The influence of Institutions, Investor Protection and Corporate Block-shareholders in Asset Pricing by Hearn, Phylaktis and Piesse: A discussion

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Summary of the paper

- Quality of institutions and investor protection matter in the asset pricing
- Investor protection adjusted for ownership concentration
- Augmented CAPM: two factor investor protection model

Review of literature

- External mechanisms of corporate governance- Legal origin, institutions, investor protection - international differences have received much attention.
- Investor protection hypothesis: better protection against the opportunistic behaviour of managers encourages supply of external equity to firms, and thereby translates into dispersed ownership (La Porta, Lopez-de-Silanes, Shleifer and Vishny 1997, 1998, 1999)
- Direction of causality - Higher investor protection translates into higher firm valuation (Klapper and Love 2005) and lower cost of equity capital (Chen et. al. 2009)
- Investor protection and firm level CG act as substitutes for reducing cost of equity capital (Chen et. al. 2009)

Observations I

- Direct test of blockholding - insider shareholding?
- Premium for poor institutions but fairly good markets - substitutes or complements?
- Systemic risk - liquidity crisis
- Limitations of cross country studies - good CG could earn higher investor premium (McKinsey and co. 1999, Coombes and Watson 2000)
- CAPM variability - country effects?

Observations II: Data

- Number of companies at country level and distribution
- Distribution of ownership concentration by region

Free float

- Measurement error
- Asian economies have higher free float then developed economies (e.g. median FF in India is 100% vs 59% in US)
- To be calculated from shareholding information

Thank you.