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Legal Liability vs. Proportional Representation: What Works in Improving Poor Investor Protection?

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Keywords: Investor protection, Legal liability, Proportional representation, Korea

JEL Classifications: G38

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I. Introduction

The effectiveness of corporate boards in monitoring management and protecting shareholder interests remains one of the central questions in corporate governance. Yet an important unresolved question concerns how boards can be made more effective monitors. Policymakers and scholars have proposed two broad approaches: strengthening the legal accountability of directors for their decisions, and enhancing the representation of minority shareholders in boardrooms. While both approaches are intended to improve board monitoring, their economic consequences may differ substantially.

The first approach emphasizes increasing the legal liability of directors. When directors face stronger legal consequences for decisions that harm shareholders, they may have greater incentives to scrutinize management actions and avoid approving opportunistic transactions. In this framework, liability functions as a disciplinary device. Directors internalize the costs of poor monitoring because they may face lawsuits or other legal sanctions if their decisions are deemed to violate fiduciary duties. As a result, stronger liability rules may encourage more diligent oversight and reduce agency problems such as managerial expropriation, inefficient investments, or related-party transactions that benefit controlling shareholders.

The second approach focuses on the composition of the board itself. Rather than relying on legal sanctions, this perspective argues that governance can be improved by changing who sits at the board table. If minority shareholders are able to elect directors through more proportional voting mechanisms, their representatives may provide an independent voice that counters the influence of controlling shareholders or entrenched managers. In theory, such representation can enhance monitoring by introducing perspectives that are not aligned with controlling interests. Minority-appointed directors may be particularly effective at identifying self-dealing transactions, challenging managerial decisions, or advocating policies that increase firm value.

Despite their shared objective of improving board oversight, these two mechanisms rely on fundamentally different governance channels. Director liability strengthens incentives within the existing board structure, whereas proportional representation alters the balance of power among board members. As a result, the two reforms may produce different, and potentially opposing, effects on firm value. Increased liability may improve monitoring without fundamentally altering the internal dynamics of the board. In contrast, greater minority representation may change the strategic interactions among directors, potentially introducing conflicts that affect decision-making processes.

In this paper, we take advantage of a unique regulatory in Korea which allows us to disentangle the relative effectiveness of these two approaches. It is well known that Korean corporate sector has been dominated by large business groups with concentrated ownership structures for decades. Although substantial governance reforms were introduced following the Asian financial crisis of the late 1990s, concerns about investor protection and controlling shareholder influence have persisted. To further improve board monitoring and enhance shareholder rights, Korean regulators have implemented a series of reforms since the inauguration of the new President Lee Jae Myung in June 2025.

Specifically, significant shifts occurred through amendments to the Commercial Code, which governs the basic principles of running corporations, both public and privatge. The first amendment, enacted in July 2025, expanded the scope of a director's duty of loyalty to include shareholders in addition to the corporation itself. A second amendment followed in September 2025, which mandated cumulative voting for director elections in "large-scale" listed companies with total assets exceeding 2 trillion KRW, roughly 1.3 billion USD. This reform also required that at least two directors be elected while restricting the voting rights of controlling shareholders.

While the former amendment focused on strengthening the legal liabilities of directors, the latter aimed to enhance the proportional representation of minority shareholders. Following these legislative changes, the Korean stock market experienced a remarkable surge. Because these reforms occurred sequentially, they provide a valuable opportunity to compare how markets respond to different approaches to improving board oversight.

We examine how stock market participants react to the first regulatory change that increased director liability and then to the second reform that enhanced minority shareholder representation on boards. If a reform is perceived as improving monitoring and reducing agency costs, one would expect positive abnormal returns around the announcement of these regulatory changes. Conversely, if investors believe that a reform introduces new inefficiencies or conflicts, market reactions may be negative.

Our empirical analysis reveals a striking contrast between the two types of reforms. When regulatory changes increase the legal liability of board members, the stock market reacts positively. This response suggests that investors view stronger director accountability as an effective mechanism for improving governance and protecting shareholder interests. The positive reaction is particularly pronounced among firms with low market-to-book ratios, which are often interpreted as firms with weaker governance or greater potential for agency problems. For these firms, the prospect of stronger oversight may be especially valuable because it reduces the risk of value-destroying decisions.

In contrast, the market response to reforms that increase minority shareholder representation on boards is negative. This finding suggests that investors may have concerns about the potential consequences of altering board composition in this manner. While minority representation could improve monitoring in principle, it may also introduce new frictions within the boardroom. Directors representing different shareholder constituencies may have divergent objectives or priorities, potentially leading to confrontations that complicate strategic decision-making. Such conflicts could delay important corporate actions, reduce board cohesion, or generate uncertainty about firm strategy.

Taken together, these results highlight an important distinction between incentive-based governance reforms and representation-based reforms. Strengthening legal liability enhances monitoring incentives while preserving existing board structures, whereas increasing minority representation changes the internal dynamics of board decision-making. The market's differential reactions suggest that investors may prefer mechanisms that deter opportunistic behavior without creating additional governance frictions.

Our findings contribute to several strands of the corporate governance literature. First, we provide new evidence on the economic consequences of director liability. While legal scholars have long debated the optimal scope of fiduciary duties and director accountability, empirical evidence on how markets perceive changes in liability regimes remains limited. Our results suggest that stronger liability rules can enhance investor confidence, particularly in environments where agency problems are significant.

Second, we contribute to the literature on minority shareholder protection and board representation. Although mechanisms that increase minority influence are often proposed as tools for improving governance, our findings indicate that such reforms may have unintended consequences. By introducing competing interests into the boardroom, proportional representation may create conflicts that offset potential monitoring benefits.

Finally, this study contributes to the broader literature on corporate governance in emerging and transition economies. Countries with concentrated ownership structures face unique governance challenges, as conflicts between controlling and minority shareholders are often more salient than the classic manager–shareholder agency problem. Our analysis demonstrates that the effectiveness of governance reforms may depend critically on how they affect board incentives and internal decision-making processes.

The remainder of the paper proceeds as follows. Section 2 reviews the related literature and develops testable hypotheses regarding the effects of director liability and minority board representation. Section 3 describes the recent regulatory changes in Korea directly aimed at improving investor protection. Section 4 outlines our data sources and sample construction process. Section 5 presents the main empirical results, namely market reactions to these reforms including cross-sectional analyses that explore heterogeneity across firms. Section 6 concludes by discussing the implications of our findings for corporate governance policy and investor protection.

II. Related Literature and Hypothesis Development

A large body of research highlights the importance of legal institutions in shaping corporate governance and financial market development. The law-and-finance literature argues that strong investor protection is a key determinant of financial market development and firm valuation. La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997, 1998) document that countries with stronger legal protection of investors tend to have larger and more active capital markets. Their subsequent work shows that weak legal protection is associated with concentrated ownership structures, as investors require greater control rights to protect themselves from expropriation (La Porta et al., 1999). In this framework, legal protections reduce the risk that insiders—whether managers or controlling shareholders—will expropriate outside investors, thereby encouraging external financing and improving firm valuation.

II-1. Fiduciary Duty and Legal Liabilities of Directors

An important mechanism through which legal systems influence corporate governance is the legal accountability of corporate directors. Directors owe fiduciary duties of care and loyalty to shareholders, and legal systems determine the circumstances under which directors can be held liable for breaches of these duties. Easterbrook and Fischel (1991) argue that fiduciary duties and liability rules serve as key governance mechanisms that align directors' incentives with shareholder interests. By increasing the expected cost of negligent or opportunistic behavior, liability rules can induce directors to exercise greater diligence in overseeing managerial decisions.

Empirical evidence suggests that stronger legal enforcement can improve governance outcomes. Studies of shareholder litigation and legal enforcement mechanisms indicate that the threat of legal liability can deter managerial misconduct and reduce opportunistic behavior (Romano, 1991; Karpoff and Wittry, 2018). Legal reforms that facilitate shareholder lawsuits or strengthen fiduciary duties may therefore enhance monitoring by increasing the accountability of corporate directors. From the perspective of investors, such reforms can reduce the risk of value-destroying decisions and improve confidence in corporate governance.

At the same time, the literature acknowledges potential costs associated with stronger liability regimes. Excessive legal exposure may induce directors to adopt overly conservative decision-making strategies or discourage qualified individuals from serving on corporate boards. Corporate law therefore often balances accountability with protections such as the business judgment rule, which shields directors from liability for good-faith business decisions (Kraakman et al., 2017). Nevertheless, in environments where investor protection is weak and agency problems are severe, the benefits of increased accountability may outweigh these potential costs.

These arguments suggest that regulatory reforms strengthening director liability are likely to be viewed positively by investors, particularly when such reforms improve the ability of shareholders to hold directors accountable for decisions that harm shareholder interests. Market participants may expect that stronger liability will improve monitoring and reduce the likelihood of opportunistic transactions such as tunneling.

The benefits of stronger liability may not be uniform across firms. Firms with weaker governance structures or greater potential for agency problems may benefit more from increased director accountability. Prior research suggests that firms with low market-to-book ratios often suffer from poorer governance or inefficient investment policies (Gompers, Ishii, and Metrick, 2003; Black, Jang, and Kim, 2006). In such firms, the risk of value-destroying decisions may be higher, making improvements in board monitoring particularly valuable. Consequently, investors may respond more positively to liability-enhancing reforms for firms where governance concerns are more pronounced.

II-2. Proportional Representation in the Board of Directors

Another strand of the corporate governance literature focuses on the structure and composition of corporate boards. Boards play a central role in monitoring management, approving major corporate decisions, and protecting shareholder interests. Fama and Jensen (1983) argue that boards serve as an important internal governance mechanism designed to control agency problems arising from the separation of ownership and control. Subsequent research examines how board characteristics—such as independence, size, and expertise—affect firm performance and governance outcomes (Hermalin and Weisbach, 2003; Adams, Hermalin, and Weisbach, 2010).

Within this literature, the representation of minority shareholders on boards has attracted increasing attention, particularly in firms with concentrated ownership structures. In many countries, controlling shareholders dominate board appointments and decision-making, raising concerns about the protection of minority investors. Johnson, La Porta, Lopez-de-Silanes, and Shleifer (2000) document how controlling shareholders can engage in "tunneling," transferring resources out of firms for private benefit. Governance mechanisms that allow minority shareholders to elect board members—such as cumulative voting or proportional representation—have therefore been proposed as tools for limiting such expropriation. Italy employs a "slate voting" system, mandating that at least one board seat be reserved for a candidate from the minority list receiving the most votes. Israel requires public companies to appoint external directors through a "majority of the minority" vote, ensuring that these directors are elected independent of controlling shareholder influence.

Directors elected by minority shareholders may provide an independent voice within the boardroom and monitor decisions that could disproportionately benefit controlling shareholders. By increasing the diversity of perspectives within the board, minority representation may enhance transparency and reduce the likelihood of opportunistic transactions. A central tool for such representation is cumulative voting. Historically, cumulative voting was a prominent fashion in the U.S. during the late 19th and early 20th centuries, often viewed as a democratic necessity to check concentrated corporate power (Campbell, 1955; Moore, 1909). Some scholars argued it was a "constitutional imperative" for proportional representation (Low-Beer, 1984). Bhagat and Brickley (1984) found positive abnormal returns associated with cumulative voting provisions, suggesting that markets did attach value to minority representation even as it fell out of statutory favor—a finding that has informed calls for revisiting these mechanisms (Gordon, 1994; Haan, 2024). More recently, Lin and Chang (2017), examining Taiwan's mandatory regime using a difference-in-differences design, provide causal evidence that cumulative voting can weaken the grip of controlling shareholders when robustly enforced.

However, the literature also highlights potential costs associated with such governance arrangements. Board effectiveness often depends on coordination and cooperation among directors. When directors represent different shareholder constituencies, conflicts of interest may arise that complicate decision-making processes. Eisenberg, Sundgren, and Wells (1998) suggest that internal disagreements among directors may reduce the efficiency of board deliberations. Similarly, Adams and Ferreira (2007) show that increased monitoring intensity can sometimes reduce board effectiveness by interfering with managerial information sharing. In the US cumulative voting fell out of favor by the mid-20th century. Critics began labeling it an "anachronism" (Sturdy, 1961) that fostered adversarial boards and hindered effective coordination (Axley, 1950). As corporate law shifted toward "permissive" regimes, many states and firms abandoned it, preferring a unified board "team" over partisan representation (Easterbrook and Fischel, 1983).

These concerns may be particularly relevant in firms with concentrated ownership structures. Directors representing minority shareholders may challenge decisions supported by controlling shareholders or management, potentially leading to confrontations within the boardroom. If investors expect these governance frictions to outweigh potential monitoring benefits, the market reaction to reforms increasing minority representation may be negative.

III. Recent Regulatory Changes Regarding Investor Protection in Korea

The empirical setting of this paper exploits two amendments to the Korean Commercial Code (KCC) enacted in 2025 that strengthened minority shareholder protection in listed companies. These reforms occurred in two stages. The first amendment, promulgated in July 2025, expanded the scope of directors' duty of loyalty. Prior to the amendment, directors owed a duty of loyalty solely to the corporate entity. The revised statute extends this duty to shareholders, and is expected to increase directors' potential legal liability. The second amendment, enacted in September 2025, introduced two governance mandates for "large-scale" listed companies—defined as firms with total assets of at least KRW 2 trillion. First, it made cumulative voting mandatory in director elections. Second, it increased the number of directors elected under the "3% rule" from one to two. Under this rule, the voting rights of each shareholder are capped at 3%, thereby limiting the voting power of controlling shareholders in the election of audit committee members. The second amendment is expected to increase the likelihood of more proportional representation on the board.

III-1. Controlling Shareholders and the Korea Discount

Most Korean listed firms have a controlling shareholder, typically a founding family associated with a large business group (chaebol). In such controlled ownership structures, the controlling family often serves on the board or nominates all or a majority of directors. As a result, directors may face incentives to adopt decisions that benefit the controlling shareholder at the expense of minority shareholders. Historically, numerous corporate transactions in Korea—including controversial mergers and various forms of tunneling—have been criticized for increasing the private benefits of controlling shareholders (Chung (2026)).

Such practices are widely believed to contribute to the so-called “Korea discount,” the persistent tendency for Korean firms to trade at lower valuation multiples than comparable firms in other developed markets. For example, the price-to-book ratio (PBR) of the Korean stock market has historically been substantially lower than that of major global equity markets. Despite repeated policy initiatives aimed at improving corporate governance, this valuation gap has persisted for decades.

III-2. Rising Retail Participation and Political Demand for Investor Protection

The recent amendments to the Commercial Code were adopted against the backdrop of a rapid increase in retail participation in the Korean equity market. The number of individual investors in Korean listed companies increased from 6.18 million in 2019 to 14.40 million by 2022—an increase of nearly 2.5 times within three years.[1]

Given that the total number of eligible voters in the 2025 presidential election was

[1] The data is from Korea Securities Depository

approximately 44.39 million, nearly one-third of the electorate participates in the stock market. As a result, investor protection has become an important political issue. The eventual winner of the presidential election, Lee, Jae-Myung, included reform of the Commercial Code as a central campaign pledge.

III-3. The First Amendment: Expansion of Directors' Duty of Loyalty and Legal Liabilities

Before the reform, the Korean Commercial Code required directors to owe their duty of loyalty to the corporate entity. Critics argued that this formulation left unclear whether directors had an obligation to protect the interests of shareholders. In particular, even if a director adopted a decision favoring the controlling shareholder at the expense of minority shareholders, such conduct might not constitute a breach of the duty of loyalty so long as the corporation itself did not suffer harm (Chung (2026)). Against this background, political debate intensified in 2024 over whether the duty of loyalty should explicitly extend to shareholders. On March 13, 2025, the National Assembly passed an amendment to the KCC expanding the duty of loyalty to shareholders. The bill was proposed by the Democratic Party, which at the time held 162 of the 300 seats in the National Assembly.

At the time, President Yoon, Suk-Yeol had been suspended from office following his declaration of martial law in December 2024 and his subsequent impeachment by the National Assembly. On April 1, 2025, Prime Minister Han, Duck-Soo, acting as president, vetoed the amendment on the grounds that it could increase uncertainty in corporate management. Under the Korean Constitution, a presidential veto can be overridden only by a two-thirds vote of the National Assembly. The Assembly attempted to override the veto but failed to reach the required threshold, and the bill was rejected.

On April 4, 2025, the Constitutional Court removed President Yoon from office, triggering a presidential election. Lee, Jae-Myung, the leading candidate from the Democratic

Party, pledged during the campaign to enact the Commercial Code reform if elected. Because the Democratic Party already controlled the National Assembly, his election made the passage of the reform highly likely. The presidential election took place on June 3, 2025, and Lee, Jae-Myung was elected president. Financial markets appeared to anticipate the reform. On June 4, the day after the election, the KOSPI index rose by 2.66 percent. Over the following month, the index increased from 2,698 on June 2 to 3,071 on June 30, representing a rise of 13.8 percent during less than one month period. Once the passage of the reform became likely, opposition to the bill subsided. On July 3, 2025, the National Assembly passed the amended Commercial Code with bipartisan support. The president promulgated the law on July 22, and it entered into force immediately.

Under the amended statute, directors must perform their duties faithfully for both the company and its shareholders (Article 382-3(1)). Directors must also protect the interests of all shareholders and treat shareholders equitably in the performance of their duties (Article 382-3(2)). The amendment therefore removes interpretations under which directors could favor controlling shareholders over minority shareholders while avoiding liability on the ground that the corporation itself suffered no harm. A director who facilitates the extraction of private benefits by controlling shareholders—for example through intragroup transactions that disadvantage minority shareholders—may now face a breach-of-loyalty claim by affected shareholders.

III-4. The Second Amendment: Proportional Shareholder Representation on the Board

The second amendment further strengthened minority shareholder influence in large listed companies. Under the KCC, shareholders holding at least 3% of voting shares may request the use of cumulative voting in director elections (Article 382-2). For large listed companies, this threshold is reduced to 1% (Article 542-7(2)). However, before the reform companies could opt out of cumulative voting through their articles of incorporation. As a result, only about 4.8% of Korean listed companies with assets exceeding KRW 500 billion had adopted cumulative voting. The 2025 reform prohibited such opt-outs for large listed companies, effectively making cumulative voting mandatory (Article 542-7(3)).

The amendment also modified the election of audit committee members. Under Korean law, when electing auditors or audit committee members, each shareholder's voting rights are capped at 3% of total shares. For example, if one shareholder owns 60% of the shares and four other shareholders each own 10%, the voting rights of each of these shareholders are limited to 3%. In such a case, a coalition of minority shareholders could outvote the controlling shareholder. In practice, however, audit committee members must be selected from among directors. This previously allowed controlling shareholders to first elect directors—without the 3% rule applying—and then elect audit committee members from among those directors. As a result, minority shareholders had little influence over the composition of the audit committee. To address this issue, the KCC required that at least one director in large listed companies be elected separately as a director who will serve on the audit committee, with the 3% rule applied at the time of election. The second amendment increased the number of such directors from one to two (Article 542-12(2)).

These provisions increase the likelihood that non-controlling shareholders—including institutional investors and activist hedge funds—can obtain representation on the board and audit committee of large listed companies. Directors and audit committee members have access to internal corporate information and participate in board and audit committee deliberations, allowing them to monitor controlling shareholders and potentially constrain the extraction of private benefits. At the same time, critics argue that the reforms could increase conflict within the board and make long-term corporate strategies more difficult if activist investors obtain board seats.

The second amendment was enacted on August 25, 2025 and promulgated on September 9, 2025. Although the amendment formally takes effect on September 10, 2026, many firms have already begun adjusting their governance practices in anticipation of the reform. Because most Korean firms hold their annual general meetings in March, some firms have already started electing two directors under the 3% rule.

III-5. Empirical Implications

The Korean reforms occurred against the backdrop of contrasting developments in U.S. corporate law. Delaware's Senate Bill 21, enacted in 2025, moved in the opposite direction by relaxing the standards governing transactions involving controlling shareholders and expanding the circumstances in which the business judgment rule applies instead of the more demanding entire-fairness standard. Recent research finds that Delaware SB21 generated negative stock market reactions (Khoo & Tallarita 2025).

This paper examines the opposite institutional setting: whether governance reforms that strengthen minority shareholder protection—such as those enacted in Korea—have a positive effect on share prices. In particular, the empirical analysis distinguishes between the effects of the first reform, which expanded directors' duty of loyalty, and the second reform, which increased the likelihood that minority shareholders can obtain board representation. Because stock prices in public markets primarily reflect the expectations of non-controlling shareholders and do not include control premiums enjoyed by controlling shareholders, positive stock price reactions following these reforms would suggest that minority investors expect stronger protection of their interests.

IV. Data and Methodology

IV-1. Data and Sample Construction

Our sample consists of all non-financial firms listed in the Korean stock market. We focus on non-financial firms because the accounting structure, regulatory environment, and governance framework of financial firms differ substantially from those of industrial firms, which may confound the interpretation of stock price reactions to corporate law reforms. We obtain daily stock returns, daily stock prices, market capitalization, book values of equity, total assets, total debt, and market index returns from FnDataguide, one of the most widely used financial databases in Korea. Information on whether a firm is classified as a holding company is obtained from the Korea Fair Trade Commission.

We impose several standard filters to ensure the quality of the sample. First, we exclude financial firms. Second, we require firms to have positive book value of equity and positive total assets. Third, we exclude firms with insufficient return history to estimate expected returns in the event study. Specifically, each firm must have at least 100 trading days of return observations during the estimation window. These restrictions yield a broad cross-section of Korean listed firms that allows us to examine how the market prices investor-protection reforms across heterogeneous firms.

The main firm characteristic used in the cross-sectional tests is the price-to-book ratio (PBR), defined as the ratio of the previous fiscal year-end stock price to book value per share. We use PBR because the literature and our hypotheses suggest that governance reforms should matter more for firms with weaker valuation and potentially more severe agency conflicts. A lower PBR may reflect greater concerns about inefficient investment, tunneling, or weak monitoring, making such firms a natural setting in which to test whether investors place greater value on governance reforms.

We also construct an indicator variable for firms with total assets exceeding KRW 2 trillion. This threshold is economically and institutionally meaningful in Korea because it is widely used in the Korean Commercial Code and related regulatory frameworks to identify large listed firms subject to stricter governance requirements. In the context of our setting, the asset threshold is especially relevant for the second amendment, which directly applies to large listed firms. In addition, we include several standard controls in the cross-sectional regressions: firm size, measured as the natural logarithm of market capitalization at the previous year-end; leverage, defined as total debt divided by total assets; past return, measured over the pre-event period; and return volatility, calculated over the estimation window. These controls account for cross-sectional variation in risk, prior performance, and firm characteristics that may influence stock price reactions around the reform events.

IV-2. Event Study

To evaluate how investors react to the two governance reforms, we conduct an event study around the dates on which the market received major information regarding each amendment. For the first amendment, which expanded directors' duty of loyalty and thereby increased their legal exposure to shareholder claims, we use June 4, 2025, the day immediately following the presidential election, as the event date. This date is appropriate because the election outcome sharply increased the likelihood that the proposed reform would be enacted, given the winning candidate's explicit support for the amendment and the legislative environment at the time. For the second amendment, which strengthened the ability of minority shareholders to obtain more proportional representation on the board, we use July 25, 2025, the date on which the proposed amendment was approved by the Legislation and Judiciary Committee. This committee approval constituted a major information event because it substantially increased the probability of passage and clarified the practical scope of the reform.

To examine the stock market reaction to these events, we conduct a standard event study using the market model to estimate expected returns. The estimation equation is as follows:

$$R_{i,t} = \alpha_i + \beta_i R_{m,t} + \epsilon_{i,t} \tag{1}$$

where Ri,t is the daily return of firm i on day t, Rm,t is the market return on day t. For firms listed on the KOSPI market, we use the KOSPI index return as the market return. For firms listed on the KOSDAQ market, we use the KOSDAQ index return as the corresponding market benchmark.

Following the standard approach in the event study literature, we estimate the parameters of the market model using an estimation window from trading day $t - 250$ to $t - 30$ relative to the event date. This estimation window allows us to obtain reliable estimates of the parameter α_i and β_i which are then used to compute expected returns during the event period. The expected return is calculated as follows:

$$E(R_{i,t}) = \widehat{\alpha_\iota} + \widehat{\beta_\iota} R_{m,t} + \epsilon_{i,t} \tag{2}$$

Abnormal returns are defined as the difference between the actual return and the expected return predicted by the market model:

$$AR_{i,t} = R_{i,t} - (\widehat{\alpha_\iota} + \widehat{\beta_\iota} R_{m,t}) \tag{3}$$

To measure the overall stock market reaction over a given event window, we compute cumulative abnormal returns (CARs), which are obtained by summing abnormal returns over the event window:

$$CAR_i(t_1, t_2) = \sum_{t=t_1}^{t_2} AR_{i,t} \tag{4}$$

We examine several event windows, including (0,0), (1,0), (-1,1) and, (-2,2) to capture short-term market reactions around the event dates. The CAR measure captures the total abnormal return associated with the event over the specified event window and is widely used in the literature to assess the economic significance of market reactions to political and regulatory events. Standard errors are calculated using cross-sectional tests commonly used in the event study literature.

The event-study framework is well suited to our research question because stock prices provide a forward-looking assessment of how investors expect governance reforms to affect firm value. If investors believe that a reform will reduce agency costs and strengthen investor protection, the reform should generate positive abnormal returns. By contrast, if the reform is expected to introduce new frictions or governance costs, abnormal returns may be negative. Importantly, average CARs may conceal substantial cross-sectional heterogeneity. For this reason, after documenting the average market response, we examine whether the valuation effects are stronger among firms where agency conflicts are more severe or where the reform is expected to bind more strongly.

V. Empirical Results

This section presents the main empirical results. Our hypotheses imply contrasting market reactions to the two reforms. The first amendment strengthens directors' duty of loyalty and increases their potential legal liability for decisions that harm shareholders. If investors view stronger director accountability as an effective mechanism for curbing tunneling and improving board monitoring, the market reaction should be positive, especially for firms where agency problems are more acute. The second amendment, in contrast, increases the likelihood that minority shareholders can obtain board representation through mandatory cumulative voting and additional separately elected audit committee directors in large listed firms. While such representation could improve monitoring, it may also generate boardroom conflict, slower decision-making, or greater uncertainty regarding firm strategy. Accordingly, the market reaction to the second amendment is theoretically ambiguous, but could be negative if investors expect governance frictions to dominate. Table 1 provides CARs of the two reforms.

[INSERT TABLE 1 HERE]

For the first amendment, the average event-day abnormal return is positive and statistically significant. Specifically, CAR(0,0) equals 0.193%, indicating that investors initially responded favorably to the increased likelihood that directors would owe a duty of loyalty not only to the company but also to shareholders. This result is consistent with our hypothesis in that stronger legal liability can improve board discipline by increasing the expected cost of decisions that facilitate expropriation or otherwise harm minority shareholders.

At the same time, the positive reaction to the first amendment becomes weaker over longer windows. The CARs for (0,1), (-1,1), and (-2,2) are smaller and less precisely estimated. One plausible interpretation is that the presidential election conveyed multiple signals to the market simultaneously, including broad political and macroeconomic implications in addition to the increased likelihood of the legal reform. As a result, the average return effect around the first event may not fully isolate the governance channel at the aggregate level. This is precisely why the cross-sectional analysis that follows is important: if the reform primarily matters for firms with greater agency concerns, the average market response may understate the true governance-related effect.

The reaction to the second amendment is different. Table 1 shows negative abnormal returns across all multi-day event windows. CAR(0,1), CAR(-1,1), and CAR(-2,2) are all significantly negative, and the magnitudes are economically meaningful. These results suggest that investors did not interpret the move toward more proportional board representation as an unambiguous improvement in governance. Instead, the market appears to have assigned a higher probability to the view that the reform would create new coordination and conflict costs inside the boardroom. This finding is important because it shows that not all minority-protection reforms are valued similarly by investors. The market appears to differentiate between incentive-based reforms, which strengthen monitoring within the existing board structure, and representation-based reforms, which alter board composition and may change the internal dynamics of board decision-making.

V-1. 1st Amendment

Because the average response to the first amendment is modest outside the event day, we next examine whether the valuation effect is concentrated among firms where agency conflicts are likely to be more severe. This analysis is motivated directly by our hypothesis development. If stronger director liability is particularly valuable in firms where tunneling risk, weak monitoring, or value-destroying decisions are greater, then the positive stock price response should be stronger among firms with low PBR and among firms whose ownership structure makes conflicts between controlling and minority shareholders more salient.

[INSERT TABLE 2 HERE]

Table 2 provides univariate evidence based on sorts by PBR and asset size. We divided the firms into ten groups based on their previous year-end PBR and present CARs for the highest and lowest PBR groups. The PBR sort reveals a clear pattern. Low-PBR firms react substantially more positively than high-PBR firms to the first amendment. The difference between the lowest- and highest-PBR groups is large and statistically significant across all event windows, and the magnitude increases over the longer windows. This result is strongly consistent with our hypothesis. Investors appear to believe that strengthening directors' legal liability is especially valuable in firms that are already discounted by the market, where the potential for governance improvement is greatest. Put differently, the market does not interpret the first amendment as a uniform governance reform with equal relevance across all firms. Rather, it is priced as a reform whose benefits are concentrated in firms with more severe agency problems.

Table 2 also reports results based on the KRW 2 trillion asset threshold. Larger firms show a more favorable immediate reaction than smaller firms, particularly over the shorter windows. This pattern is economically intuitive because large Korean firms are more likely to be affiliated with business groups, more likely to engage in complex related-party transactions, and more likely to attract investor attention regarding governance issues. Nevertheless, size alone is not the key theoretical channel in our setting. The first amendment applies broadly to listed firms, not only to large firms. Thus, the size split is informative but not decisive. What matters more is whether asset size is simply capturing underlying governance concerns that are more directly proxied by valuation and ownership-related characteristics.

[INSERT TABLE 3 HERE]

Table 3 addresses this issue using multivariate regressions. The key coefficient is on PBR, which is consistently negative and statistically significant across specifications. This result confirms that firms with lower ex ante valuation experience more positive abnormal returns around the first amendment, even after controlling for size, leverage, past performance, and volatility. The evidence is therefore consistent with the interpretation that investors expect stronger legal accountability to be most beneficial where monitoring problems are most severe. In addition, we add the holding-company dummy as defined by the Korea Fair Trade Commission (KFTC), the holding-company dummy is positively and significantly. This finding is important because holding companies and business-group firms are precisely the settings in which concerns about controlling-shareholder influence and the extraction of private benefits are most salient in Korea. A stronger positive reaction among these firms suggests that the market expects the expanded duty of loyalty to meaningfully constrain governance practices that could disadvantage minority shareholders.

[INSERT TABLE 4 HERE]

Table 4 further examines whether the asset threshold has explanatory power once PBR is included. The asset dummy is positive in the parsimonious specification, but loses statistical significance when PBR is added. This result indicates that the apparent size effect in the univariate analysis is largely subsumed by differences in valuation rather than by size per se. In other words, the market does not seem to reward the first amendment simply because a firm is large. Instead, the market rewards the reform primarily when the firm appears to have more room for governance improvement, as reflected in lower valuation and ownership structures associated with agency concerns. Taken together, Tables 2 through 4 support the hypothesis that the first amendment is perceived as a value-enhancing governance reform, particularly for firms with more severe potential conflicts between controlling and minority shareholders.

III-2. 2nd Amendment

We next turn to the second amendment, which differs fundamentally from the first in both design and expected economic mechanism. Whereas the first amendment strengthens the incentives of directors within the existing board structure, the second amendment increases the likelihood that minority shareholders will obtain direct board representation, especially in large listed firms. This reform may improve monitoring, but it may also alter bargaining inside the boardroom and increase confrontation among directors representing different constituencies. The cross-sectional analysis is therefore designed to distinguish which of these forces dominates in the market's assessment.

[INSERT TABLE 5 HERE]

Table 5 presents univariate evidence based on PBR and the KRW 2 trillion asset threshold. The PBR sort shows that the negative market reaction is concentrated among low-PBR firms. For example, low-PBR firms underperform high-PBR firms by economically large margins over the (0,1), (-1,1), and (-2,2) windows. This result is striking because it is the mirror image of what we observe for the first amendment. The same firms that benefit most from stronger director liability react most negatively to more proportional board representation. This contrast is central to the paper's contribution. It suggests that the market distinguishes sharply between a reform that disciplines directors and a reform that changes the internal balance of power on the board. In low-PBR firms, where governance conflicts are likely already severe, investors appear to believe that introducing minority-appointed directors may intensify internal conflict rather than efficiently resolve it.

The asset split in Table 5 provides additional insight. Firms above the KRW 2 trillion threshold experience substantially more negative abnormal returns than smaller firms. This result is economically and institutionally important because the second amendment directly targets large listed firms. Mandatory cumulative voting and the increase in the number of separately elected audit committee directors apply specifically to this subset of firms. Hence, the stronger negative reaction among large firms is consistent with the market viewing the reform as a binding change in governance for directly affected firms, rather than as a general symbolic policy announcement.

[INSERT TABLE 6 HERE]

Table 6 reinforces this interpretation using multivariate regressions. The holding-company dummy is consistently negative and highly significant, indicating that firms associated with business-group structures are particularly adversely affected by the second amendment. This finding is consistent with two related interpretations. First, investors may expect the reform to meaningfully reduce the private benefits of control in such firms, which would lower the value of control-related arrangements and potentially trigger resistance or conflict. Second, investors may believe that board representation by minority interests in these firms will lead to more contentious board deliberation, especially when strategic decisions involve controlling-shareholder interests, intra-group transactions, or the allocation of resources within a business group.

The coefficient on PBR is positive in several specifications, especially over the longer windows. This means that higher-valuation firms are less negatively affected, while lower-valuation firms are penalized more strongly by the market. This pattern again supports the notion that the anticipated costs of the second amendment are greatest in firms where governance frictions are already most pronounced. Rather than interpreting proportional representation as a straightforward improvement in monitoring, investors seem to worry that in precisely those firms where governance problems are severe, the reform may create more confrontation than value-enhancing oversight.

[INSERT TABLE 7 HERE]

Table 7 provides the strongest test of direct statutory exposure. The asset dummy is negative and highly significant in every specification, and the magnitude remains large even after controlling for PBR and other firm characteristics. This result contrasts sharply with the results for the first amendment, where the asset effect weakens once valuation is taken into account. For the second amendment, the size threshold remains independently important because the reform is explicitly designed to apply to large listed firms. Accordingly, the market reaction is strongest exactly where the reform is expected to have the most immediate and concrete consequences.

Overall, this section shows that the market viewed the second amendment far less favorably than the first. The evidence is most consistent with the view that investors expect the move toward more proportional board representation to impose governance costs through conflict, delayed decision-making, reduced board cohesion, or greater uncertainty over corporate strategy. Importantly, this does not imply that minority representation is normatively undesirable in all settings. Rather, it suggests that, in the Korean institutional environment characterized by concentrated ownership and strong controlling shareholders, the market places greater value on reforms that improve director discipline than on reforms that directly reconfigure boardroom representation.

VI. Conclusion

This paper examines two alternative approaches to strengthening the monitoring function of corporate boards: increasing the legal liability of directors and enhancing the representation of minority shareholders on boards. While both mechanisms are frequently advocated as tools for improving corporate governance and protecting investors, they operate through fundamentally different channels. Director liability strengthens monitoring incentives within the existing board structure, whereas minority representation alters the composition of the board and the balance of influence among directors. By exploiting sequential regulatory reforms in Korea, a country historically characterized by relatively weak investor protection and concentrated ownership structures, this study provides empirical evidence on how capital markets evaluate these two governance mechanisms.

Our findings reveal a clear contrast between the two approaches. The stock market reacts positively to regulatory changes that increase the legal liability of directors for decisions that harm shareholder interests. This result suggests that investors perceive stronger director accountability as an effective mechanism for improving governance and reducing agency problems. The positive market reaction is particularly pronounced among firms with low market-to-book ratios, which are often associated with weaker governance or greater potential for value-destroying decisions. For such firms, stronger liability rules appear to provide a credible commitment to improved monitoring and greater protection of shareholder interests.

In contrast, we find that the market reacts negatively to reforms that expand minority shareholder representation on corporate boards. Although such reforms are often designed to strengthen minority investor protection, our results suggest that investors may be concerned about the potential consequences of altering board composition in this manner. In particular, increased representation of minority shareholders may introduce new conflicts within the boardroom, as directors representing different shareholder constituencies may have divergent objectives or priorities. These internal frictions could complicate strategic decision-making, delay corporate actions, or reduce board cohesion. From the perspective of investors, the potential governance costs associated with such conflicts may outweigh the anticipated benefits of enhanced minority representation.

Taken together, these results highlight an important distinction between incentive-based governance reforms and representation-based reforms. Policies that strengthen directors' legal accountability appear to improve monitoring while preserving the existing structure of board decision-making. In contrast, reforms that increase minority representation directly affect the internal dynamics of the board, potentially introducing conflicts that may undermine the efficiency of collective decision-making. This distinction has important implications for corporate governance policy.

First, our findings suggest that strengthening the legal accountability of directors can be an effective tool for improving corporate governance, particularly in environments where investor protection is weak and agency problems are significant. By increasing the expected costs of decisions that harm shareholder interests, stronger liability rules can enhance directors' incentives to exercise greater diligence in overseeing managerial actions and evaluating corporate transactions. In jurisdictions characterized by concentrated ownership and the risk of tunneling by controlling shareholders, such mechanisms may provide an important safeguard for minority investors.

Second, our results highlight the potential trade-offs associated with governance reforms that seek to increase minority shareholder influence in boardrooms. While greater representation may improve monitoring in principle, it may also generate strategic conflicts among directors representing different shareholder groups. Policymakers should therefore carefully consider how such reforms may affect board dynamics and decision-making processes. Mechanisms designed to protect minority shareholders may need to balance the benefits of increased representation with the potential costs associated with fragmented board governance.

Third, the evidence presented in this study underscores the importance of considering institutional context when designing corporate governance reforms. In countries with concentrated ownership structures, the primary agency problem often arises between controlling shareholders and minority investors rather than between managers and dispersed shareholders. Governance mechanisms that effectively address this type of conflict may differ from those commonly emphasized in jurisdictions with more dispersed ownership. Strengthening director accountability through legal liability may provide a more direct and efficient mechanism for deterring opportunistic behavior than altering board composition in ways that may introduce additional governance frictions.

More broadly, our findings contribute to ongoing debates about the optimal design of corporate governance systems. Regulatory reforms are often motivated by the objective of enhancing investor protection, but different governance mechanisms can produce distinct and sometimes unintended consequences. Understanding how markets perceive these mechanisms is therefore crucial for evaluating their effectiveness.

Future research may further explore the conditions under which minority representation can improve governance without generating excessive conflicts within the boardroom. For example, the effectiveness of minority directors may depend on factors such as board culture, institutional investor participation, or the broader legal environment. Additional evidence on these issues would help refine our understanding of how different governance mechanisms interact within complex organizational settings.

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Table 1. Cumulative abnormal returns (CARs)

The table reports cumulative abnormal returns (CARs) around two major political and regulatory events in Korea. The first event is the South Korean presidential election held on June 4, 2025 (1st KCC Amendment). The second event is the approval of the second proposed amendment to the Korean commercial code approved by the Legislation and Judiciary Committee on July 25, 2025 (2nd KCC Amendment). CARs are cumulative abnormal returns calculated using the market model described in equations (1) - (4).

	1st KCC Amendment			2nd KCC Amendment		
	CAR(%)	*t*-value	N of Firms	CAR(%)	*t*-value	N of Firms
CAR(0,0)	0.193	2.54	2,437	-0.054	-1.09	2,445
CAR(0,1)	0.158	1.43	2,437	-0.737	-9.10	2,443
CAR(-1,1)	-0.182	-1.39	2,437	-1.340	-13.29	2,443
CAR(-2,2)	0.322	1.89	2,436	-1.844	-14.26	2,443

Table 2. Cumulative abnormal returns (CARs) by PBR and Asset for 1st KCC Amendment

The table reports cumulative abnormal returns (CARs) around major political and regulatory events in Korea, sorted by firms' price-to-book ratio (PBR) and firms' asset size. The first event is the South Korean presidential election held on June 4, 2025 (1st KCC Amendment). PBR is defined as the ratio of the previous year-end stock price to book value per share. Firms in the full sample are sorted into deciles based on PBR. We divided the firms in the full sample into two groups based on their total asset size. Firms' asset size exceeding 2 trillion Korean won are classified as the High group, while firms with total assets below 2 trillion Korean won are classified as the Low group. We report CARs for firms in the High and the Low groups. "***", "**", and "*" represent the significance at 1%, 5%, and 10% levels, respectively

	PBR	CAR(%)	Asset	CAR(%)
CAR(0,0)	1 (Low)	1.360	Below 2 trillion won (Low)	0.113
	10 (High)	-0.934	Over 2 trillion won (High)	1.349
	Low - High	2.294^{***}	Low – High	-1.237^{***}
	t - value	(5.61)	*t* – value	(-4.57)
CAR(0,1)	1 (Low)	1.118	Below 2 trillion won (Low)	0.118
	10 (High)	-1.810	Over 2 trillion won (High)	0.919
	Low - High	2.928^{***}	Low – High	-0.801^{**}
	t - value	(5.58)	*t* – value	(-2.47)
CAR(-1,1)	1 (Low)	0.420	Below 2 trillion won (Low)	-0.188
	10 (High)	-2.275	Over 2 trillion won (High)	0.191
	Low - High	2.695^{***}	Low – High	-0.379
	t - value	(4.31)	*t* – value	(-1.06)
CAR(-2,2)	1 (Low)	2.401	Below 2 trillion won (Low)	0.304
	10 (High)	-2.592	Over 2 trillion won (High)	0.648
	Low - High	4.993^{***}	Low – High	-0.344
	t - value	(6.29)	*t* – value	(-0.71)

Table 3. Cross-sectional regression of 1st Korean Commercial Code (KCC) Amendment: PBR and Holding company

The table reports regressions of cumulative abnormal returns (CARs) on PBR, Holdings, and other control variables around the day around the 1st KCC Amendment. The first event date is the South Korean presidential election held on June 4, 2025 (1st KCC Amendment). PBR is defined as the ratio of the previous year-end stock price to book value per share. Holding is a dummy variable equal 1 if a firm is a holding company as defined by the Korea Fair Trade Commission. log(Size) is the natural logarithm of market capitalization at the end of the previous year. Leverage is defined as total debt divided by total assets. Past return is the cumulative abnormal return (CAR) over the window from -250 to -20 trading days prior to the event. volatility is the standard deviation of daily returns over -250 to -30 trading days prior to the event. *t*-values are reported in the parentheses and "***", "**", and "*" represent the significance at 1%, 5%, and 10% levels, respectively.

	CAR(0,1)	CAR(-1,1)	CAR(-2,2)	CAR(0,1)	CAR(-1,1)	CAR(-2,2)	CAR(0,1)	CAR(-1,1)	CAR(-2,2)
PBR	-0.160***	-0.147***	-0.206***				-0.143***	-0.135**	-0.188***
	(-3.60)	(-2.78)	(-3.01)				(-3.22)	(-2.55)	(-2.75)
Holdings				2.527***	2.020***	2.914***	2.611***	1.883***	2.723***
				(4.87)	(3.06)	(3.39)	(4.71)	(2.84)	(3.17)
log(Size)	0.073	0.001	-0.101	-0.061	-0.122	-0.275**	-0.016	-0.063	-0.193
	(0.96)	(0.01)	(-0.87)	(-0.87)	(-1.36)	(-2.37)	(-0.21)	(-0.68)	(-1.61)
Leverage	0.297	0.119	0.768	0.313	0.289	1.015	0.658	0.379	1.141
	(0.59)	(0.20)	(0.98)	(0.65)	(0.47)	(1.29)	(1.29)	(0.62)	(1.45)
Past return	-0.056**	0.008	0.044	0.009	0.001	0.035	-0.052*	0.011	0.048
	(-2.07)	(0.24)	(1.06)	(0.37)	(0.03)	(0.84)	(-1.93)	(0.33)	(1.16)
volatility	-0.369***	-0.379***	-0.675***	-0.317***	-0.415***	-0.726***	-0.348***	-0.364***	-0.654***
	(-5.96)	(-5.14)	(-7.08)	(-5.67)	(-5.84)	(-7.89)	(-5.65)	(-4.93)	(-6.86)
N	2,404	2,404	2,403	2,404	2,404	2,403	2,404	2,404	2,403
R^2	0.027	0.022	0.040	0.029	0.023	0.041	0.036	0.025	0.044
Adj.R^2	0.025	0.020	0.038	0.027	0.021	0.039	0.033	0.023	0.042

Table 4. Cross-sectional regression of 1st Korean Commercial Code (KCC) Amendment: PBR and Asset size

The table reports regressions of cumulative abnormal returns (CARs) on Asset dummy, PBR and other control variables around the 1st KCC Amendment. The first event date is the South Korean presidential election held on June 4, 2025 (1st KCC Amendment). PBR is defined as the ratio of the previous year-end stock price to book value per share. Asset dummy is a dummy variable equal 1 if a firm's total asset over 2 trillion Korean won. log(Size) is the natural logarithm of market capitalization at the end of the previous year. Leverage is defined as total debt divided by total assets. Past return is the cumulative abnormal return (CAR) over the window from -250 to -20 trading days prior to the event. volatility is the standard deviation of daily returns over -250 to -30 trading days prior to the event *t*-values are reported in the parentheses and "***", "**", and "*" represent the significance at 1%, 5%, and 10% levels, respectively.

	CAR(0,1)	CAR(-1,1)	CAR(-2,2)	CAR(0,1)	CAR(-1,1)	CAR(-2,2)
Asset dummy	0.930*	0.655	0.929	0.478	0.222	0.323
	(1.86)	(1.10)	(1.20)	(0.92)	(0.36)	(0.40)
PBR				-0.148***	-0.142***	-0.198***
				(-3.22)	(-2.58)	(-2.79)
log(Size)	-0.097	-0.132	-0.289**	0.014	-0.026	-0.140
	(-1.05	(-1.20)	(-2.02)	(0.14)	(-0.22)	(-0.92)
Leverage	-0.029	-0.138	0.405	0.187	0.068	0.694
	(-0.06	(-0.22)	(0.51)	(0.36)	(0.11)	(0.86)
Past return	-0.063**	0.000	0.034	-0.055**	0.008	0.045
	(-2.34	(0.00)	(0.80)	(-2.01)	(0.26)	(1.08)
volatility	-0.416***	-0.426***	-0.741***	-0.366***	-0.377***	-0.673***
	(-6.94	(-5.95)	(-8.01)	(-5.91)	(-5.11)	(-7.05)
N	2,404	2,404	2,403	2,404	2,404	2,403
R^2	0.023	0.019	0.037	0.027	0.022	0.040
Adj.R^2	0.021	0.017	0.035	0.025	0.020	0.038

Table 5. Cumulative abnormal returns (CARs) by PBR and Asset for 2nd KCC Amendment

The table reports cumulative abnormal returns (CARs) around major political and regulatory events in Korea, sorted by firms' asset size. The second event is the approval of the second proposed amendment to the Korean Commercial Code approved by the Legislation and Judiciary Committee on July 25, 2025 (2nd KCC Amendment). PBR is defined as the ratio of the previous year-end stock price to book value per share. Firms in the full sample are sorted into deciles based on PBR. We divided the firms in the full sample into two groups based on their total asset size. Firms' asset size exceeding 2 trillion Korean won are classified as the High group, while firms with total assets below 2 trillion Korean won are classified as the Low group. We report CARs separately for the High and Low group. CARs are cumulative abnormal returns calculated using the market model described in equations (1) - (4).

	PBR	CAR(%)	Asset	CAR(%)
CAR(0,0)	1 (Low)	-0.322	Below 2 trillion won (Low)	-0.041
	10 (High)	-0.004	Over 2 trillion won (High)	-0.113
	Low - High	-0.319	Low - High	0.072
	t-value	(-1.54)	*t* - value	(0.45)
CAR(0,1)	1 (Low)	-2.285	Below 2 trillion won (Low)	-0.596
	10 (High)	-0.517	Over 2 trillion won (High)	-2.003
	Low - High	-1.768***	Low - High	1.407***
	t-value	(-5.38)	*t* - value	(4.79)
CAR(-1,1)	1 (Low)	-3.842	Below 2 trillion won (Low)	-1.172
	10 (High)	-0.326	Over 2 trillion won (High)	-2.866
	Low - High	-3.516***	Low - High	1.694***
	t-value	(-8.65)	*t* - value	(4.64)
CAR(-2,2)	1 (Low)	-4.375	Below 2 trillion won (Low)	-1.643
	10 (High)	-1.144	Over 2 trillion won (High)	-3.380
	Low - High	-3.232***	Low - High	1.737***
	t-value	(-5.78)	*t* - value	(3.73)

Table 6. Cross-sectional regression of 2st Korean Commercial Code (KCC) Amendment: PBR and Holding company

The table reports regressions of cumulative abnormal returns (CARs) on PBR, Holdings, and other control variables around the day around the 2st KCC Amendment. The second event is the approval of the second proposed amendment to the Korean Commercial Code (KCC) approved by the Legislation and Judiciary Committee on July 25, 2025 (2nd KCC Amendment). PBR is defined as the ratio of the previous year-end stock price to book value per share. Holding is a dummy variable equal 1 if a firm is a holding company as defined by the Korea Fair Trade Commission. log(Size) is the natural logarithm of market capitalization at the end of the previous year. Leverage is defined as total debt divided by total assets. Past return is the cumulative abnormal return (CAR) over the window from -250 to -20 trading days prior to the event. volatility is the standard deviation of daily returns over -250 to -30 trading days prior to the event. *t*-values are reported in the parentheses and "***", "**", and "*" represent the significance at 1%, 5%, and 10% levels, respectively.

	CAR(0,1)	CAR(-1,1)	CAR(-2,2)	CAR(0,1)	CAR(-1,1)	CAR(-2,2)	CAR(0,1)	CAR(-1,1)	CAR(-2,2)
PBR	0.058*	0.148***	0.146***				0.043	0.130***	0.129***
	(1.73)	(3.55)	(2.76)				(1.27)	(3.13)	(2.44)
Holdings				-2.422***	-2.923***	-2.712***	-2.379***	-2.790***	-2.580***
				(-5.74)	(-5.60)	(-4.09)	(-5.62)	(-5.34)	(-3.89)
log(Size)	-0.122**	-0.136*	-0.111	-0.022	0.018	0.034	-0.041	-0.040	-0.023
	(-2.11)	(-1.90)	(-1.23)	(-0.38)	(0.25)	(0.38)	(-0.69)	(-0.54)	(-0.24)
Leverage	-0.762*	-0.971**	-1.156*	-1.070***	-1.268***	-1.424**	-1.104***	-1.372***	-1.527**
	(-1.96)	(-2.02)	(-1.90)	(-2.74)	(-2.62)	(-2.32)	(-2.82)	(-2.83)	(-2.48)
Past return	0.006**	-0.001	-0.006	0.007**	-0.001	-0.006	0.007**	0.001	-0.004
	(2.04)	(-0.26)	(-1.17)	(2.33)	(-0.21)	(-1.16)	(2.46)	(0.14)	(-0.89)
volatility	0.061	0.052	-0.217***	0.063	0.077	-0.190***	0.051	0.040	-0.227***
	(1.40)	(0.96)	(-3.18)	(1.50)	(1.48)	(-2.87)	(1.18)	(0.75)	(-3.35)
N	2,387	2,387	2,387	2,387	2,387	2,387	2,387	2,387	2,387
R^2	0.007	0.009	0.008	0.019	0.016	0.012	0.020	0.020	0.015
Adj.R^2	0.004	0.007	0.006	0.017	0.014	0.010	0.017	0.018	0.012

Table 7. Cross-sectional regression of 2st Korean Commercial Code (KCC) Amendment: Asset of 2 trillion

The table reports regressions of cumulative abnormal returns (CARs) on Asset dummy, PBR and other control variables around the 2st KCC Amendment. The second event is the approval of the second proposed amendment to the Korean Commercial Code (KCC) approved by the Legislation and Judiciary Committee on July 25, 2025 (2nd KCC Amendment). PBR is defined as the ratio of the previous year-end stock price to book value per share. Asset dummy is a dummy variable equal 1 if a firm's total asset over 2 trillion Korean won. log(Size) is the natural logarithm of market capitalization at the end of the previous year. Leverage is defined as total debt divided by total assets. Past return is the cumulative abnormal return (CAR) over the window from -250 to -20 trading days prior to the event. volatility is the standard deviation of daily returns over -250 to -30 trading days prior to the event. Panels A, B, and C report results for all firms, KOSPI-listed firms, and KOSDAQ-listed firms, respectively. *t*-values are reported in the parentheses and "***", "**", and "*" represent the significance at 1%, 5%, and 10% levels, respectively.

	CAR(0,1)	CAR(-1,1)	CAR(-2,2)	CAR(0,1)	CAR(-1,1)	CAR(-2,2)
Asset dummy	-1.548***	-1.989***	-2.162***	-1.479***	-1.649***	-1.845***
	(-4.06)	(-4.22)	(-3.62)	(-3.73)	(-3.36)	(-2.97)
PBR				0.022	0.107**	0.100*
				(0.62)	(2.48)	(1.83)
log(Size)	0.079	0.153*	0.196*	0.062	0.070	0.118
	(1.11)	(1.74)	(1.76)	(0.81)	(0.74)	(1.00)
Leverage	-0.386	-0.418	-0.570	-0.421	-0.590	-0.731
	(-0.98)	(-0.86)	(-0.92)	(-1.06)	(-1.20)	(-1.17)
Past return	0.007**	-0.001	-0.006	0.007**	0.000	-0.005
	(2.18)	(-0.33)	(-1.21)	(2.23)	(-0.09)	(-1.03)
volatility	0.065	0.079	-0.192***	0.059	0.050	-0.219***
	(1.54)	(1.50)	(-2.89)	(1.36)	(0.93)	(-3.22)
N	2,387	2,387	2,387	2,387	2,387	2,387
R^2	0.012	0.011	0.011	0.012	0.013	0.012
Adj.R^2	0.010	0.009	0.009	0.010	0.011	0.010

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