



NEW ZEALAND INSTITUTE FOR THE STUDY
OF COMPETITION AND REGULATION INC.

Discussion of: ‘Regulation and Target Takeover Returns: Is there a Link?’

Paper by Ben Marshall and Hamish Anderson

Discussion by Glenn Boyle

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Overview: A Story about Power

Tweaking the rules of a game to give one side or the other more power results in that side doing better than previously.

But what does this tell us about **optimal** regulation?



Is Takeover Regulation a Zero-Sum Game? Or not?

What happens to shareholder wealth in **acquiring** firms?

- exactly offsets target effects (regulation short-run neutral)
- falls by more than target returns rise (regulation short-run bad)
- rises, or falls by less than target returns rise (regulation short-run good)



What about the Long Run?

Whatever happens in the short run might be reversed in the long run.

Long-run event study?



Let's ignore both Acquirers and the Long Run.

Do higher target returns indicate:

- Previous bids too low (encouraging wasteful takeovers)
- New bids too high (discouraging efficient takeovers)



Or, what about Quantities

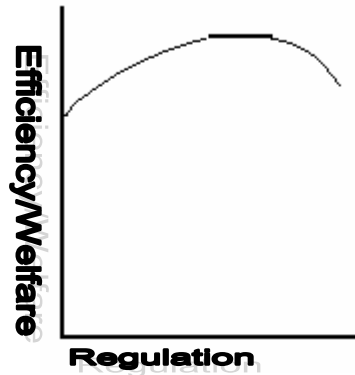
More regulation is associated with greater returns to target shareholders, **conditional on receiving a bid**:

But how many bids have been discouraged by more stringent regulation?

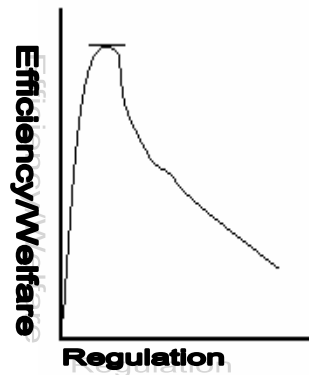
Perhaps greater regulation simply benefits some groups of minority shareholders at the expense of others.



The Optimal Level of Financial Regulation



OR



OR



La Porta et al

Rajan and Zingales



A Final Thought

If greater target returns reflect regulation-induced reduction in information asymmetries, then effect should be greatest following the 2001 change.

But the reverse is true.

