RISK GOVERNANCE & CONTROL: FINANCIAL MARKETS & INSTITUTIONS

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Journal *Risk governance & control: financial markets & institutions* is published four times a year, in September-November, December-February, March-May and June-August, by Publishing House "Virtus Interpress", Kirova Str. 146/1, office 20, Sumy, 40021, Ukraine.

Information for subscribers: New orders requests should be addressed to the Editor by e-mail. See the section "Subscription details".

Back issues: Single issues are available from the Editor. Details, including prices, are available upon request.

Advertising: For details, please, contact the Editor of the journal.

Risk governance & control:
financial markets & institutions

ISSN 2077-429X (printed version)
2077-4303 (online version)

EDITORIAL

Dear readers!
It is a pleasure for us to introduce you the new international journal “Risk Governance & Control: Financial Markets & Institutions”. The journal keeps the pace on efforts of the publishing house “Virtus Interpress” in the way of publishing academic papers on governance and control issues.

Since the expansion of the recent global financial crisis the recently established international journal **Risk Governance and Control: Financial Markets & Institutions** has become focused on market-based topics. The Journal has been established to publish high quality theoretical and empirical studies in risk governance and control with application to financial markets and institutions. Its distinctive focus is original, rigorous research with practical applications.

This includes the following areas of specialization:

1. Risk governance and control in the private and public sectors;
2. Finance, financial pricing, financial management;
3. Economics of employee benefits, pension plans;
4. Insurance and insurance regulation;
5. Asymmetric information, moral hazard, and adverse selection;
6. Econometric, actuarial, and statistical methodology;
7. Stock market development and risks;
8. Currency market development and risks;
9. Market for banks development and risks;
10. Financial innovations;
11. Risk capital allocation and risk budgeting;
12. Impact of risk measurement on portfolio allocation;
13. Theoretical development of alternative risk measures;
14. Hedging (linear and non-linear) under alternative risk measures;
15. Credit risk and its valuation.

Both theoretical and empirical submissions are encouraged. Empirical work must provide tests of hypotheses based on sound theoretical foundations.

You are welcome to submit the papers to our journal. We take a promise to meet your request regarding the quality in reviewing and publishing!

RISK GOVERNANCE & CONTROL: Financial Markets and Institutions

VOLUME 1, ISSUE 1, WINTER 2011

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This paper sets forth another contribution to the long standing debate over cost of capital, firstly by introducing a multiplicative model that translates the inner structure of the weighted average cost of capital rate and, secondly, adjusting such rate for governance risk. The conventional wisdom states that the cost of capital may be figured out by means of a weighted average of debt and capital. But this is a linear approximation only, which may bring about miscalculations, whereas the multiplicative model not only takes account of that linear approximation but also the joint outcome of expected costs of debt and stock, and their proportions in the capital structure. And finally, we factor into the cost of capital expression a rate of governance risk.

We study the parent influence on lending by affiliates of a multinational bank. In the proposed theoretical model, local lending is influenced by shareholder-affiliate manager delegation and precautionary motives. The outcome is either contagion (the loan volume in the affiliate follows the direction of the parent bank country shock) or performance-based reallocation of funds (substitution), depending on the degree of manager delegation in the affiliate and the liquidity-sensitivity in the parent bank. Empirical investigation, deliberately conducted on a sample not covering the latest financial crisis, shows that also in “normal” times, multinational banks that are likely to delegate lending decisions or be more liquidity-sensitive are more inclined towards contagionist behavior.