Investments and Their Relation to Statutory-Regulatory Protection in Common Law Countries: a Study in Australia, Canada, and the United Kingdom

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ABSTRACT

The research question of this study is: How does statutory and regulatory protection in common law countries affect investment decisions? The two main goals of this research project were: (1) to conduct a survey and interviews with investment company representatives and financial analysts in common law countries, and (2) to analyze and compare the survey and interview results across countries. This study extends the previous research by Sargsyan et al. (2020) by performing a more in-depth analysis of new markets. Researchers explored the effect of statuary and regulatory protection on investment decisions in common law countries: Australia, Canada, and the United Kingdom. The study also pinpoints the role of statutory and regulatory protection as compared to return and liquidity factors in the countries studied.[1]

Keywords: Investment decision, Return on investment, Liquidity, Statutory and regulatory protection, Protection of investors' rights and interests, Securities law.

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INTRODUCTION

Before considering an investment in securities, investors make some basic decisions about the particular market, regulation, business environment, and other such factors. Investing itself is a risky activity and there are economic, legal, cultural, and other factors that impact and shape that activity. Previous research shows that investment decision-makers primarily take into consideration the return and liquidity of each investment, as well as the statutory/regulatory protection in each country where they are planning to invest. They base their decision on the above-mentioned three factors, but the importance of these factors varies depending on the country where investors are interested in investing. Research by Sargsyan et al. (2020) confirms that statutory and regulatory protection is a primary differentiating factor impacting investment decisions in the US, Spain, and Russia.

In this study, via survey and interviews, researchers measured the importance of statuary and regulatory protection in investment decisions in three Common Law countries - Australia, Canada, and the United Kingdom. The results of statuary and regulatory protection have been contrasted with return and liquidity factors in each country. The survey and interviews allow comparing the research countries and connecting the results with prior research by Sargsyan et al. (2020).

To conduct this study, researchers used two methods: survey and interviews. The survey was disseminated in Australia, Canada, and the United Kingdom. Those surveyed were randomly selected from publicly available sources. The contact information for more than 200 investment companies and financial advisory firms from each of the researched countries was collected. The survey was disseminated to representatives of investment companies and financial analysts. The interviews were conducted with participants selected from the survey respondents for validation of research results.

Finally, to compare and contrast the effect of statutory and regulatory protection on investment decisions in these specific markets, researchers analyzed the collected data from the survey and interviews using an analytical approach developed in the research of Sargsyan et al. (2020).

PRIOR RESEARCH

Whether investing in domestic or international markets, it is a fact that statutory and regulatory protection has an impact on investment decisions. Different countries have different legal traditions and regulatory systems. Due to globalization and technological advance, there is a need for harmonization, cooperation, and reciprocity of cross-country regulations (Sargsyan et al., 2020). However, the following literature review confirms that statutory and regulatory protection related to investments is derived from countries' legal traditions and regulatory systems, accounting standards, and transparency. Statutory and regulatory protection is not uniform among different countries.

Legal Traditions

The differing laws and ruling systems countries have had throughout history demonstrates the complexity of this study. La Porta et al. (1998) analyzed the England common law tradition, the Romano-Germanic legal system, as well as other legal traditions. England's common law relies on judges using precedents. On the other hand, the Romano-Germanic legal tradition adheres to the guidance from laws. Echoing these views, in a 2000 paper, La Porta et al. describe countries' legal systems originating from "legal families" like common law and civil law. The countries that are considered a part of one of the legal families are connected throughout history. "England and its former colonies including the U.S., Canada, Australia, New Zealand, and many countries in Africa and Southeast Asia, have ended up with the common law system" (La Porta et al., 2000). France and other countries are part of the French civil law tradition. "Germany, Germanic countries in Europe, and a number of countries in East Asia are part of the German civil law tradition" (La Porta et al., 2000).

In their papers, La Porta et al. present a summary of differing levels of statutory protection for investors in the common law and civil law markets. In their findings, countries that are part of the English common law system displayed the strongest protection for investors. In contrast, countries that are part of the French civil law tradition showed less protection of investors compared to common law countries. German and Scandinavian countries had protection levels between English common law and French civil law.

With laws inherently deriving from one of these legal families, we can trace the legal behavior of members of capital markets related to the statutory and regulatory protection of investors. La Porta et al. (2000) contrasts the judicial discretion between English common law and French civil law countries. In common-law nations, for example, handling unprecedented cases of judicial judgment allows flexibility while following principles and morals. This discretion in common law countries provides investors with a broader range of statutory and regulatory protection. In contrast, French civil law does not allow much flexibility. "As a consequence, a corporate insider who finds a way not explicitly forbidden by the statutes to expropriate outside investors can proceed without fear of an adverse judicial ruling" (La Porta et al. 2000).

The Quality of Accounting Standards and Transparency

Timely, transparent, and reliable accounting reports in efficiently-run capital markets reduce information asymmetry between publically traded firms and investors. The study conducted by Francis, Khurana, and Pereira (2001) explored the significance of accounting practices in various countries and how they affect the protection of investors. The researchers confirmed the hypothesis that there is a higher demand for transparent, accurate, and timely financial reports from investors and stakeholders in common law countries. In this paper, scholars found that "there is more spending on auditing as an enforcement mechanism in common law countries, and the elite Big Five accounting firms have larger market shares."

They also documented that "there is an accounting variation within civil law and common law countries." In common law countries, "more timely and transparent accounting within these countries leads to more spending on auditing." (Francis, Khurana, Pereira 2001).

LEGISLATIVE AND REGULATORY BACKGROUND

The following section summarizes the legislative and regulatory background related to capital markets in Australia, Canada, and United Kingdom. A few pages on the mission, functions, structure, legislation and other relevant information from official web pages and reports of regulators will provide context. The information in this legislative and regulatory background section is a reproduction of common knowledge obtained from publically available sources.

Regulation and Legislation of the Securities Market in Australia

Regulatory authority: Australian Securities and Investments Commission (ASIC), The Reserve Bank of Australia (RBA)
History: ASIC started operations in 1991, and RBA in 1959.
Mission: The ASIC's responsibility is to supervise and enforce legislation against misconduct in markets of Australia. The RBA is responsible for assessing whether financial firms in Australia comply with the Financial Stability Standards of the RBA as well as reducing systematic risk.
Functions:

- supervise trading in Australia's domestic markets
- enforce laws in cases of misconduct in Australia's financial markets
- supervise holders of Australian Financial Service License
- maintain and improve the performance of the financial system

The securities market in Australia: The Australian Stock Exchange (ASX) is headquartered in Sydney, and the current version was formed in 1999. The Sydney Futures Exchange serves as a market facilitator/operator and clearing house. The ASX had a total market capitalization of $1.5 Trillion in 2018.
Main laws and rules:

- Commonwealth of Australia Constitution Act
- Corporations Act, 2001
- Australian Securities and Investments Commission Act, 2001
- Insurance Contracts Act, 1984
- National Consumer Credit Protection Act, 2009
- ASX Listing and Compliance Rules
- Australian Securities and Investments Commission (ASIC) Rules
- The Rules of the Reserve Bank of Australia

Securities legislation in Australia

Australian securities regulation rests on the principle that "financial markets cannot function effectively unless participants act with integrity and there is adequate disclosure to facilitate informed judgments." (ASIC's official web page) Mandatory disclosure and conduct regulation underlie much of Australia's securities regulation.

Elements of statutory and regulatory protection related to investments can be found in the general law governing contracts, trusts, and torts. Securities regulation under the Corporations Act operates in connection with the background legislation such as criminal law, administrative law, statutory interpretation, etc.

According to the Corporations Act, 2001 and the Australian Securities and Investments Commission Act, 2001 the administration and enforcement of the legislation is the responsibility of the Commonwealth Treasurer and the ASIC. The Supreme Court and Federal Courts are in charge of the resolution of disputes related to securities legislation.

Power of Government: Australian Securities and Investments Commission is an independent Australian government authority that functions as Australia's corporate regulator. ASIC's role is to regulate and enforce laws related to corporations and financial services and also to protect Australian consumers, investors, and creditors. ASIC is responsible for the supervision of trading on Australia's domestic markets, including those operated by ASX. It also has the authority to enforce the laws against misconduct in Australian financial markets. ASIC has powers to supervise Australian Financial Service License (AFSL) holders. The Department of the Treasury is a department Australian Federal Government that develops economic policy. The Department of the Treasury works with the RBA, ASIC, and APRA (Australian Prudential Regulation Authority) on the Council of Financial Regulators.

Regulation and Legislation of the Securities Market in Canada

Regulatory authority: Canada does not have a securities regulatory authority at the Federal Government level; however, the majority of the provinces are involved in securities regulation. The Canadian Securities Administrators (CSA), is a forum that consists of all of the provincial and territorial securities regulators.
History: The CSA is an umbrella organization consisting of 13 provincial and territorial securities regulatory organizations (SRA) and various self-regulatory organizations (SRO) - beginning operations in 1912 (SIPA, 2014).
Mission: Cultivate agreement on various topics from policies to market participants across Canada.
Functions:

- protection of investors from unfair, improper, or fraudulent practices
- foster fair, efficient, and transparent capital markets (SIPA, 2014)
- reduction of systematic risks to the market's integrity and investor confidence in the markets

The securities market in Canada: The Canadian securities market contains primary and secondary markets. The secondary market is the most active in Canada. Main stock exchanges in Canada include: CNQ, Montreal Exchange, NASDAQ Canada, Toronto Stock Exchange, ICE Futures Canada, NGX, and several others. Major market players include investment firms, large financial institutions/credit institutions, governments, and publicly-traded firms.
Main laws and rules:

- Constitution Acts
- Canadian Charter of Rights and Freedoms
- Canadian Bill of Rights
- 13 provincial and territorial authorities' laws and rules

Securities legislation in Canada: Canadian securities regulation is managed through laws and agencies established by all 13 provincial and territorial governments of Canada. Every single province and territory has its own securities commission or equivalent authority and its own provincial or territorial legislation.

While the "CSA coordinates initiatives on a cross-Canada basis, provincial or territorial regulators handle all complaints regarding securities violations in their respective jurisdictions. This provides a more direct and efficient regulation since each" provincial and territorial authority "is closer to its local investors and market participants. Enforcement of securities regulations is also done on an individual basis by each province or territory" (SIPA, 2014). "It aims to achieve consensus on policy decisions that affect the capital market and its participants. It also aims to work collaboratively in the delivery of regulatory programs across Canada, such as the review of continuous disclosure and prospectus filings" (SIPA, 2014). Generally, the CSA has focused its efforts on developing uniform rules and guidelines for securities market

participants, coordinating approval processes, developing national electronic systems through which regulatory filings can be made with and processed by all jurisdictions, and coordinating compliance and enforcement activities.
Power of Government: The Canadian Securities Administrators (CSA) is managed through laws and agencies established by Canada's 13 provincial and territorial governments, as Canada does not have a securities regulatory authority at the federal government level. Some of the tools that CSA operates with are the Mutual Reliance Review System, CTO National Database, NRD, Electronic Databases, etc.

Regulation and Legislation of the Securities Market in the United Kingdom

Regulatory authority: Bank of England, Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA)
History: The Bank of England was established in 1694 to act as the English Government's banker, it is the world's eighth-oldest bank. The Bank of England was the model on which most modern central banks have been based. The FCA and PRA were created by the Financial Services Act 2012 and formally began operating on 1 April 2013.
Mission: The Bank of England is responsible for financial stability, and it brings together macro and micro-prudential regulation. The FCA's and PRA's role is to promote the safety and soundness of the firms they regulate and, to contribute to the securing of an appropriate degree of protection.
Functions:
Bank of England:
- work with other financial institutions to secure both monetary and financial stability
- manage the country's foreign exchange and gold reserves
- act as the bankers' bank, especially in its capacity as a lender of last resort
- act as the UK government's banker, and maintain the government's consolidated account

The Financial Conduct Authority:
- regulate the conduct related to the marketing of financial products
- specify minimum standards on financial products
- investigate organizations and individuals in financial markets
- ensure they treat customers fairly
- encourage healthy competition and innovation
- identify potential risks early and take action to reduce the risks

The Prudential Regulation Authority:
- determine whether financial firms are safe and sound,
- determine whether insurers provide appropriate protection for policyholders
- assess risks that could plausibly arise in the future at an early stage
- focus on those issues and those firms that pose the greatest risk to the stability of the UK financial system

The securities market in the United Kingdom: The London Stock Exchange is one of the world's largest capital markets. This primary market along with secondary markets and the UK electronic stock exchange allows thousands of companies around the globe to gain access to capital, and to trade equity, debt, and other financial instruments. The world's large, successful, and dynamic companies raise capital, obtain a market valuation, and increase their profile following an IPO on the London Stock Exchange.

Main laws and rules:

- Magna Carta
- Amendments to United Kingdom's Constitution
- The Financial Services Act

Securities legislation in the United Kingdom: As the origin of the common law, the English law, refers to the legal system administered by the courts. Common law shapes the financial markets of the UK. Based on principles of the common law the Financial Services Act of 2012 set out a new system for regulating financial services to protect and improve the UK's economy. The act created a new regulatory structure consisting of the Bank of England's Financial Policy Committee, the Prudential Regulatory Authority, and the Financial Conduct Authority. Also, the Financial Services Act created a new regulatory framework for financial services. This act provided the Financial Conduct Authority with significant legislative powers. It can specify minimum standards and place requirements on financial products.

Power of Government: The main institutions with authority over UK's financial markets are the Bank of England, the Financial Conduct Authority, the Prudential Regulatory Authority, and the Financial Policy Committee. The Bank of England has the power to act as a banker for the UK and to manage banknotes. The Bank has a monopoly on the issue of banknotes in England and Wales. Scottish and Northern Irish banks retain the right to issue their banknotes, but they must be backed one for one with deposits at the Bank of England.

The FCA is an independent financial regulatory body financed by charging fees to members of the financial services industry. It focuses on the regulation of conduct by both retail and wholesale financial services firms. The FCA is also responsible for regulating the consumer credit industry. FCA has the power to regulate conduct related to the marketing of financial products. It also has the authority to investigate businesses and individuals. In addition, the FCA can ban financial products for up to a year, and may consider an indefinite ban. FCA can instruct firms to recall or modify promotions that are misleading. The Prudential Regulation Authority has the power to set standards and supervise financial institutions at the level of an individual firm.

To promote safety and soundness in financial markets, the PRA focuses on the damage that firms can cause to the stability of the UK financial system. PRA's ultimate goal is to ensure that financial firms continue to provide critical financial services as a precondition for a healthy and successful economy. PRA collaborates with the Bank of England and the Financial Policy Committee.

As can be seen above, although these countries have different specific mechanisms for regulation, they are essentially very similar. Thus, the results from the three countries can be combined to draw conclusions about the impact of statutory and regulatory protection in investment decisions in common law countries.

RESEARCH METHOD

The Survey and Interviews

Survey description

The survey measures the importance of a variety of factors in investment decisions, including the importance of specific types of information related to the three major dimensions associated with investing: return, statutory and regulatory protections, and liquidity. As current research supports, these three dimensions are the three main pillars of an investment decision. The survey not only analyzes the dominance of the statutory and regulatory protection dimension in investment decisions, but also highlights which categories of risk are considered a threat to investment. As part of the research on these “risks”, the survey also seeks to understand the measures to take to protect investors.

This survey also seeks to understand the role of governmental regulatory authorities and other institutions involved in investments. The responses of survey participants are used to analyze and formulate conclusions to determine which factor(s) dominate in making investment decisions. Collected data is central to this research project, as it provides a unique opportunity to understand the importance of statutory and regulatory protection in investment decisions in Australia, Canada, and the United Kingdom. This survey was disseminated in these three common law countries. The results allowed researchers to compare and contrast the effect of statutory and regulatory protection on investment decisions in these specific markets. Survey recipients were randomly selected from publicly open sources. The survey recipients were 200 investment companies and financial advisory firms from each country. The 200 recipients are representative of the population. The survey questionnaire designed by Sargsyan et al. (2018) can be found in Appendix 1.

Data Analysis

Survey results highlight the effect of statutory and regulatory protection in investment decisions in research countries. The survey results also demonstrate the differences in how each country regulates their securities markets and investments. To explain the results of the survey, we organized online interviews with randomly chosen survey respondents. During these interviews, specific parts of the survey results from a corresponding country that needed interpretation were presented and explanations of these results were discussed.

To demonstrate the survey results the study will provide an in-depth explanation. Apart from the explanations, quantitative tests including the T-test (Satterthwaite method) were conducted to illustrate the significant statistical difference between the data gathered from each country. The standard deviation was measured to explore the dispersion of data from its mean.

RESULTS AND DISCUSSION

Return (Profitability) Dimension

Table 1 highlights the basic information, such as the number of valid responses (N), mean, and standard deviation (s.d.), of the responses, collected for three questions related to the Return dimension. These questions (variables) were rated on a rating scale of 0 to 10, with 0 indicating ‘not important’ and 10 indicating ‘very important’. On average, all three variables are rated not less than 8 (mean $\geq$ 8.44). Moreover, the rating responses are concentrated around the mean, i.e., on average, responses are a little over 1 point away from the mean (s.d. $\leq$ 1.330).

Table 1. Descriptive statistics output

Variable	N	Mean	Std. Deviation
1.1 Importance of return on investment decision during security analysis	27	8.67	1.330
1.2 Importance of management in increasing profitability	25	8.44	1.325
1.3 Importance of strategies in a given company to increasing profitability	26	8.73	1.185

Table 2 presents one sample of t-test results, which helps in determining whether the test results are statistically significant. This test has compared the sample mean of each variable with the test value (hypothesis mean) equal to 0 at a confidence level of 95%. It can be observed that the p-value for all three variables is less than 0.001 (< 0.05). These p-values tell us that there is a statistically significant difference between the sample mean and test value for all three variables.

Table 2. Inferential statistics

Variable	t	df	Significance		95% Confidence Interval of the Difference	
			One-Sided p	Two-Sided p	Lower	Upper
1.1 Importance of return on investment decision during security analysis	33.856	26	<.001	<.001	8.14	9.19
1.2 Importance of management in increasing profitability	31.840	24	<.001	<.001	7.89	8.99
1.3 Importance of strategies in a given company to increasing profitability	37.563	25	<.001	<.001	8.25	9.21

Tables 1 and 2, combined, reveal three important results about the return dimension.

i) Return/profit is an important factor when making an investment decision.
ii) Respondents agree, to a large degree, that the company's management plays a great role in increasing profitability.
iii) Respondents agree, to a large degree, that company's strategies are crucial in ensuring the business has a profitable stance.

The Importance of Quantitative and Qualitative Factors for Securities Valuation: Table 3 highlights the basic information, such as the number of valid responses (count), mean, and s.d., of the responses, collected for the fourth question related to the Return dimension. This particular question tries to determine the importance of various factors during securities valuation. There were altogether 9 quantitative and qualitative factors provided to participants for rating these factors on a scale of 0 to 10, with 0 indicating 'not important' and 10 indicating 'very important'. On average these factors are rated not less than 6 (mean ≥ 6.90). The rating responses are concentrated around the mean, i.e., on average, responses are less than 1 point away from the mean (s.d. ≤ 0.480).

Table 3. Descriptive statistics

Variable	Count	Mean	Std. Deviation
1.4.1 Earnings	12	8.64	0.319
1.4.2 Assets	21	7.33	0.454
1.4.3 Dividends	22	7.14	0.480
1.4.4 Quality of the management	22	8.27	0.330
1.4.5 Position of the company in the industry	21	7.48	0.335
1.4.6 Prospects of enterprise, future growth, and long-term outlook	21	8.52	0.406
1.4.7 Physical, geographical, and operating characteristics	21	6.71	0.426
1.4.8 Risk factors (business and financial risks)	21	8.14	0.303
1.4.9 Margin of safety (difference between market price and intrinsic value)	21	7.52	0.298

Table 4 presents one sample of t-test results, which helps in determining whether the test results are statistically significant. This test has compared the sample mean of each variable with the test value (hypothesis mean) equal to 0 at a confidence level of 95%. It can be observed that the p-value for all three variables is less than 0.001 (< 0.05). These p-values tell us that there is a statistically significant difference between a sample mean and test value for all three variables.

Table 4. Inferential statistics

Variable	t	df	Significance		95% Confidence Interval of the Difference	
			One-Sided p	Two-Sided p	Lower	Upper
1.4.1 Earnings	27.051	21	<.001	<.001	7.97	9.30
1.4.2 Assets	16.144	20	<.001	<.001	6.39	8.28
1.4.3 Dividends	14.857	21	<.001	<.001	6.14	8.14
1.4.4 Quality of the management	25.056	21	<.001	<.001	7.59	8.96
1.4.5 Position of the company in the industry	22.293	20	<.001	<.001	6.78	8.18
1.4.6 Prospects of enterprise, future growth, and long-term outlook	20.994	20	<.001	<.001	7.68	9.37
1.4.7 Physical, geographical, and operating characteristics	15.754	20	<.001	<.001	5.38	7.60
1.4.8 Risk factors (business and financial risks)	26.870	20	<.001	<.001	7.51	8.77

1.4.9 Margin of safety (difference between market price and intrinsic value)	25.268	20	<.001	<.001	6.90	8.14

Tables 3 and 4, combined, reveal some additional important results about the return dimension.

i) Quantitative factors such as Earnings, Assets, Dividends, and Margin of safety are all important for respondents to evaluate investment alternatives.

ii) However, among these quantitative factors, Earnings (with an average rating of 8.64) and a lower deviation of 0.319) are the most preferred options.

iii) In addition to quantitative factors, qualitative factors such as quality of management, the position of the company, prospect of enterprise, operating characteristics, and business risks are also important for them.

iv) Among the qualitative factors, investors are more interested to find the long-term outlook of the enterprise while making investment decisions.

Sources of Information Used During a Security Analysis. Table 5 highlights the basic information, such as the number of valid responses (count), mean, and s.d., of the responses, collected for the fifth question related to the Return dimension. This particular question tries to determine the source of information used during a security analysis. There were altogether 5 sources provided to the participant for rating these sources on a scale of 0 to 10, 0 indicating ‘not important’ and 10 indicating ‘very important’. On average these factors are rated not less than 7 (mean ≥ 7.30). However, the degree of dispersion (s.d.) differs among these sources, ranging from 1.392 to 3.086.

Table 5. Descriptive statistics

Variable	Count	Mean	Std. Deviation
1.5.1 Prospectus	20	7.55	3.086
1.5.2 Financial statements (annual data sent to the stockholders, material filed with a government)	20	8.60	1.392
1.5.3 Interim figures	20	7.70	1.658
1.5.4 Reports by investment services	20	7.35	2.777
1.5.5 Brokerage house releases	21	6.86	2.197

Table 6 presents one sample of t-test results, which helps in determining whether the test results are statistically significant. This test has compared the sample mean of each variable with the test value (hypothesis mean) equal to 0 at a confidence level of 95%. It can be observed that the p-value for all three variables is less than 0.001 (< 0.05). These p-values tell us that there is a statistically significant difference between the sample mean and test value for all three variables.

Table 6. Inferential Statistics

Variable	t	df	Significance		95% Confidence Interval of the Difference	
			One-Sided p	Two-Sided p	Lower	Upper
1.5.1 Prospectus	10.941	19	<.001	<.001	6.11	8.99
1.5.2 Financial statements (annual data sent to the stockholders, material filed with a government)	27.635	19	<.001	<.001	7.95	9.25
1.5.3 Interim figures	20.775	19	<.001	<.001	6.92	8.48
1.5.4 Reports by investment services	11.835	19	<.001	<.001	6.05	8.65
1.5.5 Brokerage house releases	14.300	20	<.001	<.001	5.86	7.86

Tables 5 and 6, combined, reveal some additional important results about the return dimension.

i) All five sources of information are important for the respondents while carrying out security analysis.

ii) Among the five, respondents refer mostly to the financial statements of the company while evaluating the company or security.

Statutory and Regulatory Protection Dimension

Table 7 highlights the basic information, such as the number of valid responses (N), mean, and standard deviation (s.d.), of the responses, collected for three questions related to the Statutory and Regulatory Protection dimension. These questions (variables) were rated on a rating scale of 0 to 10, with 0 indicating 'not important' and 10 indicating 'very important'. On average, all three variables are rated not less than 8 (mean $\geq$ 8.44). Moreover, the rating responses, on average, are within 2 distances from the mean (s.d. $\leq$ 2.052).

Table 7. Descriptive Statistics

Variable	N	Mean	Std. Deviation
1.6 Importance of statutory and regulatory protection in investment decision during security analysis	20	8.45	1.538
1.7 Negative factors such as legal risks and challenges that can cause investment loss	20	7.95	1.572
1.8 Importance of legal guarantee that the government provides to ensure the security of investment	20	8.00	2.052

Table 8 presents one sample of t-test results, which helps in determining whether the test results are statistically significant. This test has compared the sample mean of each variable with the test value (hypothesis mean) equal to 0 at a confidence level of 95%. It can be observed that the p-value for all three variables is less than 0.001 (< 0.05). These p-values tell us that there is a statistically significant difference between the sample mean and test value for all three variables.

Table 8. Inferential Statistics

Variable	t	df	Significance		95% Confidence Interval of the Difference	
			One-Sided p	Two-Sided p	Lower	Upper
2.1 Importance of statutory and regulatory protection in investment decision during security analysis	24.569	19	<.001	<.001	7.73	9.17
2.2 Negative factors such as legal risks and challenges that can cause investment loss	22.617	19	<.001	<.001	7.21	8.69
2.3 Importance of legal guarantee that the government provides to ensure the security of investment	17.436	19	<.001	<.001	7.04	8.96

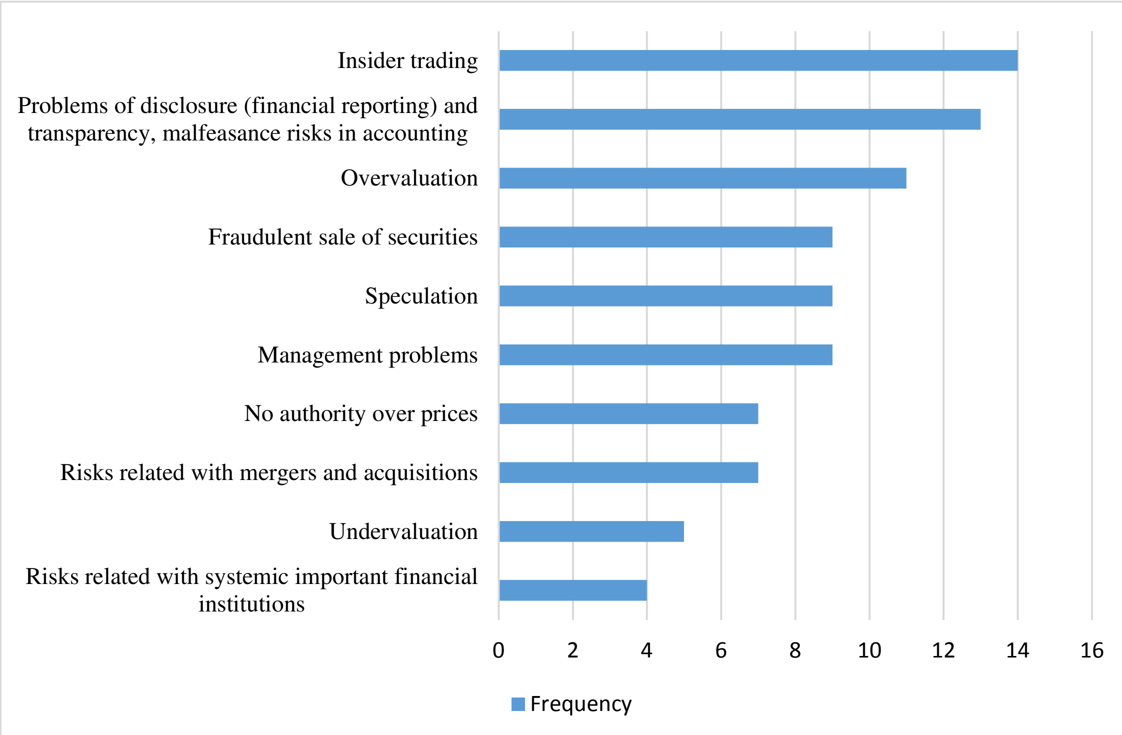
Tables 7 and 8, combined, reveal two important results about the Statutory and Regulatory dimension.

i) Respondents have expressed the importance of statutory and regulatory protection in investment decisions during security analysis.

ii) Respondents agree, to a large degree, that the government plays a great role in ensuring investment security by providing a legal guarantee.

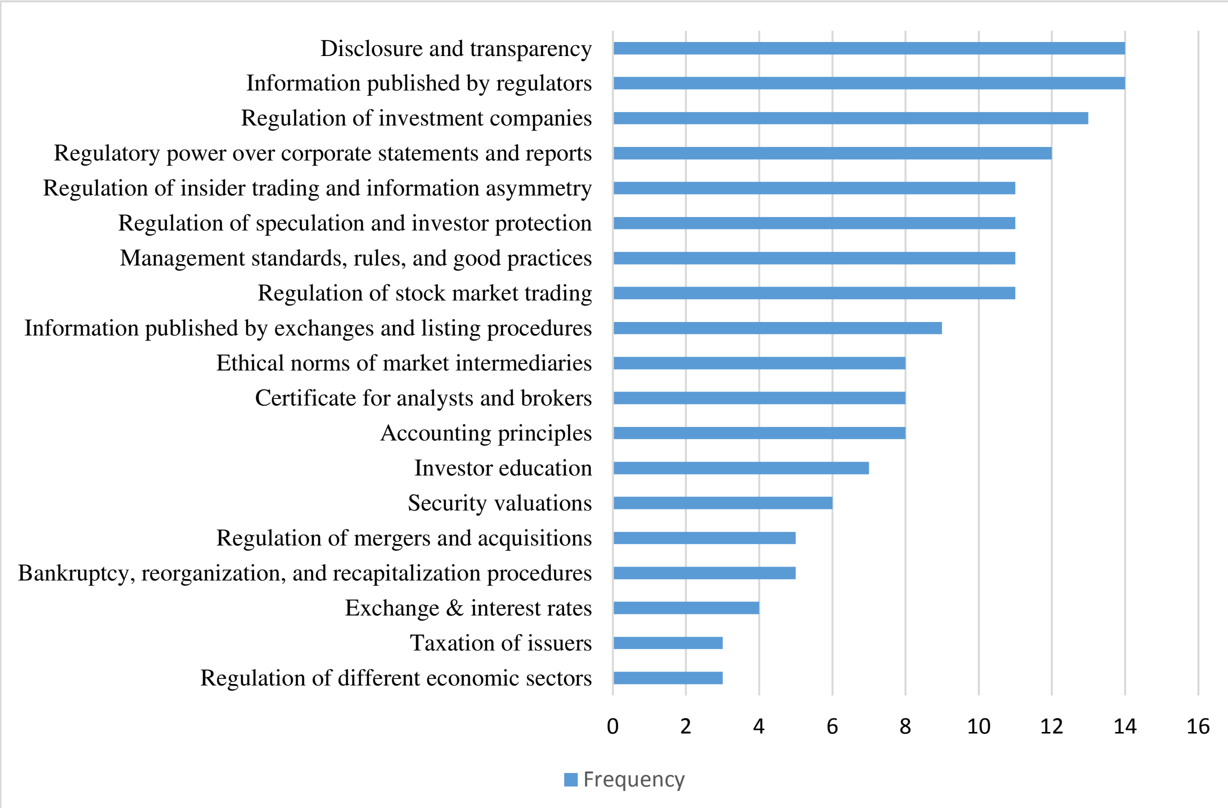
Top Risks Considered During Investment/Security Analysis. Survey participants were presented with 10 risk factors of investment analysis (chart 1) and were asked to choose the top five risks. Among all the respondents, the most feared risk while making investment decisions was ‘insider trading’. The second most voted risk was ‘problems of transparency, malfeasance risks in accounting’. The least rated risks are ‘undervaluation’, and ‘risks related with mergers and acquisition’.

Chart 1. Risks Considered during investment analysis



Legal Guarantees that Protect Investments from the Risks. Participants were presented with various legal guarantees (such as legal guarantees related to regulators, exchanges, analysts, brokers & investment companies, issuers, insiders, and investors/speculators) and were asked to choose those that protect them from the risks. Most of the respondents have chosen 'Disclosure and Transparency', 'Information Published by Regulators', and 'Regulation of Investment Companies' as important guarantees that protect them from the risks involved with an investment decision.

Chart 2. Legal guarantee that protects investments from the risks



Liquidity Dimension

Table 9 highlights the basic information, such as the number of valid responses (N), mean, and standard deviation (s.d.), of the responses collected for a question related to the Liquidity dimension. This question (variable) was rated on a rating scale of 0 to 10, with 0 indicating 'not important' and 10 indicating 'very important'. The variable is rated 8 (mean = 8.00). Moreover, the rating responses, on average, are within 2 distances from the mean (s.d. = 1.970).

Table 9. One-Sample Statistics

Variable	N	Mean	Std. Deviation
3.1 Importance of liquidity in investment decision during security analysis	18	8.00	1.970

Table 10 presents one sample of t-test results, which helps in determining whether the test results are statistically significant. This test has compared the sample mean of the variable with the test value (hypothesis mean) equal to 0 at a confidence level of 95%. It can be observed that the p-value for the variable is less than 0.001 (< 0.05). This p-value tells us that there is a statistically significant difference between the sample mean and test value for all three variables. Tables 9 and 10, combined, reveal that liquidity is an important factor in investment decisions during security analysis.

Table 10. Inferential Statistics

Variable	t	df	Significance		95% Confidence Interval of the Difference	
			One-Sided p	Two-Sided p	Lower	Upper
3.1 Importance of liquidity in investment decision during security analysis	17.226	17	<.001	<.001	7.02	8.98

Overall Evaluation of Three Dimensions' Effect on Investment Decision

Table 11. Descriptive and Inferential Statistics

Variable	Sample statistics		T-Test	
	Mean	Std. Deviation	t	Sig.
Return on Investment	8.63	1.571	23.950	<.001
Statutory and regulatory protection	7.53	1.775	18.478	<.001
Liquidity	7.84	2.478	13.795	<.001

- Return is considered the most important factor during investment decisions or in securities analysis.
- The p-value of all dimensions is less than the significance level and it indicates that these dimensions are important factors that affect the investment decision. When considering mean and standard deviation, the majority of respondents have rated over 6 for all dimensions indicating the existence of importance of these factors in their investment decisions.

Statutory and regulatory protections significantly impact investment decisions in common law countries. This research confirms that various regulations that originate from the historical family of law, in this case, common law, ultimately reflect how the laws relate to financial markets and the development of such in common law countries. A limitation of this study is the limited sample size. The results can serve as initial data in a larger study.

Further research is needed to more clearly understand the effect of statutory and regulatory protection in civil law countries. The research approach taken in this paper can be useful to conduct these future studies.

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Appendix 1. Survey Questionaire

The survey questionnaire was designed by Sargsyan et al. (2018).

The following survey is designed to investigate specific factors such as statutory and regulatory protection, profitability, and liquidity, and how these factors affect investment decisions. Thank you for taking the time to complete this survey!

Section 1. Return (profitability) dimension
Please evaluate the following section using a scale from 0-10
Note: 0 = Not important at all, 10 = Most important
1.1 The importance of return on your investment decision during security analysis?
0 1 2 3 4 5 6 7 8 9 10

1.2 The importance of management in increasing profitability?
0 1 2 3 4 5 6 7 8 9 10

1.3 The importance of strategies in a given company to increasing profitability?
0 1 2 3 4 5 6 7 8 9 10

1.4 The importance of the quantitative and qualitative factors below to calculate intrinsic value?

- Earnings
0 1 2 3 4 5 6 7 8 9 10

- Assets
0 1 2 3 4 5 6 7 8 9 10

- Dividends
0 1 2 3 4 5 6 7 8 9 10

- Quality of the management
0 1 2 3 4 5 6 7 8 9 10

- Position of the company in the industry
0 1 2 3 4 5 6 7 8 9 10

- Prospects of enterprise, future growth, the attractiveness of the business and long term outlook
0 1 2 3 4 5 6 7 8 9 10

- Physical, geographical and operating characteristics
0 1 2 3 4 5 6 7 8 9 10

- Risk factors (loss of initial investment, business, and financial risks)
0 1 2 3 4 5 6 7 8 9 10

- The margin of safety (earnings – earning power – plus excess of assets over the market price)
0 1 2 3 4 5 6 7 8 9 10

1.5 Please evaluate the following sources of information that you use during a security analysis:

- Prospectus **0 1 2 3 4 5 6 7 8 9 10**
- Financial statements (annual data sent to the stockholders, material filed with a government) **0 1 2 3 4 5 6 7 8 9 10**
- Interim figures **0 1 2 3 4 5 6 7 8 9 10**
- Reports by investment services **0 1 2 3 4 5 6 7 8 9 10**
- Brokerage house releases **0 1 2 3 4 5 6 7 8 9 10**

Section 2. Statutory and regulatory protection dimension

Please evaluate the following questions using a scale from 0-10

Note: 0 = Not important at all, 10 = Most important

2.1 The importance of statutory and regulatory protection in your investment decision during security analysis?

0 1 2 3 4 5 6 7 8 9 10

2.2 Negative factors such as legal risks and challenges that can cause investment loss?

0 1 2 3 4 5 6 7 8 9 10

2.3 The importance of legal guarantees that the government provides to ensure the security of investment?

0 1 2 3 4 5 6 7 8 9 10

2.4 Which are the top five risks for you during your investment/security analysis?

Please check at most five.

☐ No authority over prices

☐ Overvaluation

☐ Undervaluation

☐ Management problems

☐ Insider trading

☐ Speculation

☐ Fraudulent sale of securities

☐ Problems of disclosure (financial reporting) and transparency, malfeasance risks in accounting

☐ Risks related with mergers and acquisitions

☐ Risks related with systematically important financial institutions (media conglomerates, large investment firms, etc.)

Please select all that apply to you in the next section:

2.5 What legal guarantees protect you from the above-mentioned risks?

- **Regulators**

- ☐ Information published by regulators
- ☐ Security valuations
- ☐ Exchange & interest rates
- ☐ Investor education

- **Exchanges**
  - ☐ Information published by exchanges and listing procedures
  - ☐ Regulation of stock-market trading
- **Analysts, brokers and investment companies**
  - ☐ Certification for analysts and brokers
  - ☐ Regulation of investment companies
  - ☐ Ethical norms of market intermediaries
- **Issuers**
  - ☐ Disclosure and transparency
  - ☐ Regulatory power over corporate statements and reports
  - ☐ Accounting principles
  - ☐ Management standards, rules, and good practices
  - ☐ Taxation of issuers
  - ☐ Bankruptcy, reorganization, and recapitalization procedures
  - ☐ Regulation of mergers and acquisitions
  - ☐ Regulation of different economic sectors
- **Insiders**
  - ☐ Regulation of insider trading and information asymmetry
- **Investors/Speculators**
  - ☐ Regulation of the speculation market and investor protection

Section 3. Liquidity dimension
Please evaluate using a scale from 0-10.
Note: 0 = Not important at all, 10 = Most important
3.1 The importance of liquidity of your investment decision during security analysis?

0 1 2 3 4 5 6 7 8 9 10

Section 4. Overall evaluation: statutory and regulatory protection versus return (profitability) versus liquidity
Please evaluate using a scale from 0-10.
Note: 0 = Not important at all, 10 = Most important
4.1 Please rank the following factors that affect your investment decision?

- Return on investment	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
- Statutory and regulatory protection	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**

- Liquidity **0 1 2 3 4 5 6 7 8 9 10**