

Attracting Long-Term Investment to Asian Capital Markets: Financial Regulation and Corporate Governance Challenges

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Regulation/Harmonization of Corporate Governance Laws and Systems in Asia

- Different levels of “harmonization”
- Regulation or just harmonization of soft law (accounting, information disclosure)?
- Opportunity from globalization of capital markets?
- Traditional overseas cross-listing of large companies?

Influence of International Institutional Investors

- Influence in governance debates
- Widespread acceptance of independent directors/committees, but actual function?
- More aggressive activists (hedge funds, etc.) can still face strong resistance
- Institutional investors still complain about relative lack of influence despite substantial market share

Applying State Charter Competition Theory to Relations among Stock Exchanges

- Race to the Bottom → Regulatory competition/arbitrage
- (stock exchanges must lower regulatory/governance standards to compete successfully)
- Race to the Top → Bonding Theory
- (multinational corporations attracted by high governance standards)

Is Competition Theory an Accurate Paradigm for Stock Markets?

Similar Assumptions:

1. Stock markets compete primarily on the basis of substantive regulatory standards (Not True)
2. Corporate lawyers pick stock exchanges based on substantive regulation (Probably Not True)
3. Competition is based on market efficiency (???) and is a zero-sum game (?)

CORPORATE GOVERNANCE IN ASIA'S MARKETS

5. Market category scores

Market category scores						
(%)	Total	CG Rules & Practices	Enforcement	Political & Regulatory	IGAAP	CG Culture
1. Singapore	69	68	64	73	87	54
2. Hong Kong	66	62	68	71	75	53
3. Thailand	58	62	44	54	80	50
4. = Japan	55	45	57	52	70	53
4. = Malaysia	55	52	39	63	80	38
6. Taiwan	53	50	35	56	77	46
7. India	51	49	42	56	63	43
8. Korea	49	43	39	56	75	34
9. China	45	43	33	46	70	30
10. Philippines	41	35	25	44	73	29
11. Indonesia	37	35	22	33	62	33

Source: Asian Corporate Governance Association

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Reconsidering Relationships among Stock Exchanges

- International Cooperation in Regulation and Enforcement (mix of cooperation/competition?)
- Information Disclosure
- Enforcement, including Private Enforcement
- Lawyers (a Specialized Bar in Securities Law)
- Exchange's Strength from
 1. Strength of Listed Companies (Financial and Corporate Governance),
 2. Strength of Underlying Capital Market (Willingness to Invest in risk Assets and Liquidity) and
 3. Presence of Market Players (Enforcement)

Bilateral Cooperation: Shanghai-Hong Kong Stock Connect



Bilateral Cooperation: Singapore and China's CSRC

1. 130 of 770 listed companies are Chinese
2. S-chip companies raise difficult governance issues and corporate failures—now cooperation with CSRC
3. Very tough competition from growing/maturing markets in Hong Kong and China
4. Growth by acquisition strategy fails in Australia (2011)
5. Singapore's partial success due to a “total” strategy to attract listings (visas, taxes, etc.), not low governance standards

Conclusion

- The relationship among stock exchanges, capital markets, and corporate governance remains important, but is broad and subtle
- Governance is important over a number of diffuse areas which support investor confidence and willingness to invest in risk assets, and which enable the robust functioning of an increasingly interdependent capital markets system