall of Fame in 2001 and elected President of the Financial Management Association (2003) and a Fellow of the FMA in 2004, and was amongst the inaugural inductees into the Turnaround Management Association's Hall of Fame in 2008. In 2005, he was named one of the '100 Most Influential People

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in Finance' by *Treasury & Risk, Management* magazine and is frequently quoted in the popular press and on network TV. He is one of the Associate Editors of the *International Journal of Banking, Accounting and Finance*.

Philip Molyneux is one of the Editors-in-Chief of the *International Journal of Banking, Accounting and Finance* and is Dean of the College of Business, Law, Education and Social Sciences, and Professor of Banking and Finance at Bangor Business School, Bangor University, Wales. His main area of research is on the structure and efficiency of banking markets and he has published widely in this area, recent publications appear in the *Journal of Money, Credit and Banking*, *Journal of Banking & Finance* and the *Review of Finance*. He has also co-authored/edited a variety of texts on banking areas including the *Oxford Handbook of Banking* (with Allen N. Berger and J.O.S. Wilson). In the past, he has acted as consultant to: New York Federal Reserve Bank, World Bank, European Commission, UK Treasury; Citibank Private Bank, Barclays Wealth, McKinsey & Co, Credit Suisse and various other international banks and consulting firms.

Fotios Pasiouras is a Reader (Associate Professor) in Banking and Finance at the University of Surrey where he is also co-Director of the Centre for Money, Banking and Institutions. Additionally, he is Associate Professor and co-Director of Research at the Financial Engineering Laboratory at the Technical University of Crete. He is the Secretary of the Financial Engineering & Banking Society, and Co-Coordinator of the EURO Working Group on Efficiency and Productivity Analysis. He has published around 60 papers in journals such as: *Journal of Money, Credit and Banking*; *Journal of Banking and Finance*; *Journal of Financial Services Research*; *Financial Markets, Institutions & Instruments*, etc. He is the Founding Editor and one of the Editors-in-Chief of the *International Journal of Banking, Accounting and Finance*.

Andrea Resti is an Associate Professor at Bocconi (Milan) and a member of the Banking Stakeholder Group at the European Banking Authority, where he chairs the BSG Working Group on Liquidity. His research has appeared on *JFI*, *JOB*, *JBF* and others; his books include several texts on risk management, banking and bank regulation. He is one of the Editors-in-Chief of the *International Journal of Banking Accounting and Finance*, a Department Editor of the *Journal of Financial Management, Markets and Institutions* and an honorary member of the Italian Risk Management Society (AIFIRM). He has been Consultant and Economic Advisor to the Bank of Italy, Assogestioni (the Italian Fund Managers' Association), the European Investment Bank and several major commercial banks. His past research appointments include directing Bocconi's Centre for Applied Research in Finance (CAREFIN) and FINMONITOR, a research institute on bank M&As. He has acted as a referee for most top finance journals and for the World Bank/BIS Task Force on Credit Reporting Standard Setting. He was the 'Senior Rapporteur' for the Basel II Task Force promoted by the Centre for European Policy Studies.

We are pleased to write this editorial on the occasion of this issue of the *International Journal of Banking, Accounting and Finance*. The journal was founded in mid-2007 and published its first issue in 2008. From the beginning editorial emphasis focused on the quality of accepted papers, international coverage, and diversity of topics addressed. To some extent these goals have been achieved as evidenced by:

1. the inclusion of the journal in Scopus, with an acceptance rate of around 18% and also by the publication of high quality papers from colleagues affiliated with prestigious institutions like INSEAD, University of Oxford, Imperial College, IMF, Deutsche Bundes bank, and so on
2. published authors are affiliated with institutions from around 20 countries
3. accepted papers that apply diverse methodologies on a wide range of topics, including financial stability, bank efficiency, exchange rates, IPOs, internet banking, credit ratings, venture capital, financial disclosures, corporate social responsibility, to name just a few.

Despite these considerable achievements the editorial board is aware that more needs to be done, in the years to come, in order to enhance the quality and visibility of the journal. This anniversary issue, including articles from many leading authors and marking the journal's fifth volume, is both a cause for celebration and an opportunity to look forward.

Edward I. Altman and Herbert A. Rijken present a new approach to assess sovereign risk by examining the aggregate default risk of a country's private sector non-financial firms. They use a logit model called Z-metrics to estimate the default probabilities of listed corporate entities in ten European countries and the USA during the period of the global financial crisis period and the subsequent European sovereign debt crisis. The underlying idea of their framework is that the wealth and the financial health of a country critically depend on the economic output and productivity of its companies. They illustrate that the proposed framework not only provides an early warning of impending sovereign default but also retains a sensible hierarchy of relative sovereign risk. Furthermore, it compares favourably to standard sovereign risk measures like credit ratings as well as to the implied default rates built into market pricing indicators such as CDS spreads.

Franklin Allen and Elena Carletti develop a theoretical model of real estate pricing while distinguishing between 'normal times' and 'boom and bust times'. Taking into account the actions of consumers, speculators and lending institutions, they illustrate how agency problems can lead to a bubble as real estate prices will exceed the discounted stream of housing services during the boom phase. Then they show how monetary and macro-prudential policies might be useful in dealing with this source of risk.

Thorsten Beck focuses on the role of financial deepening in economic development. He provides a critical survey of the literature on finance and growth in developing and developed countries and the role of government in this process. Beck differentiates his work from past surveys by focusing on non-linearities in the finance and growth relationship using the concept of the financial possibility frontier to discuss the constrained optimum of financial depth and different policies to achieve long-term sustainable level of financial development. The paper ends with various suggestions for future research.

Antje Brunner and Jan Pieter Krahnen examine the determinants of the short-term loan spread while focusing on the role of multiple banking. Using a sample of medium-sized corporate debtors of five major German banks they reach three main conclusions. First, in times of borrower crisis, a successful coordination between lenders using a pool arrangement, results in a significant increase in credit spreads relative to uncoordinated multiple banking. Second, the increase in credit spread continues even after the borrower has escaped its former distress status. Third, single banks can realise a

significantly higher spread than multiple lenders whereas German 'hausbanks' (housebanks) cannot.

Ines Chaieb, Vihang Errunza and Basma Majerbi differentiate their work from earlier studies which rely on cross-sections of country indices by investigating the significance of the price of exchange risk and the size of the currency risk premium in the case of globally diversified sectoral portfolios. They estimate a conditional international asset pricing model with time-varying prices of world market and foreign exchange risks using cross sections of globally diversified sectoral portfolios that include both developed and emerging markets. They find that on average the prices of currency risks are very close to zero but they increase significantly during crisis periods. They also reveal that sectoral portfolios of major markets benefit the most from selective augmentation with those from emerging markets. Finally, they conclude that a more diversified portfolio of developed and emerging markets may not provide additional benefits.

Robert DeYoung and Ronnie J. Phillips provide an in-depth analysis of the determinants of payday loan prices. They use a variety of estimation techniques to account for potential biases together with a rich dataset of over 35,000 payday loans that were compiled during compliance examinations. The sample includes loans made at 610 payday stores from 117 different local markets owned by 186 different payday lending companies. They reveal that the existence of a regulatory price ceiling, and how it appears to have influenced firms' pricing behaviour, is central to their findings. Additionally, they highlight that payday lenders altered their pricing behaviour as industry prices moved closer to the legal ceiling. Finally, they show that pricing depends on the organisational form adopted by payday lenders.

Bill B. Francis, Iftekhar Hasan and Mingming Zhou test the signalling hypothesis of stock splits. They differentiate their study by using the bid-ask spread of the syndicated loans as a measure of information asymmetry (or opaqueness) of the borrowing firm. Their results show the existence of negative abnormal changes in the loan bid-ask spread, providing support to the signalling hypothesis. The authors also conclude that splits signal private information to the market, and as a result, the information asymmetry of the firm between its insiders and outsiders are improved. Finally, they highlight the existence of a hidden 'spill-over' channel of stock splits, such that the mechanical splits on stocks could lead to the changes in bid-ask spread of loans.

Kose John, Ravi S. Mateti, Zhaoyun Shangguan and Gopala Vasudevan provide a test of the mis-valuation hypothesis for a sample of acquirers of private and public target firms. They use a large sample of nearly 3,500 US acquiring firms studied over 1986 to 2001. They reach a number of interesting conclusions. First, consistent with the mis-valuation hypothesis, they report that the price-to-book ratio for cash acquirers is lower than the corresponding ratio for stock acquirers for both public and private targets. Second, announcement period returns are lower for stock acquisitions and for larger public targets. Third, stock will be most likely used as a mean of payment by potentially overvalued firms with higher price-to-book ratios and higher run-up in the stock price at the time of acquisition, in acquisitions where the targets are relatively larger, and by firms acquiring public targets. Yet, acquirers of public targets that have larger free cash flow, lower leverage and higher cash and cash equivalents are less likely to use stock.

Ingo Walter focuses on reputational risk, a kind of risk that has not received as much attention as other types of risk. The author

1. defines reputational risk, and differentiates it from operational risk
2. discusses the sources of reputational risk
3. outlines empirical studies that examine the share price sensitivity and bond market reactions to reputational risk as well as the determinants of reputational risk.

He concludes by focusing on managerial requisites for dealing with reputational risk issues.

In closing the editorial of this anniversary issue, we would like to thank all the contributing authors. We would also like to thank all the past authors, referees, and editorial board members for supporting the *International Journal of Banking, Accounting and Finance* over the last five years. We hope that you will all enjoy reading this issue as well as future editions leading up to the next anniversary issue.