

# **Where capital markets go, corporate governance follows**

**Corporate Governance Association of Turkey**

**XII. Corporate Governance Summit**

**21 February 2019, Istanbul**

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**OECD**

# Happy to be back!



## Key structural trends

- Rapid growth in institutional ownership and asset management
- Growing role of investment strategies such as passive indexing and investment vehicles such as ETFs (exchange traded funds)
- Shift of capital market activities to Asia
- Increased capacity, scale and variety of private capital markets

# Institutional dominance in main developed markets

Average ownership by investor category, 100 largest listed companies, end-2017

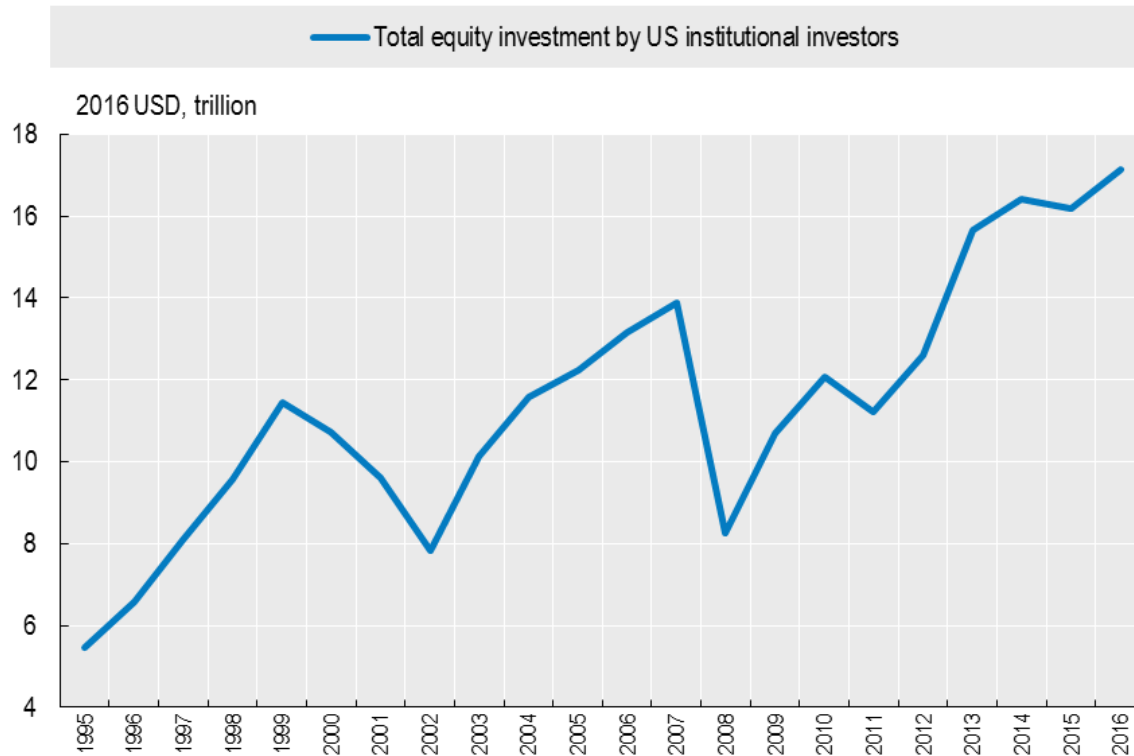
	Corporations and holding companies	Governments	State-controlled enterprises Strategic individual investors	Institutional investors	Non-identified investors
Brazil	29.3	11.8	12.6	25.0	21.3
Canada	8.0	2.7	3.8	47.6	37.9
China	13.1	41.8	8.4	8.2	28.5
France	21.9	7.8	9.2	29.4	31.7
Germany	22.0	5.2	8.4	28.9	35.5
Hong Kong (China)	21.3	25.2	14.0	13.1	26.4
India	31.0	20.1	9.2	19.3	20.4
Indonesia	44.5	15.5	7.4	7.5	25.1
Italy	19.9	7.8	21.4	23.0	27.9
Japan	20.1	5.9	2.5	26.6	44.9
Korea	26.1	13.2	11.8	15.4	33.5
Malaysia	30.1	33.0	7.9	11.3	17.7
Mexico	16.3	0.7	25.9	19.0	38.1
Poland	20.6	9.4	20.2	32.1	17.7
Russia	33.3	24.0	17.5	9.0	16.2
Singapore	29.8	10.1	14.0	13.2	32.9
South Africa	22.6	11.5	4.6	30.4	30.9
Spain	20.0	3.5	18.5	24.9	33.1
Switzerland	12.4	8.9	11.9	27.8	39
Thailand	26.2	10.2	22.2	12.0	29.4
Turkey	47.8	9.4	10.4	11.3	21.1
United Kingdom	4.5	6.0	3.4	66.4	19.7
United States	2.3	1.3	2.1	72.9	21.4

Strong company groups

Up from 30% in 1980

Source: FactSet, Thomson Reuters Eikon, OECD calculations.

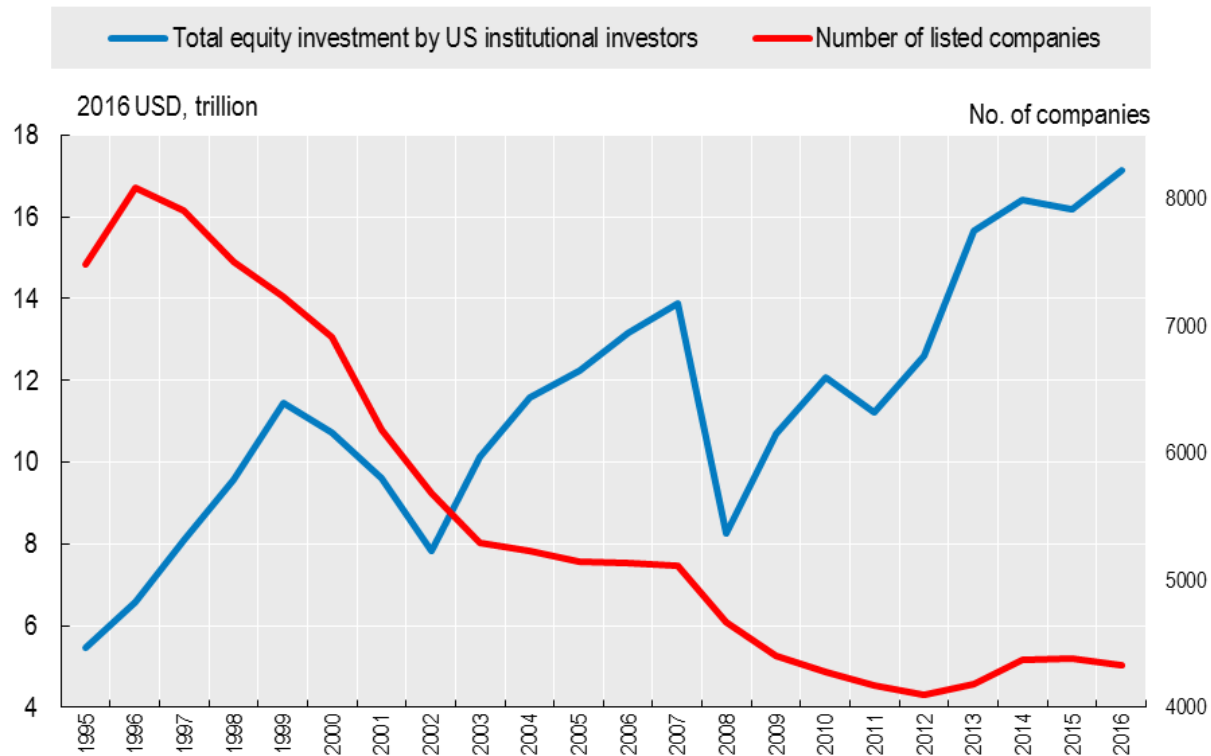
# There is more money



Source: OECD Institutional Investors Database and World Bank World Development Indicators.

- In the US, pension funds, investment funds and insurance companies have more than tripled their total equity investment under management from USD 5.5 trillion in 1995 to USD 17 trillion in 2016.

# Chasing fewer companies

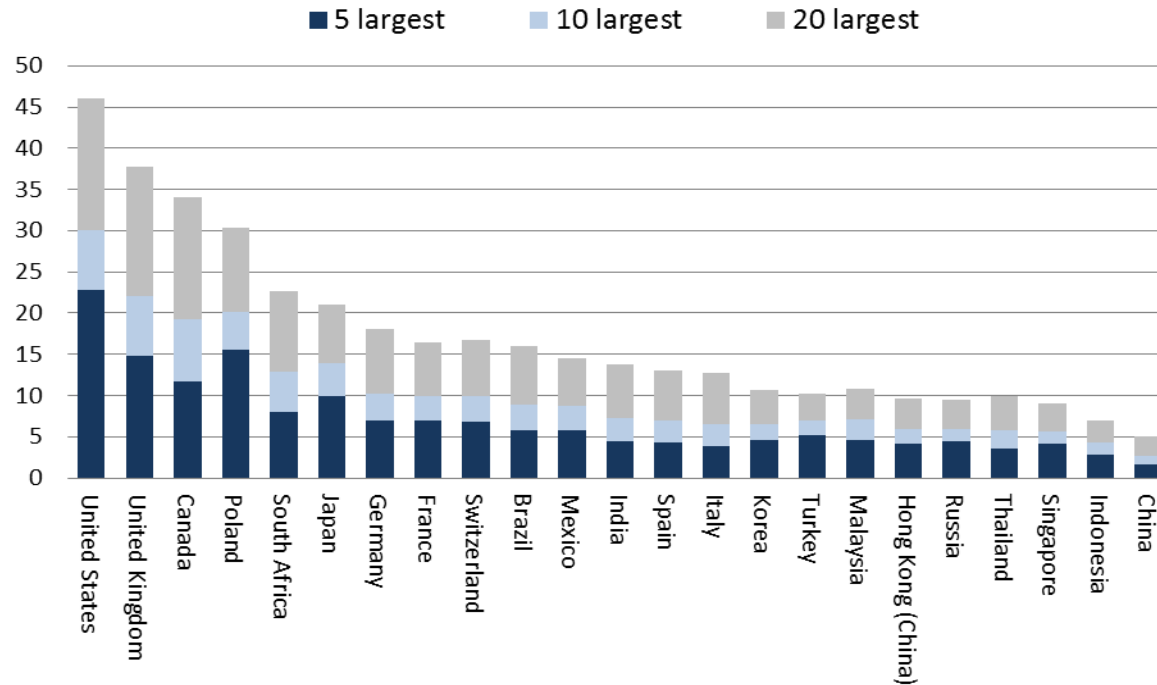


Source: OECD Institutional Investors Database and World Bank World Development Indicators.

- At the same time, the United States has lost almost half of its publicly listed companies.

# Concentration of ownership in the hands of institutional investors

Combined holdings of the largest institutional investors at company level, 100 largest companies

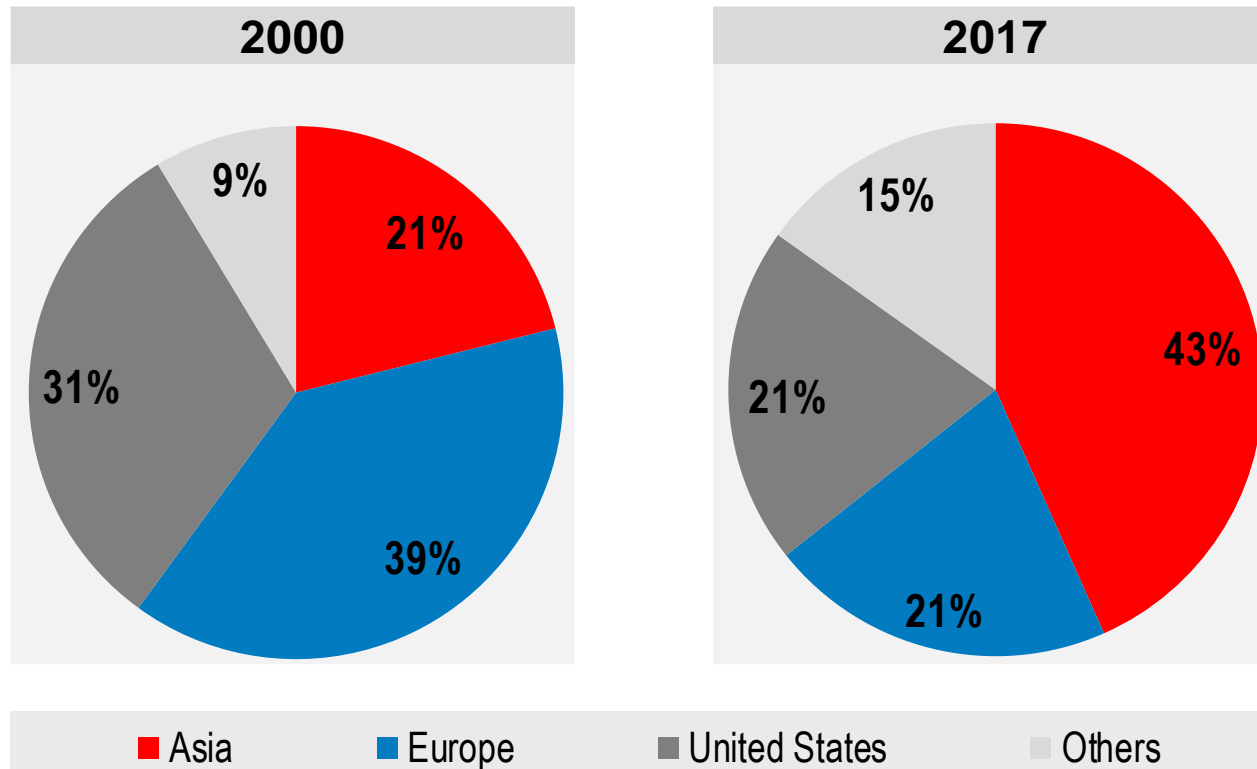


Source: FactSet, Thomson Reuters Eikon, OECD calculations.

- In the US, 10 largest institutional investors on average hold 30% of the company's capital.
- Key reasons are the decline in the number of listed companies and the rapid increase in institutional investors' allocation to equity. More funds available for smaller number of companies.

# The growth of Asian stock markets

## Global distribution of public equity financing



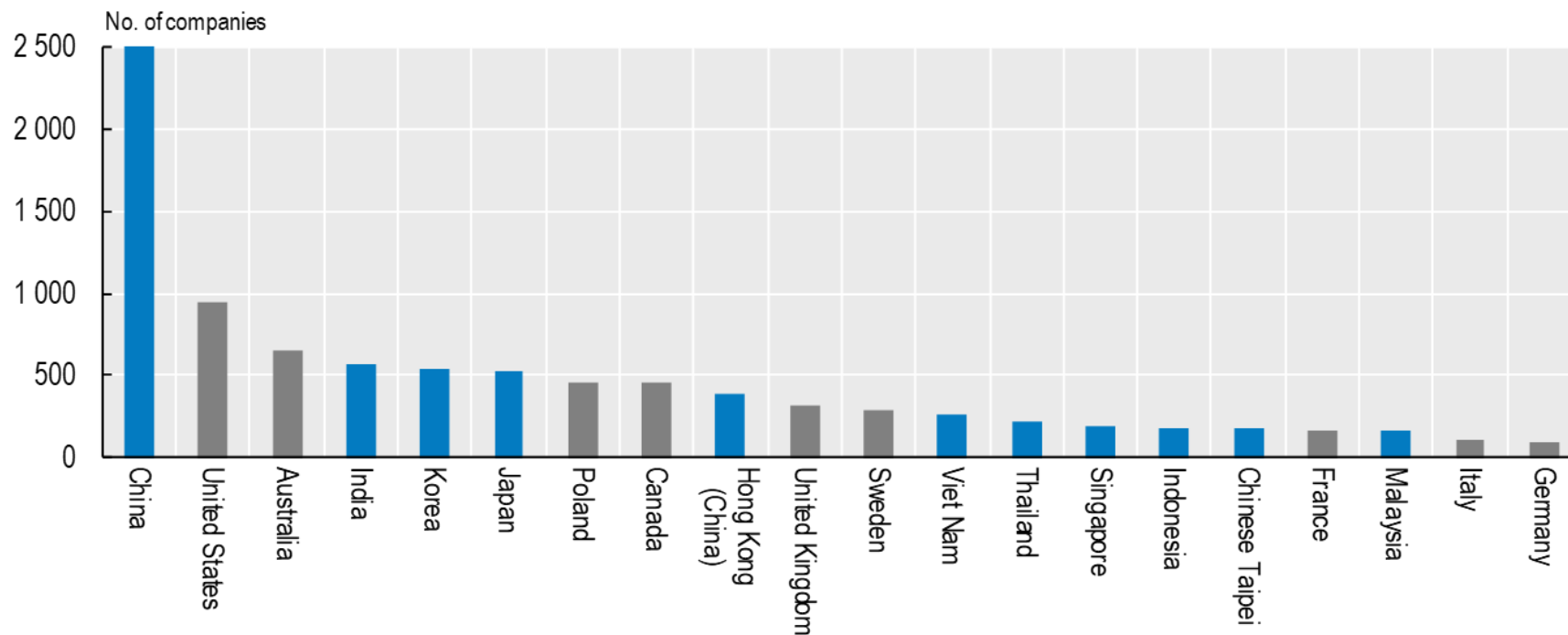
Source: OECD Equity Market Review of Asia 2018

- In 2017, Asian companies accounted for 43% of all public equity raised in the world.



# Asian companies have dominated the global IPO scene

Top 20 jurisdictions by number of non-financial company IPOs during the past 10 years

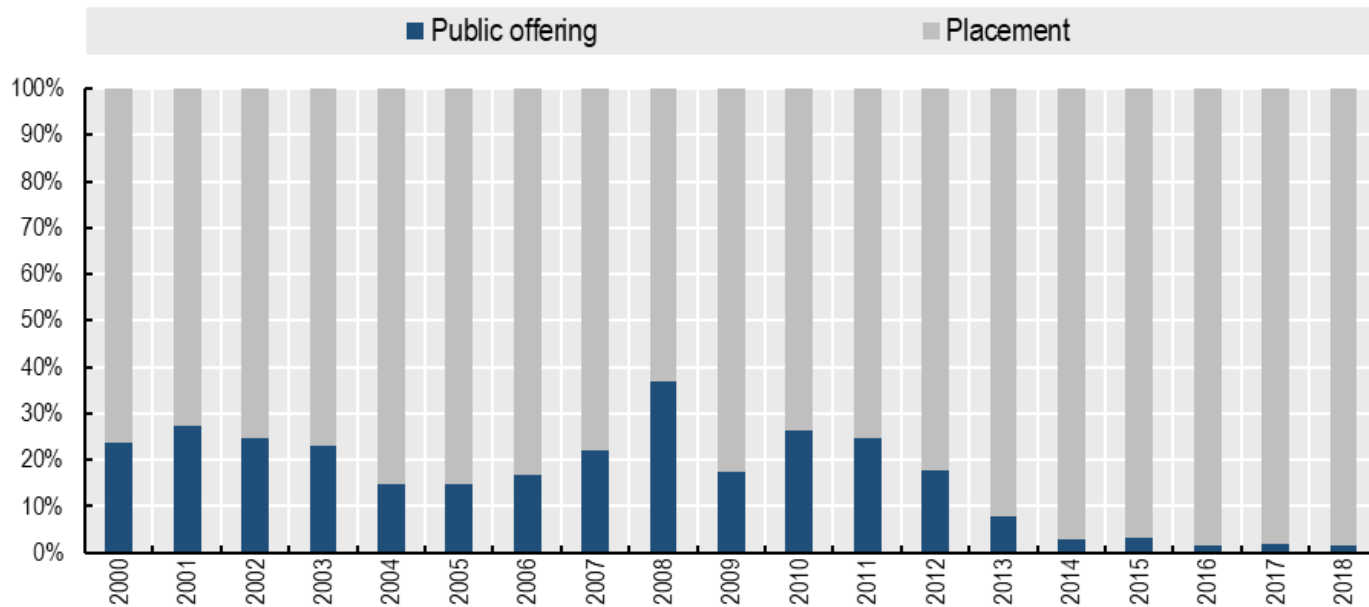


Source: OECD Equity Market Review of Asia 2018

- In 2017, a record number of 1 074 Asian companies got listed. This is twice the 2000-2016 annual average.
- More than 90% were non-financial companies.

# Private placements in equity markets

## New listings on London Stock Exchange: Public offerings versus private placements

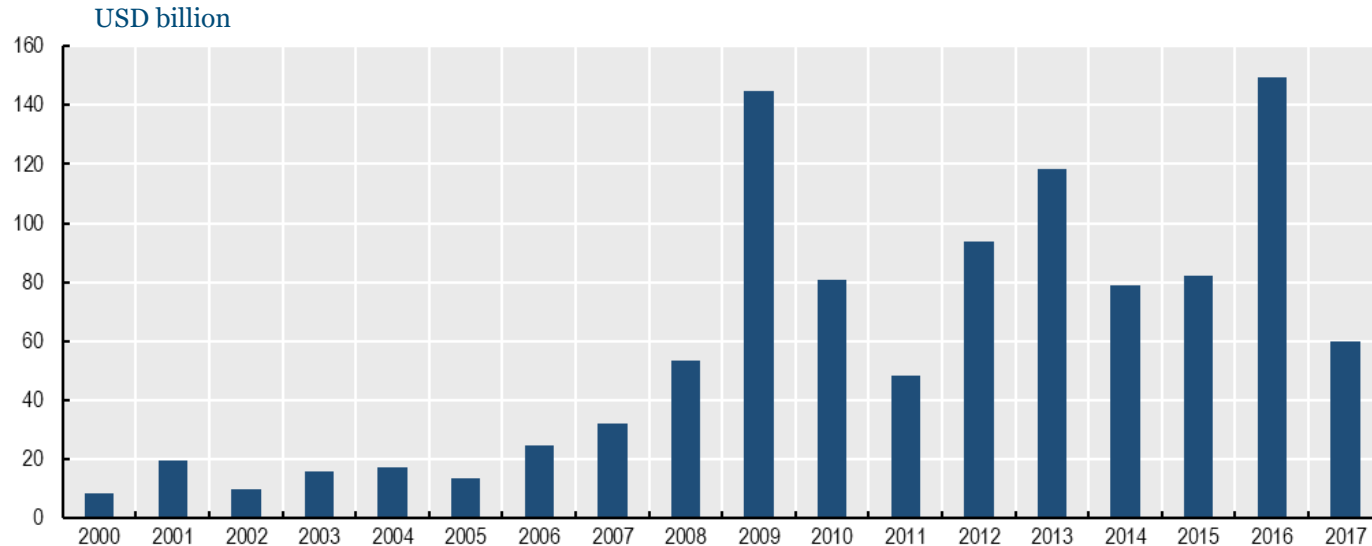


Source: Based on data from London Stock Exchange.

- Up to 2008, the share of IPOs conducted through public offerings on London Stock Exchange was 23%.
- Last five years it was less than 3%

# Private placements in corporate bond markets

## Private placement bond issuance in emerging markets

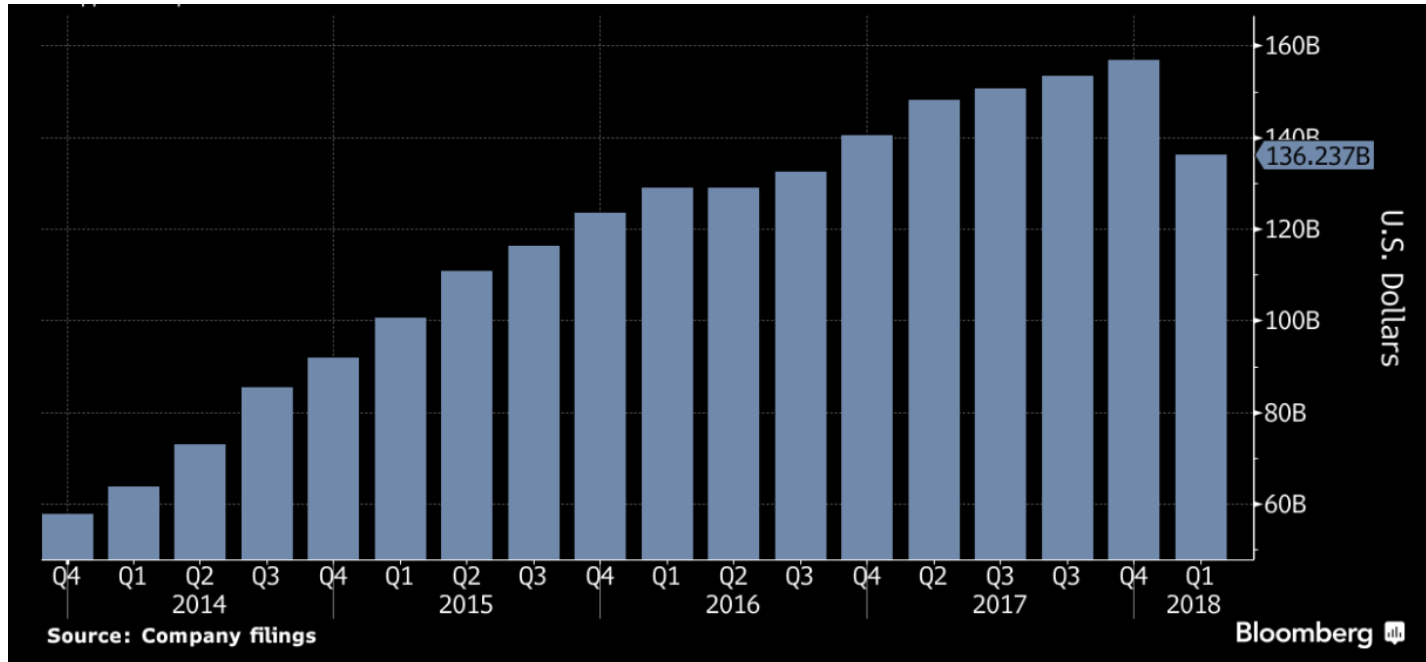


Source: OECD Capital Market Series dataset, Thomson Reuters Eikon.

- Barely passing the USD 20 billion mark in the first years of the 2000s, the proceeds from private bond placements by companies from emerging markets steeply increased after 2007 to reach USD 150 billion in 2016.

# The world's largest corporate bond fund : Apple

## Apple's corporate bond holdings

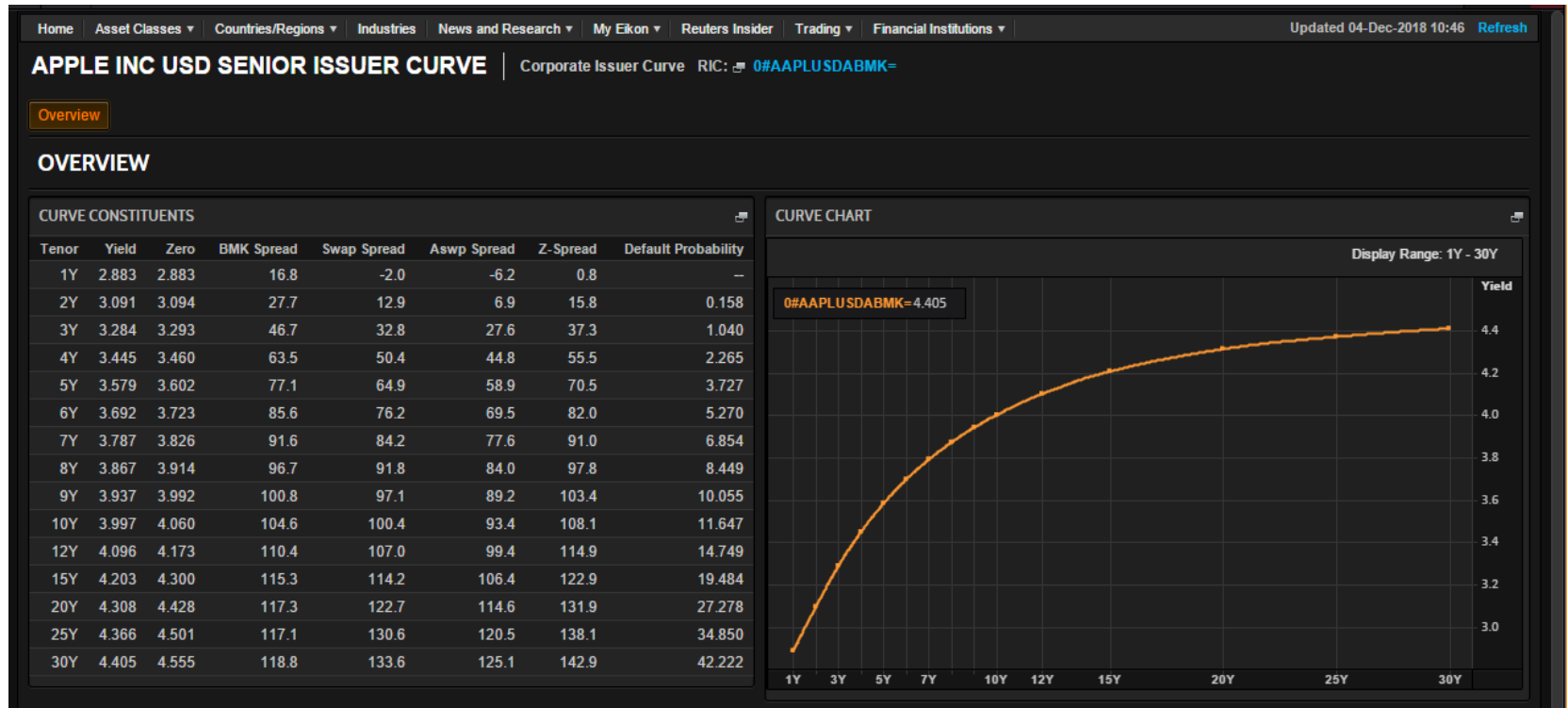


Source: Bloomberg

- The company held about USD 136 billion of corporate bonds as of March 2018, representing about half of its cash pile.

# And one of the world's largest corporate bond issuers...

## Apple's corporate bond yield curve



Source: Thomson Reuters.

- At the same time, Apple is one of the largest corporate bond issuers in the world. Have their own yield curve.
- Total outstanding corporate bonds: USD 103.8 billion (Nov 2018)

# What are the impact of these changes? - 1

- The size, growth and opening up of emerging capital markets will fuel global integration further.
- Different approaches and expectations will be confronted. Are we sure which “model” will come out on top? Asian exchanges in Hong Kong, Singapore and China are already challenging the one-share-one vote principles routinely advocated by some large institutions.
- To the great diversity of corporate governance arrangements already exist in advanced markets, growth in emerging markets will add:
  - large portions of state ownership
  - complex company group structures
  - controlling families
- While internationalisation and increased indexing may call for more standardization. Reality in terms of ownership arrangements and successful new corporate business models push in the other direction. What can regulators learn from markets?

## What are the impact of these changes? - 2

- At the same time, fewer listings and growth of private capital result in a reduction in the amount of publicly available information.
- Today, capital markets are less transparent.
- But the market economy relies on investors to price and allocate capital among different business opportunities. And the big money is in institutions.
- Two alternative scenarios:
  - Opening-up the private capital markets to smaller investors, directly or via intermediaries: additional disclosure requirements, better investor protection, and potentially discouraging companies also using private markets?
  - Limiting the market to large, sophisticated investors: Less opportunities to households to directly invest in fast-growing companies before they come to the stock market or decide to stay private, increasing wealth / income inequalities further?

# Investments in unlisted equity - 1

## Ministry of Finance, Norway

- “Investments in private equity are associated with higher risk than listed shares, and should therefore generate a higher return. Historical return figures indicate that this has not been the case.”

## Norges Bank Investment Management

- “More recent studies...show that investments in private equity funds...produced a return after costs that is **slightly higher** than that on a broad portfolio of listed equity...”
- “In recent decades, we have observed that the number of listed companies appears to be in decline.”
- “Less information is publicly available on unlisted companies than on listed companies...”
- “Access to information...are factors that can be prioritised when drafting the agreements we enter into.”
- “**The fund’s size**, long-term horizon and limited liquidity needs may make it well-suited to investing in unlisted equity.”
- “A broader investment universe may also enable the fund to be invested **in different types of company** to those that are available in the public equity market.”



# Investments in unlisted equity - 2



Amy Whyte

PORTFOLIO

## **Norway Blocks Wealth Fund From Investing in Private Equity**

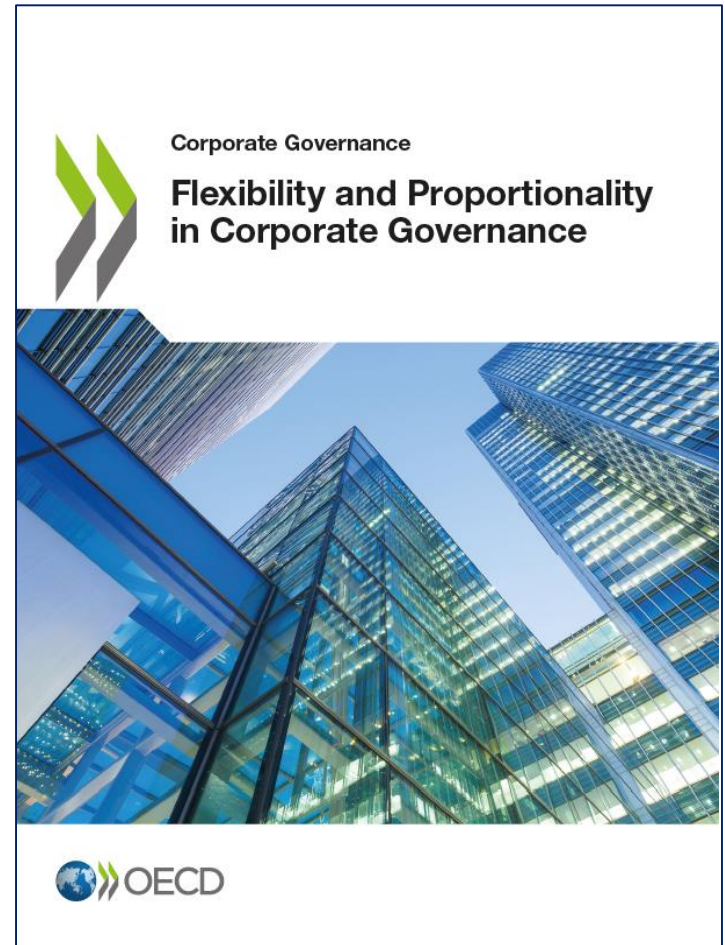
The country's finance ministry cited fees and lack of transparency as reasons not to invest in unlisted equities.

April 10, 2018

*Source:* Institutional Investor

# The OECD Reviews on Flexibility and Proportionality in Corporate Governance

- 7 policy areas, 39 countries:
  - Board composition, board committees and board member qualifications
  - Say on pay and the detail of disclosure on remuneration
  - Related party transactions
  - Disclosure of periodic financial information and ad-hoc information
  - Major shareholding disclosure
  - Takeovers
  - Pre-emptive rights



**Thank you for your attention!**



## **OECD Equity Market Review of Asia 2018**

This report is part of the *OECD Capital Market Series*. More information about the series is available at:

<http://www.oecd.org/corporate/capital-markets>