Chapter 3
Review of Cross-Listing

ABSTRACT

The literature reviews presented in Chapter 3 summarize most of the research on the international cross-listing phenomenon. The chapter begins by reviewing early studies of cross-listing from the perspectives of cross-listing effects on return, risk, volatility, and cost of capital. This follows with an appraisal of the new wave of recent studies in terms of multiple listing, informed trading, cross-listing and corporate governance, and price disparity. Empirical studies of each of the research topics are also discussed.

3.1 INTRODUCTION

Technological progress and the liberalization of capital market policies greatly facilitate capital market internationalization and mitigate market segmentation. The first wave of internationalization of markets began during the 1970s with investors and firms investing funds in foreign equity markets to diversify their portfolios and earn higher returns than were possible with only a domestic portfolio (Foerster & Karolyi, 1993). Then, another globalization phenomenon saw firms actually cross-listing their stocks on foreign capital markets in the early 1980s.

During the 1990s, the number of foreign companies with shares cross-listed and trading on major exchanges outside of their home markets reached as high as 4,700 and included among their numbers were not only companies from developed economies, but also many from emerging economies opening up their stock markets...
to foreign investors for the first time (Karolyi, 2006). However, previous years have witnessed a significant slowdown in the pace of new international cross-listings and in the proportion of global trading on overseas exchanges. From May 2007 to May 2008, 35 large European companies, including household names such as Ahold, Air France, Bayer, British Airways, Danone, and Fiat, terminated their cross-listings on stock exchanges in New York as the requirements for deregistering from US markets became less stringent. On the Tokyo Stock Exchange, too, some well-known companies, such as Boeing and BP, have recently withdrawn their listings (Dobbs & Goedhart, 2008). By the end of 2012, the overall foreign listing in world exchanges decreased to 2,993 (World Federation of Exchanges, 2012). London, NASDAQ, New York and Singapore still attract the most foreign company listings.

The long-held conventional wisdom of cross-listing has been challenged. During the 1990s, a great body of literature, both theoretical and empirical, has examined the issue of cross-listing, seeking to understand the net benefits of the corporate decision to list shares on overseas exchanges. Similarly, there have been a dozens of new academic studies of the benefits and costs of listings that depart from the conventional wisdom of previous studies and that seek to rationalize the changing and now more complex world of cross-listings. These studies extend our understanding of cross-listing from different angles, and mainly focus on three aspects: (i) corporate governance and legal bonding; (ii) multiple listing and informed trading, price discovery and information transmission, and (iii) arbitrage.

The purpose of this chapter is to provide an extensive literature review on cross-listing and its new research initiatives of corporate issues within past years.

3.2 EARLY STUDIES OF CROSS-LISTING

The literature provides a set of theoretical foundations attempting to explain the motivations of a firm’s decision to list its stock on a foreign exchange, which are then followed by empirical investigations. The most frequently mentioned reasons for cross-listing include increasing security liquidity (Domowitz et al., 1998; Hargis, 2000), increasing visibility (Howe & Kelm, 1987), improving investor protection (Coffee, 2002), increasing stockholder base (Merton, 1987), providing diversification gains (Chan et al., 1992), and removing market segmentation effects (Kryzanowski & Zhang, 2002). Early research in the area of cross-listing postulated the economic benefits and different effects of cross-listing with compelling results.

Prior studies have revealed several types of effects as a result of international cross-listing. The major findings suggested that international listing decreases equilibrium required returns due to its integrating effect (Varela & Lee, 1993). In addition, it decreased the intercept of the Security Market Line with the magnitude
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