Preface

In line with its predecessor volume, “Analyzing the Relationship between Corporate Social Responsibility and Foreign Direct Investment”, this volume highlights and consolidates on the importance and significance of information asymmetries as a vital component and aspect of the rationale for financial regulation – with respect to the banking industry, as well as the insurance and securities sectors.

The following observations from a study also highlight the link and relationship between information asymmetries and systemic risks:

According to results from an investigation by Fernandes, Igan and Pinheiro (2015, p. 5),

*Markets tend to react to stress test announcements, with the direction of the price reaction dependent on the nature of the news (e.g., whether the scenarios depict more or less stressful conditions than the markets foresee or whether a bank has failed or passed the quantitative thresholds). Higher moments of the distribution are also affected and trading activity picks up. Interestingly, the reaction is not limited to the tested banks only, affecting as well banks that are not subject to the tests. This suggests that stress tests reveal information about systemic risk (or the supervisor’s perception thereof), which by definition is relevant for all banks.*

As well as the above findings, they also conclude that public disclosure seems to help reduce informational asymmetries and that more importantly, public disclosure of stress test results (and methodology) does not seem to have reduced private incentives to generate information or to have led to distorted incentives.

Information uncertainty, as well as information asymmetries, generate far reaching and overwhelming consequences whose effects may prove difficult to reverse – as this volume and its individual chapters will seek to illustrate. The impact of information uncertainty, within the context of global and national financial markets could unleash domino effects whose impacts could be synonymous to those generated from the opening of “Pandora’s box”.
As illustrated by the recent EU Referendum in the United Kingdom, could the repercussions of the Brexit campaign results of 24th June 2016 be reversed – through the blocking of Brexit or a second referendum vote? Are the immediate domino effects merely temporary or would they sustain long term adverse repercussions? Is it justifiable to panic – given the volatility of financial markets?

A very vital lesson drawn from the build up to the Brexit poll results to its release, are problems associated with the disconnect between Westminster, many parts of England, as well as communities – particularly those communities who had lost mining industries – resulting in high unemployment levels, and the need to engage with changing communities. The EU Referendum also revealed wider repercussions of the failure of the executive to effectively engage with those who elected them – and this is clearly reflected in the surprising results inflicted by those voters whose actions have not only caused seismic repercussions, but also changed the course and path of the direction of the United Kingdom – being the first member state of the European Union to leave the Union after forty-three years.

The introductory chapter to the volume, “The Need for Global Adoption of International Financial Reporting Standards: Post Enron Consequences and the Restoration of Confidence to Capital Markets” considers the background culminating in the adoption of IFRS – as well as the need for the adoption of IFRS. It also highlights why the value relevance of accounting information is also of vital significance in certain emerging economies and why the successful implementation of IFRS in these jurisdictions may be crucial in restoring investor confidence – particularly in the aftermath of stock market crashes in these economies.

Chapter Two “Mitigating Information Asymmetries in Capital Markets: The Audit Expectations Gap” highlights the impact of the audit expectations gap (AEG) in assessing the extent to which accounting information can be relied upon based on given market values and its impact on assessing how a relationship or pattern could be established in certain jurisdictions. Further, the chapter is aimed at contributing to the literature on how accounting information could be interpreted or conveyed in such a way as to serve as a useful and vital indicator which will enable investors to interpret financial information in such a way which mitigates information asymmetries between management and investors.

Chapter Three “Value Relevance of Accounting Information in Capital Markets: The New York Stock Exchange”, analyzes and investigates recent developments in vulnerabilities and volatility on the New York Stock Exchange. Further, the chapter investigates the topic of the value relevance of accounting information in global capital markets as a means of contributing to the topic of value relevance – and particularly highlighting the impact of monetary policies and growth rates of certain economies at a global level. It also highlights why fundamentals presently underlying present stock market volatilities differ from those of previous crises.
Chapter Four, Fundamental or Enhancing Roles?: The Dual Roles of External Auditors and Forensic Accountants, is aimed at highlighting why the roles of audits – and particularly accountants and auditors still serve as fundamental, vital and crucial means of verifying financial statements – such that these can be reasonably relied upon by investors in financial and capital markets. This chapter is also aimed at highlighting why such enhancing characteristics could be regarded as fundamental qualitative characteristics.

Chapter Five, Value Relevance of Accounting Information in the Emerging Chinese Stock Market (Re Visited), accentuates on why value relevance of accounting information is a very important issue – not just from the perspective of Foreign Direct Investment and the reliability and relevance of financial and accounting information for investors – whether institutional or individual, but also in respect of matters relating to Corporate Social Responsibility and financial reporting. This being of crucial importance given the need to enhance the quality and presentation of financial information, as well as the need for comparability and consistency as a means of enhancing the relevance and reliability of financial information. It is also highlights why the issue of reconciliation of discrepancies constitutes a matter in need of urgent redress in capital markets.

Chapter Six, Value Relevance of Accounting Information in Capital Markets: A Comparative Analysis between Jurisdictions from the Middle East, Africa and Asia, is specifically aimed at investigating the trends in value relevance of accounting information in these stock markets and exchanges. Further, amongst other goals and objectives, this chapter also seeks to illustrate why in light of recent developments which have resulted in decline of reliability - as a valued attribute, relevance and reliability still constitute fundamental characteristics which are required in the development of global stock markets and economies. It consolidates this aim in view of recent IASB and FASB’s initiatives and the resulting framework which categorizes understandability, comparability, timeliness and verifiability as enhancing qualitative characteristics of accounting information.

Chapter Seven, Revisiting the Value Relevance of Accounting Information in the Italian and UK stock markets, investigates the results of the value relevance of accounting information with reference to the study: “The value relevance of accounting information in the Italian and UK stock markets”. The chapter also seeks to contribute to the gap in the literature on the value relevance of accounting information in the UK and Italy. In so doing it investigates the relevance and reliability of results derived in this study, their applicability to current market developments – as well as recent fluctuations and volatility in the financial markets.

Chapter Eight, The Determinants of Stock Market Development in Emerging Economies: Examining the Impact of Corporate Governance and Regulatory Reforms (I), specifically focuses on investigating the validity of Efficient Markets Hypothesis
and Efficient Capital Markets Hypothesis in emerging economies – as contrasted with advanced market economies. In so doing, it aims to contribute to the extant literature on stock market liquidity and liquidity in capital markets.

Chapter Nine, The Determinants of Stock Market Development in Emerging Economies: Examining the Impact of Corporate Governance and Regulatory Reforms (II), considers and addresses the impact of the sizes and development of capital markets on users of financial information – as well as other factors which could have a possible impact on the value relevance of accounting information. Recent financial regulatory reforms which embrace the Dodd Frank legislation – as well as Liikannen, Vickers, Volcker rules and reports, are also considered in the aim to provide a better understanding of financial regulatory reforms that have taken place in response to the recent global Financial Crisis.

The chapter, hence, also aims to highlight and enlighten on various factors which have contributed to difficulties in the implementation of such reforms, particularly in emerging market economies – further exacerbating the pace of the current global economic recovery – which has had considerable impact and bearing on recent stock market volatilities being experienced around the globe. Whilst it is evident that the decline in oil prices – largely attributed to excess supply by major oil exporting countries, has played a crucial part in the recent volatilities across global financial markets, other factors which, to a larger or lesser extent, have assumed a role in stock and capital market reactions, will be considered as illustrated through the chapters, and by way of specific reference to the value relevance of accounting information. Such factors, which include the level of transparency and public disclosure will also be analyzed and discussed comprehensively by way of reference to the Efficient Capital Markets Hypothesis and Efficient Markets Hypothesis.

Chapter Ten, The Determinants of Stock Market Development and Liquidity in Capital Markets, also investigates the validity of Efficient Markets Hypothesis and Efficient Capital Markets Hypothesis in emerging economies – as contrasted with advanced market economies. In so doing, it aims to contribute to the extant literature on stock market liquidity and liquidity in capital markets.

Under chapter Eleven, Estimating the Brand Image in the Process of Accounting Convergence. Perceptions and Practices Gap, the author attempts to highlight how “very important it is that those who investigate aspects of brand image (brand satisfaction, brand trust and brand loyalty) set realistic goals.” Furthermore, it is accentuated that the auditor should consider also whether individual differences of brand image and reputation are accepted as reasonable or oriented in one direction as cumulated can have a significant effect on the financial statements. Are brands immune from financial markets’ volatility? If so, to what extent? Diamond brands such as those of Nirav Modi, are considered to be “recession proof” – as revealed by its founder in a recent interview. Whilst gold is considered to be more volatile,
diamonds are also considered to rise steadily in prices. However other brands such as Marks and Spencer have not fared so well with the pound’s devaluation - particularly in the post Brexit world.

Under Chapter Twelve, Value Relevance of Accounting Information in Capital Markets of India, a study which focuses on the Indian situation, analyzing a sample of 114 companies listed on the Delhi Stock Exchange, constitutes the subject matter of consideration. A period of eight years (2008-2015) is analyzed - such length of analysis period, as stated by the author, constituting “a feature that distinguishes this study from previous studies on value relevance conducted in India.” Furthermore, as highlighted in the chapter, insights about the usefulness of value relevance especially in periods of financial crisis are illustrated.

Chapter Thirteen, Impact of Declining Oil Prices on Global Markets and Economy, investigates recent global developments incorporating a consideration of countries which are likely to benefit from falling oil prices, as well as countries which are likely to bear the greatest impact of the oil price plunges. The chapter also considers developments which have resulted in the fall in global oil prices.

Chapter Fourteen, Information Uncertainty and Volatility in Global Financial Markets, further consolidates on chapter thirteen in comprehensively discussing the impact of commodity prices on global financial markets, as well as channels through which interest rate increases may be expected to impact prices. In so doing it considers the link between capital flows, commodity prices and common global factors in commodity exporters. It also attempts to highlight why much research is still needed in the field of empirical research, as contrasted with theoretical based research, in establishing a more conclusive link between interest rates and commodity prices.

Chapter Fifteen, The Value Relevance of Financial and Non-financial Information: Evidence from Recent Academic Literature, reviews and integrates recent findings, highlighting challenges and providing future directions for further research in this area through a consideration of a selected number of recently published studies that have documented the value relevance of different types of financial and non-financial information. Further, as highlighted by its authors, the chapter provides insight into the new types of information that have been proven to be value relevant and on incremental contributions made by researchers in other areas. The value relevance research findings have potential to be used by regulators and standard setters to increase the usefulness of financial and non-financial information.

Chapter Sixteen, Information Asymmetries in the Context of Restatement Announcements, provides an insight into whether sophisticated investors are able to predict certain events – in addition to a consideration of factors that influence their trading strategies. This chapter also clearly illustrates that sophisticated investors appear to trade at higher volumes when information asymmetries and risk associated events are higher – with disregard for the recent performance about the stock.
Further the chapter highlights that in contrast, unsophisticated investors are not influenced by a particular trading strategy – in relation to announcements – with less involvement in trading where there are indications of high risk levels and with greater involvement in relation to data based on positive past performance.

The results provided in the chapter also indicate and imply that sophisticated investors are able to “anticipate restatements and exploit information advantage to speculate around the event.”

As highlighted by authors of the chapter, results and data provided in this chapter highlight the fact that unsophisticated investors mostly rely on accounting information in deciding their trading strategies while sophisticated investors integrate accounting information with other sources which allow them to better predict firm’s future performance and detect the non-reliability of accounting information. Furthermore, in their opinion, the negative stock price reaction, which follows a restatement announcement, is partly due to the revision of accounting information and partly to lower trust in management capabilities and the accounting information they provide.

Chapter Seventeen, Volcker/Vickers Hybrid“?: Liikanen Report & Justifications For Ring Fencing, through a consideration of the merits of ring fencing and the establishment of separate legal activities and entities, aims to highlight why a suitable model aimed at mitigating risks of contagion can to a large extent, be justified on a cost-benefit analysis basis. Furthermore, the chapter ultimately concludes that even though a greater degree of separation of legal entities and activities persist with the model which is referred to as „total separation“, a certain degree of independence between bank activities would also be necessary under ring fencing if its purposes and objectives are to be fulfilled.

Chapter Eighteen, Ring Fencing Volcker’s Rule? Justifications for Ring Fencing and Separate Legal Entities Revisited, highlights why ring fencing not only presents a more feasible and cost effective option to other models, but also why its degree of flexibility provides the more appropriate balance in a financial environment whose trend is increasingly inclined towards conglomeration. Even though the Liikanen Report highlights why there is need for re-structuring of banks into separate legal entities – as a means of achieving ring fencing activities, the mandatory separation of banks’ proprietary trading and other risky activities, such as that opted for under the Liikanen Report could be distinguished from the position under Volcker’s Rule in the sense that it does not impose such stringent requirements as those applicable under Volcker’s Rule – whilst not being as flexible as ring fencing recommendations proposed in the Vickers Report.

The EU Referendum which was held in the United Kingdom on the 23rd June 2016, as well as the build up to the process, has not only contributed immensely to the volatility triggered in global financial markets – but also to immense uncertainty in the coming months and years.
The full and potential impact of the results of the Referendum were not evident till the morning of the 24th June 2016 – when the entire nation, as well as the global community, woke up to the shock which the Referendum results confirmed – as well further repercussions and ripples that were to be generated from the Brexit results.

The turnout amounted to 72.2%, the highest for 25 years (since 1992). Results of the Referendum confirmed a 51.9% victory margin for the Leave Campaign – as compared to the 48.1% of votes which were garnered by the Remain Voters.

Immediate broader and far reaching consequences of the results are as follows:

- The announcement of the Prime Minister’s resignation at around 8.20am on the morning of the 24th June 2016 – as well as announcements that a new Prime Minister was to be elected by the end of October 2016.
- The depreciation of the pound to lowest levels (against the dollar) since 1985.
- Bank shares also amongst those hardest hit – with these plummeting by about 20%.
- With 62% of Scottish voters having chosen to remain in the EU, prospects of a second independence referendum (following that which was held in 2014), were also looming. The Scottish First Minister, Nicola Sturgeon, announced that options for these were open and were also on the table.

The global turmoil in financial markets following the release of the Referendum results, were also even more dramatic – given the announcements which had followed immediately the polls ended at 10pm on the 23rd June 2016 – namely, market indications that the pound was at its highest levels for months – owing to anticipations and optimism that the United Kingdom would remain in the European Union.

Such was the optimism that it was also rumored on the evening of the 23rd June 2016, that the UKIP leader, Nigel Farage, had also conceded.

Consequences of the results of the Referendum are namely, the triggering of Article 50 of the EU Treaty – process which could only be initiated by one party to the Agreement – the United Kingdom.

- The UK could unilaterally determine the date of its exit, but a decision to exit would most likely be irrevocable. Once triggered, Article 50 of the EU Treaty provides for a two-year process for negotiating the terms of the departing

Table 1. The final results

<table>
<thead>
<tr>
<th>Leave Voters</th>
<th>Remain Voters</th>
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<td>17,410,742</td>
<td>16,141,241</td>
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state’s withdrawal and its future relations with the EU, but there is no requirement for remaining EU countries to reach agreement with an exiting party. An extension to negotiations could be granted, but would require unanimous consent from other EU governments (IMF, IMF Country Report No 16/168, June 2016).

It was the UK’s intention to trigger Article 50 of the EU Treaty within three months (during which a new Prime Minister was to be sought and elected by the end of October 2016). However, events of the following days and weeks confirmed that this would be more complicated and controversial than initially anticipated.

Given the shocks that were still reverberating round the global financial markets, as well as wider repercussions emanating from the EU Referendum results, the level of uncertainty and the need to mitigate such levels, were paramount.

As highlighted by the IMF (IMF, 2016:10,11), “A protracted period of uncertainty could weigh on confidence and investment and increase financial market volatility”. It has also been reiterated by the IMF that a protracted period of uncertainty could weigh on confidence and investment and increase financial market volatility – with the further risk that markets may anticipate significant negative economic effects from an exit and bring them forward via an adverse market reaction in the immediate aftermath of an exit vote.

Such a risk scenario, it is further added by the IMF, could involve some combination of higher borrowing costs for households and individuals due to higher risk premia, downward pressure on equity and house prices, and even a sudden stop of investment inflows into key sectors such as commercial real estate and finance. The UK’s record-high current account deficit and attendant reliance on external financing exacerbates these risks.”

Closing results of the financial week, following the release of the EU Referendum results, are as shown in Table 2.

The financial market results above also highlight the impact and urgency reflected as investors seek to move their investments from more risky portfolios to safer havens – a shift from perceived risky investments.

Table 2.

<table>
<thead>
<tr>
<th>Index</th>
<th>Change</th>
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<tbody>
<tr>
<td>Dow Jones</td>
<td>-610.32</td>
</tr>
<tr>
<td>FTSE 100</td>
<td>-199.41</td>
</tr>
<tr>
<td>Nikkei 225</td>
<td>-1,286.33</td>
</tr>
</tbody>
</table>

With the FTSE 100 having initially reached as low as -315.94 (-6025.68) in the immediate aftermath of the release of the results.
Indeed, the EU Referendum results, generated seismic consequences – whose impact was to be felt and whose consequences were to be revealed in the days and weeks (and perhaps months) to come.

As well as the far reaching consequences generated from the EU Referendum results, the financial market’s reaction to the EU Referendum on the eve of the release of the results, namely following the close of the voting process at 10pm on the 23rd June 2016, illustrates that even the markets cannot be relied upon in predicting eventual results.

As well as capping off, within positive regions (+73) on the FTSE 100, the value of the pound, it was announced, reached its highest levels in months, following the closing of the voting process at 10pm on the 23rd June 2016.

Consequences of the lower value of the pound (as revealed the following day are as follows):

- Higher import prices.
- Higher inflation levels.

However, lower export prices are also to be expected – which is good news for exports.

On the 25th of June 2016, two days after the Referendum had taken place, even greater and far reaching repercussions were to be revealed.

Having met and decided that greater uncertainty within the Eurozone should be avoided, six foreign ministers from founding nations of the European Union member states announced that Article 50 had to be triggered immediately by the United Kingdom – rather than accommodate a delay in the negotiating process.

Having highlighted the concerns relating to uncertainty, such a reaction is quite understandable – however it is probably also unexpected given the caution added in relation to the hasty election of a new Prime Minister – as well as the need to observe the markets for a while – given its susceptibility to volatilities and fluctuations.

Coupled with the now “more complicated” procedures involved in facilitating the triggering of Article 50, was also the decision of the Scottish First Minister to instigate negotiations aimed at securing Scottish interests in the European Union – a process which could eventually result in a second independent referendum. The Scottish National Party’s move was also of such significance – not only because of the potential breakup of the United Kingdom (a possible consequence of a second independence referendum), but also the added uncertainty which this created and generated for the entire process.
In just about thirty-six hours (or less), following the announcement of the EU Referendum results, the UK’s Economic Outlook had been altered from stable to negative by a leading credit agency (Moody’s). Further, the UK’s European Commissioner, Lord Hill announced his resignation.

Further wider repercussions are anticipated in the coming days and weeks to come. Whatever such repercussions may be, one thing is certain – elements or further actions and developments which could generate greater uncertainty and instability in the involved economies – as well as the global economy, need to be addressed or avoided, as swiftly as possible.

In echoing the French Foreign Minister (Jean Marc Ayrault):

*It’s in Britain’s interest and in the interest of Europeans not to have a period of uncertainty.*