

**Annual Report (2002 – 2003)
of
K.J. Luke Chair's Office***

August 2003

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*This report covers the period from July 1, 2002, to August 31, 2003.

Annual Report (2002-2003) of K. J. Luke Chair's Office

The academic year, 2002-2003, was an unusual year due to the outbreak of severe acute respiratory syndrome (SARS) in Asia and the Iraqi War in the Middle East. A number of important financial markets policy seminars and academic conferences were either postponed or cancelled. As a result, the Luke Chair cut down a number of business and academic conference trips. Instead, the Luke Chair devoted a large portion of his time and effort in pure academic research work and has been guiding Ph.D. students in their dissertation research work.

SERVICE: OUTREACH ACTIVITIES

A. Asian Shadow Financial Regulatory Committee

To strengthen working relations with public and private sector institutions, the K. J. Luke Chair has been continuing his outreach activities in his personal capacity as well as through the Asia-Pacific Financial Markets (FIMA) Research Center, for which he serves as Executive Director. The most significant achievement during the past year was the creation of the Asian Shadow Financial Regulatory Committee (ASFRC). This committee is modeled after the U.S. Shadow Financial Regulatory Committee, which is charged to identify and analyze developing trends and ongoing events that may affect the efficiency and safe operation of financial markets and the financial services industry; to explore the spectrum of short- and long-term implications of emerging problems and policy changes; to help develop private, regulatory and legislative responses to problems that hinder efficiency; and to assess and respond to proposed and actual public policy initiatives with respect to the impact on the public interest.

Created during the year was a 12-member committee of ten Asian countries. The invited members are either prominent scholars or former senior government policy makers. The following individuals are now serving on the ASFRC:

Country Members

1. China: Gang Fan (Ph.D., Chinese Social Science Research Institute)
Secretary General, National Economic Research Institute
2. Hong Kong: Leslie Young (Ph.D., Oxford University)
Professor of Finance and Executive Director, Asia-Pacific Institute of Business, Chinese University of Hong Kong

K. C. Chan (Ph.D., University of Chicago)
Professor of Finance and Dean, School of Business and Management, Hong Kong University of Science & Technology
3. Indonesia: Hadi Soesastro (Ph.D., Rand Graduate School)
Executive Director, Centre for Strategic & International Studies

4. Japan: Juro Teranishi (Ph.D., Hitotsubashi University)
Professor of Economics and Research Director, Center for Economic Institutions, Hitotsubashi University
5. Korea: Il Sakong (Ph.D., UCLA)
Chairman and CEO, Institute for Global Economics
Former Minister of Finance
6. Malaysia: See Yan Lin (Ph.D., Harvard University)
Pro-Chancellor, Universiti Sains Malaysia
Former Deputy Governor, Bank Negara Malaysia
7. Philippines: Maria Socorro Gochoco-Bautista (Ph.D., Columbia University)
Professor of Economics, University of the Philippines
8. Singapore: Kee Jin Ngiam (Ph.D., Carleton University)
Senior Fellow, Institute of South East Asian Studies
9. Taiwan: Chen-Min Hsu (Ph.D., Johns Hopkins University)
Professor of Economics, National Taiwan University
10. Thailand: Pakorn Vichyanond (Ph.D., Harvard University)
Research Director (Financial Sector), Thai Development Research Institute
11. U.S. & Korea:
S. Ghon Rhee (Ph.D., Ohio State University)
K. J. Luke Distinguished Professor of Finance and Executive Director, Asia-Pacific Financial Markets Research Center, University of Hawaii

Invited Member

12. Netherlands Harald Benink (Ph.D., Maastricht University)
Professor of Finance, Erasmus University Rotterdam and
Chairman, European Shadow Financial Regulatory Committee

The ASFRC is expected to convene twice a year to discuss major policy issues facing Asian financial markets and economies. The ASFRC's inaugural meeting was scheduled on July 13-14, 2003, in Taipei, Taiwan, in conjunction with the 2003 Annual Meeting of the Asian Finance Association. Unfortunately, the meeting had to be cancelled due to the SARS-related concern. At present, the inaugural meeting in Honolulu in January 2004 is under consideration.

The Luke Chair participated in the Joint Meeting of Shadow Financial Regulatory Committee which was held in Washington, D.C., on October 5-7, 2002. At this meeting, which was attended by the Shadow Committee members from the U.S., Europe, Latin America, and Japan, the Luke Chair delivered a progress report on the creation of the ASFRC.

B. Outreaching Activities: International Organizations

The Luke Chair's policy research work has been continuing to meet the demand from multilateral financial institutions, including: International Monetary Fund, Organization for Economic Co-Operation and Development (OECD), and the Pacific Economic Cooperation Council (PECC), which is under the umbrella of the Asia-Pacific Economic Cooperation.

1. PECC Finance Forum Conference

The Second Annual Conference of the PECC Finance Forum was held in Huahin, Thailand, on July 7-9, 2003. The conference was organized by: (i) Korean National Committee for Pacific Economic Cooperation; (ii) Chinese Taipei Pacific Economic Cooperation Committee; (iii) Thailand National Committee for Pacific Economic Cooperation; and (iv) Fiscal Policy Research Institute of the Ministry of Finance, Thailand.¹

The conference was attended by 65 participants from 15 PECC member countries plus international financial institutions, including the Asian Development Bank, Bank for International Settlements, International Monetary Fund, and the World Bank. The four major themes of the Conference were: (i) Financial and Monetary Cooperation in East Asia; (ii) Developing Regional Bond Markets; (iii) Financing Small and Medium Size Companies; (iv) Risk Management in the Banking Sector of APEC Economies. The Luke Chair submitted two policy research reports:

- i. The Structure and Characteristics of East Asian Bond Markets
- ii. The Asian Bond Bank: A Good Idea to Explore for Credit Enhancements

In his presentation based on the first report above, the Luke Chair stressed that bond market activities in the region and global bond market activities are much more integrated than usually perceived. Given the high degree of financial market integration, the Luke Chair emphasized that the creation of a regional bond market is justified by two major considerations: (i) Asian common currency; and (ii) Credit enhancements for Asian sovereign and corporate borrowers whose credit ratings are not at the investment quality. The Luke Chair also pointed out that extreme regionalism and too much reliance on the public sector are counterproductive and costly in creating a regional bond market.

The Luke Chair proposed the creation of the Asian Bond Bank modeled after the municipal bond banks as a means of implementing enhancement programs based on the second report above. The municipal bond banks were a successful innovation in municipal finance in Canada (1956) and the United States (1970).

The PECC Finance Forum invited the Luke Chair to organize a seminar entitled "Creating a Regional Bond Market: Is It Necessary and Feasible? What Would be the Roadmap?" in conjunction with the 2003 PECC Annual Meeting to be held in Brunei Darussalam on August 31-September 1, 2003. The creation and promotion of a regional bond market are taken for granted without raising a more fundamental question on why

¹ The First Annual Conference of the Finance Forum was hosted by the FIMA Research Center and the East West Center in August 2002 in Honolulu.

we need a regional market in the presence of an increasing integration between regional and global bond market activities. The main theme of the seminar will highlight:

- i. Underlying reasons that justify the promotion of a regional bond market.
- ii. The roles of the public and private sectors in creating a regional bond market so that the creation of a business environment sheltered from the outside competition can be avoided.

The Seminar is structured as follows:

- i. An overview presentation on regional efforts and initiatives and underlying reasons for the creation an Asian bond market:

Lead Speaker: S. Ghon Rhee, The Luke Chair, University of Hawaii

- ii. A panel discussion will follow to discuss the issues relevant to the creation and promotion of regional bond market activities. This session is designed for senior government and executives of the securities industry to provide policy makers and market regulators with necessary input and advice on market infrastructure, operational mode, and regulatory framework in promoting regional market activities.

Moderator: Dr. Charles Morrison, President of the East-West Center

Panel Members:

- Ms. Cecile Saavedra, Managing Director, Standard & Poor's (Singapore)
- Mr. Stephen Williams, Head of Debt Department, HKSB (Hong Kong)
- Mr. Graham Egan, Director of Finance, Municipal Finance Authority of British Columbia (Canada)

2. 16th APEC Finance Ministers' Technical Working Group Meeting

The Luke Chair was invited to participate in the 16th APEC Finance Ministers' Technical Working Group (TWG) Meeting on July 10-12, 2003, in Huahin, Thailand. The TWG Meeting was to prepare policy recommendations and to draft resolutions to be adopted by APEC Finance Ministers when they meet in Phuket, Thailand, on September 4-5, 2003, for their 10th Annual Meeting. The TWG members consisted of senior members from the ministries of finance of the APEC member countries. Delegates from the Asian Development Bank, APEC secretariat, and the World Bank were also at the meeting. The total number of participants was 45 from 16 APEC member countries, including a representative from the Department of the U. S. Treasury. On behalf of the PECC Finance Forum, the Luke Chair presented summary recommendations on the creation of regional bond markets at the TWG Meeting.

The Luke Chair was also invited to the APEC Finance Ministers' Meeting Process to be held in Phuket, Thailand, on September 4 - 5, 2003, representing the PECC Finance Forum.

3. U.S. Asia Pacific Council and U.S. Pacific Economic Coordination Council

The Luke Chair attended the inaugural dinner and symposium of the U.S. Asia Pacific Council (USAPC) in Washington, D. C. on April 23-24, 2003. The USAPC was newly established as a single umbrella organization serving two existing networks, the U.S. National Committee of Pacific Economic Cooperation (USNCPEC) and the U.S. Pacific Basin Economic Council (USPBEC). In addition to providing a secretariat for these networks, the USAPC also supports and strengthens the U.S. National Consortium of APEC Study Centers and is available to support other regional cooperation processes.

The Luke Chair was invited to serve on the USNCPEC and his activities for the PECC Finance Forum are credited to the USAPC and USNCPEC.

4. Kuala Lumpur Stock Exchange, Malaysia

The Luke Chair conducted a seminar on the "Surveillance and Advance Warning System" which is based on a joint study (co-authored with Rosita P. Chang and Dr. Mansor Mhd. Isa of the University of Malaya) on July 15, 2003. The goals of this study include: (i) promoting an understanding of the return, volatility, trading behavior of KLSE-Listed Stocks; (ii) improving the quality of inputs into the KLSE's advance warning and surveillance system; and (iii) defining the statistical parameters that would enhance KLSE's advance warning and surveillance function. KLSE's senior management and its surveillance & investigation department staff were at the presentation.

5. Securities Commission, Malaysia

At the invitation of the Securities Commission (SC) of Malaysia, the Luke Chair conducted a seminar on "Why Do We Need Regional Bond Markets?" on July 16, 2003. Approximately 40 people from SC, Bank Negara Malaysia (Central Bank), and the Malaysian Ministry of Finance were at the presentation.

6. The 4th Seoul International Financial Forum

The Luke Chair delivered his keynote address entitled "Can Seoul Serve as an International Financial Center?" at the 4th Seoul International Financial Forum hosted by the Financial News Daily Corporation (FNNews) of Korea on May 15, 2003. The FNNews is a new daily newspaper that is competing with three major economic dailies in Korea: Maeil Economic News, Hankuk Economic News, and Seoul Economic News. This conference is one of a number of ambitious programs the FNNews undertakes to increase its visibility and market share in the Korean economic newspaper market.

The theme of the Conference was "The Road to Financial Hub in North-East Asia: An Opportunity and Challenge." It was attended by about 250 professionals from the Korean financial services industry. In his speech, the Luke Chair emphasized that Korean financial market regulators must shift away from the costly merit-based regulatory approach that is typical of traditional, top-down regulatory regimes and embrace the disclosure-based regulatory approach that is consistent with market-based regulation widely adopted by advanced capital markets. Due to its merit-based regulatory philosophy, the Korean financial market and bank assets are small and the degree of globalization of the banking sector is extremely low.

7. The Capital Market Supervisory Agency of the Indonesian Ministry of Finance

At the invitation of the Capital Market Supervisory Agency (BAPEPAM) of the Indonesian Ministry of Finance, the Luke Chair gave a 45-minute presentation on "Earnings Management of U.S. Listed Companies in connection with Initial Public Offerings (IPOs) and Seasoned Equity Offerings (SEOs)" on July 4, 2002. Over 110 senior- and mid-level professional staff members of BAPEPAM were present at the lecture and BAPEPAM Chairman Herwidayatmo moderated this session. In his presentation, the Luke Chair explained that persistent long-term underperformance of IPO and SEO firms in the U.S. new issues market is attributed to earnings manipulations prior to the offering of new issues.

After the presentation, Chairman Herwidayatmo and the Luke Chair agreed to conduct a joint research work between BAPEPAM and FIMA Research Center to prepare a comprehensive study on Indonesian IPOs and SEOs (largely in the form of rights offerings in Indonesia). The Luke Chair also met with senior members of BAPEPAM to discuss a wide range of topics, including demutualization of the Jakarta Stock Exchange, consolidation of the Indonesian securities companies (which amounts to 188 for a small market with total market capitalization of only \$28 billion), and the creation of integrated supervisory agency for securities companies, banks, and insurance companies.

To follow up on the proposed studies on IPO-related earnings management and demutualization program, Mr. Herwidayatmo, Chairman, BAPEPAM of the Ministry of Finance, Mr. Erry Firmansyah, President Director of the Jakarta Stock Exchange, Mr. Hindarmojo Hinuri, President Director of the Surabaya Stock Exchange, and Mr. Benny Haryanto Djie, President Director of The Central Securities Depository [PT Kustodian Sentral Efek Indo (PT KSEI)] visited the FIMA Research Center on August 25, 2003.

8. Jakarta Stock Exchange

At the Jakarta Stock Exchange (JSX), the Luke Chair delivered a one-hour lecture on the impact of trading methods on market volatility and liquidity on July 5, 2002. Approximately 150 JSX professional staff and invited JSX member company representatives were present at the lecture. In his presentation, the Luke Chair made the following recommendations:

- The JSX may consider the adoption of the call market trading method to determine opening and closing prices. Currently, the JSX relies on only the continuous auction method that tends to cause greater volatility than necessary for a market which has large number of thinly traded and illiquid stocks. Both Hong Kong and Singapore Stock exchanges (which used continuous auction method only) recently implemented the call market method to determine opening and closing prices in August 2000 and March 2002, respectively.
- Using the Taiwan market study, the Luke Chair demonstrated that the call market method reduced the volatility level by approximately 50% when compared with the continuous auction method.
- However, the Luke Chair made the point that trading methods are not the panacea for the price discovery of illiquid stocks. Rather, financial disclosure is the most important vehicle for enhancement of market liquidity. Therefore, it was

suggested that JSX Research Department must disseminate as much information as possible on illiquid stocks that are not followed by financial analysts.

9. Jakarta Futures Exchange

At the invitation of the Jakarta Futures Exchange, the Luke Chair met with senior management of the Jakarta Futures Exchange (JFX) to provide advice on infrastructure building of financial derivatives markets. The JFX is a commodity futures exchange that trades gold futures and palm oil futures contracts. It plans to launch individual stock futures and currency futures and options, if BAPEPAM's approval is secured.

C. Outreaching Activities within the Academic Community

1. External Examiner for the University of Malaya's Faculty of Business & Accountancy

The Luke Chair served as an external examiner for the Faculty of Business & Accountancy (FBA), University of Malaya (UM).² With his three-year term as the external examiner ending this year, the Luke Chair visited UM to prepare his report. The UM is the premier academic institution in Malaysia and is well-known for its prestige and long-standing academic tradition. It is a very large academic institution with over 29,000 students enrolled in 18 different colleges (or faculties) and 1,600 faculty members, consisting of 180 professors, 400 associate professors, and 1,020 lecturers. The FBA has a total enrollment of 2,300 students, of which 2,025 students are in the undergraduate program, 235 students in the MBA program, and 40 students in the Ph.D. program. The FBA has 5 professors, 8 associate professors, and 42 lecturers in five departments: Management Accounting & Taxation; Marketing & Information Systems; Finance & Banking; Financial Accounting & Audit; and Strategy & Business Policy.

The Luke Chair had a series of meetings with the teaching staff; the Dean, Deputy Deans, Program Coordinators, Department Heads, selected students, and University administrators. After the meetings, the Luke Chair identified major issues facing the UM faculty of Business & Accountancy. In his confidential report to UM Vice Chancellor (equivalent to President of the University of Hawaii), the Luke Chair pointed out the following areas that needed improvement:

- i. As the flagship university in Malaysia, UM should focus on serving the Asian-Pacific region, especially within the ASEAN member countries. So far, it has not done so.
- ii. This lack of focus may be attributed to the following structural weaknesses within the UM: (a) the lack of independence and autonomy of the FBA in the budgetary and faculty recruiting matters; (b) the lack of adequate infrastructure to support faculty research activities; (c) the lack of endowment funds within the FBA to bring in world-class academic researchers for teaching and research; (d) the lack of a "structured" Ph.D. program to promote academic research within FBA; and (e) the lack of

² The Faculty is equivalent to the College under the U.S. system. The accounting area was not part of my responsibilities as an external examiner.

faculty accountability for their performance and the lack of a merit and reward system.

- iii. The areas of weaknesses cannot be corrected by the FBA alone because the most fundamental weakness is the lack of vision from the higher authorities in the Malaysian government in determining the future of UM as the premier university in ASEAN member countries and in the Asia-Pacific region.

2. The Asian Institute of Regional Innovation, Pusan National University (Korea)

The Luke Chair was invited to serve on the Advisory Board of the Asian Institute of Regional Innovation (AIRI) of Pusan National University (PNU) of Korea. The PNU is the second largest national university in terms of size and prestige in Korea, after Seoul National University. Recently, the Korean government committed a grant (in the neighborhood of \$2.5 million) to PNU to establish the AIRI to promote academic research programs focusing on the North-East Asian region which covers North and South Korea, Japan, Russia, and China. The Luke Chair met with Dr. Dae-Sik Lee, Director, Dr. Yung Joon Lee, Professor of Economics and Co-Chair of Regional Development Forum, and the AIRI faculty members to discuss finance area research programs.

ACADEMIC RESEARCH ACTIVITIES

As his involvement in the Ph.D. program intensified during the academic year, the Luke Chair allocated more than 50% of his time for pure academic research work, while guiding finance Ph.D. students in their research work. His immediate goal is to make the Ph.D. program recognized globally for its research activities focusing on Asian financial markets.

The Luke Chair's academic research work comprises serving as managing editor of the *Pacific-Basin Finance Journal*, preparation, presentation, and publication of academic papers and capital market policy research reports. In addition, his academic activities include external refereeing service, supervision of Ph.D. dissertations, and service for academic meetings. His academic activities during the year are listed below:

A. Editor of the *Pacific-Basin Finance Journal*

The K. J. Luke Chair serves as Editor of the *Pacific-Basin Finance Journal*. Published five times a year, the Journal showcases the highest quality in theoretical and empirical research manuscripts on financial markets in the Asia-Pacific region. The following achievements are either forthcoming or were accomplished by the *Journal*:

1. Issues 10.4, 10.5, 11.1, 11.2, 11.3 were published, which included a Special Issue from selected papers of the 2002 APFA/PACAP/FMA Finance Conference held in Tokyo, Japan, in 2002.
2. Editorial work for a Special Issue (Issue 11.4) on Corporate Governance was completed with the target publication in September 2003. This special issue contains the selected papers presented at the APEC/UH Special Conference on Corporate Governance. Listed below are academic papers to be included in this special issue:

- Preface to the Special Issue
 Author: S. Ghon Rhee, The Luke Chair, University of Hawaii
- “Corporate Governance and Firm Value in Japan: Evidence from 1985 to 1998”
 Authors: Takato Hiraki, International University of Japan
 Hideaki Inoue, NLI Research Institute
 Akitoshi Ito, International University
 Fumiaki Kuroki, NLI Research Institute
 Hiroyuki Masuda, NLI Research Institute
- “Managerial Ownership and Firm Valuation: Evidence from Japanese Firms”
 Authors: Carl C. Chen, University of Dayton
 Weiyu Guo, University of Nebraska
 Vivek Mande, California State University at Fullerton
- “How Does Banking Industry Consolidation Affect Bank-Firm Relationships? Evidence from a Large Japanese Bank Merger”
 Authors: G. Hwan Shin, University of Texas at Tyler
 Donald R. Fraser, Texas A&M University
 James Kolari, Texas A&M University
- “A Review of Japan's Bank Crisis from the Governance Perspective”
 Authors: Masaharu Hanazaki, Hitotsubashi University
 Akiyoshi Horiuchi, University of Tokyo
- “Agency Problems and Performance of Korean Companies During the Asian Financial Crisis: Chaebol vs. Non-Chaebol Firms”
 Authors: Byungmo Kim, Korea Advanced Institute of Science and Technology
 Inmoo Lee, Korea University
- “Shareholder Activism in Korea: An Analysis of PSPD's Activities”
 Authors: Sung Hun Cho, Korea Securities Research Institute
 Woon-Youl Choi, Bank of Korea and Sogang University
- “When Does Corporate Diversification Matter to Productivity and Performance? Evidence from East Asia”
 Authors: Stijn Classens, University of Amsterdam
 Simeon Djankov, World Bank

Joseph P.H. Fan, Hong Kong University of Science and
Technology

Larry H. P. Lang, Chinese University of Hong Kong

3. Two students were selected as the recipients of the *Pacific-Basin Finance Journal* scholarships. They were ranked in the top two among the Beta Gamma Sigma Finance Area Inductees in November 2002. They are:

- Melissa Motosue
- Heather Tang

4. For more information on the Pacific-Basin Finance Journal, go to (<http://www2.hawaii.edu/~fima/pbfj.htm>).

B. Publications of Academic Papers and Policy Reports

- "Taxes, Keiretsu Affiliation, and Income-Shifting," (co-authored with Jeffrey Gramlich and Piman Limpaphayom), forthcoming in *Journal of Accounting and Economics*.
- "Relation between Bank Monitoring and Firm Value Creation: a Survey," (co-authored with S. Hwan Shin), forthcoming in *Korean Institutional and Policy Reforms* (edited by Lee-Jay Cho and Yoon Hyung Kim).
- "The Structure and Characteristics of East Asian Bond Markets," forthcoming in *PECC Finance Forum* (edited by Yung Chul Park).
- "Index-Futures Arbitrages in Japan" (co-authored with Y. Peter Chung and Jun-Koo Kang), forthcoming in *International Finance Review*, Volume 4 (Amsterdam: North-Holland).
- "Further Reforms after the BIG BANG: The Japanese Government Bond Market" in *Designing Financial Systems in East Asia and Japan* (Tokyo, Japan: Hitotsubashi University, 2003).
- "The Wealth Effect of Foreign Investor Presence: Evidence from the Indonesian Stock Market," (co-authored with Mamduh Hanafi) forthcoming in *Management International Review*.
- "A Retrospective Evaluation of the Pacific-Basin Finance Journal: 1993-2002," (co-authored with Kalok Chan and G. Andrew Karolyi), *Pacific-Basin Finance Journal* 10 (2002), 497-516.

C. Papers under Review

The following papers are at the second or third stage of the review process by leading academic journals in the areas of finance and accounting:

- “The Impact of Daily Price Limits on Information Asymmetry, Order Imbalance, Noise and Informed Trading: Empirical Evidence from the Kuala Lumpur Stock Exchange,” (with Soon-Huat Chan and Kenneth Kim).
- “Transaction Costs and One-Way Arbitrage-Based Interest Parity Theorem,” (co-authored with Rosita P. Chang, Sang-Hyop Lee, and Sean F. Reid).
- “Shareholder Oversight and the Regulatory Environment: The Japanese Banking Experience,” (co-authored with Kenneth Kim and Sang-Hyop Lee).
- “Investor Demand for IPOs, and Aftermarket Performance: Evidence from Hong Kong Stock Market” (co-authored with Sumit Agarwal, and Chunlin Liu).
- “Is the London Market Competitive? A Study of Trading Behavior of London Market Makers” (co-authored with Rosita P. Chang and Chunlin Liu).

D. Papers Completed

- “The 1997 NASDAQ Reforms and Preferred Trading,” (co-authored with Ning Tang)
- The Impact of Interbank and Capital Market Competition on Relationship Banking: Evidence from the Japanese Experience (co-authored with Donald Fraser and Hwan Shin)
- “The Relation of Earnings Management to Firm Size” (co-authored with Yangseon Kim and Caixing Liu).
- “Where Does Price Discovery Occur for Stocks Traded in Multiple Markets?: Evidence from Hong Kong and London” (coauthored with Sumit Agarwal and Chun-Lin Liu).
- “Earnings Management During Distinct Phases of Capital Demand: Evidence from Japanese Banks,” (co-authored with Sumit Agarwal, Souphala Chomsisengphet, and Chunlin Liu).

E. Papers under Progress

- “Decomposing Overnight Price Reversals: Implications for Trading Strategies,” (co-authored with Pin-Huang Chu and Robin K. Chou).
- “Price Discovery Process on Regular Trade and Cross Trade Markets: Empirical Evidence from the Jakarta Stock Exchange,” (co-authored with Rosita P. Chang and Mamduh Hanafi).
- “Macroeconomic Factors, Asset Pricing Anomalies, Investment Horizons, and Stock Returns,” (co-authored with Pin-Huang Chou, Wen-Shen Li, and Jane Sue Wang).

- “Are Foreign Investors More Informative? An Examination of The Price Movement in The Jakarta Stock Exchange” (co-authored with Mamduh Hanafi)
- “Price Discovery Process on Regular Trade and Cross Trade Markets: Empirical Evidence from the Jakarta Stock Exchange,” (co-authored with Rosita P. Chang and Mamduh Hanafi).

F. Presentation of Academic Papers

- "Relation between Bank Monitoring and Firm Value Creation: a Survey," (co-authored with S. Hwan Shin), presented at the 2003 EWC/KDI Conference on Institutional and Policy Reforms to Enhance Corporate Efficiency in Korea, July 24-25, 2003, Honolulu, Hawaii.
- “The Relation of Earnings Management to Firm Size,” presented at the Sung Kyun Kwan University on May 13, 2002, Seoul, Korea, and Pusan National University on May 16, 2003 in Pusan, Korea.
- “Earnings Management in Relation to U.S. Market New Issues Market,” presented at the Gadjadara University Faculty of Economics, July 8, 2002, Yogyakarta, Indonesia.
- “Decomposing Overnight Price Reversals: Implications for Trading Strategies,” (co-authored with Pin-Huang Chu and Robin K. Chou) presented at the 2002 APFA/PACAP/FMA Finance Conference, July 15-17, 2002, Tokyo, Japan.
- “The Impact of Interbank and Capital Market Competition on Relationship Banking Exposure: Evidence from the Japanese Credit Market” (co-authored with Donald R. Fraser, G. Hwan Shin), presented at the APEC/UH Special Conference on Corporate Governance on July 16, 2002, Tokyo, Japan.
- “The Wealth Effect of Foreign Investor Presence: Evidence from the Indonesian Stock Market,” (co-authored with Mamduh Hanafi), presented at the PACIBER Annual Meeting on July 12, 2002 in Bali, Indonesia.

G. Finance Area Research Workshop Series

Beginning of Spring 2003, the Luke Chair created the finance area research workshop series to promote research activities in the finance department. During the Spring Semester, the following papers were presented:

March 6, 2003

Presenter: Steve Foerster, University of Western Ontario

Title: Second Time Lucky? Underwriter Switching and the Performance of Withdrawn IPOs that Return to the Market (co-author: Craig Dunbar).

March 17, 2003

Presenter: Tony Tang, University of Hawaii
Title: 1997 Nasdaq Market Reforms. (Dissertation in progress)

March 31, 2003

Presenter: Caixing Liu, University of Hawaii
Title: The Effect of Firm Size on Earnings Management (co-authors: Yangseon Kim and S. Ghon Rhee)

April 7, 2003

Presenter: Victor Huang
Title: Do International Investors' Demand Curves for Stocks Slope Down Too? (co-authors: Rajesh Chakrabarti, Narayanan Jayaraman, Jinsoo Lee)

H. Visiting Scholar Program

The Luke Chair invited scholars from abroad for joint research work. Three invited scholars include:

- Dr. Francis In, Monash University (Australia): To conduct academic research on return and volatility spillovers using the “wavelet” method
- Dr. Sung Pyo Chi, Kangnung National University (Korea): To conduct research on the convertible bond markets in the Asia-Pacific region
- Dr. Woojin Kim, Korea Institute of Finance: To conduct research on corporate governance in the Korean banking sector

I. Ad Hoc Academic Paper Review

- Journal of Financial Markets
- Review of Financial Studies
- Journal of Financial Research
- Journal of Empirical Finance
- Journal of Business Finance & Accounting

J. Service for Academic Meetings

Review Committee, The Fourteenth APFA/PACAP/FMA Annual Meeting and the Fourth Annual Meeting of the Pacific-Basin Financial Management Society, July 15-17, 2003, Taipei, Taiwan (This meeting has been postponed to July 2004).

K. Service for Academic Journals

The Luke Chair has been serving as an Editorial Board Member for

Yonsei University Journal of Management (1996-Present);
Financial Review (1998-Present); and
Gadjah Mada University International Journal of Business (1999-Present)
Yonsei University Journal of Management (1996-Present);
Financial Review (1998-Present);
Gadjah Mada University International Journal of Business (1999-Present); and
Journal of Accounting, Management, and Economic Research (Journal Riset Akuntansi, Manajemen, Ekonomi) (2002-Present).

TEACHING ACTIVITIES

Ph.D. Seminar Course: FIN 702 “Asian Finance”

After offering FIN 702 “Asian Finance” over two consecutive semesters, Fall 2001 and Spring 2002, the Luke Chair has been guiding Ph.D. students in Finance and Accounting on their research papers. The following two academic papers have been completed as co-authored papers with Ph.D. students. The papers are about to be submitted to academic journals:

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- “The 1997 NASDAQ Reforms and Preferred Trading,” (co-authored with Ning Tang)
- “The Relation of Earnings Management to Firm Size” (co-authored with Yangseon Kim and Caixing Liu).

Under the Luke Chair’s formal and informal guidance, the following Ph.D. students have been working on their dissertation proposals:

<u>Student</u>	<u>Dissertation Topic</u>
Crystal Chen	Short Sales Restrictions
Daphne Du	Daily Price Limits
Greg Stone	Risk Arbitrage
Ning Tang	Nasdaq Market Reforms

MBA and Undergraduate-Level FIN 444 “Asian Finance”

- The Luke Chair offered MBA and Undergraduate-Level FIN 444 “Asian Finance” in Spring 2003. This course is designed to focus on financial markets of Asia-Pacific countries, financial systems, regulatory structure over financial institutions in the region, and major policy issues facing the region’s financial markets. Academic and policy research papers are used to promote students’ understanding of the Asian financial markets.

SERVICE ACTIVITIES

A. Master of Science Program in Asian Finance

The Luke Chair has spearheaded the Finance Department's effort in creating a one-year M.S. Program in Finance focusing on Asian finance. The proposed program is under review by the UH Faculty Senate.

B. Coordinator for Ph.D. Program

Under the re-designed CBA Ph.D. Program in International Management, the Luke Chair has been serving on the Ph.D. Committee, representing the Finance Department.

C. Graduate Faculty

The Luke Chair has been serving as a graduate faculty member in Economics since October 1999 and a graduate faculty in South East Asian Study since Spring 2000.

He has been serving as advisor for the following Ph.D. students:

Existing Students: Informal Advisor

- Greg Stone (Finance)
- Crystal Xiaopei Chen (Finance)
- Tony Tang (Finance)
- Daphne Du (Finance)

New Incoming Students: Informal Advisor

- Liang Zhang (Finance)
- Iris Zuo (Finance)
- Mahdhir Abraham (Finance)
- Jack DeJong (Finance)

D. Member of Ph.D. Committee

Vilasinee Bunyasrie of Economics Department (2003-Present)

E. Tenure and Promotion Committee

Served on the University TPR Committee (Spring 2003)

F. Newspaper Column

“Back to Basics: Indonesian Capital Market Reforms” in *Honolulu Star-Bulletin* (August 9, 2002).