

AFAANZ Research Fund 2019-20

Report for Grant Outcomes

(1) Name, Position, Contact Details

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(2) Project Title

Corporate Vote Trading in Australia

(3) Updated Project Summary

Our study investigates the prevalence of corporate vote trading in Australia around shareholder meetings. We find that institutional investors recall loaned shares prior to shareholder meetings to exercise their voting rights in their effort to improve corporate governance in Australia. We explore the possible heterogeneity in the results across different sub-samples with varying levels of institutional ownership, information asymmetry, and firm characteristics. We find that vote recalls are increasingly common in large firms, firms with more independent directors, and stocks with higher past returns, in recent years. Recalls are associated with less support for meeting resolutions, especially those related to the remuneration package in firms within the ASX100 and those with shareholder dissent. We infer the value of votes from the incremental cost of borrowing shares with voting rights around shareholder meetings. From the equity loan fee, we infer the value of votes to be around 351 bps per annum.

(4) Funds Granted

AUD 5,000

(5) Detailed Report on Expenditure of Funds against Budget Items, with variations explained

We used \$4,982.04 for research assistance in data collection. The research assistant spent around 100 hours in four batches. All worked hours were approved by the research director at the Department of Finance, Faculty of Business and Law, Deakin University. The summary is as follows:

<u>Batch</u>	<u>Amount</u>	<u>Hours</u>
1	\$287.64	6
2	\$2,249.40	46
3	\$1,467.00	30
4	\$978.00	20
<u>Total</u>	<u>\$4,982.04</u>	<u>102</u>

(6) Outcomes

(a) Data collection:

With the help of our research assistant, we collected the necessary data for our study. For example, we collected data on (i) shareholder meetings: meeting types, dates, and agendas; and the number of vote in meeting agendas, etc. (ii) firm characteristics: market capitalization, book-to-market ratio, corporate governance proxy, leverage, past returns, liquidity measures, etc. See our research paper “Corporate Vote Trading in Australia” for further details.

(b) Research paper:

We analysed the data and wrote a working paper, titled “Corporate Vote Trading in Australia”. The abstract is as follows:

“This study finds that institutional investors improve corporate governance in Australia by recalling loaned shares prior to shareholder meetings to exercise their voting rights. Recalls are increasingly common in large firms, firms with better corporate governance, and stocks with higher past returns, in recent years. Recalls are associated with less support for meeting resolutions, especially those related to the remuneration package in firms within the ASX100 and those with shareholder dissent. We infer the value of votes (around 351 bps per annum) from the incremental cost of borrowing shares with voting rights around shareholder meetings.”

We submitted our working paper “Corporate Vote Trading in Australia” to the Financial Markets and Corporate Governance Conference in 2020. Unfortunately, the conference was cancelled due to the Covid-19 pandemic.

(7) Future Intentions for this Project

a. Conference submission

See Section 6 (b) above.

b. Journal submission

We have submitted our paper to the journal affiliated with AFAANZ - *Accounting and Finance*. It is now under revise and resubmit.

c. Grant application

We are not exploring any top-up grant for our project at the moment, given that we are revising and resubmitting our paper for publication at *Accounting and Finance*. However, we may apply for another grant for a follow up study or a study that can benefit from the data we have collected.

d. Projects

We are conducting an international study of corporate vote trading as an extension of our current study.

(8) Summary of Outcomes and Benefits

We are very grateful for the AFAANZ grant as the success of our project largely depend on it. With the AFAANZ funds, we managed to complete the work related to data-collection, cleaning, and consolidation. We wrote a working paper, titled “Corporate Vote Trading in Australia”. We are in the process of completing the revision for resubmission of our paper to the journal affiliated with AFAANZ - *Accounting and Finance*.

Our study extends the academic literature in separate areas of finance. It is of interest to financial practitioners and policy makers who are concerned with the impact of equity loans on corporate governance. Our project can potentially provide guidance to policymakers on information disclosure and to investors on informed decision-making. Our results extend the literature on information efficiency and improve the understanding of investors' preferences regarding corporate governance.

Prepared by

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