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The End Justifies the Means? Signalling Effect of How and Where to List

Mary L.P. Chai
University of Macau
marychai@umac.mo

Virginia M.C. Lau
University of Macau
Institute for Tourism Studies

Kitty F. Xie
University of Macau

ABSTRACT

The use of reverse mergers to access the public markets has raised some controversies. The listing vehicle has come under constant criticism because private firms could bypass the arduous and costly vetting system of a traditional IPO. In this paper, we compare various profitability and productivity measures of Chinese companies listed in US through IPO or reverse mergers, as well as those listed in CHINEXT or SME Boards. While some studies document inferior reporting quality and financial failures of the Chinese Reverse Mergers (CRMs) relative to US domiciled IPO firms, we conjecture that US domiciled Chinese companies should fare better than Chinese domestic firm. In particular, we contend that since they are subject to same financial reporting standards as other US firms, their reporting quality is enhanced. The empirical result indicates that there is no significant difference between the performance of CRMs and Chinese IPO firms listed in US. More importantly, our multivariate tests provide evidence that Chinese firms chose to list in the US perform relatively better than Chinese domestic firms.

Keywords: bonding incentive, listing rules, listing domicile, Chinese Reverse Mergers (CRMs), CHINEXT