

# Does One Size Fit All?

## The Consequences of Switching Markets with Different Regulatory Standards

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# The paper

## *An interesting event study*

# The paper

**Presumption** The two major determinants of an exchange are *technology* and *regulation*

**Event** Creation of AIM *within* London Stock Exchange

**Effect** Change in regulation with no change in technology

**Observation** Firms shifting from one market to the other

**Hypothesis** Firms moving down would be punished and up movers would be rewarded

*\*Stock exchanges with SEBI in India*

# Interesting Results

*There is a reward*

# Results for shifting

- In the short run prices fall, but in the long run there is a positive effect
- Earnings are lower in the years -2 to 0 of the shift
- Earnings increase after shifting

*As expected, institutional holding went up slightly*

For shifting up

- There was not much change in long term earnings

# Criticisms

## *What if?*

# Criticisms

- Differences in regulatory treatment
- Need to compare firms *before and after*
- Investors are a major determinant of markets
- The up-shifters are small

# Controlling

- Self selected for treatment
- Wider factors which affected the firm
- No control group

*A matching methodology which observes firms with similar propensity scores could enrich the paper*



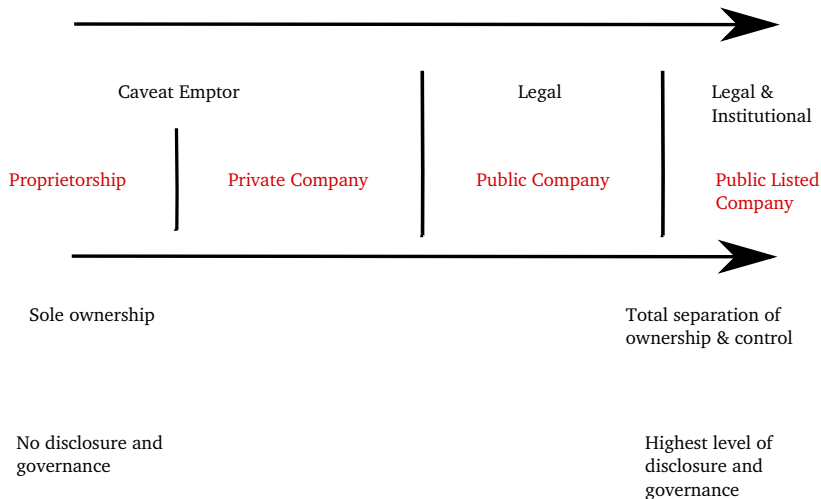
## Discussion

*Why is this important? Does one size fit all?*

# Laws are discrete, Reality a Continuum

**No Market**

**Organised Market**



# Markets

- Markets in economics are a continuum
- Markets in law are discrete

*The regulatory spacee where exchanges are created is arbitrary standard defined by law*

# Implications

- Role of regulation v. monitoring
- Regulatory burden *differentiation*
- Corporate law

# Suggestions

*This is a very interesting event*

# Looking forward

- Which companies shifted?
- What happened after 2007
- British corporate law, *benefits to AIM*