



Study shows big turnover of listed companies

Corporate law reforms have not led to a flood of delistings in Australia, but the growing number of private equity bids will add to turnover, writes **Ian Ramsay**.

There is significant concern in the United States that the costly corporate law reforms introduced by the Sarbanes-Oxley Act of 2002 (SOX) are causing companies to delist from stock exchanges and deregister their securities with the Securities and Exchange Commission.

The principal cause of increased compliance costs has been section 404 of SOX. This section requires annual reports to contain an internal control report setting out management's responsibility for establishing and maintaining an adequate internal control structure and procedures for financial reporting. The effectiveness of the internal control structure must be assessed by management and attested to by external auditors.

In a survey of 147 US public companies by Foley & Lardner, 70 per cent felt overall company administrative costs increased a "great deal" as a result of SOX and other corporate governance reforms and 82 per cent felt the reforms had been too strict.

It is against this backdrop that a growing number of public companies in the US have sought to delist. Thirty nine per cent of the companies that went private in 2004 (44 of 114) cited SOX compliance costs as a reason for doing so. Twenty per cent of public companies surveyed in 2005 by Foley & Lardner were considering going private – compared to 21 per cent in 2004 and 13 per cent in 2003.

Australia has introduced corporate law reforms in recent years. However, these have not been as extensive as SOX and Australia has not introduced an equivalent to section 404. Australian corporate law reforms would therefore seem not as expensive to comply with as SOX and listed companies may not have the same incentive to delist as some US companies.

In a study published this week, Nicholas Lew and I seek to

determine whether companies listed on the Australian Stock Exchange are responding to corporate law reforms or changes made to their reporting requirements by delisting.

We analyse 30 years of data of delisting, spanning 1975-2004, to see what the reasons are for companies delisting in this period.

From the 5952 delistings during this period we determine that the main reasons for delisting include being acquired; capitalisation changes; and failure to pay listing fees – typically because of the company being in financial difficulty.

There was no evidence that companies are delisting because of corporate law reforms or excessive reporting requirements. There was a small number of delistings where the

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company delisting said that the cost of being listed exceeded the benefits.

In addition to examining the reason for delisting, we also examine the extent of delistings relative to all companies listed on the ASX and the length of time delisted companies are listed.

The extent of delisting (the number of delistings expressed as a percentage of all listed companies) has been increasing each decade for the past three decades and is the equivalent of more than one whole board being turned over each decade. On average, 150 per cent of the ASX board delists each decade. The extent of delisting decreases significantly if capitalisation changes and name changes are excluded from the analysis (60 per cent each decade).

In order to determine the extent of delistings for the largest companies, the Top 150 ASX

companies were examined for the period 1990-2005 in a separate analysis. Eighty per cent of the Top 150 companies in 1990 had delisted by 2005. Excluding delistings attributed to capitalisation changes and name changes, 62 per cent of the Top 150 companies in 1990 had delisted by 2005.

The study examined the length of time companies are listed on the ASX before delisting. The mean is eight years and the median is four years. Fifty-six per cent of companies that delisted did so within their first four years of trading and another 22 per cent delisted within the next five years. This means a total of 78 per cent of companies that delisted did so within nine years of listing.

In summary, we did not find evidence of companies delisting because of corporate law reforms or excessive reporting requirements.

I note Publishing & Broadcasting chief executive James Packer's comments in *The Australian Financial Review* this week about his desire to delist to avoid "public market considerations". The additional scrutiny – and resources applied to meet such expectations – is one of a host of reasons why companies might take their enterprises private, but the suggestion it will lead to a flood of market players slipping out of sight is far fetched.

However, the growing number of bids by private equity for listed companies has the potential to lead to more delistings when the benefits of not being listed become more significant. The rapid growth of private equity will add to a key finding of the study – the very high rate of turnover of listed companies.

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