

The impact of corporate governance compliance on mining IPOs
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Abstract

We investigate the corporate governance of mining IPOs on the ASX and TSX over the 10-year period from 1997 to 2006. We find that while both markets experienced robust growth in the number of listings, the proportion of IPO companies following “best practice” guidelines does not change after the exchanges formally recognized the practices as “best”. The two exchanges’ decision to recommend ostensible best practices rather than make them mandatory was effective in preserving market flexibility. Further, preliminary analysis does not find an empirical association between compliance with best practice recommendations and either IPO underpricing or subsequent share market performance. However, compliance may be efficient in other ways. For instance, compliance with best practice recommendations may make it easier for block-holders to sell their stake; a hypothesis we leave for future research. .

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Introduction

On 1 October 2007, Associated Press carried a report stating “the steady trickle of Australian mining companies listing on the Toronto Stock Exchange (TSX) has become a stream”¹. The report confirmed that the market for capital is global and stock exchanges compete internationally to attract companies listings. Companies choose to list on a given exchange for a variety of reasons, including favorable market sentiment, however, little is known about the relative influence of corporate governance requirements. This paper addresses this issue for mining companies.

An impressive body of research indicates that companies in countries with strong investor protection laws have lower cost of capital (La Porta, Lopez-de-Silanes, Shleifer, & Vishny 2000 & 2002, Shleifer and Wolfenzon 2002). Notwithstanding this evidence, the optimal design and reach of regulatory intervention remains moot. For instance, the corporate governance practices made mandatory in the US for listed companies by the passing of the Sarbane-Oxley (SOX) Act of 2002 have received regulatory backing in several countries (Tafara 2006) including Australia; however, their effect remains open to dispute. Romano (2005) is representative of theorists from the “law and economics” school who contends that the SOX provisions are an ill-conceived outcome of a political response to crisis,² whilst Coates (2007), amongst others, contends that they promise to improve the functioning of securities markets.

A criticism of the US SOX legislation is that it assumes that a “one-size fits all” framework can work. Other countries implementing similar legislation have attempted to circumvent this problem by providing opt-out clauses, such as the “comply or explain” approach adopted in Australia whereby companies are asked to comply with the provisions of a corporate governance code stipulating “best practice” and justify specific departures. We use this feature of the law to assess the extent investors see any value in such “best practice” by focusing on compliance by IPO companies.

¹ “Canada opens its arms to our miners” by Rebecca Le May (AAP, [Herald-Sun](#)) 1 October 2007

² In countering this argument, Tafara (2006) makes the point the SOX regulations may be said to have passed a “market test” since they have been emulated in many markets, including the European Union, the UK, Canada, Australia, Mexico, and Hong Kong.

We focus on IPO firms on the basis of the following argument. In the absence of formally approved standards of governance, companies are likely to adopt governance structures that optimally trade-off the costs of particular structures against the expected benefits. However, if officially sanctioned corporate governance mechanisms improve the value of issued securities to investors we can expect that IPO companies that more closely comply with the sanctioned mechanisms will trade at correspondingly higher prices. The price at which shares in IPO firms are offered to the public on listing provides a benchmark to assess performance. For instance, if IPO firms' closer compliance with best practice recommendations increases investor confidence we would expect that the shares offered in the IPO might be sold at close to their intrinsic value³ rather than at a discount to entice prospective buyers.

We apply the above test by identifying the corporate governance "best practices" strongly endorsed but not mandated by ASX and Toronto Stock Exchange (TSX) respectively and measure the extent to which mining companies seeking to list for the first time (i.e., IPO companies) on either exchange comply with the practices. We use IPOs from the two exchanges in part because, as we document, governance recommendations vary across exchanges. We focus on mining stocks because of their dominance on both exchanges, and to control for industry related differences. Mining stocks are also economically significant to Western Australia and so it is particularly useful to the State to identify the factors that make listing attractive.

Motivation and prior research

Motivation

Corporate governance typically makes news headlines when there is a spectacular corporate collapse. This can generate the impression that there is a crisis of governance and systematic investigation is likely to uncover serious deficiencies.⁴ It is therefore worth noting that Australian share market enjoys a reputation for relatively good corporate governance. For

³ Taking the price at which the shares are traded after listed as a proxy for "intrinsic value". Underpricing is common in IPOs.

⁴ For instance, the recent collapse of the small and, until recently, relatively unknown brokerage firm, Opes Prime, prompted this opening line in a news report in the Melbourne Age: "Confidence in Australia's sharemarket and corporate regulators has taken an almighty hit" (Source: [Failure on All Fronts](http://business.theage.com.au/failure-on-all-fronts-20080414-2641.html) by Michael West *Melbourne Age* April 15, 2008 <http://business.theage.com.au/failure-on-all-fronts-20080414-2641.html> Last accessed June 3, 2008).

instance, the IMD World Competitiveness Yearbook (WCY) 2007 ranks Australian corporate boards as second in the world for effectiveness in supervision of management of companies and “one in the top three countries in the world for efficiently managing shareholder value, and for the implementation of ethical practices in companies”.⁵

Notwithstanding the IMD WCY’s comforting indicators, Mr Tony D’Aloisio, Chairman of the Australian Securities and Investments Commission (ASIC), is among those who note the need to ensure that governance practices are kept under on-going scrutiny. In a recent address, he observed that “[w]e have not had an extensive review of the listings and liquidity of our listed companies for some time. We have in excess of 2,000 companies listed, yet liquidity is confined largely to the top 100 or 200. In WA, we have significant increase in ‘junior miners’. All may be fine but with a regulator such as ASIC, it needs, from time to time, to examine these developments and see if there is a proper balance between access to low costs of capital and the interests of the market and the protection of investors.” This concern motivates the present study.

It is also worth noting that while ASIC and ASX Ltd share responsibility for maintaining a “fair, orderly and transparent market” in securities trading, it is useful to have independent assessment of governance requirements and practices. Both ASIC and ASX Ltd periodically come under attack for perceived failings in their handling of competing interests inherent in their roles. In ASIC’s case, the on-going challenge is to adequately police adherence to the Companies Code to “promote confident and informed participation by investors and consumers in the financial system” without unduly restricting market participants’ ability to contract freely with each other.⁶ ASX Ltd faces an arguably more direct conflict of interest, particularly with respect to establishing and policing corporate governance requirements. ASX has accepted responsibility to lead the enhancement of corporate governance best practice by convening the ASX Corporate Governance Council in 2002. In so far that the cost of

⁵ “Ten good reasons to invest in Australia” by the Australian Trade Commission URL: <http://www.austrade.com/Business-friendly-regulatory-environment/default.aspx> (last accessed June 2, 2008)

⁶ An illustration of the nature and intensity of the criticism faced by ASIC in its role is provided by the headline and first paragraph of a recent newspaper article: [ASIC asleep on the job](#) (by Bryan Firth, The Australian newspaper, April 10, 2008) “The manifest unfairness of the treatment of many clients of collapsed sharebroker Opes Prime reveals a complete failure of the corporate regulator, ASIC, in one its fundamental roles - to ensure market integrity.” <http://www.theaustralian.news.com.au/story/0,25197,23514011-16941,00.html> (last accessed 4 June 2008).

implementing “best practice” might deter some companies from listing or prompt others to delist from the exchange, ASX faces a threat to its revenue base.⁷ There is no evidence that ASX has mishandled its conflict of interest with respect to corporate governance⁸, however, it is clear that this is an area where independent assessment of the relevance and value of the rules it has implemented would have more credibility.

A subsidiary but nonetheless important motivation for our study is that, to our knowledge, there has not been a systematic comparison of the “best practice” recommendations of the ASX and TSX and the extent firms on the respective exchanges comply with each. As Mr Ethiopia Tafara, director of the Office of International Affairs at the US Securities and Exchange Commission, has observed, “as everyone in the financial industry understands, the devil, and perhaps the angels, are typically in the details”. Given this point, it is important that we understand the detail of the differences between exchanges and the level of firms’ compliance.

In closing this section on motivation, we note that while the focus is on the impact of adherence to governance practices by IPOs in the mining sector, the study’s findings may be reasonably assumed to apply more generally. Further, the mining sector is important in its own right. In the early 1980s the mining sector, including resources, accounted for over 50% of the value of the S&P/ASX 200 index (reconstructed). However, its share, as at September 2007 has dropped to around 27% of total ASX domestic market capitalization and around one-third

⁷ The stakes are substantial. The ASX 2007 Annual Report states that total listings revenue for the 2007 fiscal year was \$117.6 million. Annual listing fees of \$42.9 million accounted for 37% of total listings revenue. Secondary listing fees of \$45.1 million, accounted for 38% of total listings revenue and IPO listing fees of \$19.8 million (\$14.0 million pcp) accounted for 17% of total listings revenue. There were 284 new listings during the year, an average of 24 per month. The total number of listed entities at 30 June 2007 was 2,090 (1,930 pcp) with total capital raised in FY07 of \$77.9 billion (\$51.4 billion pcp).

⁸ However, companies have criticized ASX on closely related grounds. For instance, John Cloney, the chairman of the large insurance company, QBE, has called on the Federal Government to strip ASX of its powers to regulate the sharemarket, arguing ASX has a conflict of interest in its dual role as operator and watchdog. QBE’s share price was put under pressure recently as a result of sustained short-selling activity. Mr Cloney observed that “as market operator, it is not in the ASX’s interest to take steps to decrease trading volumes. They clip the ticket in every transaction, so the more transactions, the better.” (source: [ASX cited for conflict of interest](#) by Danny John April 5, 2008 *Sydney Morning Herald* <http://business.smh.com.au/asx-cited-for-conflict-of-interest-20080404-23r6.html> (last accessed June 4, 2008).

of listed companies by number.⁹ Given the variability in the size of mining IPOs, they provide a suitable experiment on whether “one size fits all”.

Prior research

The broad question that has motivated prior research is whether regulating corporate governance enhances economic efficiency. The standard neo-classical view is that, other things being equal, parties ought to be free to determine the terms by which they contract. In this view, regulating governance unduly curbs the scope of parties to contract on the basis of optimal governance structures.

Linck, Netter & Yang (2008) document findings consistent with the above view. Analysing a sample of nearly 7,000 US-based firms they find, inter alia, that “firms with high growth opportunities, high R&D expenditures, and high stock return volatility are associated with smaller and less independent boards, while large firms tend to have larger and more independent boards. High managerial ownership is associated with smaller and less independent boards, consistent with the hypothesis that managerial ownership and board monitoring are substitute governing mechanisms ... [They also] find that firms have more independent boards when insiders have more opportunity to extract private benefits and when the CEO has greater influence over the board” (p. 326). Linck et al conclude that “*overall, our results show strong relations between board structure and firm characteristics, suggesting that any regulatory framework that imposes uniform requirements on board structure could be ill-conceived*. Further, the strong associations between board structure and firm size and ownership suggest that policy makers and researchers pay special attention to the effect of mandated reforms on small firms and firms with higher managerial ownership” (p. 327, emphasis in italics added).

Coles, Naveen & Naveen (2008) report results consistent with Linck et al. They find that complex firms, which have greater advising requirements than simple firms, have larger boards with more outside directors. They also find evidence that R&D-intensive firms, for which the firm-specific knowledge of insiders is relatively important, have a higher fraction of insiders on the board which is positively associated with firm value. Coles et al note that their findings “challenge the notion that restrictions on board size and management representation on the

⁹ Source: Australian Securities Exchange mining indices factbook: [ASX Metals & Mining and Gold Indices](http://www.asx.com.au/investor/pdf/mining_indices_fact_sheet.pdf). www.asx.com.au/investor/pdf/mining_indices_fact_sheet.pdf (last accessed June 4, 2008)

board necessarily enhance firm value” (p. 329).

The findings of Linck, Netter and Yang (2008) and Coles, Naveen & Naveen (2008) are *prima facie* difficult to reconcile with the now widely cited “law and finance” research literature initiated by Rafael La Porta, Andrei Shleifer, Florencio Lopez-de-Silanes and Robert Vishny (1997, 1998, 2000, 2002) showing that countries with higher legal protection of investors, particularly outside investors, have more developed capital markets with higher firm valuations, other things being equal. However, the key to reconciling these two strands of research is recognizing that writing, monitoring and enforcing contracts is not costless. As Glaeser, Johnson and Shleifer (2001) show in a comparison of the more highly regulated Polish financial market with the lightly regulated Czech Republic financial market in the 1990s, stringent regulations can be effective in promoting external financing of projects when they lower investors’ net costs of writing, monitoring and enforcing contracts. The question is whether the benefits from lower contracting costs offset the decrease in contracting flexibility afforded by less regulation.

The challenge in designing cost-effective regulation is that investors (and companies) differ in their needs. In this case, it may be better to have more than one regulatory regime to cater for a wider array of investors. In support of this view, Jenkinson and Ramadorai (2007) find that UK-listed companies that switch from the highly regulated “main” market to the lightly regulated Alternative Investment Market (AIM) experience a decline in return as they lose clients who value higher regulation but this decline is reversed over the next several months as the companies pick up investors who place little value on higher regulatory standards.

Notwithstanding the above, a separate issue is whether the regulators implement standards and conditions that are coherent and consistent. The principal impetus for ASX’s release in March 2003 of its *Principles of Good Corporate Governance & Best Practice Recommendations* which heralded its shift away from a largely *laissez-faire* approach was the spate of prominent corporate scandals in the US (associated with companies such as WorldCom and Enron) in 2001 to 2002 that led to the Sarbanes-Oxley Act being passed by the US Congress. Exchanges and legislators in countries that followed the Anglo-American market model felt considerable pressure to follow suit and their regulatory revisions largely followed the tenor of the US legislation. Legal scholar Roberta Romano (2005) in a paper tellingly titled *The Sarbanes-Oxley Act and the Making of Quack*

Corporate Governance argues that the non-US markets were ill-advised in following the US lead because the governance provisions were ill-conceived and stemmed from the interaction of election-year politics and the Senate's response to the suggestions of policy entrepreneurs.

Not all researchers share Romano's view. Coates (2007) provides an analysis that is more optimistic about the value created by Sarbanes-Oxley and Chhaochharia & Grinstein (2007) find that large companies who changed their governance structures to more closely comply with the provision of Sarbanes-Oxley experienced positive abnormal returns. However, Chhaochharia & Grinstein do caution that their results also indicate that the rules associated with board independence and internal controls do not enhance the value of smaller firms. This last finding should be a concern to stakeholders in the Australian market given that the vast majority of ASX-listed companies are small firms.

Before turning to the empirical analysis that addresses whether compliance with the ASX's best practice recommendations enhances firms' value at IPO, one other strand of the literature on IPOs should be noted. Those supporting the regulatory initiatives in the US's Sarbanes-Oxley Act (and related legislation in other markets) and their critics have all assumed that these are first order issues in setting the terms of IPOs. A now impressive body of research suggests that while the regulatory environment might have measurable impact on the ease by which capital may be raised, its influence is less than that wielded by market sentiment. Market sentiment refers to the degree of optimism or pessimism felt by investors in relation to future returns. The origins of investor optimism or pessimism remain mysterious but there is evidence showing that managers time their issues of securities to coincide with periods when investors are optimistic (Baker and Wurgler 2002). This is not just true of established firms. Loughran, Ritter and Rydqvist (1994 & updated in 2008) find that across international markets, companies undertaking an IPO "successfully time their offerings for periods when valuations are high, with investors receiving low returns in the long-run". The relevant point here is that indicators of market sentiment, such as periods when market-to-book ratios are relatively high, have more power to predict IPO issues than regulatory changes.¹⁰

Research Design

¹⁰ The confounding impact of investor sentiment in the timing of IPOs may explain why Chang, Gygas, Oon & Zhang (2005) find that quality of audit opinion displays no predictive power with regards to the long-run survival of Australian IPO firms.

In brief, the research design is aimed at identifying the formal corporate governance requirements and extent of compliance by mining IPOs in the Toronto Stock Exchange (TSE) and the Australian Securities Exchange (ASX) and investigating whether the performance of the IPO companies is affected by the level of compliance. The sample period over which IPO data from both the TSE and ASX were gathered is 1997 to 2006, a span of time that allows us to compare the impact of corporate governance regulation pre- and post- the introduction of the Sarbanes-Oxley Act in 2002.

Table 1 shows the number of IPOs on the ASX and TSX over the 10-year period from 1997 to 2006. Over the ten-year period, there were over a thousand IPOs undertaken in the two exchanges combined, 862 on ASX and 185 on TSX. ASX's IPOs included 374 from the resources sector whilst TSX's IPOs included 66 resources-based firms. Data on compliance were extracted from IPO prospectuses. Our investigation of compliance included all 45 out of the 66 TSX resources sector IPOs for which we could obtain prospectuses. Research budget considerations precluded us investigating the full sample of 185 ASX resource firms for compliance. Instead, we selected the 20 IPO firms raising the most money from their IPO and 40 firms drawn at random from the remaining 165 IPOs. We were unable to obtain prospectuses for three of the 20 "large" ASX IPOs and three of the "small" ASX IPOs so our final sample comprised 54 firms, 17 "large" and 37 "small". Other information on our sample and research design is included in our discussion of results where its relevance is more readily apparent.

Results, analysis & discussion

IPO activity on ASX and TSX: An overview

It is striking that the number of IPOs on TSX was, at 186, just over 21% of the 862 IPOs on ASX. On both exchanges, resource companies comprised a substantial proportion of IPOs, being 43% over the full period for ASX and 36% for TSX. To put this figure into context, mining contributed 4.9% [sic] towards Australia's GDP over the financial year ending June 2005¹¹. It is also striking that the years with the highest number of IPOs were after 2002,

¹¹ Source: Australian Bureau of Statistics, 1301.0 - Year Book Australia, 2007

when more stringent corporate governance guidelines were either introduced or imminent. For instance, the Australian “best practice” guidelines were released on March 2003.

The data in Table 1 allow one possible effect of the recommendations to be ruled out. It is clear that in both Australia and Canada the advent of more stringent corporate governance guidelines did not prompt a collapse of the IPO market. On the contrary, the data are consistent with an interpretation that the new guidelines enhanced investor confidence and made a public listing more attractive to company promoters. An alternative explanation is that favorable market sentiment for resource stocks – consistent with the boom in mining commodities – was the dominant factor that prompted the increase in incidence of mining IPOs.

As discussed in more detail later, firm size is positively associated with compliance with governance requirements. The histograms in Figure 1 show the size-distribution of firms undertaking IPOs on ASX and TSX based on the firms’ market capitalization on the first day of listing over the ten year period. The figure shows considerable skewness in size-distribution, particularly for ASX companies. The ASX has more IPOs but the median size is just \$4.4 million while the median sized IPO firm on TSX is \$28.8 million. The large difference in median size means that while total number of TSX IPOs is just over 20% of ASX IPOs, the difference in total capital raised is less stark. The total capital raised on TSX is, at \$3.175 billion, just under 70% of the \$4.644 billion raised on ASX over the equivalent period. There are over 200 IPOs on ASX that raised \$4 million or less. One interpretation of ASX’s ability to attract listings by companies raising small relatively small amounts of capital¹² is that the total cost of governance compliance is correspondingly small. This raises the question whether ASX has a significantly different corporate governance regime to TSX. This concern is addressed next.

Comparison of ASX and TSX guidelines on best practice

Appendix A provides a point-by-point comparison of the guidelines on best practice issued by ASX and TSX respectively. In line with the Sarbanes-Oxley legislation, both ASX and TSX see

¹² To benchmark the economic significance of these capital raisings note that \$4 million is only about four times the median house price of \$460,000 in Perth, Western Australia as at October 2007. (Source: Real Estate Institute of Western Australia).

the board of directors as the foundation of good governance and their recommendations focus on strengthening protection of non-controlling, outside investors via the board. Nevertheless, there are differences in how each exchange has drafted its best practice recommendations. Some of these are highlighted below. An issue of interest is whether the differences have substantive consequences for governance.

TSX's Corporate Governance Council (CGC) requires each board to explicitly assume responsibility for the stewardship of the company, including such functions as strategic planning processes, responsibility for principal risks, succession planning, communications policy and integrity of internal control. Notably, there is no explicit reference in the ASX Corporate Governance Guidelines (CGG) to the board assuming stewardship, however, most reasonable interpretations of the ASX guidelines would view them as handing the same responsibilities to the board. If there is any room for doubt, the TSX guidelines might arguably make it more difficult for a director to disavow responsibility (perhaps in the event of a suit being filed).

Another clear difference between the ASX and TSX guidelines is that the TSX makes explicit mention of "significant shareholders" and stipulates that the board should comprise a majority of unrelated directors; and a number of directors who do not have interests in or relationship with either the corporation or the significant shareholder and which reflects the investment in the corporation by shareholders other than the significant shareholder. This requirement probably reflects the difference in company sizes on ASX and TSX. As discussed in more detail shortly, the size distribution of ASX companies includes a greater proportion of very small companies which cannot afford a majority independent board.

The difference in the ASX and TSX definitions of independent director highlights an interesting issue; where do we draw the line between explicit prescription and reliance on principle? The TSX equivalent of an independent director is an "unrelated director", defined as someone independent of both management and of any relationship which could interfere with their ability to act in the best interests of the corporation, other than interests and relationships arising from shareholding. The ASX, in contrast, defines an independent director as one who is not an executive director and who fulfils a list of specific criteria, including not being a substantial shareholder and not having supplied, within the last three years, any

material service or product the company. The ASX guidelines, being more specific, make it easier to detect infractions but arguably promote a more “letter of the law” approach to CG.

The last clear difference between the ASX and TSX CG recommendations we will discuss is the ASX recommendation for the board to (a) promote timely and balanced disclosure of all material matters concerning the company, (b) have a structure to independently verify and safeguard the integrity of the company's financial reporting, and (c) recognise legal and other obligations to all legitimate stakeholders. The point of recommendation (c) is obscure since the board could hardly be advised not to recognize the legitimate claims of stakeholders but the promotion of timely disclosure of material matters and establishment of structures to safeguard the integrity of financial reporting firmly puts the onus on the board to keep the market informed.

We have discussed the more salient differences in the ASX and TSX recommendations on corporate governance. A risk with this exercise is that small differences may loom larger than the broader, more significant similarities between the codes. Indeed, as we shall see, companies on the two exchanges are virtually indistinguishable in the extent of compliance with the recommendations, indicating that the similarities outweigh the differences. Differences in CG recommendations stemming from the Sarbanes-Oxley legislation are unlikely to be the reason why ASX attracts a much higher proportion of very small IPOs than TSX.

Compliance by IPO firms with ASX & TSX best practice recommendations

Table 2 describes the measurable best practice recommendations on ASX and TSX respectively that we used to assess compliance. Note that consistent with our observation that the ASX has adopted a more prescriptive approach, we were able to identify 28 measurable criteria from the ASX recommendations and just over half that number, 15, from the TSX guidelines.

We start with reviewing the extent of compliance by firms undertaking an IPO on TSX (ie, Panel A of Table 2). While we do not report figures indicating statistical confidence, we nonetheless believe our samples are representative of the population, in part because our findings for both ASX and TSX point starkly and consistently to one set of conclusions. That

set of conclusions includes the following main point: The promotion by ASX and TSX of governance practices similar in ilk to those mandated by the Sarbanes-Oxley legislation in the US has made minimal substance difference to the governance structures of IPO firms debuting on their exchanges.

Our conclusion is perhaps most clearly seen in our findings for TSX. Note that out of 15 recommendations for which we tracked compliance, just three were followed by a majority of the 23 firms that undertook their IPO post-promulgation of the TSX's recommendations.¹³ The three recommendations are (i) that the board should comprise entirely of independent directors, complied by 20 out of 23 firms; (ii) that the chair should be independent, followed by 13 out of 23 firms; and (iii) that the compensation committee should consist entirely of independent directors, 14 out of 23 firms. These three recommendations are arguably amongst the most crucial recommendations but even prior to the influence of Sarbanes-Oxley, they were seen as important by companies so its impact is arguably negligible. What is surprising is the lack of compliance by TSX IPO firms even for the recommendations where the cost is prima facie minimal because it formalizes what is arguably already understood. For instance, none of the 23 post-Sarbanes-Oxley firms provided a written description of the board's duties and just two adopted a written code of conduct. Perhaps more surprisingly, given the importance placed on the concept of board stewardship, just 7 out 23 IPOs firms (30%) acknowledged responsibility for stewardship of the issuer.

Whilst the pre- and post-Sarbanes-Oxley findings do not reveal much difference, classifying the TSX firms into large and small firms (divided at the median) shows that large firms are much more likely to comply with the TSX's suggested recommendations. For instance, nine out of 27 (33%) large firms had a nominating committee comprising entirely independent directors whilst just 1 out of the 27 small firms did. Fifteen out of 27 large firms appointed an independent director as chair but just five (19%) of the small firms did likewise. This makes it less surprising to find that while 22 (81%) out of 27 large firms had boards comprising independent directors just 14 (52%) of small firms had all-independent directors.

¹³ Nine of the fifty-four IPO firms took place around the time the best practice recommendations were published so it is not possible to unambiguously identify them as either pre- or post the recommendations

To review the extent of compliance by ASX firms, we turn to Panel B of Table 2. The striking aspect of the Australian results is how much greater compliance there appears to be with the more extensive set of guidelines, at least compared to the Canadian results. In twelve out of the 28 recommendations we tracked had a clear majority of the 39 post-2004 IPO companies compliant with them. This is 42% of the total, rising to 53% if we include the two recommendations that fell just short (49%) of a majority compliance. In contrast, the TSX IPOs had majority compliance with just 20% of the 15 recommendations we tracked.

We are inclined to be skeptical that our findings are indicative of greater respect for regulatory guidance on the part of Australian IPO firms. A more likely explanation for the closer adherence to recommended best practice by the Australian IPO firms is that a significant proportion of the best practice recommendations have low compliance costs. For instance, the recommendation to formalize and disclose the functions reserved to the board and management costs little to accomplish, as does the similar exhortation to recognize and publish the roles and responsibilities of the board. When it comes to the recommendations that entail more substantive changes to on-going practice, the Australian firms are in-line with or even lag their Canadian counterparts. For instance, just 20 (51%) of the 39 firms that undertook an IPO post-2004 had a board consisting of a majority of independent directors. In contrast, 20 (87%) out of 23 TSX IPOs had an *all-independent* board. It is likely that this comparison overstates the difference between the ASX and TSX compliance. When we look at just large ASX IPO firms, who are more likely to match their TSX counterparts, the proportion of companies with a majority of independent directors is 82%, very similar to the Canadian result, although the Canadians had a majority, 87%, of boards comprising all independent directors. One significant difference between ASX and TSX is that the ASX IPOs are more likely to have an independent chairperson, this proportion being just under 70% across all firms and 62% for small ASX firms. The difference however predates the influence of the Sarbanes-Oxley legislation. Sixty-seven percent of IPOs undertaken prior to 2004 had an independent chairperson. This proportion increased to 69% for all IPOs undertaken post-2004.

In summary, the most striking difference between in the governance structures of ASX and TSX IPO firms is that the ASX firms are more likely to comply with the recommendations that, *prima facie*, have lower compliance costs. It is curious why the Canadian companies do not follow the same strategy. One possibility, consistent with the TSX having a leaner set of

recommendations is that the regulatory mind-set there is focused on compliance with principles rather than specific rules.¹⁴

Notwithstanding the above, do IPO companies that comply more closely to best practice recommendations trade at higher prices? Our evidence indicates the answer is no. Our findings (unreported in Table format) do not reveal an empirical association between compliance with best practice recommendations and either IPO underpricing or subsequent share market performance. However, we are reluctant to draw the conclusion that compliance is not cost-efficient for the firms that implement the recommendations. Our tests assess compliance only with measurable aspects of corporate governance that have been identified as best practice. Firms that comply with best practice recommendations may be economizing on other less visible measures of corporate governance. For instance, compliance with best practice recommendations may make it easier for block-holders to sell their stake.

In closing, our study suggests that while the introduction of corporate governance best practice recommendations on the ASX and TSX occasioned alarm amongst some market and industry commentators, the impact of the recommendations on market practice and vitality has been benign. Our analysis provides a strong endorsement of regulatory approaches that facilitate contracting flexibility amongst market participants.

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¹⁴ This interpretation is consistent with that of Barbara Stymiest, Chief Executive Officer and President of TSX Inc (until November 2004) who has claimed that "here is where Canada's great strength lies. We're far less reliant on rules that can be circumvented, far more reliant on simple, strong principles that are much less forgiving than rules. We're far more reliant on the discipline that informed investors exercise on companies through the market, far less on trusting regulators to find wrong-doing" Barbara Stymiest -Remarks to the Economic Club of Toronto 2 April 2003 *Market News Publishing*

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Table 1
 Number of initial public offerings (IPOs) on the Australian Securities Exchange and
 Toronto Stock Exchange each year from 1997 to 2006 (Source: Bloomberg)

	ASX			TSX		
	<u>All</u>	<u>Resource</u>	<u>%</u>	<u>All</u>	<u>Resource</u>	<u>%</u>
1997	36	14	39%	15	3	20%
1998	28	8	29%	12	2	17%
1999	75	7	9%	10	1	10%
2000	118	22	19%	13	3	23%
2001	53	19	36%	14	3	21%
2002	51	31	61%	9	3	33%
2003	70	37	53%	4	2	50%
2004	133	59	44%	37	13	35%
2005	137	68	50%	37	18	49%
2006	161	109	68%	34	18	53%
Total	862	374	43%	185	66	36%

Figure 1
 Size range of IPOs on ASX and TSX over the 10-year period to December 2006

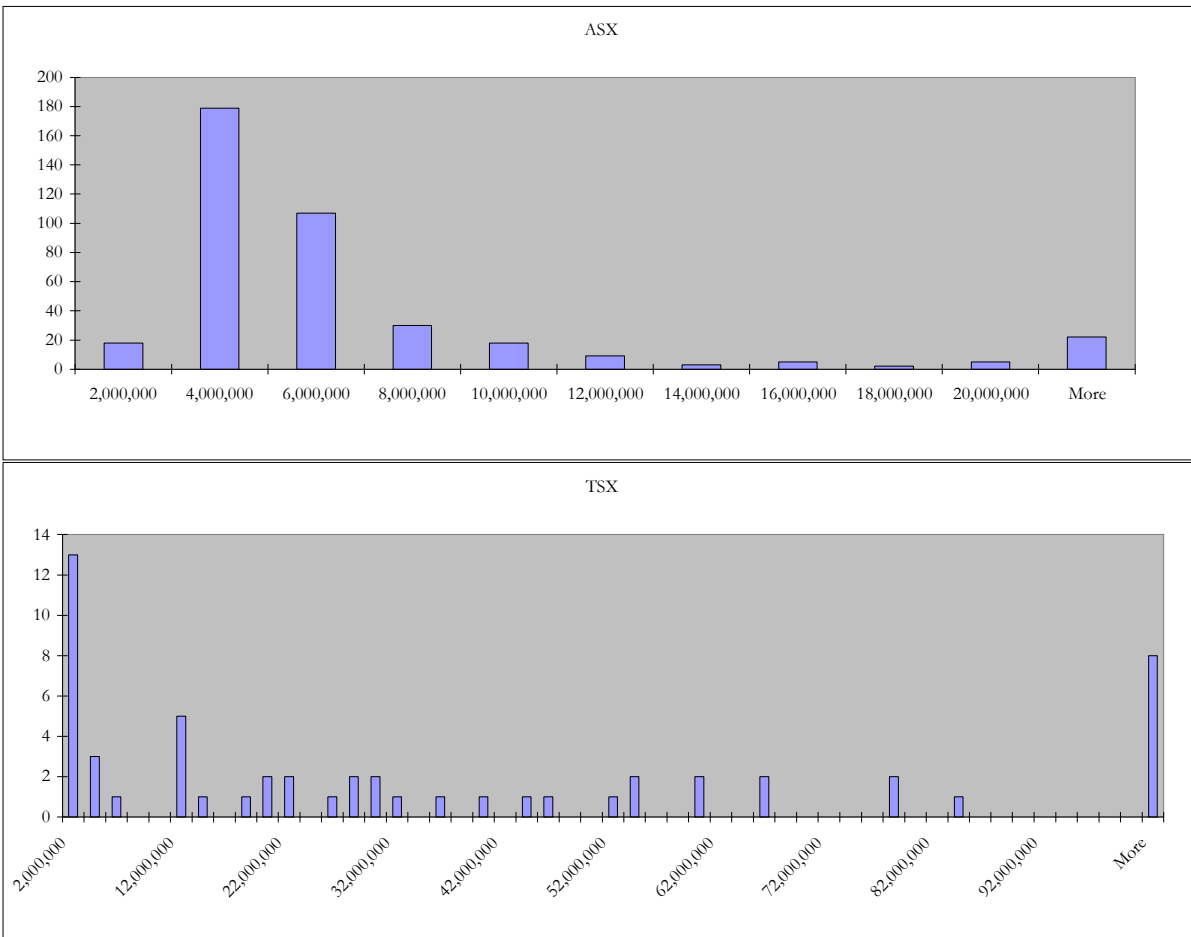


Table 2

Compliance (percentage of sample) with “best practice recommendations” by firms that made an IPO on the ASX or TSX over the period January 1997 to December 2006.

Panel A

Selected TSX recommendations and extent of compliance by large & small firms

Description	Item	Large Co.s		Small Co.s		Post 07/05		Pre 07/05		Overall
			%		%		%		%	
		27		27		23		22		45
Position description of Board	T1.1	1	4%	0	0%	0	0%	1	5%	2%
Board adopt a written code of conduct	T2.1	3	11%	0	0%	2	9%	1	5%	7%
Board responsible for monitoring compliance with code	T2.2	2	7%	0	0%	1	4%	1	5%	4%
Nominating committee composed of entirely independent directors	T3.1	9	33%	1	4%	8	35%	2	9%	22%
Nominating committee adopt a written charter	T3.2	7	26%	0	0%	6	26%	1	5%	16%
Orientation for all new directors	T4.1	3	11%	1	4%	2	9%	2	9%	9%
Continuing education opportunities for all directors	T4.2	5	19%	1	4%	4	17%	2	9%	13%
Board composed of entirely independent directors	T5.1	22	81%	14	52%	20	87%	16	73%	80%
The chair of the board should be independent	T5.2	15	56%	5	19%	13	57%	7	32%	44%
Meeting of independent directors	T6.1	0	0%	0	0%	0	0%	0	0%	0%
Board acknowledges responsibility for the stewardship for the issuer	T7.1	8	30%	1	4%	7	30%	2	9%	20%
Written mandate of board sets out duties of directors	T7.2	4	15%	0	0%	3	13%	1	5%	9%
Assessment of board effectiveness and the contribution of each director	T8.1	7	26%	1	4%	7	30%	1	5%	18%
Compensation Committee entirely of independent directors	T9.1	19	70%	4	15%	14	61%	9	41%	53%
Written charter for Compensation Committee	T9.2	9	33%	0	0%	8	35%	1	5%	20%

Panel B

Selected ASX recommendations and extent of compliance by large & small firms

		Large Co.s		Small Co.s		Post 2004		Pre 2004		Overall
	Total	17		37		39		16		55
Formalise and disclose functions reserved to board and management	A1.1	17	100%	26	70%	35	90%	8	50%	43
Recognise and publish roles and responsibilities of board	A1.2	17	100%	24	65%	34	87%	7	44%	41
Majority of independent directors	A2.1	14	82%	15	41%	20	51%	9	56%	29
Independent chairperson	A2.2	14	82%	23	62%	26	67%	11	69%	37
Chairperson not Chief Executive	A2.3	16	94%	24	65%	30	77%	10	63%	40
Nomination Committee	A2.4	8	47%	9	24%	17	44%	0	0%	17
Effective composition, size and commitment	A2.5	3	18%	8	22%	11	28%	0	0%	11
Structure facilitates efficient discharge of duties	A2.6	6	35%	6	16%	12	31%	0	0%	12
Code of conduct	A3.1	9	53%	16	43%	25	64%	0	0%	25
Actively promote ethical & responsible decision making	A3.2	8	47%	16	43%	23	59%	1	6%	24
CEO or CFO to state in writing validity of financial statements	A4.1	1	6%	8	22%	9	23%	0	0%	9
Audit committee	A4.2	15	88%	12	32%	24	62%	3	19%	27
Structure requirements of audit committee	A4.3	8	47%	3	8%	11	28%	0	0%	11
Formal charter of audit committee	A4.4	10	59%	6	16%	15	38%	1	6%	16
Independent verification and safeguard of company's fin. reporting	A4.5	2	12%	5	14%	6	15%	1	6%	7
Policies to ensure compliance with ASX Listing Rule disclosure requirements	A5.1	5	29%	17	46%	21	54%	1	6%	22
Promote timely and balanced disclosure of all material matters	A5.2	5	29%	15	41%	20	51%	0	0%	20
Communication strategy to promote effective communication with	A6.1	6	35%	14	38%	20	51%	0	0%	20
Request external auditor to attend AGM	A6.2	3	18%	8	22%	11	28%	0	0%	11
Policies on risk oversight and management	A7.1	14	82%	16	43%	26	67%	4	25%	30
Establishment of a sound system of risk oversight and management and internal	A7.3	6	35%	4	11%	9	23%	1	6%	10
Fairly review and actively encourage enhanced board and management	A8.1	6	35%	8	22%	13	33%	1	6%	14
Disclosure of performance evaluation on board and key executives	A8.2	1	6%	4	11%	5	13%	0	0%	5
Disclosure of remuneration policies	A9.1	0	0%	18	49%	14	36%	4	25%	18
Remuneration committee	A9.2	14	82%	8	22%	19	49%	3	19%	22
Distinguish between executive and non-executive remuneration	A9.3	8	47%	21	57%	23	59%	6	38%	29
Ensure level and composition of remuneration committee is sufficient	A9.5	3	18%	9	24%	11	28%	1	6%	12
Establish and disclose code of conduct to guide compliance with legal and other obligations to legitimate stakeholders	A10.1	7	41%	12	32%	19	49%	0	0%	19

APPENDIX A
COMPARISON OF CORPORATE GOVERNANCE BEST PRACTICE
RECOMMENDATIONS ON ASX AND TSX

Comparison of TSX Guidelines Against ASX Guidelines

ASX	ASX CGG	TSX
Publish the respective roles and responsibilities of board and management	1	Similar requirement as Guideline 11
Have a board of an effective composition, size & commitment to adequately discharge its responsibilities and duties. Recommendation 2.1: A majority of the board should be independent directors. Recommendation 2.2: The chairperson should be an independent director. Recommendation 2.3: The roles of chairperson and chief executive officer should not be exercised by the same individual.	2	Similar requirement as Guideline 3 But no requirement that the chairperson and CEO to be different individual
Actively promote ethical and responsible decision-making	3	No such requirement
Have a structure to independently verify and safeguard the integrity of the company's financial reporting Recommendation 4.1: Require the CEO and the CFO to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards	4	No such requirement except forming an audit committee
Promote timely and balanced disclosure of all material matters concerning the company	5	No such requirement
Respect the rights of shareholders and facilitate the effective exercise of those rights by <ul style="list-style-type: none"> - communicating effectively with the shareholders and - giving them ready access to balanced and understandable information about the company and corporate proposals 	6	Guideline 1D requires discussion on whether the board assumes responsibility for a policy that allow the company to communicate effectively with its shareholders.
Establish a sound system of risk oversight and management and internal control.	7	No such explicit requirement besides mentioned in Guideline 1 that the board of director assume responsibility for identify and managing the principal risk
Fairly review and actively encourage enhanced board and management effectiveness	8	Relatively similar to Guideline 5 which require the board to implement a process for assessing the effectiveness of the board as a whole, the committee of the board and the contribution of individual director
Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined.	9	Similar to Guideline 8 which require board of director to review the adequacy and form of the compensation and ensure the compensation realistically reflects the responsibilities and risk involved in being an effective director.
Recognise legal and other obligations to all legitimate stakeholders.	10	No such requirement

Comparison of ASX Guidelines Against TSX Guidelines

ASX	TSX	TSX CGP
<p>No such requirement</p> <p>However, Principle 7 requires the company to establish a sound system of risk oversight and management and internal control (similar to 1B and 1E)</p> <p>Principle 6 is similar to 1D besides it specifically require the company to give the shareholders access to balanced and understandable information about the company and its proposals</p>	<p>The board of director should explicitly assume responsibility for the stewardship of the company and assume responsibility for:</p> <ul style="list-style-type: none"> - 1A Strategic planning process - 1B Principal risks - 1C Succession planning - 1D Communications policy - 1E Integrity of internal control 	1
<p>Same requirement (but using the word ‘independent director’)</p>	<p>Board of director constitute a majority of ‘unrelated director’</p>	2
<p>No such requirement</p>	<p>If the corporation has a significant shareholders, the board should include:</p> <ul style="list-style-type: none"> ▪ a majority of unrelated directors; and ▪ a number of directors who do not have interests in or relationship with either the corporation or the significant shareholder and which reflects the investment in the corporation by shareholders other than the significant shareholder 	2
<p>The word ‘unrelated directors’ is not used Definition of ‘independent director’ is contained in Box 2.1 ASC CGG 2 – a stricter definition</p>	<p>Definition of ‘unrelated directors’ – a director who is independent of management and is free from any interest and any business or other relationship which could reasonably be perceived to materially interfere with the director’s ability to act in the best interest of the corporation (except shareholding interest)</p>	2
<p>Similar to Recommendation 2.5 which recommends certain information to be included in the annual report</p>	<p>The board is required to disclose on an annual basis:</p> <ul style="list-style-type: none"> ▪ whether the board has a majority of unrelated directors; and ▪ the analysis of the application of the principles support this conclusion 	3
<p>Same requirement - Recommendation 2.4</p>	<p>Board of director appoint a committee of directors composed exclusively of outside (ie non-management) directors</p>	4
<p>In the Commentary and Guidance section under ASX CGG 2 Recommendation 2.4 – the nomination committee should consist of a minimum of 3 members, the majority being independent directors and the chairperson must be an independent director</p>	<p>Nominating committee should composed exclusively of outside ie non-management, directors, a majority of unrelated directors</p>	4
<p>No specific mention of such responsibilities in the guideline. However, in the Commentary and guidance section, it states that: Responsibilities of the committee should include:</p> <ul style="list-style-type: none"> • assessment of the necessary and 	<p>Responsibilities of nomination committee are:</p> <ul style="list-style-type: none"> ▪ to propose new nominees; and ▪ assess directors on an ongoing basis 	4

desirable competencies of board members • review of board succession plans • evaluation of the board's performance • recommendations for the appointment and removal of directors.		
Relatively similar to Principle 8 – review and encourage enhanced board and management effectiveness Recommendation 8.1 recommend disclosure of the process for <u>performance evaluation</u> of the board, its committees and the individual directors and <u>key executives</u>	Board of director implement a process for assessing the effectiveness of the board as a whole, the committee of the board and the contribution of individual director	5
No such requirement	Provide orientation and education program for new recruit to the board	6
Principle 2 – have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties No explicit statement regarding changing the size. The focus is on having an effective board.	Board of directors should examine its size and reduce its number if it facilitates more effective decision-making	7
Similar to Principle 9 (ASX seems to have a more detailed requirement)	Board of directors should review the adequacy and form of the compensation of director	8
No such requirement	Committees of the board of director should be composed of outside director which majority of whom are unrelated director	9
No such requirement	Board of directors expressly assumes responsibility for developing the corporation's approach to governance issues - if assign this to a committee of directors, the committee would be responsible for the corporation's response to these governance guidelines	10
Principle 1 Recommendation 1.1 – formalise and disclose the function of the board and management (not just CEO, include all senior executive)	The board of directors and CEO develop position description for the board and CEO	11
No such requirement	Board should approve or develop the corporate objectives for CEO to meet	11
Recommendation 2.2 recommend the chairperson be an independent director	Board should in place appropriate structures and procedures to ensure that the board can function independently of management. An appropriate structure would be: (i) chair of the board not a member of management (ii) assign this responsibility to a committee of the board of a lead director Appropriate procedure: - board meeting on a regular basis without management present	12
Recommendation 4.3 recommend the audit committee to consists of only non-executive directors and a majority of independent directors	Audit committee composed only of outside directors	13
Recommendation 4.4 recommend that	Roles of audit committee should be specifically defined	13

audit committee should have a formal charter		
No such explicit requirement	Audit committee should have direct communication channels with the internal and external auditor	13
No such explicit requirement	Audit committee duties include oversight responsibility for management reporting on internal control	13
No such explicit requirement	Board implements a system enabling an individual director to engage outside adviser at the expense of the corporation in appropriate circumstances, subject to the approval of the committee of the board	14

Data Collection

The data was gathered based on the following criteria:

- 1) IPOs of Resource Companies listed on the ASX and TSX over a ten year horizon, between 1/1/1997 to 31/12/2006
- 2) Security type: Common

Data Variables

The dependent variables are based on Corporate Governance guidelines issued (best practice recommendations) by the respective Stock Exchanges;

ASX (ASX listing rule 4.10.3)

A1.1 Formalize and disclose functions reserved to board and management
A1.2 Recognize and publish roles and responsibilities of board
A2.1 Majority of independent directors
A2.2 Independent chairperson
A2.3 Chairperson not Chief Executive
A2.4 Nomination Committee
A2.5 Effective composition, size and commitment
A2.6 Structure facilitates efficient discharge of duties
A3.1 Code of conduct
A3.2 Actively promote ethical and responsible decision making
A4.1 CEO or CFO to state in writing validity of financial statements
A4.2 Audit committee

A4.3 Structure requirements of audit committee
A4.4 Formal charter of audit committee
A4.5 Independent verification and safeguard of company's fin. reporting
A5.1 Policies to ensure compliance with ASX Listing Rule disclosure requirements
A5.2 Promote timely and balanced disclosure of all material matters
A6.1 Communication strategy to promote effective communication with Shareholders
A6.2 Request external auditor to attend AGM
A6.3 Respect rights of shareholders and facilitate the effective exercise of those rights
A7.1 Policies on risk oversight and management
A7.2 Statement by CEO/CFO
A7.3 Establishment of a sound system of risk oversight and management and internal control
A8.1 Fairly review and actively encourage enhanced board and management effectiveness
A8.2 Disclosure of performance evaluation on board and key executives
A9.1 Disclosure of remuneration policies
A9.2 Remuneration committee
A9.3 Distinguish between executive and non-executive remuneration
A9.4 Equity-based executive remuneration in accordance with thresholds
A9.5 Ensure level and composition of remuneration committee is sufficient and reasonable
A10.1 Establish and disclose code of conduct to guide compliance with legal and other obligations to legitimate stakeholders

TSX (National Policy 58-201)

T1.1 Position description of Board
T2.1 Board adopt a written code of conduct
T2.2 Board responsible for monitoring compliance with code
T3.1 Nominating committee composed of entirely independent directors
T3.2 Nominating committee adopt a written charter
T4.1 Orientation for all new directors
T4.2 Continuing education opportunities for all directors
T5.1 Board composed of entirely independent directors
T5.2 The chair of the board should be independent
T6.1 Meeting of independent directors
T7.1 Board acknowledges responsibility for the stewardship for the issuer
T7.2 Written mandate of board set out duties of directors
T8.1 Assessment of board effectiveness and the contribution of each director
T9.1 Compensation Committee entirely of independent directors
T9.2 Written charter for Compensation Committee

The measurement of our variables was based on the compliance with the best practice recommendations by looking through the IPOs prospectus of the companies. To measure, we looked into the following sections of the prospectus:

- 1) Directors and Senior Officers,
- 2) Corporate Governance Practices and
- 3) Compensation Schemes for executives

Data Comparables

The data was examined over 3 dimensions:

- 1) Pre-implementation and Post implementation
 - ASX (pre 2004/ post 2004)
 - TSX (pre July 2005/ post July 2005)
- 2) Market Capitalization at IPO date
- 3) GICS Sub industry classification

ASX	TSX
Big 20 (Market Capitalization)	
<p>- 11 companies that retained more than 50% of shares posted positive average returns, except for 3 companies experiencing negative returns since being listed (the highest is 129% and the lowest -57%).</p> <p>- Among the 8 companies that posted positive returns, all except 2 do not have an independent directors. Also 2 of these 8 companies do not have a majority of independent directors.</p> <p>- Of these 11 companies, 4 experienced a drop in share price on the 1st day of trade. 3 out of these 4 companies are also the companies that posted negative returns since being listed. Out of these 4 companies, 1 does not have a majority of independent directors.</p> <p>- The remaining 6 companies that retained less than 50% of shares also posted positive returns, except for 2 (the highest is 87% and the lowest is -24%).</p> <p>Among the 4 companies that posted positive returns, only 1 does not have an independent chairperson.</p> <p>- 5 out of these 6 companies experienced a drop in share price on the 1st day of trade. 2 of these 5 companies are also the companies that posted negative returns since being listed. These 2 companies have a majority of independent directors and an independent chairperson</p>	<p>- 15 companies that retained more than 50% of shares posted positive average returns, except for 5 companies experiencing negative returns since being listed (the highest is 81% and the lowest -49%).</p> <p>- Among the 10 companies that posted positive returns, 1 do not have a majority of independent directors, 1 do not have an independent chairperson and 1 do not have both a majority of independent directors and an independent chairperson.</p> <p>- Of these 15 companies, 3 experienced a drop in share price on the 1st day of trade. 2 out of these 3 companies are also the companies that posted negative returns since being listed. These 2 companies do not have an independent chairperson.</p> <p>- The remaining 5 companies that retained less than 50% of shares also posted positive returns (the highest is 44% and the lowest is 15%). Among the 5 companies that posted positive returns, 2 do not have an independent chairperson and 1 does not have both an independent chairperson and a majority of independent directors.</p> <p>- 5 out of these 6 companies experienced a drop in share price on the 1st day of trade. 2 of these 5 companies are also the companies that posted negative returns since being listed. These 2 companies have a majority of independent directors and an independent chairperson</p>
Small 20 (Market Capitalization)	
<p>- 22 companies that retained more than 50% of the shares posted positive average returns, except 6 since being listed (the highest is 186% and the lowest is -94%). Among these 17 companies with positive returns, 8 do not</p>	<p>- 18 companies that retained more than 50% of the shares posted positive average returns, except 7 since being listed (the highest is 357% and the lowest is -129%). Among these 11 companies with positive returns, 3 do</p>

<p>have a majority of independent directors and 3 do not have an independent chairman.</p> <ul style="list-style-type: none"> - Out of these 22 companies, 7 experienced a drop in share price on the last day of trading. Only 1 of these 7 companies does not have an independent directors. 3 out of these 7 companies are also the companies that posted negative returns since being listed. Only 1 out of 3 do not have both a majority of independent directors and an independent chairperson. - 3 out of the 6 companies that posted negative returns do not have a majority of independent directors and only 1 out of these 6 companies does not have an independent chairperson. - The remaining 15 companies that retained less than 50% of the shares posted positive average returns, except 4 since being listed (the highest being 155% and the lowest being -77%). Among the 10 companies that posted positive returns, 7 do not a majority of independent directors and 3 do not have an independent chairperson. - 4 out of these 15 companies experienced a drop in share price on the 1st day of trading. All 4 companies do not have a majority of independent directors. 3 out of 4 do not have an independent chairman. 2 out of these 4 companies are also the companies that posted negative returns since being listed. - All 4 companies that posted negative returns do not have a majority of independent directors and only 1 out of these 4 companies does not have an independent chairperson. 	<p>not have an independent chairperson and 2 do not have both an independent chairman and majority of independent directors.</p> <ul style="list-style-type: none"> - Out of these 18 companies, 6 experienced a drop in share price on the 1st day of trading. Only 4 of these 6 companies does not have an independent chairperson. Also, 1 out of these 6 do not have both an independent chairperson and majority of independent directors. 3 out of these 7 companies are also the companies that posted negative returns since being listed. Only 1 out of 3 do not have both a majority of independent directors and an independent chairperson. - 4 out of the 7 companies that posted negative returns do not have an independent chairperson and 2 out of these 6 companies do not have both an independent chairperson and majority of independent directors. - The remaining 7 companies that retained less than 50% of the shares posted positive average returns, except 1 since being listed (the highest being 271% and the lowest being -37%). Among the 6 companies that posted positive returns, 3 do not have an independent chairperson and 1 do not have both an independent chairperson and a majority of independent directors. - 1 out of these 7 companies experienced a drop in share price on the 1st day of trading. This company does not have an independent chairperson. This company is also the company that posted negative returns since being listed. - The company that posted negative returns does not have an independent chairperson.
Post implementation	
<ul style="list-style-type: none"> - 23 companies that retained more than 50% of shares posted positive returns, except 5. Among these 18 companies that posted positive returns, 6 companies do not have a majority of independent directors and 3 companies do not have an independent chairperson. - 8 of 23 companies experienced a drop in share price on the 1st day of trading. 3 of these 8 companies do not have a majority of 	<ul style="list-style-type: none"> - 18 companies that retained more than 50% of shares posted positive returns, except 8. Among these 10 companies that posted positive returns, 1 company do not have a majority of independent directors and 2 companies do not have an independent chairperson. - 4 out of 18 companies experienced a drop in share price on the 1st day of trading. All 4 companies do not have an independent

<p>independent directors and 2 out of 8 do not have an independent chairperson. 3 out of these 8 companies are also companies that posted negative returns since being listed.</p> <ul style="list-style-type: none"> - 2 out of the 5 companies that posted negative returns do not have a majority of independent directors and also 2 out of these 5 companies do not have an independent chairperson. <p>- The remaining 16 companies that retained less than 50% of share posted positive returns as well, except for 2 (the highest being 155% and the lowest being -17%). Among the 14 companies that posted positive returns, 6 companies do not have a majority of independent directors and 5 do not have an independent chairperson.</p> <ul style="list-style-type: none"> - 6 out of these 16 companies experienced a drop in share price on the 1st day of trade. 1 out of these 6 companies do not have a majority of independent directors. 2 out of these 6 companies do not have both a majority of independent directors and an independent chairperson. - The 2 companies that posted negative returns do not have an majority of independent directors. 	<p>chairperson. 3 out of these 4 companies are also companies that posted negative returns since being listed.</p> <ul style="list-style-type: none"> - 5 out of the 8 companies that posted negative returns do not have an independent chairperson and also 1 out of these 8 companies do not have both an independent chairperson and majority of independent directors. <p>- The remaining 5 companies that retained less than 50% of share all posted positive returns as well (the highest being 46% and the lowest being 0%). Among the 5 companies that posted positive returns, 1 company does not have a majority of independent directors and 2 do not have an independent chairperson.</p> <ul style="list-style-type: none"> - 0 out of these 16 companies experienced a drop in share price on the 1st day of trade.
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Pre-implementation

<ul style="list-style-type: none"> - 10 companies that retained more than 50% of shares posted positive returns, except 4(the highest being 108% and the lowest being -107%). Among these 6 companies that posted positive returns, 2 companies do not have a majority of independent directors and 2 companies do not have an independent chairperson. - 4 of 10 companies experienced a drop in share price on the 1st day of trading. 2 of these 4 companies do not have a majority of independent directors. 2 out of these 4 companies are also companies that posted negative returns since being listed. - 1 out of the 4 companies that posted negative returns does not have a majority of independent directors and also 1 out of these 5 companies does not have both an independent chairperson and a majority of independent directors. 	<ul style="list-style-type: none"> - 15 companies that retained more than 50% of shares posted positive returns, except 4. (with the highest being 357% and lowest -9%). Among these 11 companies that posted positive returns, 3 companies do not have an independent chairperson and 3 companies do not have both an independent chairperson and a majority of independent directors. - 5 of 15 companies experienced a drop in share price on the 1st day of trading. 3 of these 5 companies do not have an independent chairperson. Also 1 out of these 5 companies do not have both an independent chairperson and majority of directors. 2 out of these 5 companies are also companies that posted negative returns since being listed. - 2 out of the 4 companies that posted negative returns do not have an independent chairperson and also 1 out of these 4 companies does not have both an independent chairperson and a majority of
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<p>- The remaining 6 companies that retained less than 50% of share posted positive returns as well, except for 4 (the highest being 53% and the lowest being -77%). Among the 2 companies that posted positive returns, 1 company does not have both a majority of independent directors and an independent chairperson.</p> <p>- 3 out of these 6 companies experienced a drop in share price on the 1st day of trade. 1 out of these 6 companies does not have a majority of independent directors. 1 out of these 6 companies does not have both a majority of independent directors and an independent chairperson.</p> <p>- 2 out of 4 companies that posted negative returns do not have an majority of independent directors.</p>	<p>independent directors.</p> <p>- The remaining 7 companies that retained less than 50% of share posted positive returns as well, except for 1 (the highest being 271% and the lowest being -37%). Among the 6 companies that posted positive returns, 3 do not have an independent chairperson and 2 do not both have an independent chairperson and majority of independent directors.</p> <p>- 2 out of these 6 companies experienced a drop in share price on the 1st day of trade. 1 out of these 6 companies do not have an independent chairperson. 1 out of these 6 companies do not have both a majority of independent directors and an independent chairperson.</p> <p>- The company that posted negative returns do not have an independent chairperson.</p>
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