Hi Paul,

This is a very good breakdown of why the rule based approach with example from the USA. I would like to poke some more into this wonderful argument. You state that the rules based approach came right after the 2000 fall in the stock market. In 1999, many companies speculated a spike in the technology industry. With such a rush many investors were easily excited and invested with no end (Berlin, 2008). Later, the 2001 crush of companies such as pets.com and the fall in stock from amazon.com, many investors lost their funds in one go.

However, coming from an analysis point of view having rules based governance may also make the investors lazy to keep up with the companies guidelines on corporate governments since these are put in the law (Broshko & Li, 2006). Given this information, the rules based approach may look good however, just like at the stock market crush, the law was not able to adjust for that situation, and there were losses. With a principles based approach, the market is allowed to play out, there is more wiggle-room for the companies to adjust to the market. This is in principle something that investors would be pleased with however, there is a downside in that the investors need to have more information on the company and its corporate governance policies hence it takes more effort from them (Broshko & Li, 2006).

References

Berlin, L. (2008, November 21). Lessons of survival, from the Dot-com attic. *The New York Times*.

Broshko, E. B., & Li, K. (2006). *Corporate governance requirements in Canada and the United States: A legal and empirical comparison of the principles-based and rules-based approaches*. British Columbia. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract\_id=892708