

An Investigation into why Companies Delist from
the Main Market on the Irish Stock Market to the
Irish Enterprise Exchange and the Impact of
Regulation

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Abstract

The Irish Stock Exchange (ISE) established a new market in 2005, the Irish Enterprise Exchange (IEX). The main difference between these markets is that less regulations are required under the IEX. One of the objectives of the IEX market was to act as a “stepping stone” where companies would eventually list on the Main Market (MM). Instead it has seen companies delisting from the MM and re-listing on the IEX. Thus, in this study the researcher examined the reasons for this and if regulation had an impact on this.

In conducting the study the researcher used both primary and secondary research. The researcher used semi-structured interviews with a sample of companies that had delisted and two regulatory bodies, the Office Director of Corporate Enforcement (ODCE) and the ISE. This allowed the researcher to attempt to examine why companies delisted between the two markets.

The findings suggest that the size of a company was a key reason to delist from the MM to the IEX and the cost of been listed on the MM. In relation to the link of regulation, it was established that this would not have been a major consideration for the company to delist to the IEX market.

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List of Abbreviations

AIM	Alternative Investment Market
CEO	Chief Executive Officer
CRO	Companies Registration Office
DCM	Development Securities Market
EU	European Union
ESM	Exploration Securities Market
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Principles
GEM	Global Exchange Market
IAASA	Irish Auditing and Accounting Supervisory Authority
IASB	International Accounting Standards Board
IEX	Irish Enterprise Exchange
IFRS	International Financial Reporting Standards
IFRSA	Irish Financial Services Regulatory Authority
ISE	Irish Stock Exchange
LSE	London Stock Exchange
MM	Main Market
ODCE	Office of the Director of Corporate Enforcement
SOX	Sarbanes Oxley Act
UK	United Kingdom
USA	United States of America

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Chapter 1

1.1 Introduction

1.1 Introduction

The ISE is a highly regulated market. Since the establishment of the ISE, a number of new regulations have been passed. Masciandara (2005) suggests that this is due to a number of factors such as the government's wish for the public to hold shares in companies such as Eircom, and the passing of a number of European Union (EU) directives. There has also been an increase in regulation due to the corporate scandals and collapse of companies worldwide such as WorldCom (Durden and Pech, 2006).

As regulation has increased over the world for companies listed on the stock market, so too has the movement of companies on the stock exchange. This may result in companies delisting. When a company delists, there are a number of options available, such as it can either continue trading on a smaller second tier market (i.e. in the case of the Irish market the firms would trade on the IEX or "go private" which means the firm leaves the stock market and does not trade (Weiretal, 2003).

The last few years have seen a number of companies delisting off the ISE. Added to this, a new secondary market, the IEX, was set up in 2005. This market has fewer regulation requirements than the MM which also seen delisting between these markets, therefore the researcher wanted to establish the reason for this and the impact, if any, of regulation.

1.2 Research Aims and Objectives

The research aims were as follows:

1. To establish reasons why companies delist.
2. To establish the impact of regulation.
3. To examine the ISE and regulation structure

The research objectives were as follows:

- Review and critically evaluate the current structure, development and regulation of companies listed on the MM and the IEX on the ISE.
- Establish reasons why companies have delisted from the MM to the IEX.
- Establish if there is a link between regulation and companies delisting.

- Establish the opinions of the companies and regulatory bodies regarding delisting and regulation.
- Establish the main areas of difficulties concerning regulation – both current obligations and when the companies were listed on the MM.
- Establish opinions on the future of delisting on the ISE.

1.3 Rational and Potential usefulness of the study

Since the passing of SOX (Sarbanes Oxley Act) in the United States of America (USA) there have been movements in the stock markets which have seen an increase in the number of companies delisting. Research has suggested that it was this act that influenced companies to delist (Leuz et al., 2008), which suggests regulation had impacted on the companies' decision. Therefore the researcher felt that it would be interesting and beneficial to examine this in the Irish context. To the researcher's knowledge, no prior research of this study has been undertaken in the Irish market. The business world has seen many scandals in the last decade, with the most famous being Enron. Scandals usually bring more regulation into force. As Ireland is a member of the EU there has been new regulation introduced, such as EU Directives. The IEX is designed with less stringent regulation than the MM in which the researcher wishes to examine the effect of regulation in the market. One other reason the researcher felt that this topic was interesting was the debate in relation to the "comply or explain" aspects of the Combined Code (which is explained fully in the chapter 2). Since the ISE launched the IEX in 2005 there has been little research carried out on this market. Therefore one of the objectives is to examine the IEX in relation to the benefits the companies have, being listed on this market.

In completing the research, the researcher hoped to add to the current body of literature, with is currently under-researched in the Irish context. This research may be of benefit to the government, as Brennan (2009) stated that Brian Lenahan, the Minister for Finance, is considering implementing certain parts of the Combined Code into Irish legislation. This report will highlight to the government if there is a link between companies delisting and regulation. As this is a topic under-researched, with most reports highlighting the number of companies delisting it may provide a link between delisting and regulation. The ISE may also have an interest in this topic as it

can enable them to see the in-depth reasons as to why companies delist from the MM to the IEX. Companies may also benefit from this research, as it will enable them to look at the actions of companies that were previously listed on the MM and decide on the market that is more suited to the needs of their organisation.

The study was carried out using semi-structured interviews with three of the companies that had delisted. Interviews were also conducted with the ODCE and the ISE, which will be referred to as regulatory bodies in this study. This is described in detail in chapter three. The researcher felt that conducting interviews added strength to the study as this type of approach would give more in-depth analysis than a questionnaire would achieve. Other strengths of the study were: the individuals that had been interviewed proved to have relevant knowledge of the topic and thus the researcher felt that their opinions provided the study with valuable insights; and the researcher's aims and objectives were achieved.

1.4 Limitations of the Research

The researcher faced a number of limitations in carrying out the research, which were as follows:

- The researcher had only seven months to complete the research, and therefore it curtailed the number of interviews that would be carried out.
- Some of the interviews were not recorded which may have influenced the researcher's bias. However, in order to overcome this interviews were typed up as soon as possible.
- Some of the interviews were conducted over the telephone due to the researcher dealing with individuals that had a high load work, in which case the researcher could not access the body language of the respondent, which is a valuable source of information.
- The cost of conducting telephone interviews and travelling for face-to-face interviews also impacted on the number of interviews that were conducted.

1.5 Chapter Outline

Chapter two examines the current literature on the development and legal structure of the ISE. This chapter also includes a review of delisting in the USA, UK and Ireland, with particular focus on the SOX in the USA, to outline the impact of regulation. The research methodology is described in chapter three, which discusses in detail the methodology applied in this study. This includes the research design, research focus and data collection methods that were adopted. The findings and analysis which examines the interview responses regarding reasons for the company to delist, as well as the views of regulation and the current market and future of delisting, is detailed in chapter four. Finally, the conclusions and recommendations are discussed in chapter five, which presents the overall findings from the research as well as outlining recommendations from the study. This chapter will also outline further research that could be undertaken in relation to this study.

Chapter 2

Literature Review

2.1 Introduction

This chapter outlines the current academic literature on companies that have delisted in the USA, UK and Ireland. The researcher outlines the key aspects of the study in relation to these stock markets.

2.2 Irish Stock Exchange

The Stock Exchange Act 1995 defines a stock market as “an organised financial market whose members provide an investment service in respect of investment instruments, but excluding any exchange involved wholly or mainly in financial futures or options ...”. A listed company trades on the market with shares and are subject to certain obligations and laws (Campbell, 2004 cited by Farlex 2009).

The existing stock market in Ireland has been established independently since 1995; previously it formed part of the International Stock Exchange of the United Kingdom (UK) and the Republic of Ireland (Campbell, 2007). Although these markets remain two separate entities, the rules and regulation of both are somewhat similar. The ISE has one regulated market, the MM (sometimes referred to as the “Official List”), and two smaller multilateral trading facilities, the IEX and the Global Exchange Market (GEM) which deals in debts and derivate securities (ISE, nd). For the purpose of this paper, the researcher will only be reviewing the MM and IEX.

2.2.1 Advantages of listing

There are many reasons why companies may list on the MM of the ISE. The stock market allows the company to raise extra capital and finance, which may help the firm to expand its business and provide the company with potential acquisitions of other firms (Business links, 2009). A quotation on the stock market can increase the profile of the firm. It adds value by improving recognition with existing and potential suppliers and customers. Listing on a stock market can also increase business opportunities globally for the company (London Stock Exchange (LSE) 2009).

A survey conducted in 2003 by LSE (pg6) found that of the sample of firms, 71 percent listed to raise capital, while one in ten respondents stated that the “extra credibility and profile afforded by being traded on a stock market was the major motivator in going public”. Companies who list can also achieve employee commitment by encouraging participation in the ownership. This is to encourage staff to retain shares. In doing so the staff may be motivated in their work and thus help the company reach its full potential (Mislcon deReya, 2005).

2.2.2 Regulatory Environment

Companies that list on the MM of the ISE have extensive regulation to comply with. The main fundamentals of admission to listing and securities comprise of the following (Campbell, 2008):

1. Companies Act 1963-2006: These acts set out all the relevant obligations and amendments, which companies must follow – for example keeping proper books and records. These Acts also outline other aspects such as the responsibilities of the directors, disclosing of certain information and laws that must be complied with when managing a company. (see Appendix I for the main elements of the Companies Acts).
2. European Directives: The ISE must comply with a number of EU laws. In the case of the ISE, the Markets in Financial Instruments Directive (MiFID) is in place. This comprises of the Markets in Financial Instruments and Miscellaneous Provisions Act 2007 and the European Communities Act. This act was implemented on the 1st November 2007, which replaced the Stock Exchange Act 1995 and the EU Investment Services Directive (ISE, nd).
3. Listing Rules: The ISE maintains its own set of rules that listed companies must follow. The rules set out the regulations companies must comply with in order to remain listed, as well as the conditions companies must comply with in order to be admitted to the market (ISE, 2009). Part of the listing rules also require companies to oblige by the Combined Code. This is a set of principles of good practice which companies can choose to comply with or opt to explain the reasons for not following the code. This code has been adopted from the Financial Reporting Council (FRC) in the UK.

4. Takeover Rules: These outline the laws that have to be complied with in the case of a company acquiring or merging with another company. These rules are supervised and monitored by the Irish Takeover Panel.

Although the above are the key regulations that must be complied with, there are other laws that companies must follow, such as the regulation of taxation. Such taxes include stamp duty, dividend withholding tax and capital gains tax. The ISE implemented the Market Abuse Regulation on the 6th July 2005, in which the exchange have certain tasks for the investigation into insider dealing on the market (ISE, nd).

From an accounting point of view all companies that list on the ISE also have to comply with the International Financial Reporting Standards (IFRS). The IFRS was issued by the International Accounting Standards Board (IASB) with the aim of harmonising financial accounting standards across Europe (The Committee of European Securities Regulation, 2003). This was implemented in 2005 for the MM and in 2007 for companies on the IEX market (IAASA, nd). There has been much research on the implementation of the standards, in which it was found that the switch from Generally Accepted Accounting Principles (GAAP) to IFRS was complex and burdensome for companies (Beattie et al., 2008 cited by Dunne, Fitfield, Finningham, Fox, Hannah, Helliard, Power and Veneziani, 2008).

2.2.3 Supervision of the Stock Exchange

The ISE is a highly regulated market with a number of regulatory bodies that monitor and supervise it, which include the following:

1. The Irish Financial Services Regulatory Authority (IFSRA) monitors the stock market, with its main objective being to protect investors and ensure market efficiency. It was established in 2003; previously the Central Bank of Ireland had this role (Financial regulator, 2009).
2. The ODCE encourages compliance with the requirements of the Companies Acts. This is achieved through the publication of the benefits of compliance and the consequences of non-compliance. If a company is suspected to be in breach of the Companies Acts, the ODCE will launch an investigation into the

claim and take legal action against the company if found to be true (ODCE, nd).

3. The Irish Auditing and Accounting Supervisory Authority (IAASA) in relation to the ISE monitors certain classes of companies' accounts to ensure that they are complying with the requirements of the financial statements as well as certain aspects of the Companies Acts (IAASA, nd). They also have a huge influence in the implementation of the EU directives.
4. The Companies Registration Office (CRO) also ensures compliance with certain aspects of the Companies Acts. It encourages adherence to the filing and registration obligations as well as making up-to-date information on companies accessible. The CRO can also take companies to court if they fail to file their annual report, which may result in the directors being prosecuted and the company being struck off the company register (CRO, nd).
5. There are other regulatory bodies which specialise in specific areas of the market. These include the Takeover Panel which ensures that the shareholders are treated fairly in the case of a takeover or merger. The National Treasury Management Board administers Irish debt on behalf of the government and the ISE itself has limited powers to regulate the companies that are listed on the exchange (Soulier and Best, 2005).
6. In the monitoring of the above bodies, the Minister for Enterprise, Trade and Employment has certain powers. As defined under Section 3 of the European Communities Act 1972 and amended under the European Communities Act 2007.

2.3. The Irish Enterprise Exchange

According to the ISE (2009) the IEX “is a market designed primarily for small to mid-sized companies to which a higher investment risk tends to be attached than to larger or more established companies”.

2.3.1 Development of the IEX

The IEX was established on the 5th of April 2005. It was designed for small to medium-size enterprises that wished to gain the advantage of listing on the stock market. Previously the stock market had set up a similar market, the Development Companies Market (DCM), but this failed to be successful (Handcock, 2005). The IEX market was formed with the merger of the DCM and the Exploration Securities Market (ESM) (ISE, nd).

One of the reasons for the establishment of this market was to encourage Irish companies to list on this exchange instead of listing on the Alternative Investment Market (AIM), a similar market which is based in the UK (O’ Donnell, 2005). The AIM is a very successful market, which can also be used as a “stepping stone” for companies who would eventually list on the stock market (Matheson et al, 2006). The AIM and the IEX are quite similar, with the only exception being that the IEX requires a minimum market capitalisation of €5 million (LSE, 2005).

Since the development of the IEX an increasing number of firms have listed on this market which currently stands at twenty seven companies, compared to only eight who were listed when it was launched in 2005 (ISE, 2009). The IEX has also seen firms such as First Derivatives who were previously listed on the AIM now list on the IEX (Ryan, 2007).

2.3.2 Why List on IEX?

The main advantage of companies listing on the IEX compared to the MM is that less regulation has to be complied with. However, they still must fully comply with the requirements of the MiFID (Smyth, 2008). The IEX rules have been specifically designed for small to medium companies. Firms on the IEX may also be listed on the stock market, which may increase their visibility to potential investors (ISE, nd). Companies who list on the ISE have the advantage of listing on their home market, which means, according to Matheson et al., (2006), the broker and analyst support they will receive may be greater. Companies who list on the IEX also benefit from the cost savings, as these are substantially lower than those of the MM (Matheson et al., 2006).

Companies listed on the MM must disclose numerous pieces of information as well as getting permission from shareholders for certain transactions. The IEX does not require as much information to be disclosed and does not require the permission of the shareholders for transactions. There is also less admission requirements for companies who list on the IEX compared to those who list on the MM. Companies who list on the MM must have a three-year trading record, while this is not required for IEX companies. (see appendix II for a summary of the main differences on the markets). In relation to the Combined Code, companies on the MM must comply with all aspects of the Code or state the reasons for not complying. Companies on the IEX do not have this requirement (Loos, 2006), but they do have to comply with Rule 23 of the listing rules, which outlines certain disclosures companies must make available. Such information would include the directors' name and a brief overview of each director (ISE, 2009).

However, there are some drawbacks for companies listing on the IEX compared to the MM. Companies that list on the IEX must publicly publish in their admission document that a smaller company tends to attract a higher investment risk and that a prospective investor should be aware of the risks of investing (ISE, 2007). This may affect the investor's decision on whether to invest in a company listed on the MM instead. The IEX market is designed to meet the needs of smaller companies (ISE, 2005) and not the larger companies.

2.4. Corporate Governance

Corporate governance can be defined according to Monks and Minow (2008 pg. 3) as a “structure that is intended to make sure that the right questions get asked and that checks and balances are in place to make sure that the answers reflect what is best for the creation of long term, sustainable value”. Dependant on the country and stock exchange, there are different approaches in relation to complying with the principles of corporate governance. For instance, USA companies listed on the USA stock market must legally act in accordance with the SOX. Ireland, like the UK, has adopted the Combined Code, in which the “comply or explain” method is applied. This means that unlike in the USA, companies do not have to legally implement the principles, but if they fail to comply then they must publicly justify the reasons for not complying in their annual report (Solomon, 2008). Solomon (2008) also outlines that every country has their own unique structure of corporate governance.

2.4.1 The Combined Code (ISE)

In December 1999 listed companies on the ISE were required to follow the Combined Code. As mentioned, this code was developed by the FRC in an effort to improve corporate governance in listed companies (ODCE, 2008) and has been adopted by the ISE (ISE, 2009).

The first code of “best practice”, the Cadbury Report, was introduced in 1992. This report set out the fundamentals of governance in large companies and influenced the continuous development of corporate governance. The Cadbury Report was published due to financial scandals such as Maxwell and Polly Peek (Mallin, 2007). In 1995 the Greenbury Report was published, which outlined guidance on directors’ remuneration. In 1998 the FRC combined these two codes of practice as well as including a new code, the “Hampel Report”, which outlined conditions on the committee of governance, to form the Combined Code 1998 (Solomon, 2007).

In 2003 a number of reports were published: the Higgs Report (2003) on the role of non-executives; the Smith Report on the role of audit committees (2003); and the Tyson Report (2003) that issued guidance on the recruitment and development of non-executive directors (Monks and Minow, 2008). The Combined Code was

amended in 2003 by the FRC to reflect these codes, with the Code being further amended in 2006 and again in June 2008 (Chambers, 2008).

2.4.2 SOX

In 2001 more than twenty top companies in the USA filed for bankruptcy, with the most famous being Enron. At that time Enron was the seventh largest company in America (Steger and Amann, 2008). In the case of Enron, Wearing and Wearing (2005, pg67) states “there was a number of financial reporting irregularities over the period 1997 to 2000” in which the company had inflated earnings. The financial reporting and disclosure problems at Enron led to new legislation being established in America, the SOX to restore public confidence in corporate governance (Steger and Amann, 2008). As a result of the SOX legalisation, there has been an increase in the costs for companies who were listed on the stock exchange. It has been argued that compliance with this act is expensive, especially Section 404 (internal controls) (McKay, 2003; Frigo and Litman 2004, cited by Leuz et al., 2008).

The passing of SOX marked a significant transformation of corporate governance. The act intended to improve the reliability and accuracy of published information that was distributed to shareholders. It also intended for companies to have more openness and transparency on the stock market as well as to prevent management misconduct (Zhang, 2007).

Since the passing of SOX, there has been much debate over its merit and whether this is the reason for an increasing number of companies delisting from the stock market. Research conducted by Engal et al., (2006) indicated that after the passing of SOX the number of companies that went private increased significantly. The researcher feels that in looking at the SOX in the USA it will highlight the effect of implementing too much legislation and stringent regulation onto the market.

2.5. Delisting

Ruijgoork (2008, pg53) defines delisting as “the removal of a company from a listing on a stock exchange.”

2.5.1 Types of Delisting

The ISE sets out regulations that companies on the exchange must follow. If a firm is found to be in breach of the requirements set out in Rule 4.1 (Admission of a Security to Trading) of the Listing Rules then the securities will be delisted and removed from trading (ISE, 2009). Companies can voluntarily delist from the exchange, in which case there are a number of options available. Companies can delist from the stock exchange and take the firm private. This usually happens when the equity of the firm is purchased and the company is no longer quoted on the stock market. Research conducted by Weiretal (2003) found that companies that go private usually have a higher Chief Executive Officer (CEO) and institutional ownership. For a company on the ISE it must at present give twenty days notice and inform the shareholders of the decision, on which they must vote (ISE, 2009).

In addition, companies can delist from the MM and re-register on the IEX. This means that the company will still be able to trade on the market but it will not be listed on the MM. For a company to pursue this, notice must be given to shareholders on which they must vote (ISE, 2009). Companies that delist using this approach are not required to produce an admission document (O’Donnell, 2005). A company can also delist from the stock market and cross list to another market, or they can also delist due to a takeover or merger with another company.

2.5.2 USA

Research has suggested that the company's size can play a role in the decision to delist, as new legislation requirements can impose more pressure on smaller firms. The reason for this is it suggests that the cost of compliance with SOX is high, in which case smaller companies are the most affected. This has been evidenced by research conducted by Holmstrom and Kaplan (2003), who suggests that compliance with the SOX has a more negative impact on smaller companies. The reason for this is it is suggested that the compliance with the Act is at a fixed cost which will be payable every year. This has also been consistent with evidence by Zhang (2006).

In addition, companies that comply with the SOX may feel that compliance does not outweigh the drawbacks. The benefit of the SOX to shareholders may be diverse for different companies, as research conducted by Holmstrom and Kaplan (2003) found the companies that had a good standard of corporate governance did not achieve any additional benefits from complying with the Act. Thus more expense was placed on the company. However, a survey by the Financial Executive Institutes in 2005, cited by Engel et al., found that 94 percent of executives surveyed felt that the cost of compliance exceeded the benefits.

In the USA, companies can delist and trade on the "Pink Sheets," which is sometimes referred to as "going dark." Macey and O'Hara (2004) cited by Jenkinson (2007, pg4) defines the Pink Sheets as "a quotation service where only broker-dealers can apply to make a market in the securities, rather than a stock exchange". Research conducted by Leuz et al., (2008) showed that after the passing of the SOX there was a significant increase in companies who had delisted to the Pink Sheets in 2003 and 2004, right after the act was implemented. It also highlighted that the disclosures that were not expensive to maintain, e.g. maintaining a corporate website, were not implemented after the firm had delisted to the Pink Sheets. He noted that less than 10 percent of firms that delisted to the Pink Sheet posted financial statements. This may suggest that reasons other than cost influenced the companies' decision to delist.

In addition, the increase in costs may be due to extra expenses such as the costs associated with compliance, "or because of the additional responsibilities, monitoring and legal consequences it imposes on its executives and directors" (Luez, 2008, pg189). Research conducted by Engel et al., (2006) indicates also that there was an

increase in the number of companies that delisted and went private after the passing of the SOX. They suggest that the cost of compliance as well as the benefits of delisting influenced the companies' decision.

However, research conducted by Leuz et al., (2007) suggests that companies' decision to delist cannot be fully attributable to the SOX. He states that these surveys conducted by Zhang (2006) and Engal et al., (2006) should consider the economic conditions in the markets at the time the companies delisted. He argues that the increase in companies delisting from the stock market in the USA may be due to the economic conditions at that time. For instance, he outlines that at around the same period that the SOX was being implemented there was a number of events that may have influenced the companies decision to delist. Leuz et al., (2007, pg 151) outlines that the "NYSE and NASDAQ changed their listing requirements in response to the corporate scandals around the same time as SOX was passed." He also outlines the main events that were happening at the time, such as the Iraq issues, WorldCom filing for bankruptcy and the stock market being affected by a decrease in employment. Thus, the economic conditions of the stock market may also influence the companies' decision to delist.

There has been other evidence (Berger et al., 2005); Hostak et al. (2007) cited by Doidge (2008) that suggests that companies have crossed listed from the USA market due to the compliance of the SOX and re-registered on a different market.

2.5.3 UK Delisting

The stock exchange rules in Ireland are quite similar to the rules in the UK. Research conducted by Jeinkinson (2007) in the UK found that an increasing number of companies have delisted from the MM on the LSE and listed on the Alternative Investment Market (AIM) during the period 1995 to 2006, with the most significant period of delisting taking place through the period 2002 and 2004. The number of companies which delisted and went private also increased, which according to some analysts will continue to occur in the future due to such aspects as the financial crisis. Analysts have suggested that a third of the companies on the AIM in the UK will delist and take the company private in 2009 (Gorman, 2009).

Companies who have delisted in the UK have given as reasons: the cost of listing on the MM; and that the AIM market is better suited for their firms (Jeinkinson, 2007). Companies listed on the Official List in the UK in 2003 with a market capitalisation of £100 million had to pay annual listing fees of £6,280 and an admission fee of £43,700 (Renneboog et al, 2007), while the costs of the AIM was much lower due to such aspects as having less disclosure requirements to comply with.

However, Benoit (1999) cited by Renneboog et al., (2007) found that for UK quoted companies on the Official List, the listing may actually cost the company in the region of £250,000 due to addition aspects such as fees to stockbrokers, solicitors, auditors, accountants registers, merchant bankers and financial companies. Renneboog et al., (2007) also suggests that if management feel that the share price of the company is undervalued in relation to the true value potential of the firm, then they may delist. Thus if the shares price of the firm is very low the company is now in a position to raise less funds so instead may decide to take the company private as it may be more beneficial.

A survey of the top 500 companies on the LSE conducted by Ernst and Young in 2008 and cited by Pennington (2008), found that the biggest challenges facing the companies was governance and regulation, 35 percent of the respondents claimed it was the “number one challenge facing non executive directors”, while “legal challenges and accountability” were cited by 13 percent of respondents.

According to Bender and Ward (2005), companies may decide to go private due to a number of reasons. They suggest that as companies reach the mature stage of the business cycle the cost of capital is no longer an issue, which is usually a key reason for listing -to get equity. Now that the firm is at the growth stage, the key reason for listing is gone. They also suggest that poorly rated companies may be afraid of a takeover from another company so instead they decide to delist and go private. In relation to these statements, there is no evidence of research to actually confirm that these are reasons for companies delisting. Although research was conducted by Lowenstein in 1985 cited by Renneboog et al., (2007) which reported that companies had gone private as a last resource “against a hostile shareholder or tender offer” and suggested that management may have been afraid of losing their jobs after the takeover.

2.6. Delisting in Ireland

The Irish market is comparatively small in relation to other stock markets such as the LSE. Currently (2009), the number of companies listed on the ISE is 63 with over a quarter of these on the IEX market (RTE, 2009). In recent years, this market has seen a number of companies delisting. Since 2006, fourteen companies have delisted from the MM and six have delisted from the IEX (ISE, 2008, 2007, 2006).

In examining the reasons that have been published for companies delisting from the MM to the IEX, it was found that the companies felt that they were better suited to the smaller market. However, a full explanation of what influenced the decision has not usually been published. There are other reasons such as the expansion and merger of companies, or such as Vislink plc who delisted as the company no longer had a holding interest in Ireland, as they were domiciled and resident for tax purposes in the UK (ISE, 2008). In companies’ publication documents, many companies cited cost as a reason for the firm delisting from the ISE. Although this may be accurate, the companies do not establish what costs have influenced their decision to delist from the market .

However, research conducted by Europe Economics (2009) on the cost of implementing and complying with the Directives on the financial service industry in the EU, found that smaller firms are likely to incur higher costs in implementing the requirements. They suggest that for smaller firms a specialist compliance function may be absent and in order to cover the compliance, more resources are required. They also found that certain regulations were required, irrespective of the firm's size, thus smaller firms found it more expensive to comply with the directives than larger organisations.

The current financial crisis has also seen a downturn on the market. In 2009, one company which has been delisted from the exchange on a mandatory basis is Anglo-Irish Bank, due to the bank having to be nationalised by the government (RTE, 2009).

2.7 Conclusion

This chapter outlined the structure and development of the ISE. It also outlined the current literature on companies delisting and some of the reasons for this in different markets. Chapter 3 outlines the research methods that were used to achieve the aims and objectives of the study.

Chapter 3

Research Methodology

3.1 Introduction

In this chapter, the researcher will outline and explain the research methodology adopted to achieve the aims and objectives of the study. The strengths and weaknesses of the research methods will also be discussed as well as the limitations of the study.

There is no defined definition of research methodology in the literature. However, it can be established that research is an exploration into a specific problem, while methodology is the approach to this. Research methodology is defined by Remenyi et al., (1998, pg 28) as “the procedural framework within which the research is conducted. It describes an approach to a problem that can be put into practice in a research programme”.

3.1.1 Aims and objectives of the Research Question

The research aims were as follows:

- To establish reasons why companies delist.
- To establish the impact of regulation.
- To examine the ISE and regulatory structure.

The research objectives were as follows:

- Review and critically evaluate the current structure, development and regulation of companies listed on the MM and the IEX on the ISE.
- Establish reasons why companies have delisted from the MM to the IEX.
- Establish if there is a link between regulation and companies delisting.
- Establish the opinions of the companies and regulatory bodies regarding delisting and regulation.
- To establish the main areas of difficulties concerning regulation – both present obligations and when the companies were listed on the MM.
- Establish opinions of future delisting on the ISE.

3.2 Research Philosophy

A research philosophy depends on the way the researcher thinks about the development of knowledge and thus affects the researcher's approach to the study. Paradigm refers to the process of a "scientific practice based on people's philosophies and assumptions of the world and the nature of knowledge, in this context, about how research should be conducted" (Collis and Hussey, 2003, pg46).

Individuals' beliefs about the world are reflected in the way they design their research, thus it is important for the researcher to recognise their personal paradigms as this will determine the entire course of the research. There are two main paradigms: positivism, which is concerned with facts and things considered to be real; and interpretivism, which considers the social aspects and feelings of individuals (Saunders et al., 2007).

3.2.1 Positivism

Positivism is defined by Remenyi (1998) cited by Sandares (2007, pg 103) as "working with an observable social reality and that the end product of such research can be law-like generalisations similar to those produced by the physical and natural scientists". Researchers who adopt a positivism approach believe that they are independent and the objective of the study is unaffected by the research activities (Collis and Hussey, 2003). However Saunders et al., (2007) and Smith (1983) as cited by Collis and Hussey (2003) argue that the researcher can never fully avoid the inclusion of their own value. Saunders et al., (2007, pg106) also argues that the research will lose "rich insights into this complex world" if the researcher follows these law like generalisations, as the researcher does not take into account the social aspects of the research. Collis and Hussey (2003) also argue that it is difficult to treat individuals separate from their social context and this cannot be understood without investigating the perceptions they have of their own opinions.

3.2.2 Interpretivism

Interpretivism is where the researcher conducts research among individuals rather than objects. Saunders et al., (2007, pg 107) highlights that it involves the individuals having to enter the “social world of our research and understand their world from their point of view”. It involves a more informal approach in which decisions evolve over the study and is very useful for smaller samples which can also provide data that is rich (Saunders et al., 2007). Collis and Hussey (2003) also state that this approach is concerned with generating theories.

The advantage of using this method is that it allows the researcher to be flexible and adapt to the study. However one of the weaknesses is that observer bias can occur easily and it can be difficult for the researcher to come to conclusions as exact patterns or themes may not emerge (Saunders et al., 2007). The following table has been adopted from Earterby-Smith et al., (2003, pg30) which outlines the main contrasting implications of Positivism and Interpretivism.

Figure 3.1 Implications of Positivism and Interpretivism

<i>Positivism</i>	<i>Interpretivism</i>
1. The observer must be independent.	1. The observer is part of what is being observed.
2. Human interest should be irrelevant.	2. Human interest is the main driver of science.
3. It is generalisable through statistical probability.	3. It is generalisable through theoretical abstraction.
4. Sampling requires large numbers of cases selected at random.	4. Sampling requires a small number of cases chosen for specific reasons.
5. It must demonstrate causality.	5. It aims to increase the general understanding of the situation.
6. Units of analysis should be reduced to the simplest terms.	6. Units of analysis may include the complexity of “whole” situations.

3.2.3 Approach Adopted

The approach adopted is influenced by the way the researcher thinks about the development of knowledge. The researcher used the Interpretivism approach, which involved interviews being conducted with the companies that have delisted from the MM to the IEX. Interviews were also conducted with two regulatory bodies. In using the Interpretivism approach, the researcher was able to consider the particular complexities of each entity, as each is unique. Interpretivism was chosen because the interviews that were conducted involved the researcher analysing the opinions of the respondents in the companies and the organisations. The Interpretive approach also allows the researcher to recognize the patterns behind the facts, rather than just the facts alone. As in this study the research aim is to establish why companies delisted from the MM to the IEX and if regulation played a part, as just apposed to asking if this was a reason and why companies delisted. This study wants to focus on the opinions of regulation and the market. Each company is unique, and thus may have different reasons for delisting and opinions on regulation. Interpretivism was also adopted because it is flexible which is necessary as interviews can have different responses.

3.3 Research Approach

There are two approaches that can be used to research, in particular inductive and deductive. Inductive is where knowledge is developed from observing a limited number of factors therefore general conclusion based on this. Deductive, as defined by Engal and Schutt (2005, pg 59) is the “proceeds from general ideas, deducts specific expectations from these ideas, and then tests the ideas with empirical data”.

The inductive approach was adopted for this study as the researcher was trying to establish why companies delisted from the MM to the IEX and of the regulatory impact of this. This involved the researcher developing theory from data collected through interviews which involved the gathering of qualitative data that is rich and subjective.

3.4 Research Focus

Three classifications that can be used in research are descriptive, exploratory and explanatory (Saunders et al., 2007).

Exploratory research as defined by Robson (2002, pg59) cited by Saunders et al., (2007, pg133) states it is “research that aims to seek new insights; to ask questions and to assess the phenomena in a new light”. The advantage of exploratory research is that it allows the researcher to be flexible in the study and allows them to adopt to change as a result of new data if required (Saunders et al., (2007)).

Explanatory research as defined by Saunders et al., (2007, pg598) is “research that focus on studying a situation or a problem in order to explain the relationships between variables”.

Descriptive research as defined by Saunders et al., (2007, pg 596) is “research for which the purpose is to produce an accurate representation of person, events or situations”. In using descriptive research it is necessary for the researcher to have a clear picture of the theory, if this approach is adopted (Saunders et al., 2007).

For this study the researcher adopted the exploratory and descriptive approach. The exploratory approach according to Saunders et al., (2007) states there are three principle ways of conducting exploratory research which are: searching the literature; interviewing experts in the area; and using focus groups, which the research has used the first two principles. This involved the opinions of the companies that had delisted and the regulatory bodies which involved the use of semi-structured interviews. This approach also allowed flexibility for the researcher to change the research if required. The descriptive aspect of this research involved the researcher achieving one of the objectives of analysing the structure of the markets and regulations affecting the companies.

3.5 Data Collection Methods

In conducting research there are different methods that the researcher can use which include: case studies; focus groups; questionnaires; surveys; observation; and interviews. The type of method the researcher adopts usually depends on the nature and type of data to be collected in order to achieve the aims and objectives of the study.

The researcher considered that the most suitable method of data collection for this type of research would be interviews. As stated there are many different types of data collection available, however the researcher felt that most of these methods did not reflect the required in-depth analysis that would be required with such a small sample. See figure 3.2 below for a summary of the other types of data collection methods that may have been used and the reason the researcher did not use these methods.

Figure 3.2 Other Research Methods

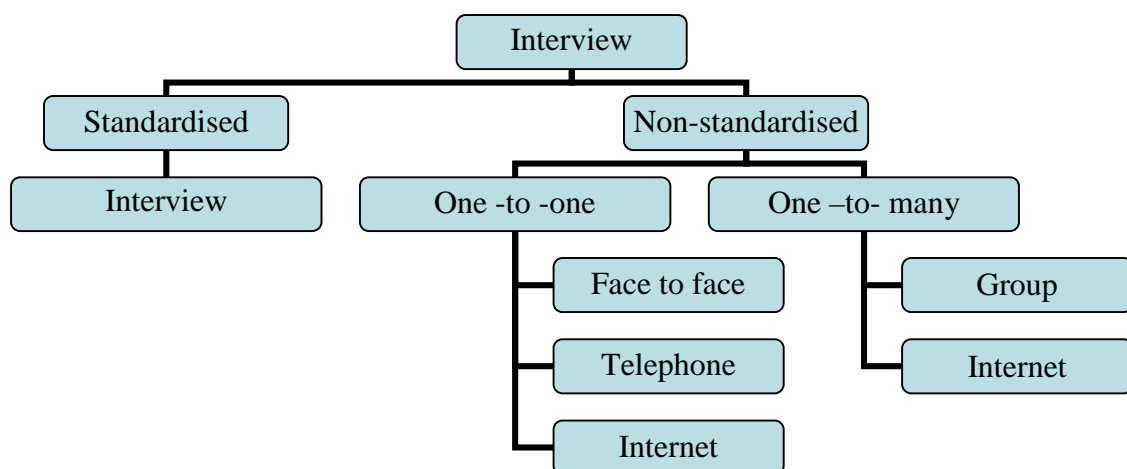
<i>Data collection method</i>	<i>Overview of method</i>	<i>Reason for not using this</i>
Case studies	A detailed analysis of a person or group or object(s) (Dul and Hak, 2007).	The researcher felt a case study would not provide adequate and accurate information as this research would require a sufficient amount of primary research.
Questionnaires / Surveys	A series of opened or closed end questions which is useful for collection of data from a potential large number of respondents (Saunders et al., 2007).	The researcher felt that the sample of companies that had delisted from the MM to the IEX were quite small, so this data would lack in-depth knowledge into the area of research.
Observations	Involves direct observation by the researcher, who observes the respondents in their natural setting (DJS Research Ltd, 2009).	The study did not require this type of research.

Focus groups	A group of respondents are taken together, they are similar to interviews except, people are asked questions at the same time and can voice their opinion (Puchta and Potter, 2004).	The study is on companies, thus focus groups would be unrealistic as the research is dealing with companies listed on the stock exchange and sensitive information would be hard to acquire.
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3.5.1 Interviews

An interview is defined by Kahn and Cannell (1957) cited by Saunders et al., (2007, pg 310) as a “purposeful discussion between two or more people”. Interviews are an effective way for the researcher to obtain data that is relevant to the research objectives. There are different forms of interviews that can be used, as outlined in figure 3.3, which has been adopted from Saunders et al, (2007, pg 313). The researcher decided to adopt a non-standardised, one-to-one interview as it was felt that this would enable an in-depth analysis of the research question and objectives. Personal interviews allow the use of open-ended questions (Saunders et al., 2007), however both personal and telephone interviews can cause bias because of the respondents perception of the interviewer or because different interviewers ask questions in different ways (Wimmer and Dominick, 2005).

Figure 3.3 Forms of interviews



3.5.1.1 Types of Interviews

There are different types of interviews that the researcher can adopt which are: structured; semi-structured; and unstructured interviews (Saunders et al., 2007). Interviews can be conducted through face-to-face conversation, or over the telephone (Malhotra, 2007).

Structured interviews use questionnaires based on a predetermined and standard set of questions. The researcher records the response of the interviewee, usually from pre-coded answers (Saunders et al., 2007). The advantage of using this approach is that each respondent is faced with identical questions and it is also useful in research that requires a large quantity of data to be collected and analysed (Denscombe, 2002). However this approach involves little interaction between the interviewer and the interviewee (Malhotra, 2007).

Semi-structured interviews involve the researcher having a theme sheet of the key points and questions. Dependent on the interview the questions and themes asked will vary. The main advantage of using this approach is the flexibility it can offer as certain questions may be omitted from, or new questions added to, the flow of the conversation (Saunders et al., 2007).

Unstructured interviews involve no defined set of questions, but a clear idea of the aspect(s) that the researcher wants to explore is needed. The advantage is it lets the interviewee talk freely (Saunders et al, 2007), however this could be a disadvantage as the conversation may lose the true meaning of the research.

The researcher adopted a semi-structured style of interview. This had many advantages; it allowed the respondents to talk freely about their opinions on the topic (Malhotra, 2007) and enabled the researcher to cover more in-depth knowledge on the area of delisting and regulation. However there are disadvantages to using this style of interview as the lack of structure can make it difficult for the researcher to analyse and interpret and high costs are involved (Malhotra, 2007). Interviews were carried out with three of the companies who had delisted from the MM to the IEX and two regulatory bodies that had an impact the regulatory role of the ISE.

Some of the interviews were conducted over the telephone due to the busy schedule of the interviewees and some of the interviews were conducted face-to-face. One of the respondents had emailed the questions back, which was quite similar to a questionnaire. However, the respondent gave in-depth responses which was useful in the researcher's findings. A percentage of the interviews were recorded with the permission of the interviewee and all the interviews' duration was between 40 minutes and 1hr 15minutes each. Before each interview the questions were emailed to the interviewee in advance to enable them to be more prepared. When requesting permission for the interview a cover letter was sent to each individual, which provided a clear overview of the research. Each letter was changed and was adopted to suit how the contact was received (see appendix III for an outline of the cover letter).

The questions for the interviews were developed from the review of the literature in chapter two. Themes were developed from this, in which questions were then developed (see appendix IV for a sample of questions). The questions used in the interview were pilot-tested first by the researcher's colleagues and supervisor. An advantage of pilot testing is that it provides the researcher with feedback, in which questions can be deleted or revised to be understood by the respondents (Intulogy, 2008). The questions were also refined after the first interview was conducted which resulted in some of the questions being omitted. The researcher also followed up with certain interviewees over the telephone as new questions were added as the study proceeded.

One method of recording an interview is to record it. The advantages and disadvantage outlined in figure 3.4. As stated some of the interviews were not recorded which has its advantages: it may enable the interviewee to relax and provide more honest response and it allows for the immediate review of handwritten notes (Sim and Wright, 2000). However, not recording the interview also has its disadvantages: the researcher may have a poor recall of the interview as it has to reflect on memory (Sim and Wright, 2000) and it does not allow for direct quoting to be used in the findings.

Figure 3.4 Advantages and disadvantages of recording an interview

<i>Advantages</i>	<i>Disadvantages</i>
Allows interviewer to concentrate on questioning and listening	May adversely affect the relationship between interviewee and interviewer
Allows questions formulated at an interview to be accurately recorded for use in later interviews where appropriate	May inhibit some interviewee responses and reduce reliability
Can re-listen to the interview	Possibility of a technical problem
Accurate and unbiased record provided	Time required transcribing the auto-tape
Allows direct quotes to be used	
Permanent record for others to use	

(Saunders et al., 2007, pg 334).

3.6 Sample

The target group for this research was companies that had delisted from the MM and re-listed onto the IEX. In considering the sample, the researcher eliminated companies that had delisted and merged with another company and only included companies that were currently listed on the ISE. This left the researcher with a population of four companies. This list had been obtained from the companies' websites and from publications by the ISE.

3.7 Secondary Research

Secondary research can be defined by Malhotra (2007, pg106) as "data that has already been collected for purposes other than the purpose at hand". The researcher used a number of sources when collecting secondary research which included academic journals, books, articles and any other literature relevant to this study. The researcher also used secondary research to achieve the aims of a number of the objectives, which was to review and critically access the current regulation and structure of the ISE.

3.8 Data Analysis

There are two types of research that can be adopted: quantitative and qualitative. Quantitative research according to Collis and Hussey (2003, pg 13) involves “collecting and analysing numerical data and applying statistical tests” which is “objective in nature and concentrates on measuring phenomena”. Qualitative research according to Malhotra (2007, pg 170) means “to decipher, examine, and interpret meaningful patterns or themes that emerge from the data”.

For this study the researcher adopted the qualitative method. Two main types of analysis that the researcher can adopt when using qualitative research are:

- Content analysis – This involves the researcher coding the data and converting the data into numbers (Easterby-Smith et al., 2003).
- Ground analysis – This involves the researcher producing common or contradictory themes and patterns from the data (Easterby-Smith et al., 2003).

The researcher felt that the grounded theory was suited to the research which also had a more inductive approach (Easterby-Smith et al., 2003). The researcher felt that this approach was more suited to gaining an insight to the research question and achieving the objectives, which may have not been achieved through content analysis. This involved the researcher analysing the primary data to extract themes, patterns and categories. As previously mentioned some of the interviews were tape recorded which enabled the researcher to quote or paraphrase the interviewees.

3.9 Ethical Considerations

In any research undertaken ethical considerations have to be considered by the researcher. In conducting the study the researcher informed the interviewees that any information collected would be presented with strict autonomy. With regards to the recorded interviews, permission was obtained from the individual before the recording.

3.10 Conclusion

The research was undertaken to establish reasons why companies delisted from the MM to the IEX and if regulation has impacted on this. The researcher adopted the Interpretivism approach, which involved taking an inductive approach. The researcher also adopted a descriptive and exploratory approach which involved the researcher examining the literature and using semi-structured interviews. The research process involved interviews with companies who have delisted and members of the regulatory bodies. Chapter four will outline the findings and analysis of the research.

Chapter 4

Data Findings and Analysis

4.1 Introduction

This chapter analyses and interprets the data collected during the primary research process. It involves the researcher interpreting the interview transcripts in order to establish reasons for companies delisting and opinions on regulation.

4.2 Analysis of Interview Findings

The researcher conducted three interviews with companies that had delisted from the MM to the IEX. Overall there were four companies that had delisted this way, which gave the researcher a population of 75 percent. Therefore the researcher felt that the sample was representative of the population. The researcher also carried out two interviews with regulatory bodies that were involved in the regulation of the market. The researcher felt that these interviews would form other opinions on the effect of regulation and companies delisting on the ISE.

4.3 Delisting Between Markets

The first objective of this research was to establish reasons why companies delisted from the MM to the IEX, in which a number of reasons were established. All of the respondents were asked this question. It was found that the size of the firm impacted on the companies' decision. Of the interviews 80 percent of respondents felt that the size of the company was a key reason for the company to move from the MM to the IEX, while 20 percent felt that the company would be conducting some kind of activity such as an acquisition and thus when carrying out this, would consider moving to the IEX market.

It was also found, from the greater part of the responses, that cost was a reason why companies delisted. One respondent commented on the "*enormous amount of cost involved in putting structures and procedures in place and the in-depth reporting that you have to do*". This supports research conducted by Holmstrom and Kaplan (2003) who suggest that compliance with certain requirements for listing is more costly for a smaller company and puts more pressure on them.

As each company is unique, one respondent expressed that another factor in the company's decision to delist was to meet the needs of the organisation. New requirements had been introduced on the MM, which would not take effect on the IEX until a few years later. Hence, this would enable the company to have adequate time to put structures and procedures in place when this became a requirement of the IEX. The researcher feels that smaller size companies would not have the required procedures and structures in place. This view is shared by Europe Economics (2009) who suggest that smaller size companies do not have the structure in place compared to the bigger organisations when new requirements are introduced.

The companies were also asked what would have changed their mind not to delist from the MM to the IEX. The researcher felt that this would focus on areas that may have influenced the decision to delist. However, it was felt that it was more appropriate for the company to be listed on the IEX, with one respondent stating that nothing would have changed the company's mind. Another individual commented that when the company listed on the ISE, the IEX, which would have suited the business model of the company, was not established. One respondent also suggested if some of the listing requirements for the MM were amended, for example if it reduced its size limits for shareholders transactions, that would have been a consideration for the company, but still felt overall that nothing would have changed the companies mind.

It's important to establish reasons why companies delisted to the IEX, as this provides the foundations of the research. Overall, the size of the company and the cost that is involved in listing on the MM had impacted on the companies' decision to delist to the IEX. The researcher feels that this may be due to all the extra burdens that are required when companies listed on the MM compared to the IEX. It also shows that each company is unique as there were different smaller reasons that have impacted on the companies' decision to delist between the market.

4.3.1 Influence of Cost

The previous objective was further analysed when the respondents were asked what areas of cost had influenced the companies' decision to move from the MM. As costs was one of the key reasons for the companies' decision to delist and with literature to support this (Jeinkinson, (2007) and Benoit (1999) cited by Renneboog et al., (2007)), the researcher felt that inquiring into the area of cost that companies felt was a major consideration would provide a clear and in-depth understanding of cost on the ISE and therefore its impact on the companies' decision to delist.

Interestingly of the three respondents, it was agreed that the listing costs were not a major factor in the companies' decision to delist to the IEX. It was, however, felt by two of the respondents that the professional fees played a major part, although this view is not shared by one respondent who felt that the professional costs were "*pretty much the same*" and instead believed the costs were more associated with the "*size and complexity of operations/ business model*". The professional fees would include accountants, solicitors, stock brokers etc. This supports research conducted by Benoit (1999) cited by Renneboog et al., (2007) who found in the UK that the cost of listing on the MM would increase significantly due to these additional aspects. One respondent also expressed that it would be very hard to separate these costs of maintaining a listing on the MM and the day-to-day running of the organisation.

Therefore the main elements of cost that had an influence on the companies' decision to delist were the professional fees. The researcher believes that this may be due to the company not having the structure in place to implement the continuous regulation on the MM and thus they may have to acquire a professional expert in the area in order to comply with the requirements, in turn putting more expense on the company. This view is shared with the Europe Economics (2009) who found that smaller companies were more likely to incur higher costs in implementing the requirements and that the specialist compliance function may be absent, which will require more resources.

4.4 Regulation on the MM

Another objective of the researcher was to establish areas of legislation that companies did not fully agree with. The researcher felt this was important to establish from a practical view if regulation had impacted on the companies' decision to delist. The researcher first asked the interviewees if they feel there was too much regulation on the MM. Of the three respondents, one felt that there was too much while two respondents felt that there was not. The interviewees that believed there was not too much regulation expressed that if regulation were perfect then the current scandals would not have happened. This is the case of Anglo Irish Bank that made headlines earlier this year in which loans were not published in the annual reports for the shareholders to view as the loans were temporarily transferred to another bank at the companies year-end over eight years (Farrell, 2008). One respondent also expressed that there was a need for more regulation, but indicated that maybe some of the current legislation should be disposed off.

The researcher felt that the current economic climate of a recession emphasised the role of regulation. In turn this may have impacted on the opinions given in answer to the above question, while this may not have been the case when the company had delisted. One of the respondents also commented that if this question was posed 18 months ago, the answer may be different. Another respondent felt on the issue of regulation that "*it only becomes truly intolerable when share prices crash and there is no capital to be raised because nobody has any capital, like now and the next few years*". This view is also supported by an article by the ODCE that emphasised the current economic climate has put more focus on regulation (ODCE, 2009).

The next phase of the research was to examine if regulation had played a part in the companies' decision to delist. It was found that regulation would not have been a major factor on the companies' decision to delist between the markets. One respondent felt that the problem on the MM was understanding the regulation and then the practical cost of that regulation. Thus the researcher felt that it was important to ask the companies if they felt that there was sufficient and adequate support in implementing regulation. Two-thirds of the respondents felt that there was a lot of

support from different organisations and that they also had professionals that enabled them to keep up to date and understand the current legislation.

The interviewees were asked what key areas of regulation they felt were a burden when the company was listed on the MM. Two of the responses felt that the requirement of the company having to have 25 percent of the shares in the public hands was an area of restriction. The greater part of respondents felt that the listing rules to obtain shareholders approval for certain transactions, which is not required under IEX, was a burden on the company. One respondent briefly explained that the cost and time required had impacted on a company of their size, while another respondent felt that now being listed on the IEX would enable the business to be run more smoothly as can make transactions easier.

The researcher felt that it was important to ask the regulatory bodies about the importance of regulation on the market. The views were quite similar, in that both expressed that the ISE allowed a *“level of a competitive playing field in Ireland”* and allowed it to *“create market confidence”*. Both respondents also believed that the companies that list on the market have this assurance for the shareholders in which one respondent stated that they have *“that regulatory badge”*. In response to the regulation one interviewee believed that *“the balance is more or less just right at the moment, that it does encourage business to set up”*.

4.4.1 Current Issues of Regulation on the IEX

The next objective of the research was to examine the current regulation of the IEX market and the areas the companies felt had an impact on their business. The researcher felt that examining this would enable an understanding of the key areas of regulation that companies felt were a burden, and if there was a lot it may in the future years make the companies delist and take the company private.

Two-third of the companies interviewed felt that the IFRS standards was a current role of regulation that impacted greatly on the business, so the researcher then asked all interviewees their opinions on the IFRS. It was found that it had incurred more cost and time for the company, which required experienced staff, IFRS experts etc.

This supported the views of authors like Beattie et al., (2008) cited by Dunne, Fitfield, Finningham, Fox, Hannah, Helliari, Power and Veneziani (2008), which found that the switch from GAAP to IFRS was complex and burdensome for companies. Of the respondents, 40 percent felt that the IFRS standards were based much on an *“academic background”* and one respondent also felt that *“it can be very hard for people to pick out the very relevant points when they are overloaded with data”*. The views were mixed on the area of legislation of the IFRS that most affected the company. One felt it was the compliance of revaluation, while another felt it was the commercial sensitivity of disclosure, and questioned if some of the information that was required to be disclosed was really relevant to the shareholders. One respondent also felt in their opinion that there was a disconnect and expressed that *“accounts are there to serve business rather than the business to serve their accounts”*. Although there are challenges to this, one interviewee when asked expressed that once the IFRS was implemented, the benefits outweighed the drawbacks.

The results indicated that there were areas of legislation that companies found to had cost more money and time to the company. Thus, the researcher decided to ask the regulatory bodies if they felt that keeping up-to-date with legislation was a challenge for companies listed on the ISE. The respondents felt that yes, this was a challenge. One respondent stated that companies on the market *“tend to be more aware of the fact that they need to be considered with the compliance of the law”* while another respondent expressed that the challenges were *“first becoming familiar with the new requirements and second of all in terms of ongoing requirements because they are based on legislation”*.

Therefore, the findings indicate that the IFRS standard is a current area of challenge in the IEX. Since the IFRS in the next few years will be applied in some form to private companies , the researcher feels strongly that this legislation will not be a factor that may influence the companies decision to delist.

The results of the question also focused on the importance of the regulation that was in place at the moment on the IEX. One respondent believed that this level of regulation was needed to allow businesses that were smaller in size to stimulate their growth. While another respondent stated that this level of regulation would encourage

more companies to join. When the regulatory bodies were asked if, in their opinion, more regulation introduced on the MM would affect the market, the results were similar, in which one felt that *“it would probably make the main market less attractive to a lot of companies”*, while the other interviewee felt that it would *“have an impact that will probably increase the relevance of IEX”*.

4.5 Combined Code

The next phase of the research was to examine the Combined Code and compare these provisions with the effect of the SOX in the USA. This was again from one of the objectives to establish if there is a link between regulation and delisting. As from the literature in chapter 2, companies that list on the MM have to comply with the principles of the code, or explain their reasons for not, which is not required under the IEX. Thus the researcher felt that to focus on this aspect as an example would show if this would potentially have impacted on the decision to delist, if the code was legalised. Also at the time of the study corporate governance was very topical as from chapter 1, which also impacted on the researcher’s decision to focus on the Combined Code.

The interviewees were first asked what impact had the Combined Code had on the company when they were listed. It was found that more financial and time costs were placed on the company, however it was expressed that once the code was implemented it had benefits. Two of the respondents also favoured the Combined Code now that the company is listed on the IEX. It was felt overall by the majority of respondents that it was important for the shareholders and the company to continue applying these principles of the code. It was also found that companies complying with the Combined Code created a positive perception of the company, as one respondent felt that with so much focus on regulation that not complying with the code would not benefit the company. This question also focused on the practical element of code, as the majority of respondents felt that now being listed on the IEX market allowed them to comply with the elements that was relevant to the company. For example, to define this, the code recommends that the majority of the board should be independent, when in a smaller size company this would be hard to achieve. It could be achieved but this would result in more cost for the company, in which there may be an argument for and against the benefits of this.

When asked if this code should be implemented into the Company's Acts, the respondents replied positively. One respondent felt that it was money well spent and that in the long run it was very beneficial to the business. Again it was emphasised that as the companies on the IEX are much smaller certain areas of the Combined Code would not be fully achievable, but companies would follow the principals as far as they could. This question was asked due to the debate of the 'comply and explain' and the literature from the USA. Four of the five respondents felt that the structure that is in place at the moment should be maintained. One respondent stated that each *"company is different and circumstances are different"* and continued to explain if *companies not fully comply they should "clearly set out why"*. This was also shared with the other responses in which one respondent stated *"in balance I wouldn't agree with the whole lot of it been implemented, but in places there are arguments made for certain aspect of this to be put into legislation"*.

Thus in relation to the ISE on the Combined Code, the researcher felt from these responses that if the areas of the Combined Code was implemented into regulation then this would not impact on the company delisting from the stock exchange. It was found that the Combined Code was highly valued by the companies and in the interest of the shareholders. The companies also carried on the principles of the Combined Code when the company delisted to the MM. As the researcher was comparing the Combined Code with the SOX in the USA, this view is not shared by such authors' as leuz et al.,(2008) and Engal et al., (2006) who suggest that SOX was a reason why companies delisted from the exchange and moved to the Pink Sheets. However, this maybe because of the SOX act in particular.

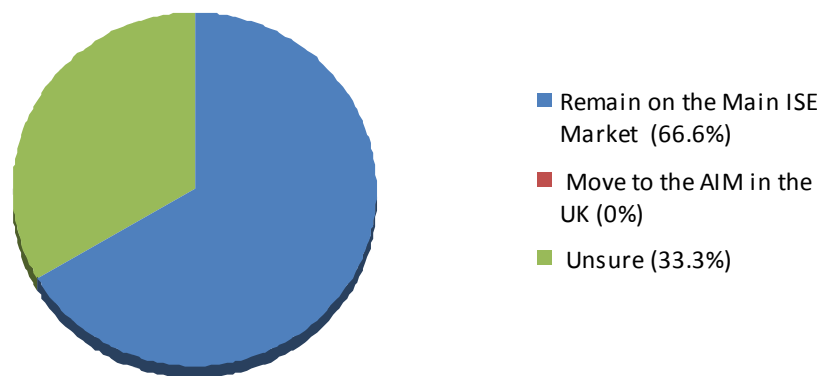
In relation to the "comply or explain" debate, the results indicate that these views support the current approach that is being adopted by the ISE. The results also indicated that there is a practical element to the comply and explain approach, in which the researcher feels would be important for listed companies as one respondent summed up *"I think that comply or explain works better with a quoted company because company law sets the ground rules"* in which the respondent continued to explain that the code is *"really about providing the fundamentals for the shareholders"*.

4.6 Focus on the IEX Market

The IEX and the AIM in the UK are similar markets as outlined in the literature in chapter 2. The objective of the researcher was to examine opinions on the IEX market and discover if regulation had an influence in the companies' decision to move markets.

The researcher first asked the respondents whether, if the IEX was not established, they believe the firm would have moved to the AIM in the UK. The researcher felt that in asking this question it would highlight if the companies may have moved due to the burdens of regulation or whether it was because the establishment of the IEX gave them the opportunity to do so. Thus the researcher felt that this was an important question to consider. The findings are presented in figure 4.1

Figure 4.1 If the IEX was not set up, would the company move to the AIM in the UK?



Therefore this shows the researcher that these companies did not delist because of regulation. As the researcher feels that if this was the case, they may have delisted to another less stringent market. Because the IEX was established this gave the companies the chance to move to this market to suit the needs of their organisations. This view is not shared with authors such as Berger et al.,(2005) ; Hostak et al., (2007) cited by Doidge (2008) concerning the SOX legislation, in which they suggest that companies delisted between markets because of this legislation. However, it must be noted that this may be because of this act in particular.

The researcher felt that it would be important to examine perceptions and opinions of the IEX market and to understand the benefit to companies listed on this market compared to being listed on the MM. Interestingly, there were mixed views. One respondent felt that it was less restrictive and less costly while another respondent liked not being restricted by the shareholders' transactions and that the Combined Code can be suited to the company's needs and size. It was also highlighted by one respondent that from a PR point of view the company did not lose anything, as it was felt that investors' would be focused on the share price.

Surprisingly, one respondent felt that there were no extra benefits and expressed that "*regulation is just the price paid to get cash*". One of the advantages that was found from moving markets was that the IEX was based on the Dublin market, which supports the view of Matheson et al., (2006) who believes that companies listed on their home market receive greater analyst and broker support. It was also expressed by one individual who felt overall that the IEX market had more of a practical element, which was a benefit to the company.

The findings show the majority of companies felt that delisting to the IEX market provided benefits to the company. On a realistic level, benefits would have to come with companies delisting between markets, as this would have been a major decision for the companies that have undergone this process.

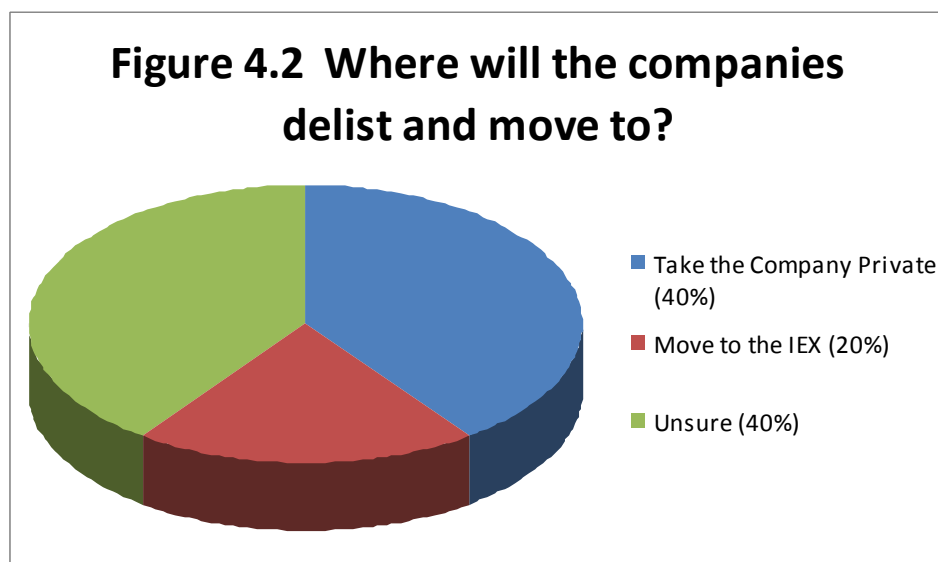
4.7 Future of Delisting

The final objective of the researcher was to look at the opinions of the companies and the regulatory bodies on the future of the stock market. The researcher felt that because of the economic conditions that was happening when this study was undertaken the markets took a huge hit. As from the literature one company's already had to leave the stock market. Thus it was interesting to form the companies and the regulatory bodies' opinion on this.

The respondents were asked if the IEX had introduced more regulation, would this have any impact on the company delisting and taking the company private. From the three respondents, it was felt that this would not cause the company to delist and go private. Two of the three respondents felt that regulation would not be the key reason

to go private. Again this emphasises to the researcher that regulation was not the main factor in these companies decision to delist to the IEX market. Interestingly, when this question was asked of the three respondents they all stated that they couldn't see more regulation coming into force on this market.

The next phase of the research was to consider the market in the current condition. All of the interviewees were asked how they thought the current economic conditions would impact on companies delisting from the MM in the next year. All of the respondents felt that the current economic climate would impact on companies delisting. The results showed mixed results, see figure 4.2 for the responses.



Of the respondents, 40 percent felt that companies would go private, with one respondent commenting that the companies may “*create more value themselves by taking them off the market, getting rid of the regulations of being on the market and the costs*”. However, 80 percent felt that getting access to finance would be difficult , which may encourage companies to move to the IEX market instead, with one respondent stating “*I only think things stopping management buyouts at the minute is sure lack of equity as the banks aren't providing the funds for buyouts*”. Another individual believed that “*some companies may come off the market due to reduced economic activity in their own business and then the difficulty of getting equity to finance their activities going forward*”. These views are shared with Leuz et al., (2007) who suggests that companies had delisted in the USA due to the economic conditions

and not the effect of the SOX. This also supports the predictions of UK analysts (Gorman, 2009) who have suggested that more companies will delist this year from the stock market in the UK.

The views of the respondents indicate that more companies will consider delisting due to the economic conditions. It may also suggest that the IEX market will look more favourable to companies that are listed on the MM. This may be because of not having the finance to bring the company private.

From the literature, one of the objectives of the IEX was to act as a “stepping stone” onto the MM. Since the establishment of the IEX in 2005, no company has yet moved from the IEX to the MM, thus the researcher feels that it may be to do with the way economic conditions impacted on the market. The researcher felt that it was important to ask the regulatory organisation what they thought held true for this market. One respondent felt that it depended on the company and if they were happy and just wanted equity would remain on the IEX, but felt that if the company was “*growing quickly and wants international exposure they will go for a full listing, they will be aware of the additional burdens that they will be taking with them*”.

Finally, all of the respondents were asked about the future of regulation, in which it was felt by all that there would be challenges ahead. One respondent felt that “*the response of the financial crisis should be very much targeted at financial institutions and where there has been a failing; they need to address that focused context rather than trying to deal with things on a wider basis*”, while another respondent felt that keeping with these challenges would be a burden on companies. However it was expressed by another respondent who felt that regulation should be put in place now that this will never have to be dealt with in the future.

4.8 Conclusion

This chapter analysed and discussed the findings of the semi-structured interviews that were carried out by the researcher. It was found the main reason for companies on the Irish exchange to delist to the IEX was due to the size of the company and the costs involved in being associated with the MM. It was also found that regulation on the MM did not impact on the companies' decision to delist to the IEX, but there are benefits in terms of regulation for the companies now being listed on this market. As confirmed, the researcher has analysed the responses by the work of a number of authors. The overall conclusions and recommendation of the study is outlined in chapter 5.

Chapter 5

Conclusions and Recommendations

5.1 Introduction

This chapter concludes the main findings and outcomes of this study in relation to the stated aims and objectives in chapter 1. The researcher will also outline recommendations from the study, as well as suggesting further areas of research, concerning this study.

5.2 Main Findings

The ISE is a highly regulated market that has seen an increase in the standard of regulations that listed companies must follow. The MM has many advantages of being listed, such as international recognition, but has very stringent regulation that must be followed. The IEX on the other hand does not have as much regulation to follow (ISE, nd). The researcher had set out a number of aims and objectives as set out in chapter 1 to be achieved from the study. The main overview was to investigate why companies delisted from the MM and re-listed on the IEX and if regulation had any impact on this.

From reviewing the literature, the researcher has identified the legal structure and regulatory bodies of the ISE as discussed in chapter 2. One of the objectives was to establish reasons why companies delisted from the MM and re-listed on the IEX. From the study it was found that the main reasons companies delisted was due to the size of the company and the cost associated with been listed on the MM. However, one respondent felt that the business would be carrying out some kind of business activity such as an acquisition and then consider moving to the IEX. The majority of respondents felt that the IEX market gave the company the chance to move markets, and felt that the IEX was better for the business model. This supports research by Jeinkson (2007) in the UK who suggest that the main reasons companies delist is the cost of listing on the MM and that the secondary market is better suited for their firm. The researcher analysed the cost that had influenced companies to delist, in which the main cost, agreed by the all the respondents, was the professional fees. As from the literature, research by the Europe Economics (2009) suggests that smaller companies do not have the structures and procedure in place and thus have to use more resources.

This suggests that the larger companies on the MM can absorb these costs while the size of the smaller companies mean this is more difficult to achieve.

The IEX market has less regulation that has to be complied with compared to the MM. It was found from the study that 66 percent of the respondents felt that the main area of regulation on the MM that companies did not agree with on was having to obtain shareholders permission for certain transactions, which is not required under the IEX. This question also focused on the main benefits of listing on the IEX market which it was felt that this market has a more practical element in relation to the business. Interesting, two of the three respondents also believed that the MM did not have too much regulation, in which both stated that the current scandals would not have happened if the regulation was perfect.

The study also examined the current levels of regulation in play on the IEX. The results show that the key main challenges were the IFRS standards. As stated these standards will in the future be implemented to all companies, therefore this may be a challenge for all companies. This supports the view of Beattie et al., (2008) cited by Dunne, Fitfield, Finningham, Fox, Hannah, Helliar, Power and Veneziani (2008), which found that the switch from GAAP to IFRS was complex and burdensome for companies. The respondents had mixed views on the area of the standards that were challenging, such as the revaluation requirements.

Research conducted in the USA by such authors as Engel et al., (2006) and Berger et al., (2005) have suggested that companies had delisted from the markets due to SOX , an act that was legalised. In this paper the researcher used the Combined Code to compare against this act and the impact of legislation. The results from this study do not support these authors, but it must be emphasised that these are two different pieces of corporate governance in which one approach is defined in law while the other is to “comply or explain”. The results showed that the companies valued the code, and even though this is not required under IEX, the companies feel that it was important to continue to apply these principles on the IEX market. This shows that the companies did not delist due to an area of the listing requirements.

The AIM in the UK as defined in the literature is similar to the IEX market. It was found in this study that 66.6 percent of the respondents felt that if the IEX were not established then they would not have delisted and gone to the AIM in the UK. Therefore this again shows that the companies did not delist because of the regulation burden of being listed on the MM. It was felt that the establishment of the market had allowed the company to delist.

Regulation therefore, in the case of the Irish market, is not a major reason companies decide to delist from the market. However, in delisting to the IEX the companies have obtained benefits in relation to regulation, such as not having to obtain shareholders permission on certain transactions, something which was felt by the majority of respondents to be a key advantage. It was however expressed that the role of regulation when a company was deciding to go from a unquoted company to quoted, as one respondent stated, *“is going to be an important decision at that point of time”*. The researcher feels that this may be a reason why the IEX market has grown since it was established in 2005.

Analysis in the UK has suggested that due to the economic crisis (Gorman, 2009) more companies in the future will delist from the markets. This view is supported by the respondents of this study. All respondents believed that the economic climate would see a change in the market. There were mixed views about the types of delisting that may occur: 40 percent felt that companies would take the company private, while 20 percent felt that companies from the MM would delist and re-list on the IEX. However, it was expressed by the majority of respondents that getting access to finance would be difficult. This view is also showed by Leuz et al., (2007) in the USA who suggested that companies delisted because of the economic condition at the time that was happening in the market.

5.3 Recommendations

After reviewing the results, the researcher would make the following recommendations. :

The researcher recommends that the current structure and regulation governing the IEX should not change. From completing this study companies seem to be quite satisfied with the amount of legislation. The reason the researcher feels this should remain is in the current economic climate and one of the objectives of the market is to attract smaller companies as one respondent stated *“regulation needs to be there, it needs to be visible and clearly it must allow business to grow and thrive, it’s not there to strangle business”*.

On the debate of the Combined Code, the researcher recommends that the comply and explain principle that is currently in force on the stock market remain as it is. From interviewing the companies, there seemed to be a lot of respect for this code, in terms of the company and for the shareholders. This is purely based on the responses from this study, in which the researcher believes that other authors would not agree on this point of view. It also has to be remembered that the companies have stated that they comply with the code to meet the needs of the organisation. Thus if these requirements implemented into law, companies would just be complying with them because they have to, again, using more resources of the company.

5.4 Further research

From conducting this study, it was found that companies felt that regulation would not play a major factor in the firm’s decision to delist and go private. Therefore research into what drives and influences companies to take the company private may be an area of further research, since there is limited research in this area in the Irish market. The researcher recommends that the views of the shareholders and investment boards may also be useful as to what their opinions are of companies’ movements in the market.

Due to the time and resources of the researcher, one area that would be of benefit would be to examine the conditions of the companies around the time they had

delisted either to the IEX or taking the firm private (i.e. examine press, share price) and if like research conducted by authors in the USA, who felt it was what was going on in the economy was a reason why companies delisted and not because of regulation.

As the sample size used in this study was small, the researcher feels that this should be examined in a larger market such as the LSE , to see if and why companies there delist between markets. The researcher believes this analysis in the UK would be useful as both Ireland and the UK regulation is similar. It then can see if the views of that market are consistent with the findings in this study.

Finally, this is not specific to delisting but one of the key areas that companies have highlighted in this study was the area of IFRS. In terms of the Irish market to examine the challenges that companies have faced in implementing this and to examine the view of accountants, companies etc. The area of IFRS is going to be hugely topical in the next few years, it's one of the current areas of regulation that would be interesting to do further research on companies on the markets.

5.4 Conclusion

In this paper the researcher examined the reasons why companies delist from the MM to the IEX and if regulation had impacted on this decision. It was found that the main reason companies delisted was due to the size of the company and the costs associated with being on the market. In relation to the link of regulation, it was established that this would not have been a major consideration for the company to delist to the IEX market. The results of this study are by no means conclusive, it is hoped that the findings of this study will give an insight into reasons behind companies delisting and how regulation is viewed in the context of the Irish market.

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Appendix I

An outline of the main aspects of the Companies Act 1963-2006

This has been adopted from the Department of Enterprise, Trade, and Employment:

Investment Fund, Companies Miscellaneous Provisions Act 2006

- Amended the companies act on such aspects as the exemption of audit requirements.
- Transparency requirements

Investment Funds, Companies, and Miscellaneous Provision Act 2005

- Made a number of changes previous law to ensure a smooth transposition of the EU Directives on Market Abuse and Prospectus.
- Provided for a new type of investment fund-UCITS

Companies (Auditing and Accounting) Act 2003

- Established Irish Auditing and Accounting Supervisory Authority

Company Law Enforcement Act 2001

- Established of the Director of Corporate Enforcement
- Provided for the transfer of existing functions of the Minister relating to the enforcement of the Companies Acts to the Director
- Established the Company Law Review Group

Companies (Amendment) (No. 2) Act 1999

- Amended act in relation to examinership
- Provided for an exemption for certain companies to be audited
- Prohibits the formation of a company unless it appears to the Registrar of Companies that the company will carry on an activity in the State.
- In certain circumstances, one of the directors of a company must be a person resident in the State.

Companies (Amendment) Act 1999

- Extended section in relation to the issue or sale of securities and provides for connected matters.

Companies (Amendment) Act 1990

- Amended such regulation as: acquisition of own shares, Disqualifications, and restrictions, disclosure of interest in shares.

Companies (Amendment) Act 1983

- Made amendments on such aspects as the re-registering another company, restriction of distribution on profits and assets.

Companies (Amendment) Act 1982

- Provided for other connected matters

Companies (Amendment) Act 1977

- “Provided for the simplification of certain activities connected with the periodic completion of bargains made on the Stock Exchange, for that purpose to amend and extend the Companies Act, 1963, and other connected matters.”

Companies Act 1963

- Set out all the relevant laws for companies, from the establishment of a company to the requirements of the memorandum. This was the fundamental act.

Appendix II

The main difference in the admission of the MM and the IEX

ISE	Official List
1. No specific admission criteria other than the requirement for an applicant to have a minimum market capitalization of €5 million.	1. Detailed conditions for listing required.
2. No trading record required.	2. Normally, a 3-year trading record is required.
3. No minimum number of shares to be held in public hands.	3. Minimum of 25% of shares to be held in public hands.
4. No pre-vetting of IEX admission documents by the Exchange.	4. Pre-vetting of listing particulars by the Exchange prior to circulation.
5. In most instances, no prior shareholder approval of substantial acquisitions and disposals.	5. Prior shareholder approval required for substantial acquisitions and disposals

(Ref: <http://www.ise.ie/index.asp?locID=421&docID=-1>)

Appendix III

Sample Cover Letter for Interviews

To whom it concerns,

My name is Sarah Harkin. I am a Master in Arts in accounting student at the Letterkenny Institute of Technology, Co Donegal. As part of my research into the regulation of the stock market I want to establish reasons as to why companies delist to the IEX/AIM and the impact of regulation.

When I contacted XXXX they forwarded me your address. If possible I would be grateful if you or another member of staff would be willing to give me an interview over the phone.

If you were to agree to an interview, then ideally it would take place in June, or whatever time suits you or the individual in question. The individual could be from your shares department or someone else whom you would recommend.

The interview would be a series of closed and open questions in which no confidential information about the organization will be asked. I could email you the questions in advance if applicable. I would like to emphasize that all the information gathered will be solely for the purpose of my dissertation and the final results will be presented with anonymity, with each organization will be represented as a, b, c etc, so as to respect the confidentiality of the organization.

This interview would mean a great deal to my research and would be greatly appreciated. If required I could send you a copy of the dissertation on completion.

Kind Regards
Sarah Harkin

Appendix IV

Outline of Interview Questions

1. What were the main reasons for the company to delist from the Main Market to the IEX?
2. Cost has been cited as one of the key reason of why companies delist from the main market to the IEX. If your company also believes this, what aspects of cost were the most expensive to comply with for example:
 - a. cost of annual listing fee
 - b. cost of compliance with regulation i.e. the combined code element
 - c. Professional costs etc.
3. Do you feel that compliance with the burdens of regulation may have influenced the company's decision to delist?
4. What main aspects of the Listing rules did you not fully agree with that may have influenced the company to delist?
5. (I)The combined code was introduced in 1999, and since then more new amendments have been made to this act. What impact had these new policies on your company before the company delisted?
 - (ii) The benefits /long-term effects of implementing this.
 - (iii) If the combined code was implemented into regulation, what is your opinion on this?
6. What areas of the regulation do you believe have a huge impact on the running of the business and company?
7. Did you feel that there is support from organisations that enabled your company to understand the law adequate?
8. Do you feel that regulation in theory is good but on a more practical level, it is difficult to obtain?
9. What would have changed the companies mind not to delist from the main market?

10. What do you believe are the major benefits for you company of listing on the IEX instead of the MM?
11. If the IEX market introduced more stringent regulation, in your opinion do you believe that it may be more beneficial for the company to go private i.e. cost savings
12. Do you feel that there is too much regulation in play on the Main Market?
13. From the literature, authors have suggested in the current climate more companies may delist this year and bring their company either to the AIM/IEX or delist completely(i.e. go private)? What is your opinion on this?
14. One of the reasons that the market set up was because of the success of the AIM in the UK. In your opinion if the IEX was not established do you think the company may have remained on the main market on the ISE or have delisted and gone to the AIM.
15. Do you believe that they will be challenging times ahead with the continuous development and implementation of regulation?
16. Any other factors that you would like to contribute.