

Does the Threat of Securities Class Actions Add Value for Shareholders? Evidence from China's Adoption of Securities Class Actions*

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Abstract

We examine China's recent introduction of US-style securities class action lawsuits (SCA). Unlike US evidence, Chinese stock prices respond positively to SCA introduction. Positive reactions are stronger for firms more exposed to SCA, particularly with poor disclosure or governance, state ownership, political connections, or less innovation. Firms react to SCA adoption by initiating D&O insurance, selecting more reputable auditors, and improving internal controls and financial reporting. Thus, the threat of SCA risk can benefit shareholders.

Keywords: Securities Class Actions, Shareholder litigation, 10b-5, Investor protection, China

JEL code: G32, K22, K32

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