

Discussion of “Financial Globalization, Governance and the Evolution of the Home Bias” by Kho, Stulz and Warnock

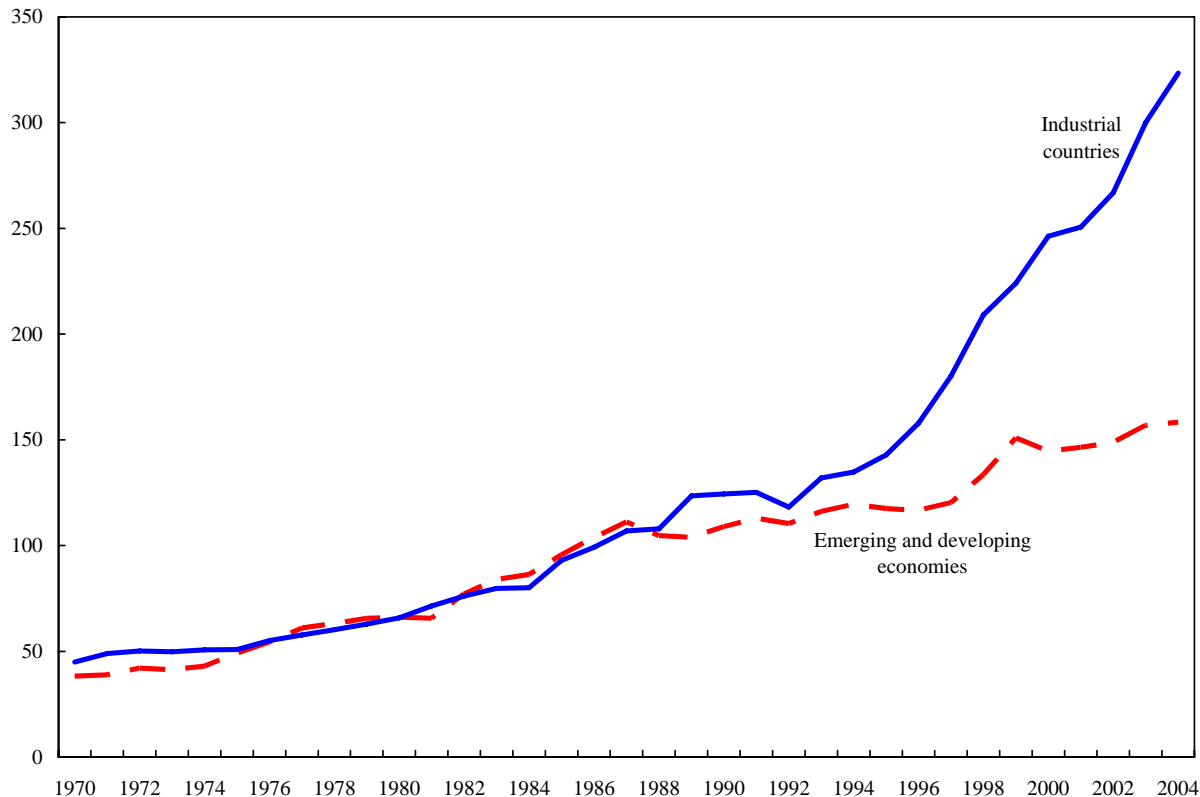
Philip R. Lane, IIIS-TCD and CEPR
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Paper Summary

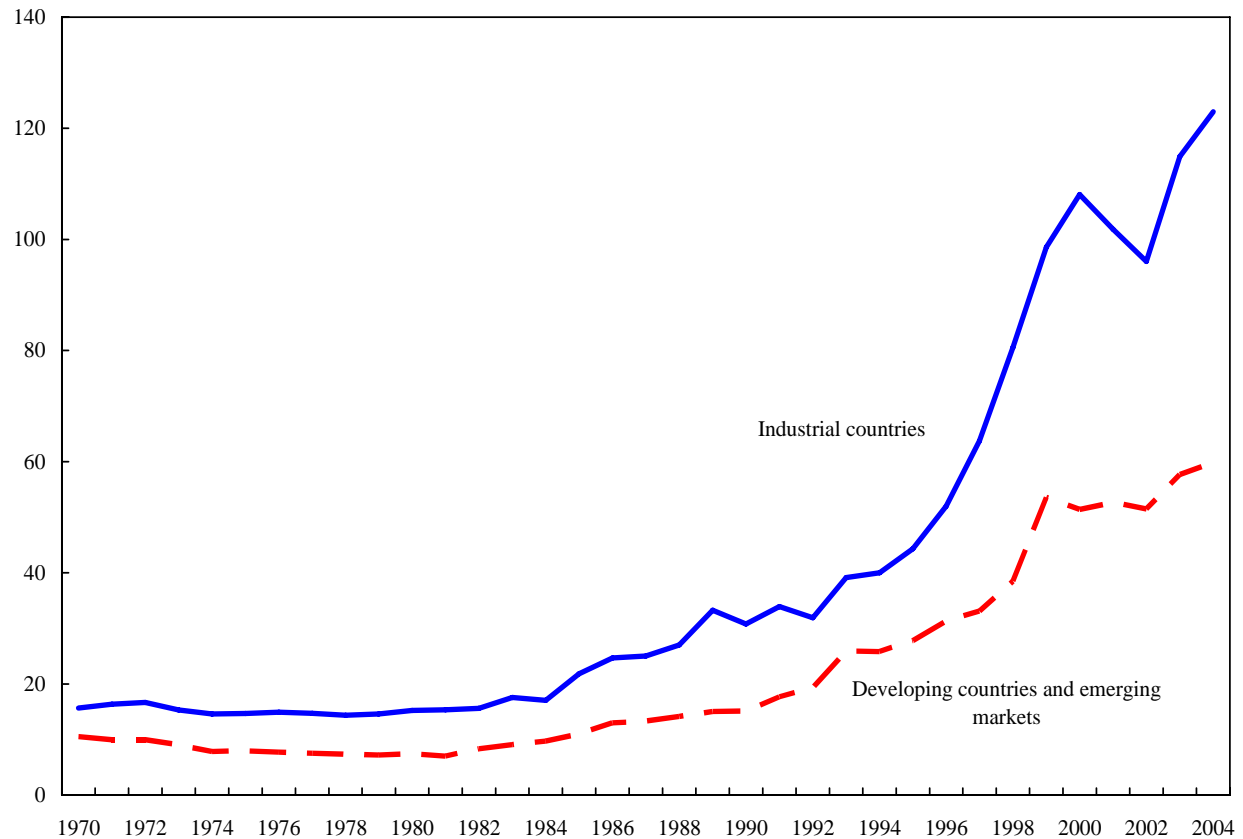
- Analysis of portfolio equity choices of US investors, 1994 and 2004
- Changes in home bias linked to changes in degree of insider ownership
- (But US share of 'free float' not related to insider ownership)
- Insider ownership correlated with governance indicators
- Cross-country results replicated in firm-level data for Korea
- Stulz, "Financial Globalization", JF

International Financial Integration

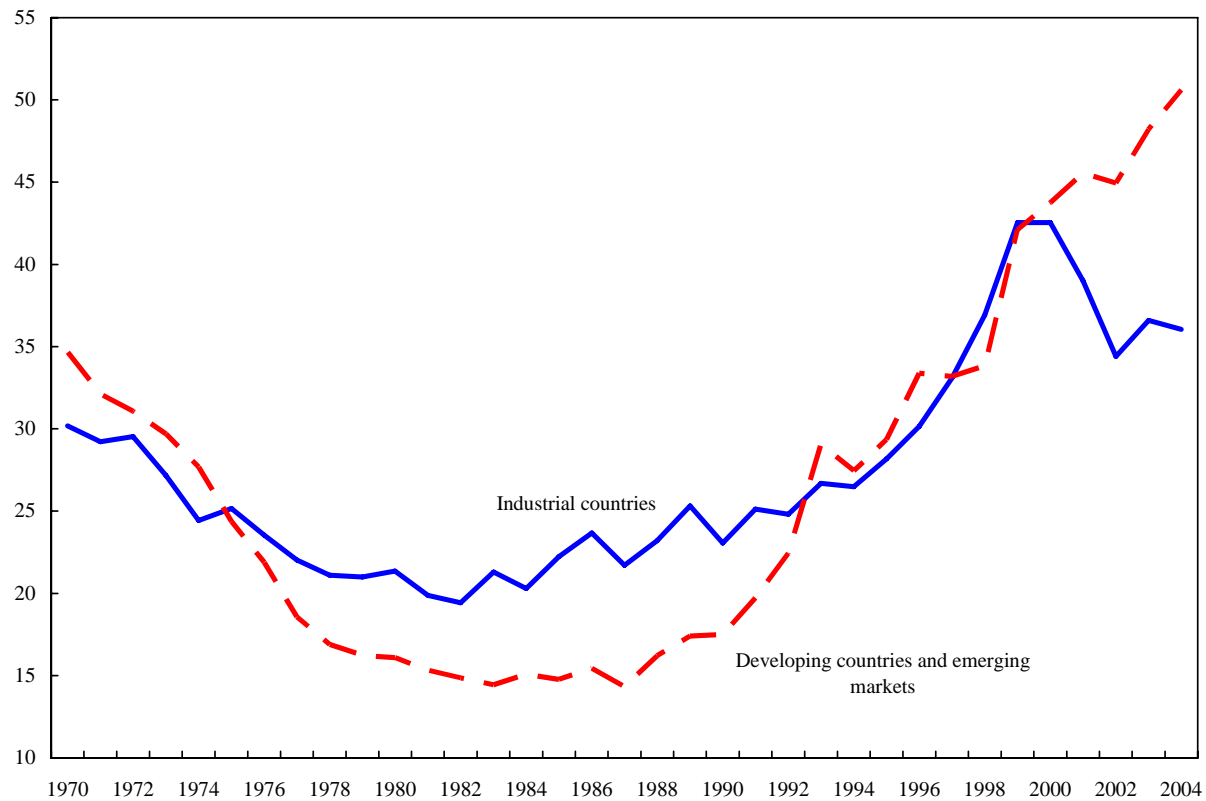


- Ratio of foreign assets and liabilities to GDP
- Lane and Milesi-Ferretti (2006), EWN Mark II dataset

International Equity Integration



Equity Share in External Liabilities





KSW Approach

- 4 types of investor: domestic insiders; domestic outsiders; non-US foreign outsiders; US outsiders
- Share held by US outsiders negatively related to share held by domestic insiders
- Share held by US in 'free float' not related to inside ownership
- If all outsiders similar, mechanical relation – bigger insider share means smaller outsider share



Outsiders Not All the Same

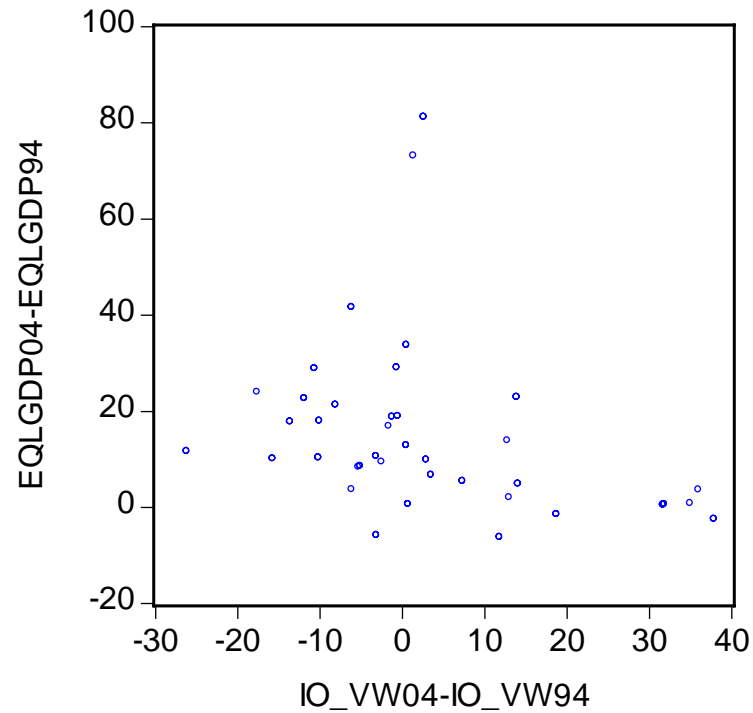
- Domestic versus Foreign Outsiders
- Not all foreigners the same - “geography” of international investment positions
- Variables: trade; distance; language; similarity in institutional structures; currency volatility; ethnic networks
- Example: increase in intra-European portfolio equity cross-holdings – by accounting, reduced US share



Portfolio Shares vs Levels

- KSW do not look at aggregate capital flows
- Increase in market cap negatively related to increase in insider ownership
- Change in aggregate portfolio equity liabilities to foreign investors 1994-2004: negatively related to change in insider ownership, especially for emerging mkt economies
- Change in insider ownership skews inflows towards FDI

Change in Portfolio Equity Liabilities, 1994-2004





Inside Ownership by Foreign Investors

- In recent years, international private equity funds very active
- Increase also in FDI
- Do governance variables explain cross-country patterns in these trends?



Final Remarks

- Main result: Insider ownership a key variable in explaining international portfolio equity allocations
- Excellent paper!