PREFACE

This is a special issue of the Asian Academy of Management Journal of Accounting and Finance (AAMJAF) 2021, Volume 17, Issue 2, sponsored by Yayasan Tun Ismail Mohamed Ali YTI-UKM. The theme of this special issue is "Investment, Financial Risks and Corporate Sustainable Development in Asia". This special issue consists of 10 papers. Each paper presents an empirical study of a specific issue related to investment, financial risks or corporate sustainable development in Asia.

Over the past two decades, risk management and corporate risk disclosures (CRD) have gained considerable attention among researchers, corporate practices, and regulators all over the world. In the first paper, "Firm's Size, Mandatory Adoption of IFRS and Corporate Risk Disclosures Among Listed Non-Financial Firms in Saudi Arabia", the authors examine the relationship between the mandatory adoption of IFRS and the disclosures of corporate risk among 109 non-financial firms listed on the Saudi Arabia stock exchange between 2015 and 2017. The results indicate that there is a positive relationship between the mandatory adoption of IFRS and the extent of corporate risk disclosures. The relationship still holds when the corporate risk disclosures are decomposed into financial and non-financial risk disclosures. The results are still consistent when the pooled OLS and random effects estimators are performed. The evidence shows that large firms are more likely to adopt IFRS and reveal more risk information than small firms.

The recurring crises in the banking industry are regarded as evidence of a poor liquidity risk management and ineffective regulation related to the banking industry. Consequently, banking regulations have undergone continuous reforms to bolster stability in the banking system. Nonetheless, theoretical and empirical evidence provide conflicting results that warrant comprehensive research, particularly for the emerging Islamic banking. In the second article, "Liquidity Risk and Regulation in the OIC Banking Industry", the authors examine the role of banking regulation on liquidity risk management of 245 conventional banks and 68 Islamic banks from selected 14 OIC countries, namely Bahrain, Bangladesh, Egypt, Indonesia, Jordan, Kuwait, Malaysia, Pakistan, Qatar, Saudi Arabia, Tunisia, Turkey, the United Arab Emirates and Yemen, between pre- and post-effect of Basel III liquidity regulation, for a period from 2000 to 2017. Using the dynamic panel GMM technique, the findings of the study suggest that regulation has a limited impact on bank liquidity risk, while activity restrictions (AR) and capital requirements (CR) support the value creation of regulation through the reduction in banks' liquidity risks. Furthermore, private monitoring

(PM) and supervisory power (SP) are agency costs of regulation that lead to higher liquidity risks. In addition, the impact of AR and CR are lower on liquidity risk in Islamic banks compared to conventional ones. However, post-Basel III findings imply that the liquidity regulation (Net Stable Funding Ratio) outweighs the impact of other regulatory measures on liquidity risk in banking.

High competition in the Indonesian banking sector has been shown to result in the non-survival of rural banks in Indonesia in the long run. In addition, the lack of third-party funding becomes one of the most important contributing factors that causes many rural banks to face liquidity risk. Moreover, liquidity risk also leads to many rural banks having to deal with low efficiency problem. Hence, many rural banks use interbank borrowing fund as an alternative source of funding in order to meet their liquidity requirement. The third article, "The Influence of Liquidity Risk on Efficiency in Rural Banks: The Moderating Role of Interbank Borrowing Fund", deals with the issue of liquidity risk and how it influences the efficiency of rural banks in Indonesia. This paper also examines the role of interbank borrowing fund as a moderator variable, in enhancing the influence of liquidity risk on bank efficiency. Based on the random effect regression analysis, it is found that liquidity risk has a negative influence on efficiency, and as moderator variable, interbank borrowing fund seems to enhance the influence of liquidity risk on efficiency.

Advancement in the banks' financial instruments is rather complex and considered to be fragile and interconnected around the world. This advancement has opened the door for a myriad of risk exposures to the banks, especially the market risk, which is the possible loss caused by the unexpected movements in financial instruments or portfolios, such as stock price, exchange rate, interest rate, credit spreads or commodity price. The bank market risk, if not managed properly, may lead to a reduction of earnings or valuation of a bank, resulting in capital loss. Due to the interconnected nature of banks' financial instruments, this loss will cause a multiplier effect of losses in other banks, thus affecting the stability of the entire banking industry. Due to fragile nature of the market risk, the management of a bank's market risk has become top priority for a banking supervision. In the fourth article, "The Effects of Efficiency on Banks' Market Risk: Empirical Evidence from China", the authors explore the effect of different types of efficiency on market risk using a sample of Chinese commercial banks over the period 2000–2015. Cost and profit efficiencies are estimated using the Stochastic Frontier Analysis on the 12 biggest banks listed on the Shanghai Stock Exchange. In testing the effect between efficiency and market risk, this study applies four different models to uncover the relationship between Value at Risk and Expected Shortfall, as measures of market risk on cost and profit efficiencies. Utilising a panel data analysis, the results show that different banks efficiencies affect market risk measures differently. While bank cost efficiency reduces market risk, increase in profit efficiency may increase market risk. The paper suggests that bank regulators and managers may need to focus on the cost and profit efficiencies–related initiatives to better manage the market risk.

The stabilisation capacity of a central bank relies on the effectiveness of the monetary transmission mechanism in which the monetary transmission process involves the commercial banks carry on monetary decisions for the real sector. Since the central bank holds the leverage to alter the short-term interest rates, it affects banks' lending rates and, subsequently, influences commercial banks' abilities to give out loans. The pass-through procedure from short-term interest rates to commercial banks' lending rates is often sluggish and incomplete. In the fifth paper, "Bank Heterogeneity in Interest Rate Pass-Through: A Panel Evidence of Pakistan", the authors examine the role of bank-level characteristics in determining the nature of interest rate pass-through from monetary policy rates to commercial banks' lending rates in Pakistan. Several bank-level factors, namely market size, liquidity, capitalisation, profitability and competition level, are used in analysing the pass-through mechanism. The study utilises a dynamic heterogeneous panel technique, namely the Pooled Mean Group estimation, for a sample of 12 private commercial banks, over a time span from the second quarter of 2003 to the fourth quarter of 2015. It seems that banks of smaller size, large capital, and higher liquidity are shown to significantly affect the interest rate pass-through procedure. Thus, in order to improve the monetary policy's transmission mechanism, the authors suggest that Pakistan's central bank should limit bank capitalisation and draw out excess liquidity from the banking sector.

As the policymaker in firms, the Board of Directors usually serves as the primary and dominant internal corporate governance mechanism. The board plays a very important role in ensuring that corporate governance (CG) practices facilitate firms in attaining their competitiveness, growth and sustainability. Even-though each decision made by a firm has its own distinctive valuation implication, financing decision is, nonetheless, the most important one. The decision that commonly forms a firm's financial structure, refers to the specific combination of debt and equity capital that the firm uses to finance its operations and growth. The trade-off theory proposes that a firm should aim for an optimal capital structure that will maximise its market value. In practice, however, firms seem to differ in optimising their capital structure requirements. Due to market imperfections, the choice of a capital structure depends on its ability to maintain sustainability and profitability and produce more wealth. The sixth article, "Dynamic Effect of Corporate Governance on Financing Decisions: Evidence from Sri Lanka", investigates the role of corporate governance in influencing the debt financing decision, using 198 non-financial companies listed on the Colombo Stock Exchange (CSE) stock exchange between 2009 and 2016. Sri Lanka's corporate governance code promotes dispersed ownerships, larger board size and balance of power and authority through various means, such as exclusivity between the Chief Executive Officer and Chairperson and the independent Board composition. The results of the two-step system Generalized Method of Moments show that the effect of CG indicators on financing decision depends on the financing terms. The results also imply that the Sri Lankan firms adopting the CG best practices would need to rely on other factors to access long-term debt financing or on other external financing sources.

Assets managed under sustainable investment criteria have been massively growing during the recent years. Among the criteria, environmental, social and governance (ESG) score leads the group as an important indicator of non-financial quality of a firm, which may reflect value to investors either through higher expected profit or lower risk. The seventh paper, "Environmental, Social, and Governance and Creditworthiness: Two Contrary Evidence from Major Asian Markets", investigates whether ESG score has a linkage to the credit rating of firms due to the risk mitigation effect. Ordered logistic regressions are applied on a panel dataset of listed companies in Shanghai and Tokyo Stock Exchanges over a period of 2009 to 2018. The results suggest that only in Japan, having ESG coverage is greatly associated with being awarded higher credit rating. However, only the environmental and governance pillars positively link to the Japanese firms' credit ratings, while the social pillar shows negative correlation. The finding of heterogeneous effects implies that investment in ESG should be taken with care as the impact of ESG may depend on different nature or culture of markets.

The existing literature on the corporate financial structure is ruled by two diverse contentions. The first one is premised on the established Modigliani-Miller (MM) proposition that postulates no linkage between capital structure and the firm's cost of capital whereas the second one is grounded on a "pecking order" in the selection of sources of finance by the firms. The pecking order principle ranks the preferred sources in a specific sequence, whereby firstly firms fully utilise all the existing internal resources (i.e., retained earnings) and only in instances where their financing requirements cannot be met through internal finance, they choose an external finance, including debt and lastly equity. The eight paper, "Corporate Leverage and Monetary Policy Transmission Mechanism in India: A Dynamic Approach", investigates the linkage between monetary policy indicators and corporate finance in India in the context of non-financial manufacturing firms. The study analyses the sensitivity of corporate debt structures of a large group of 422 Indian manufacturing companies to changes in monetary policy over the period 2011–2017 as major changes have occurred in the business environment after the global financial crisis. The main findings of the study highlight the fact that monetary policy tightening leads to a significant reduction in firms' debt ratios, including both long-term and short-term debt ratios, which provides a strong evidence in favour of the interest rate channel. However, the analysis provides no strong empirical evidence of the bank lending channel. The study also finds that most capital structure determinants, such as tangibility, earnings, size, age, and research intensity, are significant factors affecting firms' access to short-term and long-term financing. In addition, the interaction between monetary policy and governance dummy variable, suggests that listed firms cut down their leverage levels in situations of increased interest rates, which again suggesting that the conventional interest rate channel is at play. The findings have several important policy implications. It implies that the real impact of a monetary shock differs among public versus private firms and listed versus unlisted firms at the micro-level. This specifies that policy authorities need to focus on the diverse ownership and governance features of firms. Furthermore, the balance sheet situation of corporations is a crucial factor in the financial stability of the economy. The worsening of their balance sheets can aggravate both the adverse selection and moral hazard problems and, therefore, investigation of financial system stability should take account of proper companies' balance sheets. In addition, monetary regulatory bodies need to pay close attention to firms with elevated levels of leverage, particularly during weak monetary policies to uncover financing intricacies. From the point of view of corporate finance, the study suggests significant policy implications. The degree to which company managers can put forth their impact on firm-specific features, they can make a dent in corporate debt adjustment speed and thus optimal cost of capital. In addition, the magnitude to which monetary policy authorities can exert their impact on the monetary policy functioning, they can actually affect the pace at which corporations rebalance their leverage levels towards the optimal ones and, consequently their cost of capital.

Recently, corporate social performance (CSP) has become a compulsory aspect for companies to survive in the market. A large proportion of customers perceive and value highly for the corporate social responsibilities (CSR). The ninth article, "Does Corporate Ownership Enforce Sustainable Development? An Empirical Study of Korean Companies", examines relation between CSP and their corporate financial performance (CFP), based on ownership of the firms, using companies listed on the Korean Exchange (KRX). The study focuses on ownership of the companies as most Korean companies demonstrate high owner controlled governance. According to the results, ownership has a causational relationship with the financial performance of firms, which varies according to the proxy of CFP. Ownership and CFP demonstrates a reverse-U type with ROA, but a U-type with market to book ratio (MB ratio). Secondly, ownership and CSP does not have any causal relationship. In some cases, ownership shows negative effects on corporate governance. Finally, CSP does not affect profit (ROA) but improve the market value. Most of the companies with high credits on CSP are efficient and stable profit earning companies.

The Basel III Accord has introduced the global standards for bank liquidity, namely, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), which was expected to be implemented gradually for banks from 2015 to 2019. The objectives of these ratios, according to the Basel Committee on Banking Supervision (BCBS), are to reduce the probability of bank failure and prevent potential systemic stress. More precisely, the LCR focuses on the short-term liquidity, in boosting banks to have enough liquidity to survive one month in a stress scenario. In contrast, the NSFR prioritises the long-term liquidity, and encouraging banks to keep more high liquid assets and to increase more stable funding sources. Essentially, Net Stable Funding Ratio (NSFR) liquidity rule under Basel III guidelines is designed to handle long-term liquidity risk, thus promoting the sustainable structures of bank funding. In the tenth and last article, "The Basel III Net Stable Funding Ratio and a Risk-Return Trade-off: Bank-level Evidence from Vietnam", the author estimates the NSFR and analyses the impact of this liquidity ratio on banks in Vietnam, according to a risk-return trade-off, prior to the Basel III implementation. Using annual data for commercial banks from 2007 to 2018, the study finds that banks with higher NSFR gain more potential benefits compared to banks with lower NSFR. In general, a rise in NSFR increases bank profitability and decreases bank funding costs, credit risks, and liquidity creation. The findings offer insightful implications on the bank policy framework, advocating the Basel III liquidity regulation in Vietnam, and other emerging markets.

Othman Yong
Guest Editor