Can digital technology make autonomously traded firms more efficient?

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Firm and/or market efficiency?

Firm efficiency is a different concept to market efficiency but they could be related.

There are various metrics for measuring firm efficiency. The metrics relevant to the processes involved in making changes in the share registrar of a firm may not be significant. Many firms already contract out this cost and this could be maintained with self-listing

However, self-listing could possibly introduce additional compliance costs? Evidence that these costs are not likely to be significant are presented. If they were significant then this might be offset by cost savings from removing Stock Exchange fees.

There are many examples of self-listing and autonomous share trading around the world that indicate that any additional compliance costs do not result in significant compliances cost net of removing stock exchange listing fees.

Is financial market efficiency relevant ?

The efficient-market hypothesis in financial economics states that asset prices reflect all available information.

A direct implication is that it is impossible to "beat the market" consistently on a risk-adjusted basis since market prices should only react to new information. However…

Other issues continued - 1

When stock exchanges prevent public disclosure of price sensitive data like the identity of who is trading they create a systemic privileged source of information.

Royal Commissioner Hayne identified "asymmetry of power and information" as a major concern for misconduct in the financial service industry.

Continuous public disclosure of the ultimate beneficial owners and/or controllers of securities being held or traded is described as "Sunlight" ownership or trading. Sunlight is seen an disinfectant for exposing mistakes, unfair, improper and/or illegal activities.

Other issues continued - 2

Beside being a disinfectant, sunlight share ownership radically improves “available information” to improve “market efficiency”.

For this reason analysis of this presentation is based on any self-listing (autonomous trading) firms adopting continuous public ownership disclosure.

There are now many online platforms for buyers and sellers of goods and services. These could include financial products, subject regulatory approval as may be required.

Autonomous share trading

This year the US has 5,864 **private** firms with employee share owners. Such firms need to find a buyer for their shares when an employee retires or is dismissed. (ESOPS 2021).

The number of **private** firms that need to organised autonomous trading **exceeds** the 2,873 firms listed on the New York Stock Exchange **plus** the 2987 firms listed National American Security Dealers Automated Quotations (NADAQ) (Statista 2021b)

Global Stock Markets - 1

NADAQ was established in 1971 as the world's first digital exchange. The value of its traded firms is $14T second only, but half the value of the NYSE established in 1792. NYSE firms are valued at $28T.

There are one or more stock exchanges in over 100 countries. But the World Federation of Stock Exchanges only has 71 members. The total value of US traded firms is 46% of the global total of $90T

The largest **single** asset manager in the World is the NYSE listed company BlackRock with 10% = $9T

Global Stock Markets - 2

There are about 20 exchanges that trade companies with aggregate value in excess of $1T. The Australian Securities Exchange (ASX) has around 2,000 firms traded with a value of around $1.3T.

Total ASX (2021) revenues are just under $1B p.a. so the average cost per listed company is around half a million dollars pa. ASX profits are 1000 times greater being around half a $billion p.a.

The ASX became the first Exchange in the world to list its own shares in 1998. Other exchanges followed, including the NYSE

It interesting to note that in 2018 India had more publicly traded companies than the Euro area (Included UK), USA, Japan or China (Global Economy 2019)

Global Stock Markets - 3

The US also has an Over The Counter Market (OTC) involving 12,000 firms. However their aggregate value is a minor fraction of the ASX. It illustrates how shares in small firms can be efficiently traded.

The OTC market is created between security dealers (OTC2021) who have collaborated to establish Internet bulletin boards that record offer and buy bids. Most OTC firms have a low share price around a dollar. This allows investors to obtain a wide range of risks for a smaller outlay. US Stock exchange traded shares typically have individual share prices ten or more times higher.

There are three types of OTC firms:

(a) The best companies who still do not meet the standards of a stock exchange listing. Their trading code is OTCX;

(b) Venture capital firms with an OTCB trading code;

(c) The ”Pink market” for firms in distress or in bankruptcy

Autonomous sunlight share trading - 1

Cooperative enterprises also trade shares and their global impact is significant. The International Cooperative Alliance (ICA 2021) reports that 12% of the global population are members of their 3 million cooperatives and mutual associations.

The trading and/or buy back and re-issue of shares are undertaken with known individuals.

A point of significance is that the trading of their securities is autonomous. A defining feature of most cooperatives is that only individuals can be members, not corporate entities or entities representing unknown persons.

Autonomous sunlight share trading 2

Sunlight share ownership and trading may be found in other types of collective investments schemes. Examples can be found in various types of mutual funds, public trusts, copyright joint ventures, partnerships, condominiums and corporate ownership of housing.

There are now many online platforms for buyers and sellers to trade many types of goods and services that include financial products.

Autonomous sunlight share trading 3

An important feature of electronic platforms is that they compete with others in their ability to provide not only full disclosure of the nature of the items traded but also:

(a) The ease of finding comprehensive information on their web pages, and

(b) Making public feedback from buyers and sellers on the integrity of the information provided and the integrity in processes of delivering and trading. Eg. Uber, Airbnb, PayPal, Hotel booking platforms, etc.

Current problems: Dark pools

A common problem with the larger exchanges is the emergence of what is described as “Dark pools”. These are created by brokers for large investors to trade their shares privately with other investors without using the stock exchange. In this way they can keep private their transactions because their identity and/or size of the transaction could be price sensitive. It could also reduce brokerage fees.

According to Budovsky (2021) “Australia has two exchange-integrated public dark pools: ASX Centre Point and Chi-X Hidden Liquidity. Together, they account for around 12% of continuous on-market trading in Australia”

Current problems – computer failure

In March this year the *Australian Financial Review* reported that: ‘RBA puts heat on ASX over trading monopoly failures”.

The story reported when ASX computer system failed to close trading on a couple of occasions.

The RBA was cited because its Governor was involved in a meeting of Senior Regulators who had grilled the ASX Chair and CEO over the failures.

Current problems: Naked short sales

In 1967 I became a co-founding member, with six other individuals in company called Tjuringa Securities Limited. During the following seven years Tjuringa acquired shares to control and reorganize eight public companies while making significant investments in other prospective acquisitions.

One such prospect was Antimony Nickel NL (AN). It became listed on the ASX in February 1971 during a huge boom in mining shares. By March 1971 TSL had acquired 44% of all its issued shares. The directors owned 51% and others held 10% (Kedzior 1988: 331). This meant that share market speculators who did own any shares had entered into contracts to sell shares amounting to 5% of all shares on issue.

Current problems: ASX conflicts 1

This false and misleading practice is illegal. It is described as “naked” short selling. However decades later, reports of improper short selling still occur (Keho 2020).

A Senate inquiry in 1974 revealed that the short sellers were the stock brokers who made the trading rules! The Senators noted that if the ASX had not delisted the company and then followed their own rules to solve the problem both the brokers and the ASX would have become exposed to bankruptcy.

A fundamental rule in undertaking ethical business is “to know your client”. The law requires this for financial advisers. But by apparently default, the ASX is exempted?

Current problems: Covert share trades

The exception is set out in ASX (2015) rules that support both "Anonymity and pseudonymity", when not otherwise required to by law. This means that directors of listed companies cannot be advised automatically and publicly the identity of the shareholders to who they are accountable.

One can speculate that the promotion of Anonymity is a way to move trades and revenues from Dark Pools?

Even when a company makes an entry in its shareholder register the ultimate beneficial owners and/or controllers can remain hidden behind nominee companies and/or trusts.

The ASX argument that privacy laws requires anonymity, but if investors require privacy they should limit their investment to the many private equity opportunities that are now available.

Misuse of the term "Public"

This ASX rule means that describing a company as "public" is misleading when ultimate beneficial ownership is kept private. The ultimate owners can include those with loyalties and interests foreign to those of the host jurisdiction.

It also means that reference to companies being "publicly traded" is also a misleading when the identities of those trading its shares is kept private.

Likewise the ASX does not meet the test of being a public exchange when covert trading is accepted. Such "double speak" could create false comfort even with the financially literate public.

Profound conflicts of ASX self-listing

The rules adopted by the ASX are subjected to the approval of its regulator the Australian Securities and Investment Commission (ASIC) and also directly by the responsible Minister, the Federal Treasurer..

Their approval for the ASX to covertly trade its own shares profoundly conflicts the ASX as a rule maker and controller of corporate governance practices and so the ASX'S own behaviour. To legitimise and capture government regulators and government advisers the ASX established in 2002 as a so called "independent" Corporate Governance Council (CGC).

Toxic “independent” practices

The word “Independent” is another example of “double speak” used to also describe auditors, directors and advisers.

The ASX appoints at its discretion the 19 members of its CGC. It funds and manages its operations to make its members captive in similar way to so called “independent” directors, auditors and company advisers.

So called “good” governance in fact accepts or promotes toxic governance to poison the business cultures of the most influential professional organisations in the country

Members of ASX Corporate Governance Council

- ASX Limited
- Association of Superannuation Funds of Australia Limited
- Australasian Investor Relations Association
- Australian Council of Superannuation Investors
- Australian Institute of Company Directors
- Australian Institute of Superannuation Trustees
- Australian Shareholders' Association
- Business Council of Australia
- CPA Australia Ltd
- Financial Services Council
- FINSIA
- Governance Institute of Australia
- Group of 100
- Chartered Accountants Australia & New Zealand
- Institute of Internal Auditors - Australia
- Institute of Public Accountants
- Law Council of Australia
- Property Council of Australia
- Stockbrokers and Financial Advisers Association Limited

Sunlight as an intellectual disinfectant

There should be no need for Royal Commissions or Senate Inquiries to expose the toxic UK business practices that have infected Australia and much of the world. As a result Australia averages a Royal Commission a year augmented by a number of public inquiries.

Advisers in the Treasury and so successive Treasurers have also been poisoned. Evidence of this is the ASX self-listing and that both regulators and the Government adopting the unethical practices promoted, practiced and or accepted by the ASX and its CGC. In this way they have made unethical practices legal to explain why successive Royal Commissioners have noted influential witnesses did know right from wrong.

Sunlight improves price discovery

Automatic Quotation of share offer and buyer prices with related volume over the Internet facilities price discovery whether or not the shares are traded on an exchange or autonomously.

Sunlight trading would eliminate dark pools, naked short trading and make short trading, insider trading and option positions public to improve the integrity of price discovery.

Autonomous trading could also allow companies to eliminating computer driven high frequency trading to create a more equitable access to share trading.

Operating efficiencies of self-listing

As pointed out by Mainelli (2021) when he was Sheriff of London the purpose of having a stock exchange is to create a change in the share register of a company. Autonomous trading greatly simplifies the process

Significant simplification and so cost saving arise from self listing. This is because credit checking is simplified. No security is required from the buyer or any third party exchange and/or broker. This because companies can buy their own shares and/or create new ones and all such actions would be public.

Sunlight self-regulation efficiencies

Sunlight share ownership and trades introduces significant economies, efficiencies and self-regulation effectiveness.

These arise from volume and diversity of public data that becomes available for any member of the public to become a whistle blower and/or initiate private legal remedies of any unfair, unethical or unconscionable activities.

Thank you for your attention

Questions?

Further details of ethical poisoning

'Why are ethics scholars silent about why good people must act unethically?

9:20 am to 9:40 am, Friday July 16th 2021

Australian Business Ethics Network workshop

https://www.eventbrite.com.au/e/calculative-silences-and-the-agency-of-business-ethics-scholars-tickets-158079057717?utm-campaign=social&utm-content=attendeeshare&utm-medium=discovery&utm-term=listing&utm-source=cp&aff=escb

Causes of unethical behaviour

1. Stock Exchange and regulators promoting and/or accepting toxic conflicted practices that poison business culture so citizens do not know what is right or wrong.
2. Unitary boards providing directors with absolute power to identify and manage their own intoxicating conflicts that provide them absolute power to corrupt themselves, their organisation, auditors, regulators and society absolutely.
3. Failure of business educators to teach how stakeholder bottom-up stakeholder governed organisations with distributed decision making and built in checks and balances counters unfair, undesirable, mismanagement, misconduct and malfeasance. Examples provided by **stakeholder governed firms** like JLP, VISA, MCC, etc.

Director audit committees created to protect directors not shareholders (3)

The UK 1845 Companies Clauses Act required shareholders to appoint one of them as an auditor.

The UK 1862 Act had a non binding provision for forming **an audit committee of shareholders**, NOT directors.

US Directors in the 1920's employed an external accountant to check that management used bank loans for their specified purposes at a time financial statement were NOT required.

US external audits in 1933/4 followed the UK 1929 prospectus provisions for an external auditor appointed by directors to report to them.

The UK law Lords in 1990 said the purpose of the audit was to provide "reliable intelligence" for shareholders to appoint, pay or dismiss directors. A fact Cadbury overlooked in 1992.

Different purposes of an audit in UK & US

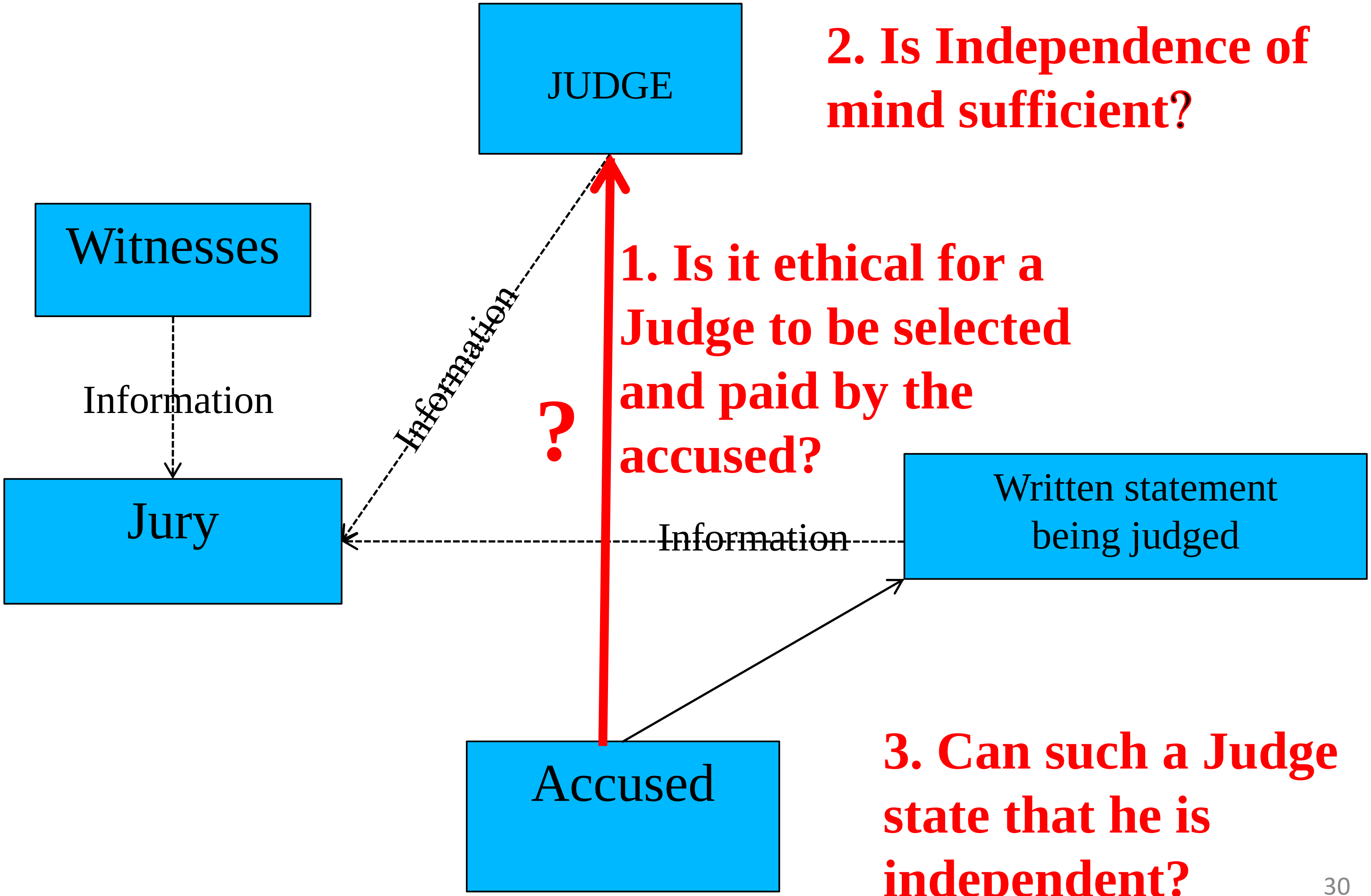
The UK House of Lords in the 1990 Caparo case identified that the purpose of the external auditor was to provide “intelligence” to shareholders on making decisions on the pay and tenure of directors. **This is a governance purpose** that **does NOT involve investors**

The US SEC Act of 1934 adopted the audit provisions of the 1933 Act concerned with the issue of new shares across State borders that followed the UK 1929 prospectus provisions which is **for investors**, **NOT shareholders.**

As the big four audit firms are all US based they have insinuated US practices on accounting standards and practice around the world

ETHICAL STANDARDS OF A LAW COURT

Is organisational structure and/or culture important?

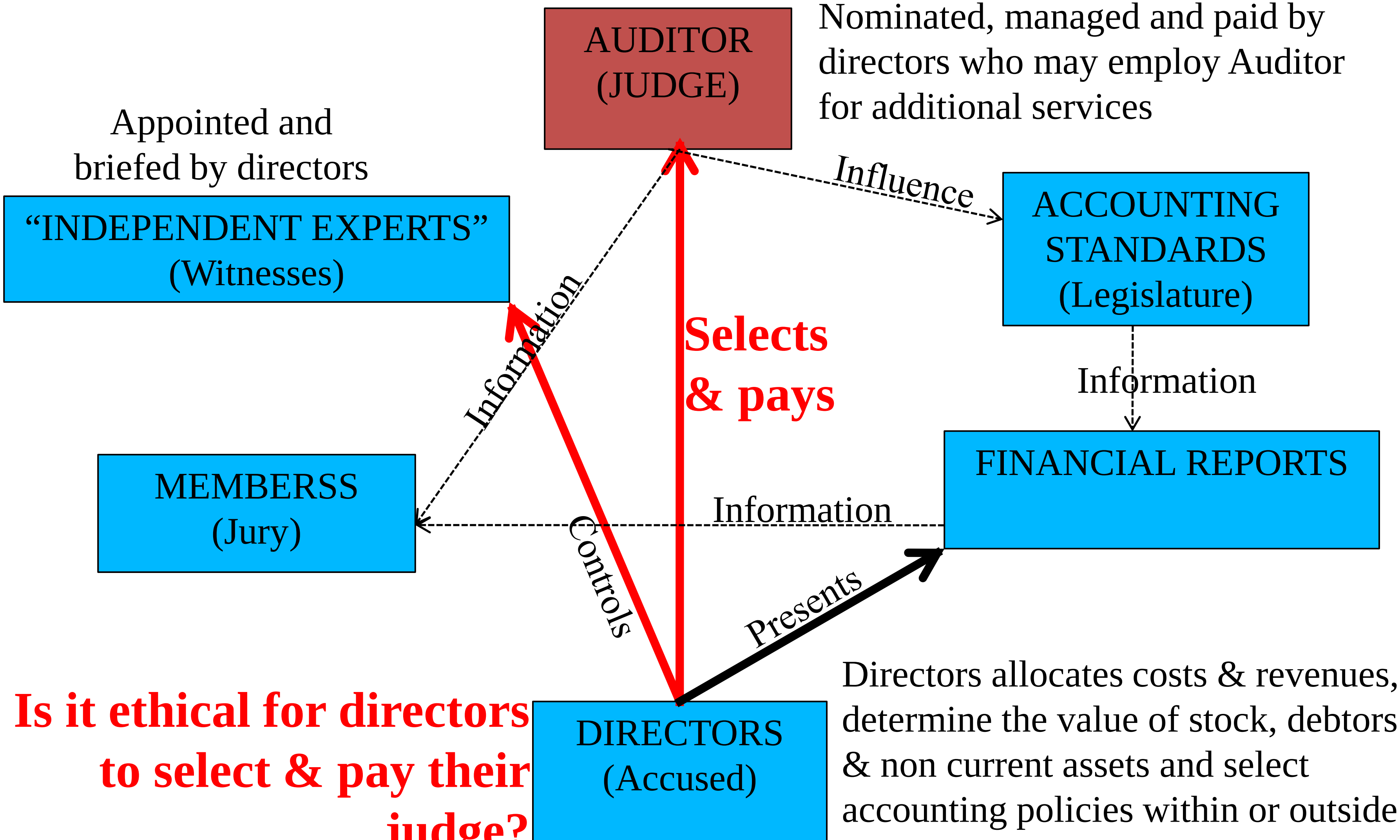


2. Is Independence of mind sufficient?

1. Is it ethical for a Judge to be selected and paid by the accused?

3. Can such a Judge state that he is independent?

Is it ethical for Auditors to attest they are “independent”?



Is it ethical for directors to select & pay their judge?

Hierarchies simplify complexity incompletely

Decision makers lose data, information, knowledge and the wisdom of their stakeholders

Loss and distortion of data in a hierarchy (Downs 1967: 116-118)

HIERACHY	DATA UPWARDS			EMPLOYEES	
Public or private sector	**Volume**	**Correct**	**Missing** or wrong meaning	Say span of five	
Legislature	50% lost per level	85% of lower level		Per level	Accumulated total
Minister/Shareholders					
Board of directors	3.1%	1.4%	**99%**		
Chief Executive Officer	6.3%	3.3%	96.7%	1	1
Senior Management	12.25%	7.7%	92.3%	5	6
Middle Management	25.0%	18.1%	81.9%	25	31
Team Leaders	50.0%	42.5%	57.5%	125	156
Workers	100.0%	100,0%	0.0%	625	781

Shannon's law of requisite variety states communications can be made as accurately as desired by introducing a requisite variety of independent cross checking channels in networks introduced by **ecological governance**