International Effects of National Laws: An Article Detailing the Flow of International Listings After Sarbanes-Oxley

A recent article by Profs. Joseph D. Piotroski and Suraj Srinivasan tackles whether the stringent requirements of the Sarbanes-Oxley Act on U.S. issuers has had an empiracle effect on the cross-listing behavior on U.S. and U.K. stock exchanges. It has long been speculated that the Sarbanes-Oxley Act has displaced business from New York to London, where the Financial Services Authority regulates the financial sector with a seemingly lighter touch, but the amount of business displaced from Wall Street to the City of London remained disputed. The Economist has recently pointed out that in 2001 the New York Stock Exchange dwarfed both London and Hong Kong for IPOs, but by 2006 it was being beaten by both.

The article tests two propositions.

> *First, has the rate of foreign cross-listings onto U.S. exchanges decreased in the period following the enactment of the Act? Second, are foreign exchanges – in particular, the London Stock Exchange – attracting foreign firms in the post-Act period that would have otherwise listed on a U.S exchange prior to the enactment of the Act? We find strong evidence that U.S. exchanges have experienced a decrease frequency of foreign listing following the Act. Our evidence suggests that a portion of the decline in foreign listings is attributable to firms bypassing a U.S. exchange listing and opting to list on the LSE's Alternative Investment Market following the enactment of the Act. These "lost" listings are composed of firms that are, on average, smaller and less profitable than the firms that actually listed on a US exchange in the post-Sarbanes-Oxley period. Interestingly, we also identify a small set of large, profitable firms from predominantly emerging markets that choose to list on US exchanges following the enactment of Sarbanes-Oxley despite being predicted to list on a UK exchange. Together, this evidence is consistent with a shift in both the expected costs and benefits of a foreign listing following the enactment of Sarbanes-Oxley.*

> *Our analysis provides the first evidence (of which we are aware) of how the Sarbanes-Oxley Act has altered the flow of foreign listings across international stock exchanges.*

Aside from the obvious policy implications, this conclusion has legal ones as well. There currently exists a significant disagreement among the federal courts on the quantum of domestic conduct required to assert subject-matter jurisdiction over a foreign-listed issuer for violations of U.S. securities laws, with a conservative and territorial interpretation of those laws retaining a slim majority. *See generally Note: Defining The Reach of the Securities Exchange Act: Extraterritorial Application of the Antifraud Provisions*, 74 Fordham L. Rev. 213 (2005). Alongside a recent decision of the First Circuit that certain of the Sarbanes-Oxley Act provisions do not have an extraterritorial effect, one cannot help but wonder if the cross-border flow will continue in an effort to effectively circumvent U.S. federal laws.

The full article can be downloaded from the SSRN.