

Comments on the paper
“Mutual Funds Governance Around the World” from Florencio
Lopez-de-Silanes, Kaipichit Ruengsrichaiya and Max Berre

By

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Outline

- Summary of the paper
- Strengths of the paper
- Weaknesses of the paper
- Suggestions and future direction

Summary of the paper

- This paper creates a new dataset of mutual fund governance index (MFG index) which covers 50 countries (36 developed and 14 developing countries)
- The MFG index consists of (total 27 sub-index variables)
 - Transparency and organizational governance 11 variables (e.g. Independent Chair, Director Self-dealing Disclosure)
 - Liquidity and Investor Voting Rights 12 variables (e.g. Maximum Redemption Period, Holder May Call General Meeting)
 - Liability 4 variables (e.g. liability of directors for failure of fiduciary duties, liability of fund managers for failure of fiduciary duties)

Summary of the paper

- This paper found that MFG index is positively associated with MF size/GDP (can be viewed as a part of financial market development)
- This finding is robust after controlling for country's characteristics and broad-scope governance index (e.g. corruption perception, rule of law)

Strengths of the paper

- A new dataset on mutual fund governance across countries (50 countries with 36 developed and 14 developing countries)
- This papers show (to some extent) that we need to separately measure and understand mutual fund governance from broad-scope governance index (i.e. there is more information)

Weaknesses of the paper

- 1) The construction of MFG index is not clear
 - Which year is the index for (2012?)?
 - What the criteria for selecting the sub-index dummy variables?
 - How each sub-index dummy variables are constructed? (there is a list of laws and regulations by what did the authors do with them?)
 - “Variables in current index are boiled down from more than 120 vars”?
What is the justification from 120 vars to 27 vars?

Weaknesses of the paper

2) Endogeneity issues

- Reverse causality: Large MF sector/GDP leads to better governance and vice versa (may be using instrumental variables such legal origins or legal form might help)

3) MFG index does not measure “enforcement” as this does not reflect in the text

4) MFG index does not measure “investors’ perception” of mutual fund governance

Suggestions and future direction

- Adopt a more systematic approach in constructing each sub-index (to reduce subjectivity)
 - Text classification approach
 - (e.g. Antweiler, Werner, and Murray Z. Frank. "Is all that talk just noise? The information content of internet stock message boards." *The Journal of Finance* 59, no. 3 (2004): 1259-1294.)
- Adopt a more systematic dimension reduction method (again, to reduce subjectivity)
 - Principle component analysis

Thank you