

**Annual Report (2000-2001)
of
K.J. Luke Chair's Office**

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I. Service: Out-Reach Activities

In developing close working relationships with the public and private sectors, the K. J. Luke Chair continues his out-reach activities through the Asia-Pacific Financial Markets (FIMA) Research Center, in which he serves as Executive Director. His activities were culminated by three major conference programs during the academic year 2000-2001: (i) the ADBI/FIMA Symposium on **Designing a New Financial Structure in the Post-Crisis Asia** organized in May 2001 at the request of the Asian Development Bank Institute; (ii) two two-day FIMA conferences organized at the request of the Indonesian Ministry of Finance to promote the **Development of Municipal Bond Market** in November 2000 in Surabaya and Jakarta; and (iii) a two-day FIMA Conference on the **Development of Government Bond Market** organized at the request of the Indonesian Ministry of Finance in Jakarta in July 2000.

The K. J. Luke Chair's policy research work was continually in demand, from multilateral financial institutions, including the Asian Development Bank, Asian Development Bank Institute, Pacific Economic Coordination Council under the umbrella of the Asia-Pacific Economic Cooperation, Organization for Economic Co-Operation and Development, and World Bank, to various research institutions in the Asia-Pacific region. His out-reach activities are listed under the following four categories:

A. Conferences Organized

1. Two-day Conference on the Development of the Indonesian Government Bond Market, July 25-26, 2000, Jakarta, Indonesia

This two-day Conference was successfully organized at the Jakarta Convention Center on July 25-26, 2000. In addition to the Asia-Pacific Financial Markets (FIMA) Research Center, the Indonesian Ministry of Finance (MOF), APEI Foundation, and the Indonesian Economists Association were the co-organizers of the Conference. Mr. Noor Fuad, Secretary General, who is the second highest-ranking member of the Indonesian MOF, and the K. J. Luke Chair served as program co-chairs. As indicated in the attached Conference Program, the following individuals served as keynote speakers:

- Bambang Sudibyo, then Minister of Finance
- Mr. Hubert Neiss, Chairman, Deutsche Bank Asia (Singapore)
- Dr. Sjahrir, President Director of PT Sjahrir Securities

The Conference was sponsored by PT Danareksa (Persero); PT Bahana (Persero); PT Bank Mandiri; and Deutsche Bank AG. The estimated attendance was 250 participants, including representatives from the Indonesian MOF, Bank Indonesia (central bank), securities companies, commercial banks, and multilateral financial institutions (IMF, World Bank, and Asian Development Bank). Due to its timeliness, feedback on the conference was overwhelmingly positive from the local participants. The conference also presented a wonderful opportunity of enhancing the visibility of the University of Hawaii and the FIMA Research Center.

2. Conferences on the Development of the Indonesian Municipal Bond Market, November 21-22, 2000, in Surabaya and November 24, 2000, in Jakarta, Indonesia

Two back-to-back conferences in Indonesia were concluded for the Indonesian Ministry of Finance. The first conference was organized on November 21-22, 2000, in Surabaya, which is the second largest city in Indonesia. The Surabaya Conference was followed by a one-day conference on the same subject in Jakarta on November 24, 2000.

Two Indonesian organizations worked with the FIMA Research Center for the creation of the two conferences -- the Research Foundation of the Association of Indonesian Securities Companies and the Indonesian Economists' Association. In addition, Municipal Finance Authority of British Columbia (Canada), Korea Stock Exchange, Capital Market Supervisory Agency (BAPEPAM) and Debt Management Unit, under the Indonesian MOF, collaborated with the FIMA Research Center for the conferences. Both conferences were a big success as evidenced by the number of attendants:

<u>Conference</u>	<u>Number of Attendants</u>
Surabaya Conference	over 300 senior officials from municipal governments
Jakarta Conference	350 senior government officials from the central government, mid- and senior-level managers from Bank Indonesia (central bank), and the local securities industry

The K. J. Luke Chair served as program co-chair with Mr. Noor Fuad, Secretary General of the Indonesian MOF, for both conferences.

3. ADB/FIMA Symposium on Designing a New Financial Structure in the Post-Crisis Asia, May 10, 2001, Honolulu

This one-day Symposium was co-organized by the ADB Institute and the FIMA Research Center to disseminate and to promote discussions on policy recommendations on “How to Design a Financial Market Structure in Post-Crisis Asia.” The Asian Policy Forum (APF) research team prepared these policy recommendations by the ADB Institute. The K. J. Luke Chair served as one of core members of the team between September 2000 and May 2001. This Symposium was organized on May 10, 2001, in Honolulu during the 34th Annual Meeting of the ADB Board of Governors. The FIMA Research Center collaborated with the following institutions for the Symposium:

Asian Development Bank
ADB Institute
Capital Market Supervisory Agency (BAPEPAM)(Indonesia)
China Securities Regulatory Commission
Federal Reserve Bank of San Francisco
Financial Supervisory Commission (Korea)
Keio University (Japan)
Korea Development Institute
Ministry of Finance (Japan)
PEFINDO (Indonesia)
Securities Commission (Malaysia)
Securities and Exchange Commission (Thailand)
Siam Commercial Bank (Thailand)
State of Hawaii
University of Hawaii
University of Pennsylvania

The Symposium was attended by approximately 130 participants, including APF research team members, invited observers from the local Hawaii banking and securities industries, ADB annual meeting participants, and University of Hawaii faculty and students.

The K. J. Luke Chair served as Program Chair of the Symposium.

4. 2001 PACAP/FMA Finance Conference

The FIMA Research Center will serve as one of co-sponsors of the upcoming 2001 PACAP/FMA Finance Conference to be held in Seoul, Korea, on July 5-7. This Conference will be supported by the Korea Stock Exchange and the Korea Securities Dealers Association. Dr. Young-Jin Kim of Seoul National University and Dr. Woon-Youl Choi of Sogang University will serve as program co-chairs for the academic sessions and Dr. Rosita P. Chang, Executive Director of the FIMA Research Center, is program co-chair for special sessions. All four

academic associations in Korea (Korea Finance Association, Korea Securities Association, Korea Options/Futures Association, and Korea Financial Management Association) will participate in the Seoul Conference as co-sponsors.

B. New Initiative for the Asian Shadow Financial Regulatory Committee

To reinforce his out-reach activities, the K. J. Luke Chair agreed to collaborate with Professor Benink A. Harald of the Rotterdam School of Management of Erasmus University for the creation of the Asian Financial Regulatory Shadow Committee. Professor Harald was instrumental in creating the Latin American and Japanese counterpart committees. These committees are 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 sectors of 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.¹

C. Speeches/Lectures Delivered

- Two-Day Conference on The Development of the Indonesian Government Bond Market, July 25-26, 2000, in Jakarta, Indonesia

Topic: Japanese Government Bond Market

- East-West Center and Korea Development Institute Conference on “A Vision for Economic Cooperation in East Asia: China, Japan, and Korea,” July 31-August 1, 2000, Honolulu, Hawaii

Topic: Financing Infrastructure Investment

- Asia Policy Forum Brainstorming Workshop on Development of Corporate Bond Markets in Asia hosted by ADB Institute, September 11, 2000, Tokyo, Japan

Topic: Asian Regional Bond Markets

¹ The US Shadow Financial Regulatory Committee is composed of: George Kaufman (Loyola University), Robert Litan (Brookings Institution), George Benston (Emory University), Charles Calomiris and Franklin Edwards (Columbia University), Scott Harrington (University of South Carolina), Richard Herring (University of Pennsylvania), Paul Horvitz (University of Houston), Hal Scott (Harvard University), Kenneth Scott (Stanford University), and Peter Wilson (American Enterprise Institute).

- Hitotsubashi University Institute of Economic Research, September 14, 2000, Kunitachi, Japan

Topic: Post-Big Bang Reforms: The Japanese Government Bond Market

- Pacific and Asian Affairs Council Breakfast Forum, October 4, 2000, Honolulu, Hawaii

Topic: Regionalized Bond Markets in the Asia-Pacific Region

- International Finance, organized by the Government of Singapore, Asian Development Bank, and ADB Institute, October 9-13, 2000, Singapore

Topic: Post-Crisis Capital Market Issues and Reforms in East Asian Economies

- Corporate Governance Conference hosted by the Pacific Economic Coordination Council, November 9-11, 2000, Cebu, Philippines

Topic: Post-Crisis Capital Market Reforms in East Asia

- Asia Policy Forum Brainstorming Workshop on Development of Corporate Bond Markets in Asia hosted by ADB Institute, November 20, 2000, Tokyo, Japan

Topic: Development of Corporate Bond Markets

- East-West Center Asia Pacific Executive Forum on International Finance, "Toward a Sound System: "Doing Business in a Changing Asia: A Strategic Vision", January 16-19, 2001, Honolulu, Hawaii

Topic: Regional Financial Integration in Asia

- Public Hearing at the Tokyo Research International, Ltd., January 29, 2001, Tokyo, Japan

Topic: Japan's Role in Regional and Global Consolidation of Financial Markets

- 87th NBEIC Meeting, February 5-7, 2001, Big Island, Hawaii:

Topic: Japan's Economy

- Asia Policy Forum Brainstorming Workshop on Development of Corporate Bond Markets in Asia hosted by ADB Institute, February 26, 2001, Tokyo, Japan
 Topic: Future of Asian Banking System
- UH Center for Chinese Studies Seminar, April 4, 2001, Honolulu, Hawaii
 Topic: Financial Market Reforms in China
- UH School of Architecture 2001 Symposium, April 5, 2001, Honolulu, Hawaii
 Topic: An Overview of Asian Economies and Financial Markets in Transition
- 3rd Round Table on Capital Market Reforms in Asia organized by Organization for Economic Co-Operation and Development, April 10-11, 2001, Tokyo, Japan
 Topic: Post-Crisis Capital Market Reforms in Asia
- Asia Policy Forum Brainstorming Workshop on Development of Corporate Bond Markets in Asia hosted by ADB Institute, April 13, 2001, Tokyo, Japan
 Topic: Development of Corporate Bond Markets
- Asia-Pacific Center for Security Study's Senior Executive Course, May 1, 2001, Honolulu, Hawaii
 Topic: Regional Cooperation: Leadership Vacuum
- The ADBI/FIMA Symposium on Designing a New Financial Market Structure in the Post-Crisis Asia, May 10, 2001, Honolulu, Hawaii
 Topic: Regional Bond Markets in the Asia-Pacific Region: Reality or Wishful Thinking?
- The Third Asia Development Forum: "Development of Domestic And Regional Capital Markets," June 12-14, 2001, Bangkok, Thailand
 Topic: The Role of the Japanese Government Bond Market in the Creation of a Regional Bond Market

II. Academic Research Activities

On March 1, 2001, the K. J. Luke Chair was awarded the 2001 Archimedes Award by the Università di Catania of Sicily, Italy, for his contribution to Asian financial market research. After receiving the award, he also delivered a commencement speech at the MBA graduation ceremony for the same institution.^{2,3}

At the invitation of the Tinbergen Institute and Erasmus University of Rotterdam, Netherlands, the K. J. Luke Chair served as a visiting research professor during the period, May-June 2001.

These activities underscore the recognition of the K. J. Luke Chair's academic research work. His research activities comprise preparation, presentation, and publication of academic papers, capital market policy research reports, and edited books. In addition, his academic activities include external refereeing service, supervision of Ph.D. dissertations, and service for academic meetings. His academic activities are listed below:

Articles and Reports Published

- "Risk Management System in Clearing and Settlements: Asian and Pacific Equity Markets," forthcoming in *Asian Development Review* (2001)
- "Further Reforms after the BIG BANG: The Japanese Government Bond Market" in *Bond Market Development in Asia* (Paris, France: Organization for Economic Co-Operation and Development, 2001), 217-236.
- "The Effect of Conversion from American- to European-Style Options on Price Discovery of Nikkei 225 Index," (co-authored with Rosita P. Chang and Masahiro Yoshikawa), in *Research Symposium Proceedings* (Spring 2000) (Chicago, Ill: Chicago Board of Trade), 63-97.

Special Policy Research Report

- Study of the Development of Government Bond Markets in Selected Asian Countries (Manila, Philippines: Asian Development, October 2000)

² Università di Catania was founded in 1434 offering academic degrees in theology, law, physics (medicine), and liberal arts (literature). The Archimedes award was named after the famous Greek mathematician Archimedes who was born in Syracuse, Sicily, in 287 BC.

³ Past winners of this award are Dr. Stephen Brown of New York University and Dr. Werner DeBondt of University of Wisconsin-Madison.

Presentation of Academic Papers

- “The Effects of Conversion from American- to European-Style Options on Price Discovery Process of Nikkei 225 Index” (co-authored with Rosita P. Chang and Masahiro Yoshikawa), presented at the *2000 PACAP/FMA Finance Conference* held in Melbourne, Australia, July 6-8, 2000.
- “Is the London Market Competitive? A Study of Trading Behavior of London Market Makers” (co-authored with Rosita P. Chang and Chunlin Liu) presented at the 2000 Financial Management Association Annual Meeting, Seattle, Washington, October 25-29, 2000, Tinbergen Institute Workshop on June 11, 2001, and City University of Hong Kong Workshop on June 15, 2001.
- “Shareholder Oversight and the Regulatory Environment: The Japanese Banking Experience” (co-authored with Kenneth Kim) presented at the Hitotsubashi University Workshop on September 14, 2000.
- “A Re-visit to Interest Rate Parity Theorem with Transaction Costs,” (co-authored with Rosita P. Chang, Sang-Hyop Lee, and Sean Reid) presented at the Erasmus University/Tinbergen Institute Workshop on May 31, 2001.
- “The Value of Early Exercise Nikkei Futures Options,” (co-authored with Onno Steenbeek) to be presented at the 2001 PACAP/FMA Finance Conference, July 5-7, 2001, Seoul, Korea.
- “The Role of Security Analysts In Japan” (co-authored with Hoje Jo and Moon S. Sung) to be presented at the 2001 PACAP/FMA Finance Conference, July 5-7, 2001, Seoul, Korea.

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:

- “Taxes and Horizontal Corporate Group (Keiretsu) Affiliation: Empirical Evidence from Japan,” (co-authored with Piman Limpaphayom)
- “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)
- “A Re-Visit to Interest Rate Parity Theorem with Transaction Costs” (co-authored with Rosita P. Chang, Sang-Hyop Lee, and Sean F. Reid)

Academic Paper Review

1. Journal of Financial Markets
2. Review of Financial Studies
3. Journal of Financial Research

External Referee Service

1. Promotion of Dr. Kalok Chan, Hong Kong University of Science and Technology
2. Promotion of Dr. Jun Kai, City University of Hong Kong
3. Promotion and Tenure of Dr. Yoon K. Choi, University of Central Florida
4. External Dissertation Review of Dr. Carole Comerton-Forde's Dissertation, University of Sydney

Supervision of Ph.D. Dissertations

Mamduh Hanafi (2001), University of Rhode Island

Service for Academic Meetings

- Review Committee, The Thirteenth PACAP/FMA Annual Meeting and the Fourth Annual Meeting of the Pacific-Basin Financial Management Society, July 5-7, 2001, Seoul, Korea.
- The 2000 Financial Management Association Annual Meeting, Seattle, Washington, October 25-29, 2000: Chaired an academic session entitled "Securitization in Emerging Markets," and served as a panel member at a session "Managing the Asian Financial Crisis by the World Bank and International Monetary Fund."
- Program Committee of the NYSE Conference on Global Equity Markets in Transition, February 16-17, 2001 and discussed a paper entitled "Contagion Across Financial Markets: An Empirical Assessment" written by Mardi Dungey and Vance Martin of Australian National University.
- Program Committee of the 2001 Financial Management Association Annual Meeting, Toronto, Canada.

Academic Journal

The K. J. Luke Chair has been serving as Editorial Board Member for

Multinational Business Review (1992-present);
Global Finance Journal (1988-1993);

Yonsei University Journal of Management (1996-Present);
Financial Review (1998-Present); and
Gadjah Mada University International Journal of Business (1999-Present).

Manuscripts Completed

“Is the London Market Competitive? A Study of Trading Behavior of London Market Makers” (co-authored with Rosita P. Chang and Chunlin Liu)

“A Note on Shareholder Oversight and the Regulatory Environment: The Japanese Banking Experience,” (co-authored with Kenneth Kim and Sang-Hyop Lee)

“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)

“Is the NASDAQ Market More Liquid than It Appears to Be?: A Study of Excess Market Depth” (with C. J. Wang)

"An Examination of the Volatility Behavior and Daily Price Limits: The Korean Experience," (with Kee-Hong Bae)

III. Teaching Activities

Since he joined the University of Hawai'i, the K. J. Luke Chair has been instrumental in offering Asian Finance courses at three levels of academic programs: Ph.D., MBA, and undergraduate programs. The first Ph.D.-level seminar course on Asian Finance is under preparation to be offered in Fall 2001. This class is taught at both MBA and undergraduate levels.

He has been serving as advisor to Ph.D students in finance and economics area, providing strong support in the College's effort in strengthening its Ph.D program. The K. J. Luke Chair has been assisting the UH/CBA in designing a one-year M.S. program in Finance focusing on Asian capital markets.

Courses Taught

Since he joined the University of Hawai'i, the K. J. Luke Chair has been teaching the following courses:

Managerial Finance (MBA Level)
Advanced Asian Capital Markets (MBA Level)
Asian Finance (Undergraduate Level)

Ph.D. Seminar in Asian Finance (to be offered in Fall 2001)

Coordinator for Ph.D. Program (Quantitative Area Track)

With the re-design of the existing CBA Ph.D. Program, the K. J. Luke Chair has been serving as the coordinator for the quantitative area track and as an advisor to Ph.D. students in the areas of Accounting, Finance, and Economics.

The K. J. Luke Chair has been serving Graduate Faculty in Economics since October 1999.

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

- Kan Li (Economics)
- Greg Stone (Finance)
- Crystal Xiaopei Chen (Finance)
- Tony Tang (Finance)

Supervision of Master Thesis Research

The K. J. Luke Chair supervised Ken Reichelt's Master Thesis entitled "Comparative Taxation of Bonds in Australia, Hong Kong, Japan, Singapore, and the United States of America." Mr. Reichelt is a student in the MS Program in Accounting.

IV. Asia-Pacific Financial Markets (FIMA) Research Center

The Center, since its establishment in December 1999, has been instrumental in facilitating the K. J. Luke Chair's out-reaching and research activities. Under the leadership of the K. J. Luke Chair and Professor Rosita P. Chang, the FIMA Research Center has been expanding and promoting the Center's activities with outside constituencies, the Center's web site and the K. J. Luke Working Paper Series.

Board of Governors of the FIMA Research Center

The formation of the Center's Board of Governors is now at the final stage. At present, the following are 24 members are serving on the Board.

1. **Mr. Ali Abdul-Kadir**, Chairman, Securities Commission, Malaysia
2. **Mr. Junji Asano**, President, Toyo Keizai Inc., Japan
3. **Mr. Paul Chow**, Chief Executive Officer, HSBC Asset Management Hong Kong Ltd.

4. **Mr. Mas Achmad Daniri**, President Director, Jakarta Stock Exchange, Indonesia
5. **Mr. Lawrence Fok**, Chief Operating Officer, Stock Exchange of Hong Kong
6. **Mr. Ramon T. Garcia***, President, Philippine Stock Exchange
7. **Mr. Mohd. Azlan Hashim**, Executive Chairman, Kuala Lumpur Stock Exchange, Malaysia
8. **Mr. Herwidayatmo**, Chairman, Capital Market Supervisory Agency, Ministry of Finance, Indonesia
9. **Mr. Yoshiaki Kaneko**, Managing Director, Tokyo Stock Exchange
10. **Mr. Thomas Kloet**, Chief Executive Officer, Singapore Exchange Ltd.
11. **Mr. C. Y. Lee**, Chairman, Taiwan Stock Exchange Corporation
12. **Mr. Robert G. Lees***, Secretary General, Pacific Basin Economic Council
13. **Mr. Warren K. K. Luke**, Chairman and CEO, Hawaii National Bank
14. **Dr. David McClain**, Dean and the First Hawaiian Bank Distinguished Professor of Leadership and Management, College of Business Administration, University of Hawaii
15. **Dr. Charles E. Morrison**, President, East-West Center
16. **Mr. Yannes H. Naibaho**, Chairman of Indonesian Association of Securities Companies
17. **Mr. A. Natakoesoemah**, President Director, Surabaya Stock Exchange, Indonesia
18. **Mr. Chang Bae Park**, Chairman and CEO, Korea Stock Exchange
19. **Mr. Mitsuo Sato**, Senior Advisor to Dai-ichi Life Research Institute and former president of the Asian Development Bank
20. **Mr. Jin-Seok Suh***, Executive Vice Chairman, Korea Listed Companies Association

21. **Dr. Prasarn Trairatvorakul**, Secretary-General, Securities and Exchange Commission, Thailand
22. **Mr. Alec Tsui**, Chief Executive, iRegent Group Ltd., Hong Kong
23. **Mr. Vicharat Vichit-Vadakan**, President, Stock Exchange of Thailand
24. **Mr. Chi-Huei Yao**, Chairman, Chinese Securities Association, Taiwan

* indicates new members

K. J. Luke Working Paper Series

The K. J. Luke Chair Working Paper Series is one of the most important tasks managed by the FIMA Research Center to disseminate academic and policy research papers to outside constituents. The FIMA Research Center responds to requests from individuals and institutions for hard copy version of the working papers that are also readily available on its website:

Web pages for the FIMA Research Center

The website of the FIMA Research Center is continuously updated. It is designed to explain the purpose, programs offered, upcoming events, working papers offered through the FIMA Research Center, and links to central banks, securities and exchange commissions, and multilateral financial institutions. Its address is (<http://www2.hawaii.edu/~fima/>).

V. *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 were accomplished by the *Journal*:

1. Issues 8.3/4, 8.5, 9.1, 9.2, 9.3 were published that included a Special Issue from selected papers of the 2000 PACAP/FMA Finance Conference held in Melbourne, Australia.
2. ***The Pacific-Basin Finance Journal*** will dedicate a Special Issue in commemoration of Dr. Merton H. Miller's academic contributions to finance and economics. Dr. Miller is a Nobel Laureate in Economics in 1990. He served as an advisory editor of the ***Journal*** since 1993 and was actively involved in the

study of Asia-Pacific financial markets. This Special Issue will focus on topics closely related to his research areas, including financial derivatives, corporate finance, and market microstructure relating to Asia-Pacific capital markets. **Dr. Richard Roll**, Allstate Professor of Insurance and Finance, University of California-Los Angeles, will serve as Guest Editor for the Special Issue in memory of Dr. Merton H. Miller. Dr. Roll succeeded Dr. Miller as advisory editor of the *Journal*.

3. Three students were selected as the recipients of the *Pacific-Basin Finance Journal* scholarships. They were ranked in the top-three among the Beta Gamma Sigma Finance Area Inductees in November 2000. They are

- Jakob Nilsson
- Noreen Fortune
- Yan Ren

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