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

- Caveat Emptor
- Proprietorship
- Sole ownership
- No disclosure and governance

Organised Market

- Legal
- Legal & Institutional
- Total separation of ownership & control
- Highest level of disclosure and governance

- Private Company
- Public Company
- Public Listed Company
Markets

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

*The regulatory space 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*