Related Party Transactions in Commonwealth Asia
Complicating the Comparative Paradigm

Dan W. Puchniak & Umakanth Varottil
2018 World Bank’s RPT Index
Commonwealth Asia is Uniformly Strong

The RPT Index Ranks 190 Countries
The law and economics of self-dealing☆, ☆☆

Simeon Djankov\textsuperscript{a}, Rafael La Porta\textsuperscript{b}, Florencio Lopez-de-Silanes\textsuperscript{c}, Andrei Shleifer\textsuperscript{d,}\

\textsuperscript{a}The World Bank, 1818 H Street, NW Washington, DC 20433, USA\
\textsuperscript{b}Dartmouth College, Tuck School of Business, 314 Woodbury Hall, Hanover, NH 03755, USA\
\textsuperscript{c}EDHEC Graduate School of Management, France\
\textsuperscript{d}Harvard University, M\textsuperscript{H} Littauer Center, Cambridge, MA, 02138, USA\

Received 13 April 2006; received in revised form 13 November 2006; accepted 19 February 2007\
Available online 29 January 2008

Abstract

We present a new measure of legal protection of minority shareholders against expropriation by corporate insiders: the anti-self-dealing index. Assembled with the help of Lex Mundi law firms, the index is calculated for 72 countries based on legal rules prevailing in 2003, and focuses on private enforcement mechanisms, such as disclosure, approval, and litigation, that govern a specific self-dealing transaction. This theoretically grounded index predicts a variety of stock market outcomes, and generally works better than the previously introduced index of anti-director rights.

© 2008 Elsevier B.V. All rights reserved.

JEL classifications: G3; G15; G38; K22; P51

Keywords: Corporate governance; Financial development
RPT Index
Practically and Academically Important
Good Law Payoffs

[Image: Cartoon depicts a dragon labeled 'Corruption' leading to a dragon labeled 'China'. Two figures labeled 'Li Keqiang' and 'Xi Jinping' stand behind the second dragon labeled 'Growth'.]
Gap Between Rankings & Reality
What the RPT Index Measures

- Extent of disclosure
  Disclosure and approval requirements

- Extent of director liability
  Ability to sue directors for damages

- Ease of shareholder suits
  Access by shareholders to documents plus other evidence for trial

Diagram:

- Minority shareholders
- Lawsuit
- 60% ownership, sits on board of directors
- 90% ownership, sits on board of directors
- Company A (buyer)
- Company B (seller)
- Transaction involving conflict of interest
- Mr. James
What the RPT Index Misses

Law in Action

Narrow Focus on CSP Law

Overly Simplistic

Equates Stricter Law with Better Law
Why Commonwealth Asia Uniformly Ranks High
Regulatory Complexity
The RPT Index “focuses on one of the most serious breaches of good corporate governance around the world: the related-party transaction” (World Bank, DBR Online, 2018)
COMPLEXITY
Importance of Complexity

Eliminates False Hope

Reveals Possible Solutions

Challenges Legal Origins

Opens Other Paths to Economic Development
And the winner on the RPT Index in 2019 is....