Pitcher's Name	Searat Ali	**Purpose**	First empirical chapter of PhD thesis
(A) Working Title	Does Corporate Governance Quality affect default risk? The Role of Growth Opportunities and Stock Liquidity		
(B) Basic Research Question	Does Corporate Governance Quality reduce default risk?		
(C) Key paper(s)	Schultz, E. L., Tan, D. T., Walsh, K. D., 2015. Corporate governance and the probability of default. Accounting & Finance (ABDC A). doi: 10.1111/acfi.12147 Lyandres, E., Zhdanov, A., 2013. Investment opportunities and bankruptcy prediction. Journal of Financial Markets (ABDC A*). 16 (3), 439-476. Ali, S., Liu, B., Su, J. J., 2016. Corporate governance and stock liquidity: Panel evidence from 2001 to 2013. Paper presented at the AFAANZ conference (Best Paper Award)		
(D) Motivation / Puzzle	This study is motivated by the series of corporate collapses in the early 2000s (e.g., HIH); the resultant massive economic and social costs of default to stakeholders (e.g., bankruptcy-filing); the proliferated attention of policymakers (e.e., ASX corporate governance council) towards the development of a sound CG environment; and the limited literature relating corporate governance to default risk and providing inconclusive results. Recently, Schultz et al. (2015) find that governance mechanisms do not matter for default risk. These inconclusive findings may be caused by individual governance mechanisms and methodological shortcomings, therefore, this study is timely and sheds new light on the ongoing literature debate: Does corporate governance reduce default risk?. Moreover, the prior literature on corporate governance and default risk does not recognize that such a relationship may vary across firm types such as growth firms. Another important gap in the extant literature is that it does not examine the channel through which corporate governance may affect default risk. This study examines information asymmetry as a channel between corporate governance and default risk.		
THREE	**Three** core aspects of any empirical research project i.e. the "IDioTs" guide		
(E) Idea	Corporate governance may influence the default risk of a firm by controlling the agency cost that arises from the agency conflict between management and shareholders. In firms with better CGQ, managers are subject to close monitoring, which can reduce information asymmetry and enhance the effectiveness of managerial decision making. Effective managerial decisions are more likely to increase expected cash flows and decrease the volatility of cash flows and thus decrease the chances of default. The high growth firms are in great need of governance control because of the higher incidence of information asymmetry in these firms, and the shareholders of a firm with valuable investment opportunities would be willing to wait longer before defaulting on their contractual debt obligations. Therefore, we hypothesize that the inverse relation between corporate governance and default risk should be stronger for firms with more growth opportunities. Finally, better corporate governance mitigates information asymmetry between insiders and outsiders , as well as among outsiders by improving informational transparency of a firm, and		

	defaulted firms are found to have greater information asymmetries few months prior to default. Hence, we posit that corporate governance reduces information asymmetries and reduced information asymmetries in turns reduces default risk.
(F) Data	SAMPLE: Australia's non-financial firms (because of series of corporate collapses, different corporate environment, and contradictory findings in the literature), annual data from 2001 to 2013 (thirteen years), 1086 unique firms, almost 8,950 firm-year observations. PROXIES FOR DEFAULT RISK: Merton (1974) Distance to Default (DD) and Credit Default Spread (CDS). PROXY FOR CORPORATE GOVERNANCE QUALITY : Self-constructed corporate governance index based on 17 objective criteria of the Horwath report. PROXIES FOR GROWTH OPPORTUNITIES: Market to book value of equity (MTB) and Tobin's Q. PROXIES FOR INFORMATION ASYMMETRY: Time-weighted quoted spread (trading cost), Amihud illiquidity estimate (price impact), and turnover adjusted zero volume days (immediacy). DATA SOURCES: SIRCA for corporate governance and stock liquidity data; Morningstar DatAnalysis premium for firm-specific variables, Risk management institute for default risk. Databases available at Griffith University. DATA HANDLING: Name changes while merging data from different sources and outliers etc. VARIATION: Yes, due to governance reforms in 2003/04, a good variation within firm over time is expected. GENERALIZABILITY: The findings will be generalizable to the wider economy including small, medium and large firms
(G) Tools	-Baseline regression model: Pooled OLS, Fixed effect (FE) and between effect (BE). -Endogeneity: Lagged OLS, Instrumental variable approach (2SLS), and dynamic two-step system GMM -Interaction terms: To examine the effect of growth opportunities and stock liquidity on governance-default linkage. -STATA 13 (available through Griffith University)
TWO	**Two** key questions
(H) What's New?	This study has three main novel aspects. First, as far as could be ascertained, this is the first study to show that composite internal corporate governance is relevant to default risk in the Australian context. Second, this study provides a new insight that the relationship between corporate governance and default risk depends on growth opportunities. Third, this study brings together three streams of literature; namely, corporate finance (i.e., corporate governance), market microstructure (i.e., stock liquidity), asset pricing (i.e., default risk) by showing that corporate governance interacts with information asymmetry to reduce default risk. In addition, this study contributes to the literature by constructing a large panel dataset, i.e., large cross-section (1,089 unique firms) and long-time series (2001 to 2013). Finally, this study provides additional evidence on the usefulness of the Horwath report by linking it to the default risk.
	-From a wider regulatory perspective, the index-based findings are supportive of the development of a comprehensive code of governance practice, as opposed to the adoption of individual governance practices. These findings provide a guideline for investors to use composite governance as a benchmark in the selection of stocks that are less likely to face default. Based on these findings, we also recommend researchers to use composite governance score in their default prediction models.

(I) So What?	-Firms should consider growth opportunities while designing their governance structures because improving corporate governance is likely to be more effective in reducing default risk for firms with high growth opportunities. -Firms with low stock liquidity should strive for high governance standards if they are to avoid future defaults because information asymmetry is a channel between corporate governance and default risk
ONE	**One** bottom line
(J) Contribution?	This study adds value to the corporate governance and default risk literature by addressing the methodological shortcomings (small sample and individual governance variables) of the study by Schultz et al. (2015). Furthermore, this study advances the field by testing the role of growth opportunities, and by testing the information asymmetry as a channel in the governance-default linkage.
(K) Other Considerations	Target journal: Accounting and Finance (AF), and Journal of Financial Markets (JFM). Risk assessment: 'Competition risk' is high because many researchers are following corporate governance research. However, 'risk of obsolescence' is low because corporate governance is receiving wide attention from regulators in the recent decade, and is expected to remain as a 'hot topic'. Scope: The scope seems appropriate. Pipeline: Examining the effect of corporate governance quality on default risk using international data. Key finding 1: Corporate governance reduces default risk even when endogeneity bias is considered. Key finding 2: Corporate governance's reduction in default risk is stronger for high growth firms than for low growth firms. Key finding 3: Stock liquidity is a channel through which corporate governance reduces default risk.