

EDITORIAL: Governance, risks and rules between theoretical studies and empirical analyses

Dear readers!

We are pleased to present the first issue of the journal in 2020.

This issue provides a careful analysis of the important field of research regarding the social indicators, the corporate governance system, risk analysis and risk management, disclosure and bank regulation.

Specifically, the current issue pays attention of an index to measure the quality of the most important European cities, the evolution of Saudi Arabia corporate governance systems, the econometric approach to estimate the influence of interest rates and inflation rates on default rates of banks, the Canadian companies and risks firms disclose, the relevance of enterprise risk management (ERM) information disclosure in the US banking sector and the bank regulation of capital and risk management in the Europe and Central Asia region.

Jose Maria Fernandez-Crehuet, Jorge Rosales-Salas, and Rodrigo Avilés construct the European Cities Quality Index (ECQI) using collected data from 66 cities belonging to the current 28 countries of the European Union (including the United Kingdom) plus Iceland to the year 2015. The index is made up of 40 distinct variables grouped into eight dimensions: Health, Education, Employment, Environment, Gender equality, Leisure and entertainment, Housing and security, Mobility and transport. The selection of these variables have been carried out to of the previous theoretical works by Rothenberg, Stauber, Weaver, Dai, Prasad, and Kano (2015), Ionescu, Ionescu, and Jaba (2013), Benzeval et al. (2014), Thunis et al. (2018), Barbieri et al. (2017), Berrone, Ricart, Carrasco, and Duch (2017), Benítez (2015). The authors find that London, Aarhus, and Berlin are the cities with the highest scores in the index, while Sofia, Plovdiv and Bucharest, with serious deficiencies in many variables studied, have earned the worst score. This index could be used to assist public policies and to improve the image of northern European cities.

Corporate governance systems are analyzed by *Mamdouh Abdulaziz Saleh Al-Faryan*. This area is very interesting in emerging markets such as Saudi Arabia that have been recently implementing the corporate governance practices in line with the practices of OECD countries to develop the Saudi economy. The impact of corporate governance on Saudi firm performance was previously raised by Al-Dubai, Ismail, and Amran (2015), Habbash and Bajaher (2015), Amin and Hamdan (2018), Alhumoudi (2016), Buallay, Hamdan, and Zureigat (2017). This paper contributed to help the little existing literature by analyzing key reforms implemented to develop the Saudi market. In particular, the paper examines the Saudi Arabia legal system and its corporate governance model, the roles of the National Anti-Corruption Commission and the Saudi Stock Exchange. Some of this paper findings contributed to the fundamental articles by dela Rama and Kostyuk (2019), AlHares, Ntim, and King (2018), Abdullatif, Ghanayem, Ahmad-Amin, Al-Shelleh, and Sharaiha (2015), Arouri, Hossain, and Muttakin (2011).

Shifting attention to risk analysis, *Marco Ticciati* estimates a multifactor model to test the links between the interest rates and inflation rates on default rates of EU banks over the period from November 3, 2008, till November 3, 2016, as a consequence of financial market turmoil for the Great Recession and the sovereign debt crisis. This paper provides empirical research by extending the analysis made by Duffee (1998), Lucheroni and Pacati (2004), Mari and Renò (2005), Joslin, Priebisch, and Singleton (2014), Bruno and Shin (2015), Dewachter, Iania, Lemke, and Lyrio (2019). The author finds that interest rates and inflation rates do not significantly affect the price of risk of default.

Michel Coulmont, Sylvie Berthelot, and Caroline Talbot are responsible for analyzing the relationship between the risks disclosure in financial reports of 200 Canadian companies included in the 2016 Toronto Stock Exchange S&P/TSX Composite Index and their systematic risk (beta risk). Using the regression analyses, the results show a positive and significant relationship between the risks disclosed and the firms' beta risk. Accordingly, these authors found that disclosing the risks in the MD&A section of annual reports of the companies should help small investors appreciate them. The issue on risk disclosures, particularly as concerns the Canadian

market, was discussed earlier in this study by Beaver, Kettler, and Scholes (1970), Jarvela, Kozyra, and Potter (2009).

In the same line of research is the paper by *Raef Gouiaa, Daniel Zéghal, and Meriem El Aoun* that trace the links between the enterprise risk management (ERM) dimensions disclosed in the annual report from 2006 to 2009 and the traditional measures of risk in the 59 biggest US banks as per the 2010 Federal Deposit Insurance Corporation (FDIC) classification. Correlation analysis shows that risk exposure, consequences, and strategies information predict and reflect the banking sector's traditional risk. Previous research aimed at validating ERM information and the traditional measures of risk disclosed in the annual reports (Aebi, Sabato, & Schmid, 2012; Maingot, Quon, & Zéghal, 2018; Schnatterly, Clark, Howe, & DeVaughn, 2019).

Clouse, *Deniz Anginer, Asli Demirgüç-Kunt, and Davide S. Mare* continued interesting research on risk management analyzing the relationship between bank capital and bank risk of systemically important financial institutions in the Europe and Central Asia region (ECA) from 2007 to 2017. The results, in line with Demirguc-Kunt, Detragiache, and Merrouche (2013), show that ten years after the crisis, the banks in ECA are better capitalized, although the increase in regulatory capital ratios for the same banks has much more limited.

These research fields appear extremely interesting - on both the theoretical and the empirical plane - and provide important indications for scholars, investors, professionals and regulators.

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