# The Delisting Trends and the Significance of a Healthy Stock Market

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**Abstract.** The article 'The Incredible Shrinking Singapore Stock Market' (Yap and Redmond 2019) which was published in Bloomberg sets the context of this report. The article which uses the Singapore Stock Exchange as the study subject explores various issues as relates to a delisting trend being observed in the Singapore Stock Exchange, it also does a comparison with other exchanges in Asia and tries to draw conclusions as to whether this has implications on the overall economy.

**Keywords:** Stock market · The delisting trends · Overall economy · Singapore stock exchange

## 1 Introduction

This article explores this issue by comparing four stock exchanges, namely the Singapore Stock Exchange, the Hong Kong Stock Exchange, the New York Stock Exchange and the Shanghai Stock Exchange [1]. Through this comparison, we will look more closely at whether the delisting trend on the Singapore Stock Exchange discussed in the Bloomberg article is also prevalent on other exchanges and the drivers for the existence of this trend. Through this comparison and analysis, we will also attempt to determine if we see any link between healthy stock markets and economic growth. VAR models and impulse responses are used to investigate the impact of local stock markets on their economic growth [2]. We find that in healthier stock markets, such as the US, Hong Kong and Singapore (a more conservative market), economic growth will first increase if the exit trend develops more rapidly over a short period of time, but will then fall deeply. However, in more immature stock markets, such as Shanghai, economic growth will continue to increase if the exit trend develops. Furthermore, the higher the trading volume, the larger the market capitalisation or the more favourable the stock market is to economic growth [3].

## 2 Comparisons Among the 4 Exchanges in the Last Decade

### 2.1 Overall Market Values

**Total Market Capitalization.** The New York Stock Exchange has a long history and a good reputation, as well as being in the United States with a sound market and complete


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financial system [4]. This is part of the reason why its total market capitalization is much higher than the other exchanges. As of December 2019, the market capitalization of the NYEX reached $31223.03 billion, which is about six times that of the SSE. Although the market value of the SSE, the HKEX and the SGX have been relatively stable over the past ten years, their actual value has remained at a relatively low level. More details about the overall market values can be found in Appendix B. As shown in (Fig. 1).

**Number of Listed Firms.** In the past ten years, the number of companies listed on the New York Stock Exchange is stable [5]. The number of listed companies on the NYSE has not increased by more than 5% in the past ten years. This is closely related to the stringent listing conditions of the NYSE. As shown in (Fig. 2).

**Average Daily Trading Value.** The average daily trading value reflects to a certain extent the activity of the market and investor preferences [6]. The average daily trading value of Singapore's stock market has been declining year by year. On the contrary, Hong Kong's average daily transaction value most fluctuates from 2015 to 2016, but it remains at a relatively high level overall. The average daily transaction value in Shanghai has also shown an upward trend. As shown in (Fig. 3).

**Notable High-profile IPOs and the Trends.** In Shanghai Stock exchange, the amount of initial public offering companies grew steadily and suddenly rushed to peak in 2017 at about 214, but turned down sharply at 2018 (Fig. 4). Reasons for this trend is multifaceted. First, Chinese government regulators launched relevant measures to opening up further

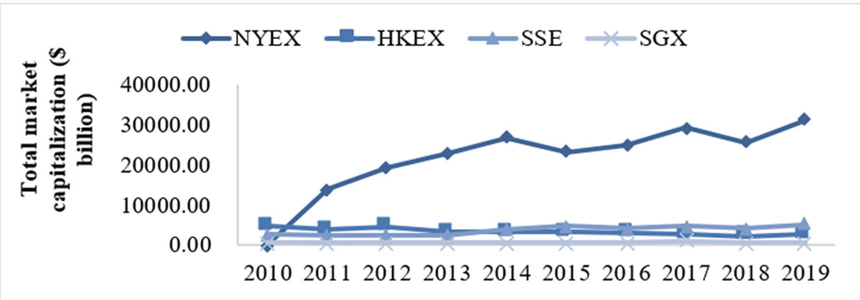



**Fig. 1.** Total Market Capitalization from 2010 to 2019

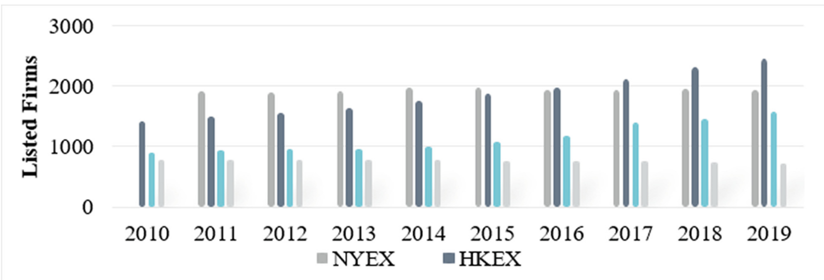



**Fig. 2.** Number of Listed Firms from 2010 to 2019

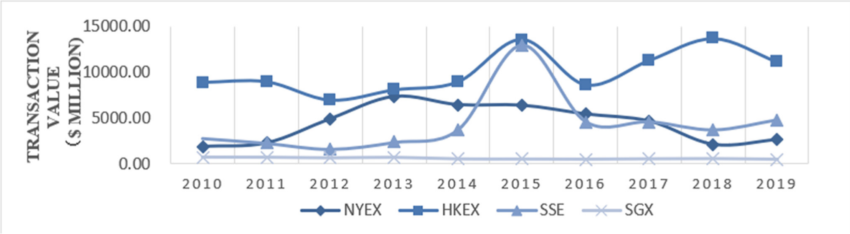



**Fig. 3.** Average Daily Trading Value from 2010 to 2019

to foreign investors, which motivate IPO of companies. Second, the strict standard of refinancing, merger and acquisitions lead to some enterprises from "backdoor" to aim at IPO market. Finally, the audit speed has been accelerated due to the adjustment of rules at the same time. As the stock exchange actively handles the backlog of listing applications, the streamlined process has enabled many small and medium-sized enterprises to be listed in the mainland of China in 2017. However, in 2018, the reform of the Hong Kong Stock Exchange (HKEx) has attracted Chinese mainland enterprises to IPO in Hong Kong, So IPO market in Shanghai stock exchange ushered in a low ebb. One special point to notice is that during the period of 2013, the regulatory authorities carried out the most stringent financial inspection of IPO companies, and the IPO was essentially suspended at that time.

In New York Stock Exchange, IPO market ushered its development from 2011 to 2013, at that time the amount of IPO companies grew from 69 to 123, but decreased notably in the next three years at the lowest point of 30. The situation turned better in the short time, but still fell down in recent years. The slowdown in IPOs can be attributed

**Notable High-profile IPOs and the Trends**

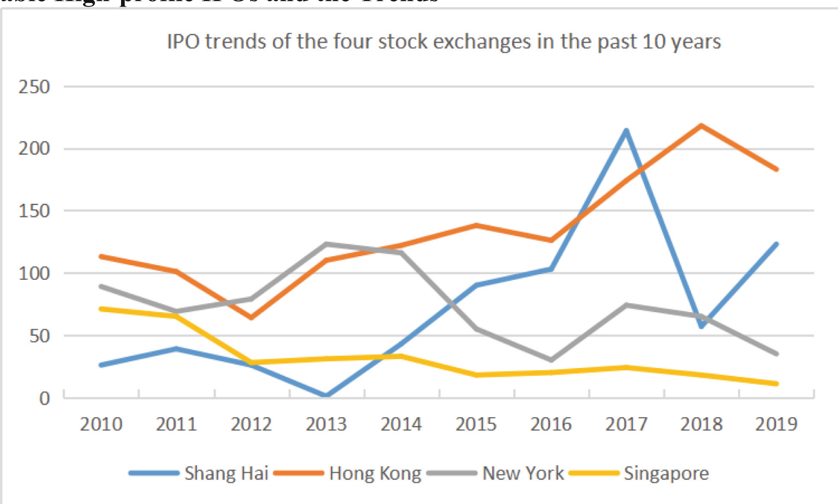



**Fig. 4.** The IPO Trends of the 4 Stock Exchanges from 2010 to 2019

to several factors, including the valuation level of private companies, market volatility and falling energy prices. In fact, companies, including some non biotech companies, could have completed their listing plans, but they were worried about the impact of undervaluation on the amount of financing, and then postponed their listing.

As for Hong Kong Stock Exchange, it has advantages in both trading and issuance aspects. In terms of trading system, there are not only global capital brought by offshore market under internationally recognized linked exchange rate, but also Chinese capital under smooth interconnection system, which brings abundant liquidity to the market; in terms of the issuance system, there are not only the excellent tradition of market-oriented pricing, H-share, red chip and other issuance structures, but also innovative systems such as allowing loss making listing, different rights for the same share, and secondary listing. All of the factors lead to a more prosperous IPO market compared with the other three stock exchanges. The trend of IPO company amount is similar with Shanghai Stock exchange, but still maintained a increasing trend while there was sharp decline in Shanghai Stock exchange.

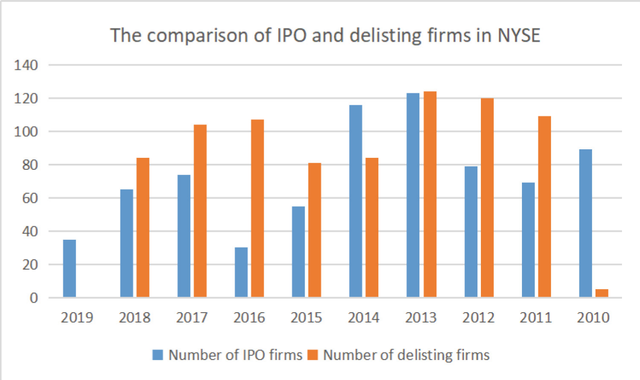
In Singapore Stock exchange, the trend of IPO company amount continued the sluggish performance because of the limited market scale, which remained downward in the past ten years and plunged to unprecedented low in 2019.

## 2.2 Investor Majority and Investing Concentration

**Investor Majority: Retail or Institutional.**

Compare the investor structure of the four stock exchanges, we can draw some insights that:

(1) Singapore Stock Exchange are relatively professional and partly free for the foreign capital, while the retail investors also stand an important state (up to 30%) in Singapore capital market, so their preference and investment styles will have a significant influence on capital allocation in the stock market [7].
(2) Hong Kong Stock Exchange is the most open stock market among the four, with around 41.15% capital made up by the foreign capital. We can also conclude that it is a very professional capital market, since institutional investors account for around a half in HKEX [8].
(3) New York Stock Exchange is also very professional and welcome the foreign investors. We notice that NYSE has the largest proportion of retail investors (37%), which might because Americans are enthusiastic to participate in stock investment activities and this will provide NYSE diversified risk-appetite [9].
(4) Shanghai Stock Exchange is not very professional and not free enough for foreign investors (only 3.6%). Above 80% of investors are not rational institutional investors, including 53% legal entities which normally refer to non-financial listed companies and 31.6% retail investors. Therefore, the major investment performance in SSE may have some domestic characteristics, which is relevant to Chinese' policies and other government movements [10] (Fig. 5).



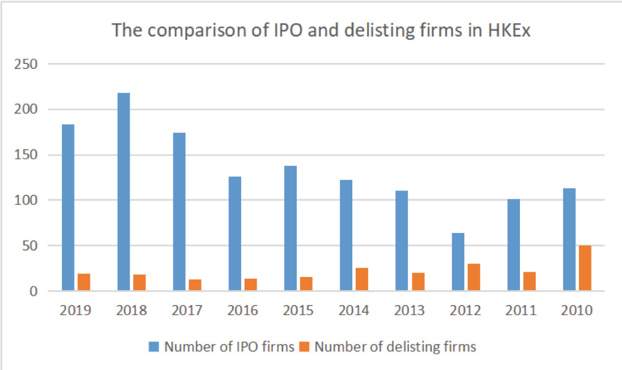




**Fig. 5.** The IPO and Delisting Numbers in NYSE and HKEX

## 3 Conclusions

This report draws the following conclusions through comparative study and empirical research.

(1) The New York Stock Exchange and Singapore Stock Exchange have seen a wave of delisting with various reasons, but Shanghai and HongKong Exchange Market did not reflect the trend that delisting exceeded the listing. With the rise of China's capital market and the construction of financial market order, more companies, especially new start companies, prefer to list in Hong Kong or Shanghai. Chinese companies that have delisted in New York also choose Hongkong as their first choice for secondary listings.
(2) From 2010 to 2014, the number of listed companies on the NYSE showed an upward trend, but since 2015, the number of listed companies on the NYSE has declined year by year. Among delisted companies, half of them are due to company development and mergers and acquisitions needs. This phenomenon is considered to be one of the signs of the maturity of the capital market.
(3) The low demand caused by the conservative attitudes and risk aversion strategies of Singapore residents is the main reason for the delisting wave for companies in Singapore. In addition, companies listed in Singapore are mainly related to finance rather than

high-tech, so the relatively low expected growth rate also reduces residents' investment enthusiasm, which affects the number of companies listed on the Singapore Exchange. (4) From the empirical research, we can know that a healthy stock market environment and a sound stock market system play a positive role in the economic development of the region. Also, a healthy competitive environment can naturally eliminate weakly competitive companies.

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