Can Foreign Firms Bond Themselves Effectively by Renting U.S. Securities Laws?

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ABSTRACT

This study tests the functional convergence hypothesis, which states that foreign firms can leapfrog their home countries' weak legal institutions by listing equities in the U.S. and agreeing to abide by U.S. securities law and SEC regulation. The study suggests that reputational bonding better explains the growth of cross-listings than legal bonding. U.S. law enforcement neither deterred nor punished a group of Mexican insiders who collectively took billions of dollars from their firms. The study finds, moreover, that SEC action against any U.S.-listed foreign firm has been rare and mostly ineffective throughout the history of the federal securities laws. In the U.S. just as in emerging markets, institutional analysis requires that a distinction be made between the formal rules of the game and the informal rules and enforcement mechanisms that firms are forced to abide by in practice. The study concludes by suggesting that a reputational mechanism has channeled resources to a small group of cross-listed Mexican firms that built a record of voluntarily abiding by U.S. law through bad economic times. The prospect of creating a reputational asset may lead some, but not all, firms to observe rules they are not forced to follow.

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I. INTRODUCTION

In the literature on corporate governance, numerous recent studies have found that a lack of effective legal protections for minority shareholders impedes the broad sharing of financial resources between investors and firms.[1] Other recent studies have shown that overall financial and economic development often suffers from the lack of an effective rule of law.[2] While countries may want to strengthen their institutions, a legal system that fails to protect minority shareholders often proves difficult to change.[3]

A complementary solution is the functional convergence hypothesis, developed most broadly by Coffee (1999, 2002a, 2002b), which states that any foreign firm can grow in spite of their home country's weak legal institutions by migrating financially as well as legally to the U.S. Firms can migrate either by listing foreign shares through an American Depositary Receipt (ADR) on a major U.S. exchange (NASDAQ, NYSE or AMEX), or by listing shares directly on a major U.S. exchange. American laws covering U.S.-listed foreign firms can potentially deter firms and their insiders from engaging in fraud and embezzlement. Using agency theory, Coffee as well as Fuerst (1998) and Stulz (1999) predicted that U.S. law enforcement could protect minority shareholders.

In this empirical study I examine whether U.S. laws and regulations deterred Mexican firm insiders from engaging in illegal asset taking, how the U.S. legal and regulatory institutions responded once the alleged asset taking took place, and how the financial markets responded in allocating subsequent resources to firms. As shown in Figure I, the market for cross-listings has grown dramatically in economic terms, and today more than 15 percent of all firms listed on the NYSE stock exchange are domiciled abroad. While there are purely financial reasons for a firm to list their shares in the U.S. market (Karolyi 1998), recent studies conducted by Reese and

Weisbach (2002), and by Mitton (2002), have shown evidence for the importance of legal bonding. This study offers an extended analysis of whether foreign firms have indeed been able to bond themselves effectively through an economic downturn. It examines how the financial markets responded after allegations of large-scale asset taking had been directed at a group of Mexican insiders. Further, this study examines the SEC's 68-year enforcement record against all U.S.-listed foreign firms.

The theoretical issues and context relevant to the study are discussed first. A discussion of the data and the variables follows in Section III. Section IV presents the empirical evidence on asset taking by Mexican firms. Section V analyzes the lack of an effective response by the SEC and other U.S. legal institutions. Section VI analyzes the history of enforcement against all U.S.-listed foreign firms. Section VII presents a simple theoretical model as well empirical evidence for studying the reputational mechanism through which some U.S.-listed Mexican firms received the most resources. Section VIII presents conclusions.

II. THEORETICAL FRAMEWORK

A. Functional Legal Convergence Hypothesis

Coffee (1999, 2002a, 2002b) argued that while ADRs would not be a perfect solution to a country's weak legal institutions, they would deter and punish malfeasance towards outside investors. Coffee proposed that ADRs represent a form of functional convergence for countries that find it too costly to change their legal institutions.

The first part of the functional legal convergence hypothesis states that U.S. laws and regulations effectively deter malfeasance by foreign firm insiders (Coffee 1999, 683-684).

Coffee pointed out, “For example, a firm that today enters the U.S. market becomes subject to the Foreign Corrupt Practices Act, which precludes not only bribes and ‘questionable payments,’ but all forms of off-books accounts and falsification of accounting record” (1999, 695). A listed ADR requires a foreign firm to disclose all shareholders with a more than five percent share (Reese and Weisbach 2002). Whenever the foreign firm makes a tender offer to buy another company, it has to follow U.S. disclosure and procedural rules. The three major U.S. exchanges have their own corporate governance requirements, though it has been confirmed with senior officials at the NYSE, NASDAQ, and AMEX that foreign firms can receive waivers by following local best practice in the foreign country and by getting a letter of confirmation to that effect from an attorney. A foreign firm listed on a major U.S. exchange is prohibited from taking advantage of minority shareholders through a “going private” transaction. Lastly, such foreign firms and their insiders become liable in court for any fraudulent statement they make anywhere around the world (Reese and Weisbach 2002).

The first testable implication of Coffee’s argument is that insiders during an emerging market crisis would not engage in large-scale asset taking against outside investors if they already had bonded themselves through a listed ADR. During any downturn, a firm’s insider may find higher relative returns to asset taking than to productive firm investment (Johnson, Beach, Boone and Friedman 2000). Johnson et al (2000) present a theoretical model showing that owner-managers always have a choice between putting the firm’s resources (including outsiders’ contributions) either towards productive firm investment or towards theft. When a domestic economic downturn presents itself, the owner-manager sees lower personal returns from productive firm investment and relatively higher personal returns from moving the money to a foreign bank account. According to that formal model, only legal penalties can deter insiders. Some past authors have referred to what I call "asset taking" as "expropriation" (Johnson et al 2000) or "tunneling" (Johnson, La Porta, Lopez-de-Silanes, and Shleifer 2000).

The second part of the hypothesis is that even if foreign firm insiders engage in malfeasance, the SEC and other U.S. regulatory and legal institutions will effectively protect investors and punish the foreign firms and/or their insiders. Coffee proposed that the SEC and U.S. law enforcement agencies had the capacity through the federal securities law to punish U.S.-listed firms and their insiders for their malfeasance (1999, 683-684). He argued that the combination of SEC oversight and overall U.S. law enforcement would be used in practice to minimize agency costs (1999, 684). More recently, Coffee (2002a, 2002b) argued that even if the SEC were less than full effective, the foreign insiders would fear being sued by the American plaintiffs' bar. The present study seeks to discover whether SEC oversight and U.S. securities law protected outside investors whose assets had been taken illegally by Mexican controlling shareholders. As shown in Appendices I, Mexican firms with ADRs had raised more than $6 billion prior to the 1994-95 crisis.

Reese and Weisbach (2002), and Mitton (2002), recognized that ADRs might be an effective bonding device. Mitton (2002) was the first to test the effect of ADRs as a bonding instrument in an emerging market crisis, and he found that through the intense, initial phase of the Asian Crisis (July 1997-August 1998) firms with ADRs (both listed and unlisted) were valued higher than other firms that had received the same valuation by investors just prior to the crisis. Reese and Weisbach (2002) discovered that firms use ADRs as partial substitutes for weak legal institutions, finding that firms from a French Civil Law country are twice as likely to list on a major U.S. exchange as firms from an English Common Law country. Reese and

Weisbach (2002) found that issuing an ADR could help firms to attract outside resources for at least two subsequent years following a U.S. listing.

Other authors have argued that the functional legal convergence hypothesis would not be supported by an empirical study. La Porta, Lopez-de-Silanes, and Shleifer (henceforth LLS) (1999), for example, discussed a hypothetical situation in which a firm from a weak institutional environment listed its shares in New York. LLS argued that many firms cannot afford to create ADRs, and they contended that ADRs are not an effective replacement for strong local institutions. They predicted that unless a given country overcame political obstacles to comprehensive legal reform, its firms would struggle to attract outside resources necessary for growth. La Porta, Lopez-de-Silanes, Shleifer, and Vishny (henceforth LLSV) (2000) believed that ADRs would help improve company disclosure, but would not give minority shareholders many effective rights. Fanto (1996) went even further in arguing that SEC disclosure requirements are effectively meaningless, and Fanto proposed that the SEC needed to elicit more country-specific information on how well firms provide strong corporate governance to their minority shareholders. One would predict, based on these arguments, that Mexican firms could not use ADRs to bond themselves effectively, that a large number of Mexican insiders would be found to commit malfeasance in spite of their listed ADR, and that the SEC would be unable to respond effectively.

Other authors have argued that whether or not cross-listings are an effective bonding device is simply an open empirical question. MacNeil (2001) focused on foreign firms that listed their shares in London, and he found that the real legal commitments made by foreign firms were not as strong as first appeared. Cheung and Lee (1995) argued that cross-listings do present real legal constraints, but also they believed that more empirical work would be necessary to determine the optimal strength of listing requirements. Cheung and Lee pointed to SEC investigations, class action suits, and contingent legal fee arrangements as U.S. legal institutions that potentially constrain foreign firms (1995, 349-350). Licht (2000) also advocated more empirical work in this area, and he pointed out that contemporary U.S. institutions might not be fully effective across borders without the creation of new intergovernmental agreements. Licht (2000, 2001) argued that managerial opportunism might lead insiders to take advantage of poor enforcement of U.S. laws across borders.

The most recent empirical studies have begun to suggest that firms can effectively use ADRs to signal their future growth prospects. For example, Blass and Yafeh (2001) showed that young and high-tech Israeli firms with U.S. listings enjoy higher post-IPO stock returns and revenue growth rates than do other Israeli firms. Another recent study by Doidge, Stulz, and Karolyi (2001) showed that U.S.-listed foreign firms enjoyed larger valuations than other foreign firms. Lang, Lins and Miller (2002) found that the larger valuations of cross-listed firms may be the result of a greater analyst following and more accurate earnings forecasts by analysts. This study tests explicitly for the effectiveness of cross-listings as a legal bonding instrument.

B. Context

For a number of reasons, the Mexican case provides the right set of conditions for testing whether legal bonding by U.S.-listed foreign firms is effective. First, Mexico is consistently ranked in the governance literature as providing relative weak legal protections for outside investors, and the hypothesis contends that countries such as Mexico have the most to benefit from cross-listings. Mexico has ranked at or near the bottom of the countries surveyed in terms of the quality of its legal institutions affecting outside resource providers (LLSV 1998). Of 49 countries surveyed by LLSV, Mexico tied for the second-worst score for shareholder rights. Its courts have also been rated among the weakest in the world by the country-risk-rating agency, Business International Corporation, and Mexico was tied with the Philippines and Peru for the lowest ranking on the index of creditor's rights among 49 countries surveyed (LLSV 1998).

Second, if one is looking for how to test the strength of the legal bonding hypothesis for emerging market firms, it is important to look at all-too-frequent economic downturns in emerging markets. Of course, firms and individuals break the securities law even during good times, as illustrated by the almost 400 litigation releases issued by the SEC against almost uniformly American defendants in 1997, 1998 and 1999.[4] Yet, as shown by Johnson, Boone, Breach and Friedman (2000), there is theoretical reason to believe that even more is stolen from outside investors during bad economic times. As shown by Park and Lee (2001), and by Lee and Rhee (2002), financial and economic crises are a recurring event in emerging markets. For example, Park and Lee compiled data on 239 currency crises that occurring between 1970 and 1997, including 160 independent crises, from all developing countries that required IMF intervention (2000, 6-7). Many of these also involved economic crises (Park and Lee 2000). At the end of 1994, Mexican firms experienced a crisis after their government became insolvent and asked the Clinton Administration for a multibillion-dollar bailout.

The Mexico crisis had broadly similar effects on Mexican firms as other recent crises had on firms in other emerging markets. What happened in Mexico is in no way unusual. Park and Lee (2001), and Lee and Rhee (2002), found that the Mexico crisis of 1994-95, far from being a meltdown, was a representative case of a crisis involving an economy opening up to foreign trade which saw a rapid fall in GDP followed by a rapid recovery in macroeconomic statistics.

Third and most importantly, Mexico can be distinguished by the fact that at in 1994 Mexico had the largest number of firms in any emerging market to have tried the legal bonding strategy.[5] In contrast, only five firms across five countries highly affected by the Asia crisis had issued a listed ADR prior to 1997 (Mitton 2002). Lastly, the Mexican crisis was the first to allow enough time (1995-2001) to punish members of a group of firm insiders whose firms had issued listed ADRs and then broken U.S. law.

III. DATA AND VARIABLES

A. Sample Selection

This paper uses a database of all Mexican companies with a Mexican equity listing prior to the crisis of 1994-95. I specifically include all companies that were listed on the Mexico Stock Exchange (MSE) prior to September 1994.[6]

B. Time Period of Interest

The intense period of the Mexico crisis began on 30 September 1994, when the Mexico Stock Exchange's IPC Index finished its plateau and began to fall precipitously.[7] I will measure whether the dominant owners of Mexican firms engaged in or were alleged to have participated in illegal asset taking or legal asset taking between 1 January 1995 and 31 December 1999. The reason for selecting this particular time frame in the Mexican case is that some insiders began engaging in asset taking at the time of the intense period of the Mexico case but a few were not implicated until some time had passed. I will also examine whether the SEC took any action against these firms between 1 January 1995 and 30 June 2002. Because nearly every case of alleged asset taking is believed to have begun at the start of the economic downturn (or just slightly before the start of the economic downturn), the SEC and other U.S. legal and regulatory institutions had more than seven years to act.

C. Dependent Variables

For a detailed description of all variables and data sources used in this paper, see Table I. The data on listed ADRs, unlisted ADRs, illegal asset taking, and legal asset taking are shown in Appendices I-IV. The summary statistics for all the variables are shown in Panels A and B of Table II, and the correlation matrix is shown in Panel C.

The first set of variables measures whether law enforcement agencies, regulators, and/or minority shareholders publicly accused a firm or its insiders of having engaged in asset taking. Sources include *Reforma*, *El Norte*, *El Financiero*, *Sourcemex Economic News & Analysis on Mexico*, *Mexico Corporate Monthly*, *LatinFinance*, *Forbes*, *Dow Jones International News*, *Wall Street Journal*, *Wall Street Journal Europe*, company annual reports, and company press releases. A dummy variable equals 1 for illegal asset taking when a firm's controlling owner and/or senior manager allegedly took assets illegally and then was publicly confirmed as having fled Mexico for a period of at least a year. These controlling owners and/or senior managers were all eventually accused by Mexican law enforcement of theft, fraud or embezzlement between 1 January 1995 and 31 December 1999. The time period is purposely lengthy because it sometimes took years to discover asset taking that had begun taking place during the intense period of the Mexico crisis. A second variable simply measures whether regulators, law enforcement or minority shareholders accused the firm's controlling owner and/or senior manager of illegal asset taking. While a continuous measure of the amount of assets taken would be desirable, several cases described in Appendices III and IV are still under investigation as part of a Mexican legal proceeding. Sufficiently precise figures are not available. For that reason alone, this analysis relies on absolute measures of whether asset taking allegedly took place or was found to have occurred.

Another variable for legal asset taking equals 1 if a firm's controlling owner and/or senior manager was publicly accused by minority shareholders, law enforcement and/or public regulators with legal asset taking. As described in detail in Appendix IV, legal asset taking is defined as the taking by controlling shareholders and/or senior managers of substantial funds for themselves in ways that are not clearly proscribed in Mexican law and that were not consistently punished in Mexico. Legal asset taking, for example, can involve secret loans from the firm to a private entity owned by the controlling shareholder, or it can involve gross financial mismanagement in which large sums disappear from the firm's balance sheet. A final dummy variable is set equal to 1 if a firm or its insider was accused of any type of asset taking.

The study proceeds to measure whether each firm received fresh capital from the public equity or debt markets following the crisis. I calculate the total amount of resources that a firm received through equity, publicly held debt (including industrial debentures) or syndicated loans from the capital markets in the five years (1995-99) after the Mexico crisis. The five-year time period is chosen because it may often take a period of several years for a firm to build a track record of good corporate governance. The variable is defined separately in three separate ways: in a time-discounted form that controls for annual changes in the U.S. CPI, in its discounted form, and in a discounted form that controls for annual changes in the Mexican CPI. Separately, a dummy variable is set equal to 1 if a firm received any resources as defined above during 1995-1999. Sources include the Mexico Stock Exchange, *Reforma*, *El Norte*, *El Financiero*, *Sourcemex Economic News & Analysis on Mexico*, *Mexico Corporate Monthly*, *LatinFinance*, *Forbes*, *Dow Jones International News*, *Wall Street Journal*, *Wall Street Journal Europe*, and company annual reports and press releases.

C. Principal Independent Variables

Mexican firms rented the U.S. legal jurisdiction through the four types of ADRs.[8] Firms that were not raising fresh capital on the U.S. equity market chose between a Level I and a Level II ADR. The Level I ADR trades on the over-the-counter (OTC) market, with bid and ask prices published daily by the National Daily Quotation Bureau in the pink sheets. The Level I ADR may potentially place a firm under the microscope of large institutional investors, but it does not offer any legal protection to investors. The Level II ADR, in contrast, comes under the permanent jurisdiction of the U.S. SEC. The firm must list its shares on one of the three main U.S. exchanges (NYSE, NASDAQ or AMEX) and follow the strict listing requirements of those exchanges. The firm must reconcile its financial statements to meet U.S. accounting standards (called U.S. GAAP) and must deliver detailed and accurate financial information to the SEC in perpetuity. The firm's senior managers and directors are liable in U.S. courts for any material misstatements or other securities law violations.

Mexican firms that wanted to raise new capital on the U.S. equity market chose between a Rule 144a ADR and a Level III ADR. Firms that want to avoid SEC oversight can use Rule 144a (a special SEC rule passed in 1990) to place their shares privately to a select group of Qualified Institutional Buyers (QIBs). These QIBs include Fidelity, Alliance Capital, and Janus. The other option is to issue a Level III ADR, for which the SEC requires a full reconciliation of the firm's financial statements with U.S. GAAP. The firm faces U.S. legal liability and sells its new shares on the NYSE, NASDAQ or AMEX.

The first pair of independent variables measures whether the firm had a listed or unlisted ADR prior to September 1994.[9] For detailed and accurate information on every firm with an ADR, a combination of company filings and a Citibank database covering all information supplied by the various depositary banks on their ADRs was utilized. This study differentiates in the econometric analysis between Level I/Rule 144a ADRs that carry little, if any, legal protection for investors and Level II/Level III ADRs that offer such protection. A dummy variable equals 1 when a firm had a listed ADR (Level II or Level III) prior to 30 September 1994. A second dummy variable equals 1 when the firm had an unlisted ADR (Rule 144a or Level I) prior to 30 September 1994.

D. Control Variables

The next set of variables measure other important firm characteristics that could explain variation in the dependent variables. Political connectedness may be an important firm characteristic affecting performance. Fisman (2001) showed that as much as a quarter of the market capitalization of some Indonesian firms was derived from their ties to the Suharto government. Schneider (2002) showed in the case of Mexico that an elite group of businessmen belonging to the *Consejo Mexicano de Hombres de Negocio* (Mexican Council of Businessmen, or CMHN) was granted special access to the Mexican president. The CMHN until the last election even enjoyed limited veto power over the selection of the ruling party's presidential candidate. Lopez-de-Silanes and Zamarripa (1995) provided empirical evidence showing that auction winners in the Mexican privatization of government-owned banks received an average discount of 20 percent on the book value of assets because the auctions were not fully competitive. The evidence at least suggests the possibility that politically connected firms received billions of dollars in rents prior to the Mexico crisis. While the CMHN supposedly represents only the largest firms, a check of the membership list as of 31 December 1993 showed that several of the largest firms in Mexico were not represented and that some businessmen from medium-sized firms had won the secret vote necessary for membership.

A dummy variable for political connectedness equals 1 for those firms whose owner and/or senior executive was represented in the CMHN. I include only firms in which the largest part of the representative's wealth was invested. Data on CMHN membership came from Schneider (2002). Information was obtained from company 20-F filings and interviews with market analysts to determine where the largest part of the representative's wealth was invested.

Another variable equals 1 if a foreign entity owned more than 10 percent of the firm. The data came from company filings and from interviews with senior managers.

The next dummy variable equals 1 if a firm and/or its controlling shareholder owned at least a 10 percent stake in a separate Mexican banking institution. Although the Mexican banking system largely failed after the crisis, not all banks in the sample collapsed. The government took over many banks, but before the government offered a bailout of the sector, several insiders had used money from their non-banking firms to prop up their ailing bank. For measuring this variable, I use data from company filings and interviews with managers.

Next, I include four control variables that measure each firm's financial condition, size, sources of finance, and export orientation. Data for each of these four variables came primarily from the MSE. First, I measure each firm's short-term foreign liabilities divided by total liabilities for the year 1993. This variable is almost perfectly collinear with another variable that measures a firm's total foreign liabilities divided by total liabilities for the year 1993. Since I want to focus on the effect of costly, short-term dollar-denominated debt, I choose to drop the other variable. Second, to focus on a firm's overall indebtedness, I measure each firm's total liabilities divided by total assets for the year 1993. Third, to focus on export orientation, each firm's foreign sales are divided by Mexican national sales for the year 1993. Fourth, to focus on firm size, I take the natural log of each firm's 1993 total assets. Fifth, to focus on industry effects, I apply John Campbell's (1996) method and include dummy variables for 10 of 11 industrial sectors, with the consumer durables dummy being dropped.

Lastly, in the section on robustness checks, I include an additional control variable for firm quality. In testing the effectiveness of an institutional strategy, I argue that it is essential to try to control for the underlying quality of the firm. Otherwise, one might worry whether institutional strategy is itself a proxy for underlying firm quality. To solve this problem, I then include a forward-looking measure of firm quality taken before the economic downturn began. From 1993-1995, Baring Casa de Bolsa was recognized in the *Institutional Investor*'s "All Latin America Research Survey" and in *Globalfinance* magazine as having the best research strategist and one of the best research teams in Mexico. A January 1992 publication from Baring Casa de Bolsa gave detailed buy, sell, and hold recommendations on firms that the research group thought would interest foreign institutional investors. I confirmed through archival research that the same firms being recommended by Baring Casa de Bolsa were also seen as presenting high growth prospects by the Research Department at Grupo Financiero Banamex-Accival. A dummy equals 1 for those firms that received a buy or core-holding recommendation.

IV. ASSET TAKING

A. Lack of Deterrence

The legal bonding hypothesis proposes that ADRs deter all major forms of asset taking by foreign insiders. Therefore, since the hypothesis predicts the deterrence of all large-scale asset taking by cross-listed Mexican firms and their insiders, I focus the analysis on whether or not there was deterrence.

First, as shown in Table III, eight firms had their insiders take firms' assets illegally and leave Mexico for at least a year. Leaving one's own firm and exiting Mexico for a period of up to several years is the most perfectly observable action of all the asset taking measures. Of those eight firms, three had listed ADRs, three were directly part of a financial group with a listed ADR, and two had unlisted ADRs. Of these cases, it is most interesting to note that the some of the insiders would select the United States and Canada as their hiding places. If the foreign insiders feared the U.S. legal jurisdiction, then it is certainly surprising that they would choose to hide in the U.S. legal jurisdiction. It is also interesting to note that only insiders in the financial services and transportation sectors took assets illegally and fled the country. Although there are not enough instances of this type of asset taking to use multivariate analysis, the important observation is that all eight of the firms either had ADRs or were tied to firms with ADRs. Three of the firms had listed ADRs directly.

Next, I examine all cases of illegal and legal asset taking by Mexican insiders. The data are shown in Tables IV and V, and the results show that the insiders of cross-listed firms were alleged to have stolen hundreds of millions of dollars. The severity of this asset taking by Mexican insiders is the strongest empirical refutation of the legal deterrence hypothesis, which emphasized that ADRs would deter all major forms of asset taking. As summarized in Panel A of Table II, 11 firms had insiders accused of engaging in illegal asset taking, and 20 firms had insiders accused of engaging in legal forms of asset taking. Of these 11 firms whose insiders were accused of engaging in illegal asset taking, two firms had a listed ADR directly and six firms had an unlisted ADR. Of the 20 firms whose insiders were accused of engaging in legal asset taking, six had a listed ADR and eight had an unlisted ADR. In both groups there were others firms that were directly tied by common controlling ownership to firms with listed ADRs.

The evidence clearly shows that ADRs did not deter some Mexican insiders from all forms of large-scale asset taking.

As a side note, the hypothesis is tested by looking very simply at whether ADRs served as a complete stopgap against insider asset taking, but going beyond the strongest predictions of the legal deterrence hypothesis, it would also be interesting to know the marginal effect of a listed ADR on deterrence. The challenge in being able to carry out this additional test is that in contrast to what the legal bonding hypothesis states, game theory cannot easily predict whether ADRs should deter or encourage asset taking during a crisis. First of all, Lins, Strickland and Zenner (2001) showed that ADRs relieve firms of cash constraints, and the theoretical model in Johnson, Boone, Breach and Friedman (2000) predicts that an insider of a firm sitting on liquid resources would be even more tempted to steal those liquid resources and earn higher returns in his personal account once a macroeconomic crisis began. The temptation would be even stronger in a country without a history of strong rule of law. This would mean that an ADR may actually increase the probability of insider asset taking during an economic downturn. At the same time, firms with ADR are believed by Coffee (2002b) and others to receive heightened scrutiny by regulators, shareholders and private plaintiffs' attorneys. If correct, then any extra scrutiny should also make it more likely that asset taking by insiders of firms with ADRs would be discovered. Of course, as this paper will show, the literature's belief in the heightened scrutiny of firms with ADRs appears to have been overstated. It is one thing for ADRs to provide better information about earnings forecasts during good times, but it is quite another things for ADRs to be able to facilitate the discovery of hidden asset taking that is absent from an SEC-mandated report. Nevertheless, theory presents no clear predictions about whether the temptation to steal outweighs the insider's belief about U.S. legal penalties, and in the Mexican case a differences-in-differences approach is not feasible because most of the firms with ADRs listed less than one year and a half before the crisis began. For that reason, a probability finding that Mexican firms with ADRs are more likely to engage in asset taking can is vulnerable to the counterclaim that ADRs simply facilitate the discovery of asset taking. I do not base any of the study's conclusions on the marginal probability results, although as I will explain, the results suggest that in the Mexican case, ADRs actually increased the probability of asset taking by insiders. At the time of raising capital on the NYSE and NASDAQ, the Mexican firms offered an unparalleled amount of disclosure, and yet the ongoing illegal asset taking by some insiders through related-party transactions was never detected in the one year and a half prior to the crisis.

The estimation results are reported in Table VI, and the coefficients show the change in the probability of asset taking for an infinitesimal change in each of the continuous independent variable, and for an absolute change in each dummy variable. There are no collinearity problems, and a correlation matrix is present in Panel C of Table II. As shown in the full model in Column 5, having a listed ADR was associated with a 22.13 percent greater likelihood ($p < .05$) of having an insider engage in any type of asset taking. As shown in the full model in Column 10, having a listed ADR is associated with a 19.76 percent greater likelihood ($p < .05$) of having an insider engage in illegal asset taking. Moreover, as shown in the full model in Column 13, having a listed ADR is associated with a 23.29 percent greater likelihood ($p < .05$) of having an insider engage in legal asset taking.[10]

For several reasons, ADRs did not provide the detection power necessary to reveal the large-scale asset taking in the Mexican cases discussed in this paper. First, the revelations of massive asset taking came as the Mexican Finance Ministry and Mexico's National Banking Commission first found in September 1994 that a non-listed firm called Grupo Financiero Banco

Cremi-Union, S.A., had been effectively looted of $200 million by its chairman. The government then looked into the entire banking sector and found that several banks (including most without listed ADRs) had insiders engaged in large-scale theft and even looting. The plaintiffs' case in the U.S. followed the revelations of Mexican banking regulators—not the reverse—and one of the plaintiffs who were first filed was himself a prominent plaintiffs' attorney who happened to have lost personal wealth through owning shares of Banpais. The plaintiffs' complaint did not even mention the looting of Banpais that the Mexican banking regulators themselves found in Banpais and other banks. It was the National Banking Commission that seized non-listed Grupo Financiero Banco Cremi-Union, then Banpais, and then a series of other banks without listed ADRs. When an insider steals anything approaching $200 million (or even any amount over a whole year's earnings) from a small-sized bank, the looting will likely be discovered--and in fact was discovered quickly—by customers, banking regulators, and Mexican minority investors with or without the bank having an ADR. In the case of the airline industry, the government also regulated the industry and the government together with leading bank creditors discovered that the same executive who had for years reportedly paid tens of millions of dollars to the ruling party had stolen tens of millions of dollars from the firm.

Many of the remaining of the case records described in Tables IV and V focus on Mexican revelations that were directly discovered by either industry regulators, Mexican customers, nonaffiliated banks serving as lead creditors, or else close business partners of the Mexican insiders who were themselves unwitting victims of the asset taking. Nowhere in the case histories is there any evidence that the U.S. listing played a decisive, let alone significant, role in detection. In the cases of legal asset taking, sometimes the insiders blocked public takeover attempts or forced their shareholders to accept costly securities exchanges. For those types of asset taking, the insider does everything in public view and detection is not an issue. If these companies had no cross-listings, the direct losses to close Mexican business partners, customers, and ruling party politicians would have remained. For example, Abaco Grupo Financiero had an unlisted ADR, but that made no difference for detecting the fact that the chairman was accused of directly stealing money from customers' accounts in a fixed-income fund. It is difficult to point to a single case that could have been discovered by reading the firms' required SEC filings or merely by the fact that the firm had U.S. institutional investors among its many minority shareholders. Nevertheless, these econometric results should be taken with a modicum of caution, given the potentially real, yet overwhelmingly unlikely possibility that they can be attributed to the detection power of ADRs.

The primary theoretical question of interest is whether having a listed ADR deterred large-scale violations of U.S. law. The answer, as reported in Tables III, IV and V is unequivocally no. Mexican insiders engaged in numerous and large-scale asset taking despite the fact that they had bonded themselves and their firms through a listed ADR.

V. U.S. INSTITUTIONAL RESPONSE

The SEC has done little to punish Mexican controlling shareholders who engaged in illegal asset taking. First of all, the SEC's only punishment of Mexican firms since the crisis has been to approve delisting them from a major exchange. It has chosen, together with the NYSE, to delist six Mexican firms, these being Altos Hornos de México, Grupo Sidek, Banpais, Grupo Mexicano de Desarollo, Grupo Financiero Serfin, and Bufete Industrial. Two individual series of Grupo Iusacell shares were delisted due to the low number of shares in public hands, and the share series were then reorganized and sold to what is now Verizon Communications. Interestingly, only Banpais was among the firms whose controlling shareholder was charged in Mexico with illegal asset taking, and the NYSE made its decision separately on the objective grounds of Banpais' failure to meet the objective NYSE listing criteria relating to the firm's share price, stockholder equity, and market capitalization.

A search in Lexis of all U.S. federal and state court cases in the last six years showed that not one of these Mexican firms has been charged by the U.S. government with wrongdoing under the securities laws. This study also found that there has only been one private civil case involving a Mexican firm for violations of the U.S. securities laws, and that case was filed shortly before the Mexican crisis began. What is most interesting about that case is that the Mexican insiders allegedly proceeded to loot the firm months after that case was launched against them. As shown in Table VII, the fear of the U.S. plaintiffs' bar (Coffee 2002) did not deter the Mexican insiders from engaging in large-scale asset taking.

There have been other isolated disputes over contract dispute and other matters that do not fit the criteria set out above.[11] For example, in May 2001 the SEC charged two groups of Mexican investors with illegal insider trading of U.S. listed firms. The SEC did not charge these Mexican investors with any wrongdoing with their own Mexican firms. Nor has the SEC taken any legal action directly against the Mexican firms that these investors control. Moreover, there has not been a single U.S. case where either the government or a private party sought redress for the same illegal asset taking that was an indictable crime in Mexico. Although the SEC has (sometimes) enforced the law against securities fraud for U.S. firms, the SEC has taken no action to recover any of the billions of dollars taken from investors in U.S.-listed Mexican firms.

VI. LEGAL ACTION TAKEN AGAINST ALL CROSS-LISTED FOREIGN FIRMS

Most importantly, further comprehensive evidence shows that the lack of SEC action against Mexican firms is matched by the rarity and overall ineffectiveness of SEC action against U.S.-listed foreign firms as a whole. Recent studies on corporate governance and legal institutions have shown repeatedly that illegal asset taking is a constant and festering problem that potentially afflicts all countries, but that it most severely afflicts those countries with weak legal institutions.[12] Assuming that the past findings have some merit, one would predict that the SEC has had a definable record of punishing violations by U.S.-listed foreign firms.

To determine the SEC's record, I first searched all SEC litigation releases between 1 January 1995 and 30 June 2002 for actions taken against firms with cross-listings on one of the major U.S. exchanges. As a robustness check, I conducted research interviews with 115 plaintiffs' attorneys in June, July and August 2002, and these interviews were used to crosscheck and identify any remaining SEC enforcement actions. The number of attorneys interviewed represented the most active attorneys in the area of securities law from all major offices of all prominent law firms. Several of the attorneys interviewed had 30 years of related experience and could recall the earliest cases involving cross-listed firms. As an additional robustness check, I searched the entire SEC web site (including administrative proceedings) by the names of all companies ever targeted as securities law violators by private plaintiffs. As shown in Table VIII, in that six-and-a-half-year-long period the SEC took legal action against just 13 cross-listed foreign firms. Remarkably, despite the widespread illegal asset taking that was part of the Mexico crisis, the Asia crisis, and the Russia crisis, the SEC took no legal actions against a cross-listed foreign firm from an emerging market during that period.[13] Not a single legal action was taken against cross-listed firms domiciled in countries such as Mexico, South Korea, Brazil, and Russia that have undergone a crisis.[14]

The record in Table VIII also shows that the SEC had mixed, if not poor, success in prosecuting the small number of foreign companies and their insiders that the SEC did in fact pursue. In the Baan case, the SEC received a $400,000 fine from the company's auditor and business associate, but had not yet prosecuted any of the company's senior executives for fraud in the two-year-old case. In the MTC Electronic Technologies case, the insiders were living abroad and had ignored the large judgment against them. In the ACLN case, the company was charged by private plaintiffs with massive financial fraud, but the SEC has done nothing more than temporarily suspend trading in the firm for 10 days. In the International Nesmont case, the court accepted that two of the main insiders would be unable to pay damages. In the Montedison case, despite the fact that the company had allegedly engaged in $398,000,000 in false reporting, the SEC accepted a settlement payment of just $300,000 with no admission of wrongdoing. In the Veba case, despite the harm of the company's lies about its upcoming merger, the SEC agreed to settle the case for no more than a commitment by the company not to violate the securities laws again in the future. In the Insignia Solutions case, the SEC settled the case of massive fraud with an agreement that the company cease and desist from further violations of the federal securities laws. The SEC did not recover any shareholder losses in that case. In the Sony case, despite massive charges of financial fraud, the SEC recouped only a $1 million fine together with a cease and desist order and changes in the company's financial reporting practices. Private plaintiffs were left on their own to recover some of their losses. In the Pathe case, despite reports of hundred of millions, if not billions of dollars, in shareholder losses, the SEC settled the case for nothing more than a cease and desist order. In the Objective Invest Holding and Sea Containers cases, the SEC recovered insider trading profits in the single-digit millions of dollars from insiders, and the remaining cases (Luxottica and Livent) are ongoing. Clearly, the overall track record of the SEC in these cases is mixed, with no direct evidence that shareholders ever recovered a significant percentage of their losses through SEC action in these cases.

It is important to note the types of case that are excluded from the analysis in this study. First, the SEC has prosecuted foreign nationals (including Mexican nationals) for insider trading in U.S.-domiciled and U.S.-listed firms, and has recently in May 2002 prosecuted a Mexican businessman named Jose Zollino for his alleged $325 million fraud connected to his U.S.-domiciled and SEC-registered brokerage firm. The SEC does also have a track record of seeking redress against foreign entities (often phantom entities) and foreign nationals for selling fake or otherwise fraudulent securities directly to American individual investors (such as through an Internet Ponzi scheme). In one recent case in July 2002, the SEC prosecuted a company for Internet fraud that was incorporated in Nevada but with headquarters in Australia, and this bizarre case and any similar cases are excluded because the incorporation is in the U.S. and, separately, because the firm was not listed on a major U.S. exchange. Those illegal acts are easier to detect because either an American citizen is directly robbed of their money, or else one of the American stock exchanges is able to monitor unusual insider trading in one of its own U.S.-listed companies. Yet although the data shows that the SEC began taking action in such cases, the data is not always available to show whether the SEC was ultimately successful in recovering investors' losses.

Those cases are purposely excluded from this paper because the focus is on testing the literature's prevailing theory of legal bonding that applies solely to cross-listed foreign firms. Moreover, securities fraud cases focused against U.S.-domiciled and U.S.-listed firms or insider trading in those U.S.-domiciled and U.S.-listed firms are excluded even if the U.S. firms had cross-listed foreign firms or foreign nationals as controlling shareholders. If the foreign national was charged with insider trading in a U.S.-domiciled firm, I do not include the case even if the foreign national happened to have some affiliation with a cross-listed foreign firm. Also, ostensibly American firms such as Global Crossing and Tyco that took advantage of the Bermuda corporate income tax loophole are excluded from the analysis. Given their strong ties to the U.S. through their primary executive offices, these firms do not present the same legal issues as discussed in the literature on cross-listings and legal bonding. The same criteria apply to the private plaintiffs' cases that will be discussed later.

I next sought to determine whether the SEC had ever in its history prior to 1995 been a strict enforcer of legal violations committed by foreign listed firms and their insiders. The answer is that throughout its history the SEC has rarely taken action against foreign listed firms or their insiders for violations of the federal securities laws. I conducted a search of all SEC litigation releases since 1933 by keywords "depositary receipt" or "ADR" or the individual names of all U.S.-listed foreign firms targeted by private plaintiffs. As a robustness check, I searched the entire SEC web site (including administrative proceedings) by the names of all companies ever targeted as securities law violators by private plaintiffs. This search found only two additional cases against a foreign firm with a cross-listing. One 1984 case against Canadian firm ITC involved that firm's violation of the registration and anti-fraud provisions of the Federal Securities Act. The other 1984 case involved the Canadian firm Grandma Lee's and its insider's selling of unregistered securities in the United States. In the interviews conducted with most of the private plaintiffs' attorneys, I was able to seek information on whether the SEC had acted informally or formally in their cases. The only cases that were named were the ones in

Table VIII plus the recent Asia Pulp & Paper case, where the SEC is believed to have held back approval in 2000 for a proposed exchange that would have reduced the company's outstanding debt. Whether the SEC acted informally based on corporate governance grounds is unknown. Overall, the interviews with plaintiffs' attorneys suggested that any informal action by the SEC in favor of their clients was uncommon, or otherwise unknown.

I next conducted an extensive search for published and unpublished civil court cases that involved private plaintiff actions against cross-listed foreign firms between the enactment of the Securities Act of 1933 and the Securities Exchange Act of 1934 and 30 June 2002. First, I used Lexis to search for securities cases involving U.S.-listed foreign firms, and then upon finding that the number of cases found on Lexis excluded a large number of very recent and unpublished cases, I moved on to search for cases on Stanford Law School's Securities Class Action Clearinghouse database (which covers the years 1995-2001). Then, I spent part of June, July and August 2002 attempting to interview the entire population of private plaintiffs' attorneys who had ever worked on a securities case involving a cross-listed foreign firm. First, I contacted the attorneys listed on the complaints and court decisions, and then I also contacted the many attorneys that were identified through referrals. After two months, I was able to interview 115 attorneys. Through this exhaustive interview process combined with the earlier database searches, I identifed the published and unpublished cases listed in Appendix III.[15]

Clearly, the U.S. securities laws do enable both the SEC and private plaintiffs to sue foreign firms for securities fraud. The two key laws have been the Securities Act of 1933, which "prohibits fraudulent or deceptive practices in any offer or sale of securities" (Ratner and Hazen 2002, 10), and the Securities Exchange Act of 1934, which created the SEC, provided for disclosure requirements, and prohibited “manipulative or deceptive devices or contrivances” related to the purchase or sale of securities (Ratner and Hazen 2002, 10-11).

Although some judges have tried to dismiss cases involving cross-listed foreign firms for lack of jurisdiction, the cases described in Appendix III show that plaintiffs clearly have standing when a foreign firm has enter the U.S. capital markets through a cross-listing. Starting in the late 1960s, the courts began formalizing rules enabling large class actions against firms and their insiders for violations of the federal securities laws (Klein and Coffee 2000, 156). In 1988, the U.S. Supreme Court embraced the “fraud on the market” theory, by which an individual who purchases securities can be injured by a company’s misrepresentation even if that person was unaware of the misrepresentation at the time she traded (Klein and Coffee 2000, 156). In 1988, the U.S. Supreme Court also held that any misrepresentation or omission could be considered legally “material” if “there is a substantial likelihood that a reasonable investor would consider it important” for making an investment (Klein and Coffee 2000, 157). In 1990, Congress increased the SEC’s power both by allowing the SEC to issue cease-and-desist orders against firms in violation of the securities laws, and to impose fines or order disgorgement of ill-gotten gains in administrative proceedings (Ratner and Hazen 2002, 18).

Private plaintiffs seeking redress against U.S.-listed foreign firms have most often appealed to Securities Exchange Act Rule 10b-5. This rule adopted by SEC to enforce the Securities Exchange Act prohibits a wide range of fraud: The rule states:

> “It shall be unlawful for any person, directly or indirectly, by the use of any means of instrumentality of interstate commerce, or of the mails, or of any facility of any national securities exchange,
>
> “(a) to employ any device, scheme, or artifice to defraud,
>
> “(b) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of circumstances under which they were made, not misleading, or

> "(c) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security" (Ratner and Hazen 2002, 139).

Nevertheless, the prior literature has not done enough to emphasize the numerous legal and institutional obstacles that private plaintiffs face in being able to prosecute a civil case successfully against a cross-listed foreign firm. The U.S. Supreme Court has ruled that no insider may be found guilty of violating Rule 10b-5 if the plaintiff has not shown that the insider acted with "scienter." This decision has left some discretion to U.S. federal judges to decide whether a plaintiff has shown that the insider acted willfully, or else recklessly ignored the illegality of her actions (Ratner and Hazen 2002, 143). In several of the cases listed in Appendix III, the judges went on record as stating that the plaintiffs had failed to show "scienter." Often, in practice, the plaintiffs must come up with internal documents from inside the company showing that the insiders knew that what they were saying to the public was deceptive. Even in U.S. cases, few plaintiffs have been able to shoulder that kind of internal company evidence.

A further legal challenge to plaintiffs came with the 1995 passage of the Private Securities Litigation Reform Act (PSLRA) by the U.S. House of Representatives and U.S. Senate over President Bill Clinton's veto. Already under Rule 9(b) of the Federal Rules of Civil Procedure, plaintiffs were required to detail their allegations of fraud "with particularity," and a federal district court judge retained some discretion to decide whether the plaintiffs' allegations met this standard. By passing the PSLRA, a two-thirds majority of Congress decided that where legal liability requires "proof that the defendant acted with a particular state of mind, the [plaintiff's] complaint shall … state with particularity facts giving rise to a strong inference that the defendant acted with the required state of mind" (Ratner and Hazen 2002, 142). Thus, the PSLRA raised the standard of specificity that plaintiffs must meet, and the 1995 law at the same time ordered the judge to block the plaintiff from gaining discovery of documents and witnesses while a defendant motion to dismiss is pending. Foster, Dunbar, Martin, Juneja and Allen (2002, 24) show that the proportion of overall securities fraud cases ending in dismissal has increased since passage of the PSLRA.

The combination of a heightened pleading standard with a restriction of plaintiffs' discovery clearly makes it more difficult to go after cross-border asset taking than the previous literature on legal bonding has acknowledged. Moreover, some federal courts have gone further and required that the plaintiffs prove that their loss was a direct result of the misrepresentations of the defendant (Ratner and Hazen 2002, 150). The result of these added challenges has made it more difficult to pursue cases against foreign insiders, who were already difficult pursue because they can try to hide themselves and their documents in a foreign legal jurisdiction that may or may not respect U.S. law.

Another empirical fact highlighted in Appendix III, which has not been acknowledged by the literature on legal bonding, is that foreign shareholders who purchase shares in U.S.-listed foreign firms on their home exchange have often been excluded by judges from legal protection in U.S. class actions. The belief in the literature was that once a foreign firm lists its shares in the U.S., all minority shareholders in that firm receive some measure of protection from that firm's commitment to U.S. legal liability. That belief, however, is not supported by the fact that judges have often decided that foreign shareholders who purchased their shares on foreign exchanges must pursue their legal redress separately in their home countries. While some judges have in fact allowed class actions to include foreign shareholders who purchased on foreign exchanges, often the U.S. judge has ruled on the legal principle of *forum non conveniens* that it would be legally more convenient for the foreign shareholders to stay in their home legal jurisdiction, no matter how weak those legal institutions at home may be. For example, there is an ongoing debate among federal judges about whether Canada presents a suitable forum.

A further challenge to outside shareholders is that the U.S. legal institutions have made it difficult if not impossible to prosecute derivative actions against foreign companies. As Klein and Coffee explain, "If a corporate official violates any of the duties he or she owes to the corporation, American law recognizes the right of a shareholder to sue in the corporation's behalf to redress this injury" (2000, 196). The literature on ADRs has overlooked the fact that derivative actions are based on the state law of the company's place of incorporation, and that U.S. courts (even at the federal level) have thrown out attempts to seek derivative action against a foreign insider for violation of fiduciary duty. One famous case was Batchelder v. Kawamoto (147 F.3d 915), where the American plaintiffs sued an insider of U.S.-listed Honda Motor Company on behalf of the Honda corporation. The U.S. federal judge ruled that any derivative action was based on Japanese law and would have to be adjudicated in Japan. In an interview with the author, the lead plaintiff's attorney explained that such a derivative action in even a developed country with relatively strong legal institutions like Japan would be lengthy and costly, and therefore was not pursued.

The literature on corporate governance has emphasized the problems faced by company insiders engaging secretly in transfer pricing and other types of tunneling. This type of tunneling would be best dealt this through derivative actions on behalf of the corporation (as was done last year in South Korea by minority shareholders against Samsung Electronics). Yet the literature on cross-listings and legal bonding has overlooked the fact that derivative actions against foreign companies are difficult, if not impracticable, in the U.S. legal jurisdiction no matter whether the foreign company has a U.S. stock listing or not. One recent 10b(5) case launched by plaintiffs against the insiders of Asia Pulp and Paper includes a claim of tunneling, but the case is also based on the more standard Rule 10b(5) claim of false statements about the company's hedging losses. The evidence from past cases and from interviews with 115 attorneys shows that while it is possible to include an individuals' theft from a corporation as part of a 10b(5) case, it presents legal obstacles and would be more appropriate as a derivate case. Yet as the federal judge ruled in the Honda case, the purchaser of an ADR may lack the legal right to pursue a derivative action in the U.S. courts.

The evidence on all securities fraud cases in the U.S. shows that recovery rates are a fraction of the dollar amount lost in the median case. Simmons (1996) found in her Ph.D. dissertation that the median settlement as a percentage of estimate damages to have been just 7.2 percent in the four years (1991-1994) before passage of the PSLRA. Simmons and colleagues at Cornerstone Research (2002) later found that the median settlement percentage dropped to an even lower 5.1 percent in the six years after passage of the PSLRA (22 December 1995 through 31 December 2001). Using a slightly different methodology for calculating estimated damages, Foster, Martin, Juneja and Dunbar (1999) from the economic consulting firm National Economics Research Associates reported similar results. Foster et al included settlements from 1991 to June 1999, and they found that the median settlement rate over the entire period was just 5.82 percent. Foster et al (1999) and the later Cornerstone (2002) each do economic research for corporate defendants. I interviewed two of the most prominent economic consultants who calculate estimated damages for plaintiffs' attorneys, and the two economic consultants each believed that the defense-oriented consultants are biased towards overestimating plaintiffs' damages. Based on their years of experience, one estimated the true median settlement percentage to be at 10 percent while the other placed it at 15-20 percent.

While estimating damages depends on the parameters included in the event study analysis, the difference between the lower-end and higher-end estimates is reported in Bajaj, Mazumdar and Sarin (2000), who find that the plaintiff-style estimate is 16.66 percent and the defendant-style estimate is 4.96 percent for the *average* settlement between 1988 and 1999. Bajaj et al (2000, 24) further find the average plaintiff recovery rate falls steeply once the estimated damages measured conservatively rise above $10 million (which is the case in 637 of the 807 settlements covered during that period). They find that the average recovery rate is 14.21 percent for cases with estimated damages measured conservatively at between $10 and $49.99 million dollars; 7.87 percent for cases with estimated damages measured conservatively at between $50 and $99.99 million dollars; and 4.25 percent for cases with estimated damages measured conservatively at over $100 million.

Even considering for a moment a world where the median settlement recovery was an unrealistically high 50 percent, the system of infrequent and ineffective SEC enforcement combined with 50 percent recovery would be far less effective than Coffee (2002b) has suggested. First of all, the plaintiff typically has to share 25-33 percent of the settlement as payment to her attorneys' for hours worked and direct costs. Furthermore, any settlement should be listed as income on a plaintiff's tax form and therefore return to the government any capital gains credits the plaintiff previously received. In most private plaintiff cases reported in this study, the individual insider rarely pays and is instead bailed out by the firm or the firm's insurance policy. If the plaintiffs are still shareholders of the firm, then they are in a sense having to take money from their own ongoing investment in the company's future earnings to compensate themselves for the insider's individual fraud. Foreign insiders in the cases reported in this paper are almost never jailed, let alone forced to use their own funds to pay a settlement.

A system in which defendants must hire the equivalent of expensive private police is far from a strong institutional system. Klein and Coffee explained in the case of domestic derivative cases that there are perils to this type of private justice for hire known as collusive settlements (2000, 197). The costs of a strong state agency and of strong state enforcement would be shared at lower cost by all taxpayers, and the protection of strong state law enforcement extends to the larger population. It is only in a truly second-best world where the plaintiffs' attorneys are the essential, but far less than fully effective, private police for hire.

The evidence also shows that the SEC has historically taken only a small number of legal actions against foreign firms. A key finding of this study is that the SEC has not been able and/or willing to be the world's governance enforcement agency. The commission does not maintain foreign offices, and it instead relies on the cooperation of foreign law enforcement agencies.[16] Some foreign regulatory agencies are simply incapable of cooperating with the SEC and others are not trusted to do so.

As a result, the main lesson to be drawn from this analysis is that the rules of the game are different in practice than they are as formally established and institutionalized. Some rules simply cannot be strictly enforced across borders, while the enforcement of other rules may require large resource investments. To understand institutions, one has to carefully analyze both the formal rules and the informal application of those rules. Often the informal application of legal institutions is not what would be predicted by an isolated analysis of formal institutions. Even in the U.S., which is ranked in the literature as having some of the strongest and most complete legal institutions in the world, institutions do not always work in practice as they are ostensibly designed to function.

VII. RESOURCE ATTRACTION

One last subject for review is whether the market punished transgressions even when the government did not. If U.S. legal institutions did not punish the firms whose insiders engaged in illegal and legal forms of asset taking, then did the market punish those firms? And did the market reward the firms that did not engage in any form of asset taking? The answer to both questions is yes.

A. A Simple Model of Reputational Bonding Through ADRs

This simple model is a modification of the Diamond (1991) model for reputation building that is adapted to the world of foreign firms and cross-listings. The Diamond (1991) model originally served to explain the crucial importance of reputation in debt markets, but a simplified version of the model can be applied here to explain why foreign firms are able to achieve reputational bonding through their U.S. cross-listing even if the U.S. laws are not enforced.

There are three groups of firms and a group of outside investors in this model. All are risk neutral. Firms of Type G have one safe, positive net present value project each period which for every dollar invested returns G > R at the end of the period. Firms of Type B have one excessively risky, negative net present value project each period. They can invest one dollar, and with probability ? < 1, the project returns B (where ? B < R and B > G); with probability 1 – ?, it returns zero. Risky projects tempt the managers of Type B to engage in asset taking during bad economic times, and therefore, risky projects are associated with asset taking during bad economic times. Finally, Type BG firms are allowed to decide each period whether they want to be B or G through a single choice, denoted by a_t, between either a_t = g (the safe project) or a_t = b (the excessively risky project). Each investor receives a resource endowment at the beginning, and outside investors retain access to a riskfree investment returning *R* units each period.

The initial population of firms contains a proportion f_G of type G's, f_B of type B's, and f_{BG} of type BG's. Only the proportions are public information. At periods other than $t = 1$, there will be a track record, O_t, of each firm that will condition outside investors' beliefs about firm type. For purposes of analysis, finite T allows use of backward induction.

Firms with a given track record promise outside investors the lowest return each period that offers outside investors an expected return of R, after including the investors' costs C of monitoring. In the final period, T, a firm offers a return on outside investment higher than this minimum only if that increased the probability of receiving outside investment. It is a sequential equilibrium for all firms to offer $r_t = R$. An agreement between the firm and the outside investor specifies the cutting off of all future outside investment if a firm shows a return less than r_t. Otherwise, the agreement specifies continued granting of outside resources if the firm pays r_t.

First, type BG firms face the following incentive problem in the final period. In the final period, $t = T$, type BG firms will select risky projects if and only if the expected end-of-period payoff from selecting risky projects, $p(B - r_t)$, exceeds the payoff from safe projects, $G - r_t$. Safe projects are selected if and only if the return r_t is low enough: $r_t < (G - pB)/(1 - p) = A_T$. The return is a decreasing function of the firm's reputation for not expropriating outside investors, and thus firms with a better reputation can afford to offer lower r_t ex ante.

It is assumed that even at the riskless rate of interest, $r_t = R$, type BG firms with a single-period horizon would select risky projects (where $A_T > R$). Reputational incentives are then important in motivating BG firms to select $a_t = g$. Because type BG and type B firms will select risky projects at the final date T, no investor will provide resources without any firm having a

U.S. cross-listing at date T unless firms have a sufficiently high probability of being type G given their track record. Let V_{t+1} equal the value to a type BG of making decisions to pursue safe projects in all periods. The payoff from choosing a safe project at t is $G - r_t + V_{t+1}$, and the payoff from choosing a risky project is $p(B - r_t + V_{t+1})$, implying that safe projects are selected if and only if $r_t < A_T + V_{t+1} = A_t$. The reputational capital that is lost on asset taking is V_{T+1}.

Since the present value of future rents, V_{t+1}, is increasing in the positive reputation of the firm, BG firms find that only with an earned reputation and a long horizon will they select safe projects. Safe projects are chosen without ADRs at date t ($a_t = g$) only if the net cost of paying a return is sufficiently low ($r_t - V_{t+1} = [G - pB]/[1 - p] = A_T$) or if the payoff from choosing a safe project in all periods is sufficiently high ($V_t^g = d[G - r_t + V_{t+1}] = d[p(B - G)/(1 - p)] = VA$).

Next, consider the case where the outside investor can select firms that have bonded themselves through U.S. cross-listings. Assume for a moment that an outside investor is able to detect the selection of the risky project: the action $a_t = b$. Only type BG firms are tempted by moral hazard because the other types do not have profitable opportunities to engage in such devices. Monitoring will catch a firm taking action $a_t = b$ only if it is a type BG. For a fixed cost, a period t outside investor can monitor the random variable m_t that might catch a firm choosing the risky project. If the firm is a type B or G or is a type BG choosing safe projects, monitoring delivers the realization $m_t = 0$ for sure (because the action $a_t = b$ is not taken by these types). The distribution of m_t given a type BG borrower who has selected risky projects, $a_t = b$, is $m_t = b$ with probability P and $m_t = 0$ with probability $1 - P$. Note that here monitoring could mean active observance of firm insiders through SEC filings, but it could also mean something more subtle such as giving a firm a slightly larger amount of money than its competitor and then watching existing public sources to see if the insider passes the test of an emerging market crisis.

Investors will prefer to invest in cross-listings for any minimally positive value of P. Therefore, the monitoring effectiveness of ADRs might not be strong, and certainly might not be strong enough to detect the asset taking described in this paper. Yet any incremental monitoring value of ADRs allows for the market to grow.

Now assume that cross-listings have purely informational value, if anything, but no legal deterrent value. Without some reputational incentive, cross-listings by themselves would not induce type BG firms to select safe projects. In that case, even if there was a return at the riskless rate that covers monitoring costs C (thus, a face value of $R + C$), type BG firms would select risky projects (both $A_T < R$ and $I_T < R + C$). Because only type G firms would select safe projects at date T, outside investors will lend only to firms with a sufficiently large probability of being a type G. Firms whose insiders are found taking assets or who are otherwise caught selecting risky projects (and reveal that they are not type G) see their outside resources permanently cut off. If no outside investor will provide resources at the last period, backward induction implies that each earlier period is the "last" period. Only a firm with a perfect record of never having its insiders found expropriating can receive additional outside resources on a given date. All firms that are caught when monitored are revealed to be type BG, and a fraction p of the remaining types B and BG (if $a_t = b$) are weeded out each period.

Consider how the BG firms will act when they all have ADRs. Let V_{t+1} equal the present value of rents of a type BG that makes optimal decisions from $t + 1$ to T given a record up to date t of never expropriating. If a risky project is selected, the firm is caught with probability P, and the firm cannot receive outside resources in the current period or in any future period: the payoff is zero. With probability $1 - P$, monitoring is uninformative, and $m_t = 0$. Conditional on $m_t = 0$, the firm has a probability of paying the return of p and of expropriating of 1 – p. The expected end-of-period payoff from a risky project, $a_t = b$, is (1 – P)[p($B - r_t + V_{t+1}$)].

If a safe project, $a_t = g$, is chosen, then the firm will neither expropriate nor have monitoring reveal $m_t = b$. The payoff at the end of the period is G - $r_t + V_{t+1}$. The type BG will select $a_t = g$ if and only if (1-P)[p(B - $r_t + V_{t+1}$)]. = G - $r_t + V_{t+1}$, or r_t = [G – p(1 – P)B]/[1 – p (1 – P)] + $V_{t+1} = I_T + V_{t+1} = I_t$.

Here, reputation reinforces and otherwise substitutes for legal deterrence: $I_t > I_T$. Even minimal monitoring by investors provides incentives for firms of low reputation (higher value of r_t) when reputation matters and when there exist future opportunities for receiving outside resources. Conversely, since the accepted r_t was earlier defined to always equal or exceed R, any increase in R that results from an economic shock has the effect of leading a larger number of BG firms to engage in asset taking.

The value of current and future rents, $V_t^g = d(G - r_t + V_{t+1})$, must exceed p(1 – P)(B – G)/[1 – p(1 – P)] = VI for reputational binding to provide strong incentives for good governance. As time passes, a firm's track record and reputation change. The more times a firm extends a perfect track record, the higher its conditional probability of being a type G because the number of type G's with a perfect record stays constant and the number of type B's with a perfect record declines. The number of type BG's with a perfect record either declines (if risky projects are chosen) or stays constant (if safe projects are chosen).

As a result, the model predicts that a combination of cross-listings and an economic shock provides an excellent means of identifying which are the BG firms and weeding them out. The remaining population of firms with ADRs will have a larger percentage of type G firms, and as a result the model predicts that these firms that survive an economic shock and continue to play the game will receive the largest amount of future outside resources.

B. The Empirical Evidence for Reputational Bonding from the Mexican Case

Next, I show empirical evidence from the Mexican case that supports the above theory of reputational bonding through listed ADRs. I have compiled an exhaustive database of all public debt and equity capital raisings by Mexican firms between 1 January 1995 and 31 December 1999. All public debt capital raisings have to be registered with the Mexico Stock Exchange (MSE). I purposely included all debt capital raisings of any type, including industrial debentures and banker's bonds. All domestic equity raisings are also registered with the MSE. I matched the data from the MSE on public debt and domestic equity capital raisings with data from a Citibank database on foreign equity capital raisings by Mexican firms. The data was crosschecked with the BONY public ADR database, each of the periodicals named above in this paper's Data section, and each company's own annual reports and financial releases. In order to facilitate comparison across firms, I first converted all peso-denominated capital raisings into U.S. dollars using the exchange rate that operated on the exact day that the capital raisings were realized. The amounts were then converted into 1995 constant dollars by discounting the 1996-99 data for changes in the U.S. consumer price index.[17] Because the numbers ranged from the millions to the tens of billions of dollars, I took the natural log of that final number. The statistical results are shown in Table IX.

The first significant finding is that only one firm whose insiders engaged in illegal asset taking received additional outside public resources after the asset taking became public. That one exception was Aerovía de México, which only received additional resources after the government took over the firm.

The second major finding, shown in Table IX, is that firms with ADRs that did not engage in either illegal or legal forms of asset taking were more likely to receive outside resources and in fact received a significantly larger amount of outside resources in the five years following the crisis. As shown in the full model in Column 3, having a listed ADR adds a 32.86 percent greater probability ($p < .05$) of receiving outside resources from the capital markets within five years of the crisis, while none of the firms with listed ADRs whose insiders were accused of engaging in illegal asset taking received resources. Moreover, as shown in the full model in Column 7, having a listed ADR and not having engaged in any form of asset taking is associated with receiving significantly more resources in the five years after the crisis ($p < .05$). This OLS regression is performed on firms having received at least $1 of outside resources. There are no multicollinearity problems, and there are no other econometric problems driving the results.[18] The evidence suggests that market-based incentives for creating a reputational asset may have led Mexican firms to follow rules that they were not forced to follow.

The results passed through a series of robustness checks for both versions of the dependent variable. I confirmed that the results were robust to using varying definitions of the dependent variable, including the square and cube of the log of total resources received, the log of total resources received in its undiscounted form, and the log of total resources received discounted for annual changes in the Mexican Consumer Price Index.[19] The results were robust to using different definitions of firm size, including the square and cube of total assets and the log values of those measures. When the firms in the financial sector are excluded from the full sample, the listed ADR result in Column 7 continues to be statistically significant ($p < .10$). I confirmed that debt, export orientation, short-term dollar-denominated debt, and the interaction between short-term dollar-denominated debt and export orientation are not underlying variables driving the ADR results. All appendices are available from the author.[20]

It should be noted why the market incentive alone should not be expected to have totally eliminated asset taking. Bebchuk (1992) described "special distributive issues" in which the manager directly gains more from an antitakeover provision than the company and outside shareholders lose. In the Mexican case, the insiders may have directly benefited less from building the reputational asset than did the firm and its minority shareholders.

Nevertheless, the results suggest that firms did face a reputational penalty from illegal asset taking that was far more severe than any punishment they received from the American legal institutions. This result broadly supports the earlier findings of Karpoff and Lott (1993), and of Badrinath and Bolster (1996), who respectively found that the market punished firms for environment violations and for corporate fraud far more severely than the government did. The reputational asset found here is also related to that derived In Gomes' (2000) formal game-theoretical model, where insiders have a personal financial incentive (in terms of their ability to sell their own shares at the highest price) to build and protect a reputational asset. The present analysis, in turn, suggests that the prospect of future capital raisings is another incentive for insiders to respect minority shareholder interests.

VIII. CONCLUSION

This study reveals how and to what extent formal institutions or rules of the game can have one meaning on paper and quite another in practice in the field of corporate governance.

To understand the effect of institutions on micro-level firm action, this study suggested that it is necessary both to study how the institutions are written and how they are implemented.

From a macro-level institutional design perspective, ADRs are far from a complete substitute for strong foreign law enforcement in preventing fraud, theft, embezzlement and legal asset taking. Listed ADRs did not always serve as an effective bonding mechanism for deterring malfeasance. If listed ADRs had been an effective bonding mechanism, the controlling shareholders of several firms with listed ADRs would not have decided to risk U.S. liability and take so many assets out of their firms for their own personal use.

Issuing an ADR is, however, a powerful tool for firms in attracting outside resources. If firms with ADRs follow the law because they are seeking to create a reputational asset, then future research can focus on the mechanism through which such a reputational asset is created in different institutional contexts. One question is whether issuing an ADR is the most efficient way of creating a reputational asset, or whether better options exist.

In conclusion, this study provides evidence for the argument that institutional analysis requires a comprehensive examination of whether the formal rules of the game differ significantly from the rules that are enforced in practice. American governance rules affecting U.S.-listed foreign firms are shown in this study to be much stricter in formal writing than they are in practice. At the same time, the fact that Mexican legal institutions worked well as a punishment mechanism for at least some individuals would also not have been predicted by solely examining Mexico's formal investor protections. Besides courts, alternative enforcement mechanisms may also explain why firms choose to follow formal rules they are not coerced to follow. In this study, the market punished firms much more harshly than did the SEC (which usually did not punish these firms at all). The market also gave firms a positive incentive (in the form of future resource flows) to follow the law. In the U.S. just as in emerging markets, institutional analysis requires that a distinction be made between the formal rules of the game and the informal rules and enforcement mechanisms that firms are forced to abide by in practice.

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[1] Authors have provided evidence that weak legal institutions hindered financial development for firms in many countries across the globe. Weak rule of law was associated with small equity markets, few publicly listed firms, small size of publicly listed firms, small valuation of firms relative to their assets, smaller dividend payouts made to minority investors, a lower correlation between investment opportunities and actual investments, and fewer initial public offerings (IPOs). See La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997; 2000a; 2000b); Kumar, Rajan, and Zingales (2001); Claessens, Djankov, Fan, and Lang (2002); and Wurgler (2000).

[2] A complementary set of studies has shown that weak financial development leads subsequently to slower economic growth. See Beck, Levine, and Loayza (2000); Demirguc-Kunt and Maksimovic (1998); King and Levine (1993); Levine (1999); Levine and Zervos (1998); Morck, Yeung, and Yu (2000); Rajan and Zingales (1998); Wurgler (2000); and Schumpeter (1911).

[3] See Milhaupt (1998); Roe (1996); and Bebchuk and Roe (1999).

[4] There were approximately 382 litigation releases issued by the SEC in 1999, approximately 407 litigation releases in 1998, and approximately 396 litigation releases in 1997. The vast majority of the litigation actions were taken against U.S. individuals and companies based in the United States. A small percentage of these litigation releases were updates and extensions of earlier SEC actions, so the number of independent legal actions was smaller. The data show that even in the face of strong domestic legal institutions, firms and individuals break the securities laws. Firms and individuals engage in malfeasance even during good economic times.

[5] See the list of ADR companies on file at www.adr.com and www.bony.com/adr.

[6] Banca Quadrum and Servicios Financieros Quadrum were actually the same firm going through a reorganization and name change at the time of the 1994-95 crisis. Banca Quadrum, the listed parent firm that emerged from the reorganization, was included in the sample.

[7] Mitton (2002) used a similar method for defining the start of the 1997-98 Asia crisis.

[8] As stated earlier, firms also have the option of listing their shares directly on a U.S. exchange. There were no examples of a Mexican-domiciled firm that had gone that route, although Panamerican Beverages is a company based in Miami that has part of its business interests in Mexico.

[9] For this study I have included Hylsamex, a firm that had submitted its financial information to the public and that had received approval for its unlisted ADR just prior to the crisis. Hylsamex's shares did not begin trading in the U.S. until four weeks after the crisis began. I confirmed that inclusion of this firm did not substantively affect any of the results. Bancomer, which originally had an ADR on its own, saw its Mexican listing folded into that of its parent firm Grupo Financiero Bancomer.

[10] It should be noted that as a robustness check, the financial sector firms were excluded from the analysis in Columns 6, 7, and 14. Because of whole industries get automatically dropped from the probit regression when none of the firms in those industries engaged in asset taking, the data loss for the subgroup of listed ADR firms is considerable. As a result, the listed ADR variable loses its statistical significance, while the unlisted ADR remains statistically significant because of the larger number of remaining firms with unlisted ADRs. As a further robustness check, I investigated whether the combination of having foreign-currency-denominated debt and a low export orientation was driving the results. A dummy was set equal to 1 for firms that had over 30 percent of their debt in short-term foreign currency and less than 30 percent of their sales derived from exports. The interaction

variable was not statistically significant, and furthermore, there is no statistically significant difference between firms with listed ADRs and all other firms on this measure. The appendices are available from the author.

[11] There was one case brought by a U.S. affiliate of BBV Argentaria against the parent of Altos Hornos de México, but that case was for contract infringement and had nothing to do with the treatment of outside resource providers. Grupo Financiero Bancomer was sued in the U.S. for being negligent in its duties as trustee of a series of bonds issued by Grupo Sidek.

[12] See Johnson, La Porta, Lopez-de-Silanes and Shleifer (2000); Friedman and Johnson (2000); Bertrand, Mehta and Mullainathan (2002); Blass and Grossman (1996); and Blass, Yafeh and Yosha (1998).

[13] The agency did take legal action against a larger number of fraudulent foreign entities (including primarily fraudulent investment product schemes) that were not listed on a U.S. exchange but had committed wrongdoing inside the U.S. legal jurisdiction or had been controlled by U.S. nationals. Between 1 January 1995 and 30 June 2001 the SEC took 54 legal actions that fit that definition.

[14] It is worth emphasizing that this study purposely excludes cases against foreign nationals who were found guilty of insider trading in U.S.-domiciled companies. This analysis also excludes the action taken by the SEC against U.S.-domiciled Credit Suisse First Boston Corporation for kickbacks it received in exchange for giving certain brokerage customers privileged access to the El Sitio IPO. The target was a U.S.-domiciled broker, and the SEC made no allegation that El Sitio was involved in the alleged securities fraud. Private plaintiffs, it should be noted, have separately made their own accusations against El Sitio, a cross-listed Argentinean firm.

[15] With the same criteria set out above, I included cases that involved cross-listed foreign firms and their insiders for securities fraud connected to the foreign firm. By this standard, once case involving the Australian firm Ferrovanadium was excluded because it did not have a listing on a major U.S. exchange.

[16] See Licht (2000) who emphasizes that bilateral MOUs between the SEC and foreign regulators are non-binding.

[17] The data on the U.S. CPI came from the Bureau of Labor Statistics, U.S. Department of Labor.

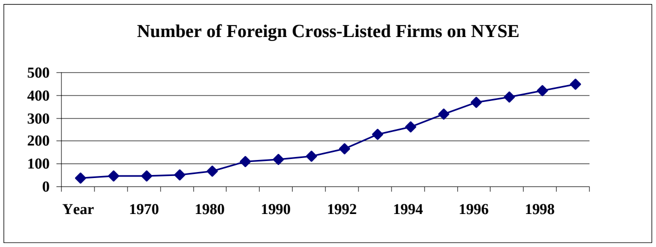
[18] I corrected for heteroskedasticity using robust standard errors. Multicollinearity is not a problem, since the average variance inflation factor is 2.23, and the maximum variance inflation factor is 6.76. Neither number is considered to be too high. Omitted variables do not appear to be driving the results. Using two versions of the Ramsey test, I found that one version using powers of the fitted versions of the dependent variable showed significant evidence of omitted variables ($p = .0029$) while the other version using powers of the fitted versions of the independent variables did not ($p = .3006$). Most importantly, visual inspection of residual plots did not show a clear pattern, and that suggests that omitted variables are not driving the results. I also find that the results are not highly sensitive to measurement error. All of the remaining non-industry variables in the model can simultaneously have measurement reliability as low as 0.75 (indicating a 25 percent measurement noise to total variance ratio), and the results would not be materially affected. Most variables can have an even much lower reliability individually before the results are materially affected. Therefore, measurement error is not a serious concern.

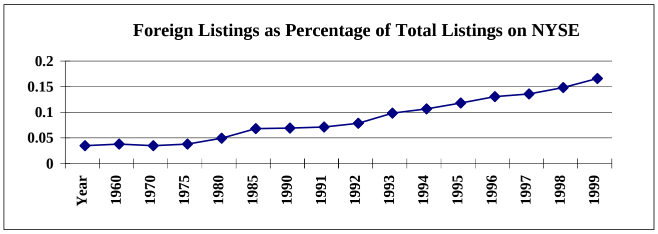
[19] The data on the Mexican CPI came from Mexico's National Institute for Statistics, Geography and Computing (INEGI).

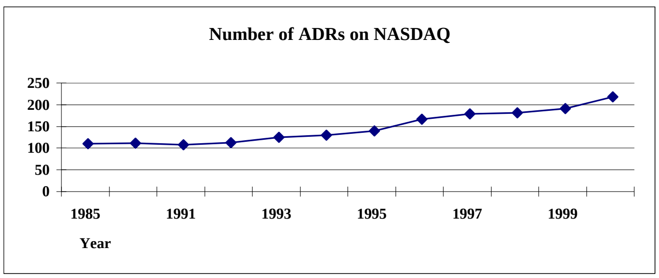
[20] The author can be reached by e-mail at jsiegel@mit.edu.

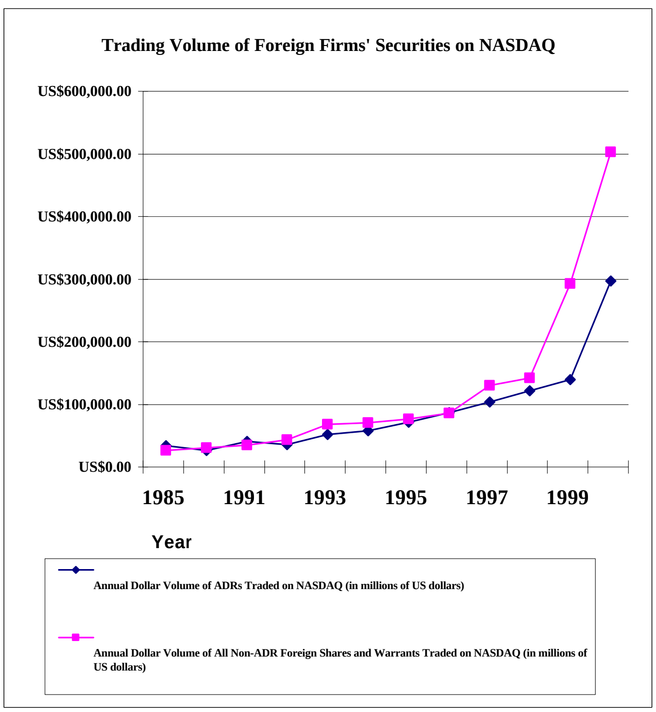
Figure I

These graphs show the growth of foreign cross-listings on the major U.S. exchanges.









Sources: Macey and O'Hara (2002), www.marketdata.nasdaq.com

Table I: The Variables

This table describes the variables collected for all 183 firms that had an equity listing on the Mexican Stock Exchange as of September 1994. The first column gives the name of the variable. The second column describes the variable and provides sources from which the variable was collected.

Variable	Description
Firm's controlling shareholder and/or senior manager took assets illegally and fled Mexico	A dummy variable equals 1 for illegal asset taking when a firm's controlling owner and/or senior manager allegedly took assets illegally and then was publicly confirmed as having fled Mexico for a period of at least a year. These controlling owners and/or senior managers were all eventually accused by Mexican law enforcement of theft, fraud or embezzlement between 1 January 1995 and 1 January 2000. Sources: *Reforma* , *El Norte* , *El Financiero* , *Sourcemex Economic News & Analysis on Mexico* , *Forbes* , *Dow Jones International News* , *Wall Street Journal* , *Wall Street Journal Europe* , *Mexico Corporate Monthly* , *LatinFinance* , Company Annual Reports and Press Releases, Mexico Stock Exchange
Firm's controlling shareholder and/or senior manager was accused of illegal asset taking	A dummy variable equals 1 if a firm's controlling shareholder and/or chief executive was accused by law enforcement, regulators or minority shareholders of theft, fraud or embezzlement between 1 January 1995 and 1 January 2000. The dummy variable equals 0 otherwise. Sources: *Reforma* , *El Norte* , *El Financiero* , *Sourcemex Economic News & Analysis on Mexico* , *Forbes* , *Dow Jones International News* , *Wall Street Journal* , *Wall Street Journal Europe* , *Mexico Corporate Monthly* , *LatinFinance* , Company Annual Reports and Press Releases, Mexico Stock Exchange
Firm's controlling shareholder and/or senior manager was accused of legal asset taking	A dummy variable equals 1 if a firm's controlling shareholder and/or chief executive was accused by law enforcement, regulators or minority shareholders of legal asset taking. I found that 13 different types of legal asset taking took place in Mexico after the 1994/95 crisis. A dummy variable equals 1 if the insiders were accused of having engaged in at least one or more of these 13 types of legal asset taking. The dummy variable equals 0 otherwise. These 13 types of legal asset taking were as follows:
	(1)The controlling shareholders purchased inputs from another entity they control at noticeably above market prices and without full disclusore to shareholders;
	(2) The controlling shareholders loaned the firm's money to an outside entity owned by one or more of the controlling shareholders at below market cost, and they did this without full disclosure or approval from shareholders;
	(3) The controlling shareholders paid themselves one-time excessive management fees without full disclosure and without approval from shareholders;
	(4) The controlling shareholders used dilutive share issues to forcefully decrease minority shareholders' control,
	(5) The controlling shareholders used outside investor's capital surreptitiously to manipulate the firm's short-term share price for the benefit of the controlling
	(6) The controlling shareholder surreptitously transferred millions of dollars of the firm's money into the hands of the ruling government party without informing even the board of directors;
	(7) The controlling shareholders used illicit means to block a takeover bid even after the firm had gone bankrupt;

Variable	Description
Firm's controlling shareholder and/or senior manager was accused of legal asset taking, cont.	(8) The controlling shareholders were accused by public regulators of destructive and gross financial mismanagement which led to the reduction in the value of minority shareholders' equity; (9) The controlling shareholders transferred the firm's capital to recapitalize a bank or other bankrupt entity owned by the firm's controlling shareholders; (10) The controlling shareholders of a financial firm were accused with civil breach of fiduciary duty relating to bank trust accords and put the financial firm at risk of large (11) The controlling shareholders tried to sell the firm to an outside buyer, but decided without shareholder approval to bar all minority shareholders from participating in the deal; (12) the controlling shareholders attempted to use the firm's assets to purchase another firm surreptitiously without full disclosure to even the board of directors; and (13) the senior managers were dismissed after defrauding the firm of millions of dollars, but it was unclear whether their conduct was actually illegal under Mexican law. Sources: *Reforma* , *El Norte* , *El Financiero* , *Sourcemex Economic News & Analysis on Mexico* , *Forbes* , *Dow Jones International News* , *Wall Street Journal* , *Wall Street Journal Europe* , *Mexico Corporate Monthly* , *LatinFinance* , Company Annual Reports and Press Releases, Mexico Stock Exchange
Firm's controlling shareholder and/or senior manager was accused of any type of asset taking	A dummy is set equal to 1 if the insider was accused of any the illegal or legal types of asset taking described above
Firm received resources in the form of equity, publicly held debt, or syndicated loans during 1995-1999	A dummy is set equal to 1 if a firm received resources through equity, publicly held debt (including industrial debentures), or syndicated loans from the capital markets between 1 January 1995 and 31 December 1999. Sources: Mexico Stock Exchange, *Reforma* , *El Norte* , *El Financiero* , *Sourcemex Economic News & Analysis on Mexico* , *Forbes* , *Dow Jones International News* , *Wall Street Journal* , *Wall Street Journal Europe* , *Mexico Corporate Monthly* , *LatinFinance* , Company Annual Reports and Press Releases
Amount of outside resources received from the capital markets during 1995-1999	I count how much a firm received from the capital markets through equity, publicly held debt (including industrial debentures), and syndicated loans between 1 January 1995 and 31 December 1999. All funds are converted into U.S. dollars using the rate that was in effect on the day the capital raising was realized. The funds are converted into 1995 constant dollars by discounting the 1996-99 figures for changes in the U.S. Consumer Price Index. Then I take the log of the total amount raised between 1995-99. Sources: Mexico Stock Exchange, *Reforma* , *El Norte* , *El Financiero* , *Sourcemex Economic News & Analysis on Mexico* , *Forbes* , *Dow Jones International News* , *Wall Street Journal* , *Wall Street Journal Europe* , *Mexico Corporate Monthly* , *LatinFinance* , Company Annual Reports and Press Releases
Firm has listed ADR	A dummy variable equals 1 when the firm issued either a Level II or a Level III ADR prior to September 1994.
Firm has unlisted ADR	A dummy variable equals 1 when the firm issued either a Rule 144a or Level I ADR prior to September 1994. Sources: Company filings, Citibank, J.P. Morgan, Bank of New York

Variable	Description
Firm has owner seated in the CMHN	A dummy variable equals 1 if a firm was represented in the Consejo Mexicano de Hombres de Negocio (Mexican Council of Businessmen, or CMHN) prior to January 1994. Schneider (2000) reports that the CMHN was the single most influential business lobbying organization in Mexico, and that the CMHN was even given the opportunity to veto presidential candidates offered by the PRI. For this dummy variable, we only include firms whose owner-manager on the CMHN had a majority of his estimated wealth invested in that firm. Sources: Schneider (2000), Company 20-F filings, and interviews with Mexican senior managers
Foreign firm ownership (at least minority) pre-crisis	A dummy variable equals 1 when the firm was at least 10% owned by a foreign firm prior to September 1994. Sources: Company filings and interviews with Mexican senior managers
Firm owned a 10% share in a bank pre-crisis	A dummy variable equals 1 when the firm owned at least a 10% ownership stake in a bank prior to September 1994. Source: Company filings
Recommended by Baring Research Group for being a High-Quality Firm	A dummy variable equals 1 if a firm if it received a "buy" or "core holding" recommendation from the research group at Baring Case de Bolsa in a publication delivered to foreign institutional investors in January 1992. This publication made forward-looking estimates of the quality of Mexican firms. Sources: 1992 Report from Baring Casa de Bolsa
Short-term foreign liabilities/Total liabilites	I divide a firm's 1993 short-term foreign liabilities by its 1993 total liabilities. Sources: Mexico Stock Exchange, *Anuario Financiero* 1993, Company filings
Total liabilities/Total assets	I divide a firm's 1993 total liabilities by its 1993 total assets. Sources: Mexico Stock Exchange, *Anuario Financiero* 1993, Company filings
Foreign sales/National sales	I divide a firm's 1993 foreign sales by its 1993 total sales. Sources: Mexico Stock Exchange, *Anuario Financiero* 1993, Company filings
Log of assets	I take the natural log of a firm's 1993 total assets. Sources: Mexico Stock Exchange, *Anuario Financiero* 1993, Company filings
Petroleum industry (PET)	A dummy variable equals 1 if the firm's main business had two-digit SIC Code 13 or 29. Sources: Mexico Stock Exchange, *Anuario Financiero* 1993, Company filings
Finance/real estate industry (FRE)	A dummy variable equals 1 if the firm's main business had two-digit SIC Code 60, 61, 62, 63, 64, 65, 66, 67, 68 or 69. Sources: Mexico Stock Exchange, *Anuario Financiero* 1993, Company filings
Consumer durables industry (CDR)	A dummy variable equals 1 if the firm's main business had two-digit SIC Code 25, 30, 36, 37, 50, 55 or 57. Sources: Mexico Stock Exchange, *Anuario Financiero* 1993, Company filings
Basic industry (BAS)	A dummy variable equals 1 if the firm's main business had two-digit SIC Code 10, 12, 14, 24, 26, 28 or 33. Sources: Mexico Stock Exchange, *Anuario Financiero* 1993, Company filings

Variable	Description
Food/tobacco industry (FTB)	A dummy variable equals 1 if the firm's main business had two-digit SIC Code 1, 20, 21 or 54. Sources: Mexico Stock Exchange, *Anuario Financiero* 1993, Company filings
Construction industry (CNS)	A dummy variable equals 1 if the firm's main business had two-digit SIC Code 15, 16, 17, 32 or 52. Sources: Mexico Stock Exchange, *Anuario Financiero* 1993, Company filings
Capital goods industry (CAP)	A dummy variable equals 1 if the firm's main business had two-digit SIC Code 34, 35 or 38. Sources: Mexico Stock Exchange, *Anuario Financiero* 1993, Company filings
Transportation industry (TRN)	A dummy variable equals 1 if the firm's main business had two-digit SIC Code 40, 41, 42, 44, 45 or 47. Sources: Mexico Stock Exchange, *Anuario Financiero* 1993, Company filings
Utilities industry (UTI)	A dummy variable equals 1 if the firm's main business had two-digit SIC Codes 46, 48 or 49. Sources: Mexico Stock Exchange, *Anuario Financiero* 1993, Company filings
Textiles/trade industry (TEX)	A dummy variable equals 1 if the firm's main business had two-digit SIC Code 22, 23, 31, 51, 53, 56 or 59. Sources: Mexico Stock Exchange, *Anuario Financiero* 1993, Company filings
Services industry (SVS)	A dummy variable equals 1 if the firm's main business had two-digit SIC Code 72, 73, 75, 80, 82 or 89. Sources: Mexico Stock Exchange, *Anuario Financiero* 1993, Company filings
Leisure industry (LSR)	A dummy variable equals 1 if the firm's main business had two-digit SIC Code 27, 58, 70, 78 or 79. Sources: Mexico Stock Exchange, *Anuario Financiero* 1993, Company filings

Table II

Summary Statistics

Panel A. Dependent Variables

Variable	Obs	Mean	Std. Dev.	Min	Max	Population Number
Asset Taking						
[1] Firm's owner and/or senior manager engaged in illegal asset taking and fled Mexico	183					8
[2] Firm's owner and/or senior manager was accused of any type of asset taking	183					24
[3] Firm's owner and/or senior manager was accused of illegal asset taking	183					11
[4] Firm's owner and/or senior manager was accused of legal asset taking	183					20
Outside Resources						
[5] Received outside resources through equity, bonds, or syndicated loans in the five years after the crisis	183					80
[6] Log of the amount of outside resources a firm received within five years, conditional on the firm having received resources	80	8.06	1.08	2.93	9.71	

Table II

Summary Statistics

Panel B. Independent Variables

Variable	Obs	Mean	Std. Dev.	Min	Max	Population
Role of ADR						
[7] Firm has ADR	183					58
[8] Firm has listed ADR	183					23
[9] Firm has unlisted ADR	183					35
Control Variables						
[10] Firm has owner seated in the CMHN	183					37
[11] Foreign firm owns at least 10%	183					15
[12] Firm owned a 10% share in a bank pre-crisis	183					30
[13] Recommended by Baring Research Group for being a High-Quality Firm	99					10
Financial Controls						
[14] 1993 Short-term foreign liabilities/Total liabilities	183	0.15	0.18	0.00	0.76	
[15] 1993 Total liabilities/Total assets	183	0.49	1.10	0.00	14.86	
[16] 1993 Foreign Sales/National Sales	183	0.15	0.65	0.00	7.72	
[17] 1993 Log of assets	183	19.81	1.72	15.60	23.78	
Industry Controls						
[18] Petroleum industry (PET)	183					1
[19] Finance/real estate industry (FRE)	183					50
[20] Consumer durables industry (CDR)	183					21
[21] Basic industry (BAS)	183					28
[22] Food/tobacco industry (FTB)	183					28
[23] Construction industry (CNS)	183					16
[24] Capital goods industry (CAP)	183					5
[25] Transportation industry (TRN)	183					3
[26] Utilities industry (UTI)	183					4
[27] Textiles/trade industry (TEX)	183					19
[28] Services industry (SVS)	183					3
[29] Leisure industry (LSR)	183					5

Table II

Panel C. Correlation Matrix. (See Panels A and B for the key.)

	[1]	*[2]*	*[3]*	*[4]*	*[5]*	*[6]*	*[7]*	*[8]*	*[9]*	*[10]*	*[11]*	*[12]*	*[13]*	*[14]*	*[15]*	*[16]*	*[17]*
[1]	1.000																
[2]	0.550	1.000															
[3]	0.807	0.682	1.000														
[4]	0.426	0.927	0.528	1.000													
[5]	0.027	0.147	-0.055	0.132	1.000												
[6]	0.017	0.067	0.017	0.088		1.000											
[7]	0.142	0.257	0.199	0.271	0.299	0.330	1.000										
[8]	0.000	0.146	0.033	0.174	0.264	0.232	0.557	1.000									
[9]	0.168	0.182	0.208	0.174	0.132	0.157	0.714	-0.184	1.000								
[10]	0.092	0.207	0.087	0.246	0.269	0.420	0.330	0.137	0.274	1.000							
[11]	-0.118	-0.063	-0.147	-0.038	-0.021	0.087	0.093	0.023	0.091	0.074	1.000						
[12]	-0.095	0.047	-0.117	0.072	0.205	0.079	0.047	0.233	-0.140	0.108	0.138	1.000					
[13]	-0.051	-0.093	-0.064	-0.087	0.176	0.261	0.250	0.199	0.128	0.298	0.037	0.218	1.000				
[14]	-0.069	0.040	-0.063	0.084	0.015	0.029	0.060	0.012	0.061	0.087	0.143	0.035	-0.011	1.000			
[15]	-0.007	0.201	0.004	0.208	0.090	0.130	-0.045	-0.020	-0.037	0.124	0.088	-0.034	-0.024	0.105	1.000		
[16]	-0.006	-0.043	-0.021	-0.033	0.089	-0.103	-0.026	-0.009	-0.024	0.000	0.036	-0.025	-0.031	0.285	0.002	1.000	
[17]	0.165	0.195	0.195	0.157	0.401	0.440	0.345	0.230	0.215	0.322	0.049	0.093	0.270	-0.113	-0.001	-0.005	1.000
[18]	-0.016	-0.029	-0.020	-0.027	-0.065		0.109	-0.028	0.152	-0.037	-0.041	-0.033	-0.018	-0.006	0.024	-0.007	-0.039
[19]	0.229	0.089	0.184	0.010	-0.021	0.096	-0.154	-0.121	-0.080	-0.095	-0.224	-0.238	-0.147	-0.500	-0.038	-0.142	0.186
[20]	-0.077	-0.038	-0.095	-0.022	-0.075	-0.206	-0.135	-0.085	-0.088	-0.096	0.205	0.026	-0.011	0.364	-0.031	0.229	-0.250
[21]	-0.091	0.015	-0.051	0.037	0.023	-0.024	-0.061	-0.024	-0.052	0.013	0.194	0.140	0.031	0.192	0.167	0.133	0.013
[22]	-0.091	-0.120	-0.113	-0.105	0.023	0.059	0.037	0.068	-0.014	0.164	0.051	0.140	0.165	0.041	-0.061	-0.085	0.090
[23]	-0.066	-0.063	-0.082	-0.051	0.117	-0.058	0.163	0.174	0.046	0.037	-0.035	0.072	0.096	-0.019	-0.017	-0.035	0.043
[24]	-0.036	0.133	0.226	0.150	-0.013	0.025	0.102	-0.064	0.174	-0.001	-0.093	-0.074	-0.040	-0.007	0.001	0.001	0.027
[25]	0.393	0.205	0.313	0.224	0.060	0.065	0.190	0.081	0.156	0.149	-0.072	0.059	-0.031	0.093	0.038	0.065	0.090
[26]	-0.032	0.053	-0.040	0.063	0.170	0.163	0.219	0.394	-0.073	0.111	0.093	0.035	0.128	-0.011	-0.019	-0.018	0.124
[27]	-0.073	-0.026	-0.090	-0.010	-0.083	-0.052	-0.001	-0.075	0.062	-0.082	-0.020	-0.006	-0.082	0.040	-0.023	-0.057	-0.146
[28]	-0.028	-0.050	-0.034	-0.046	-0.114		-0.088	-0.049	-0.063	-0.065	-0.072	-0.057	-0.031	-0.060	-0.013	-0.007	-0.156
[29]	-0.036	-0.065	-0.044	-0.060	-0.013	-0.085	0.030	-0.064	0.089	-0.001	-0.093	-0.074	-0.040	0.091	-0.012	-0.025	-0.115

Note: Three cells are blank because there was correlation to perform. All firms that received resources had the same value on the dummy variable no matter how much they raised. Also, the one firm in the petreoleum industry and the three firms in the non-financial services industry did not receive outside resources.

Table III

These firms had insiders who were confirmed by law enforcement, shareholders and regulators as having illegally taken assets and having fled Mexico.

Firm	Firm has ADR or is tied to firm with ADR	Insider's Chosen Destination
Abaco Grupo Financiero, S.A. de C.V.	Listed ADR	Suburb of Vancouver, British Columbia, Canada*
Aerovias de Mexico, S.A. de C.V.	Listed ADR	Switzerland
Banco Mexicano, S.A.	Owned by Grupo Financiero Invermexico, which had listed ADR	San Antonio, Texas, USA
Banpais, S.A.	Listed ADR	San Diego, California, USA
Corporacion Mexicana de Aviacion, S.A. de C.V.	Unlisted ADR	Switzerland
Grupo Financiero Asemex Banpais, S.A. de C.V.	Owned Banpais, which had Listed ADR	Spain
Grupo Financiero Invermexico, S.A. de C.V.	Unlisted ADR	San Antonio, Texas, USA
Grupo Financiero Mexival, S.A. de C.V.	Partner Firm with Banpais, which had Listed ADR	Spain

Note: These eight cases involved five Mexican individuals, and that is why the same destination appears twice in some cases.

*: The chief insider was arrested in Nuevo Leon, Mexico, but one of the chief codefendants and a director of the financial group was recently arrested in May 2001 in Canada by way of a Mexican extradition request.

Table IV

This appendix provides details on the accusations of illegal asset taking.

Firm	Brief Summary of the accusations of Illegal Asset Taking	Year in which the Illegal Asset Taking Took Place	Those Bringing Forward the Accusation	What Subsequently Happened to the Firm and the Firm's Owner/Senior Manager
Abaco Grupo Financiero, S.A. de C.V.	Jorge Lankenau convinced many of Abaco's customers, shareholders and other investors to buy into a high-yield bond fund that would return more than 10% a year in dollars. Mr. Lankenau raised $170 million for the fund, called Scottie Holdings Corp., registered in Montevideo, Uruguay. But instead of purchasing bonds, regulators say Mr. Lankenau invested $130 million in Abaco Confia stock, which he expected to soar once he resolved his capitalization problems. Another $40 million was invested in an Atlanta land deal. After regulators at Mexico's National Banking and Securities Commission (CNBV) learned about Scotte Holdings, minority shareholders trued to pull their money out of the fund. To back up the redemptions, Lankenau allegedly stole $80 million from Abaco's Banca Confia to put in the fund. After regulators caught him for a second time, Lankenau allegedly put $75 million of that $80 million back into Banca Confia. Another $5 million disappeared, and regulators suspected that Lankenau actually stole the $5 million plus an undetermined percentage of the initial $170 million. A codefendant and former Mexican politician named Jose Raul Monter Ortega was a director and stands accused of participating directly in a major part of the fraud.	1996-97	Customers, Minority shareholders and Mexican regulators	Lankaneu has been under house arrest since November 1997 on charges of fraud and embezzlement, and Monter Ortega was only recently arrested in Canada in May 2001 through a Mexican extradition request. Mexico's National Banking and Securities Commission (CNBV) was the first to investigate the charges. The CNBV ordered the sale of Abaco's Banca Confia to Citibank at a firesale price of $45 million together with a commitment to recapitalize the bank with an infusion of $120 to $130 million in fresh capital. Both the Mexican Stock Exchange and the New York Stock Exchange subsequently delisted Abaco Group Financiero.
Aerovias de Mexico, S.A. de C.V.	Executive Gerardo de Prevoisin Legorreta allegedly embezzled $61 million at the start of the Mexico crisis from the parent company of the Aeromexico and Mexicana airline carriers.	September, 1994	Minority shareholders and Mexican law enforcement	Gerardo de Prevoisin Legorreta was arrested in Zurich, Switzerland, in August 1998. He was brought to Mexico, spent time in prison, and then was allowed bail in April 2001.

Firm	Brief Summary of the Illegal Stealing	Year in which the Illegal Asset Taking Took Place	Those Bringing Forward the Accusation	What Subsequently Happened to the Firm and the Firm's Owner/Senior Manager
Banco Mexicano, S.A.	Senior executive Salvador Madero Madrigal allegedly stole $8 million from Grupo Financiero Invermexico, the parent company of Banco Mexicano.	1995	Minority shareholders and Mexican law enforcement	Salvador Madero Madrigal was arrested in San Antonio, Texas. Regulators ordered that the bank be sold to Banco Santander Central Hispano of Spain.
Banpais, S.A.	Ramiro Solis Suarez, ex-president, and Angel Isidoro Rodriguez Saez, ex-owner, each stand accused of stealing more than $70 million.	1995	Minority shareholders and Mexican law enforcement	Ramiro Solis Suarez, ex-president of Grupo Financiero Banpais, was arrested in San Diego in January 1999 on multimillion-dollar fraud charges. Solis' former boss at Banpais, bank owner Angel Isidoro Rodriguez Saez, was arrested in June 1998 in Spain but remains free in Mexico awaiting trial by the federal Attorney General's office. Mexican bank regulators ordered that Banpais be sold to Grupo Financiero Banorte in August 1997.
Corporacion Mexicana de Aviacion, S.A. de C.V.	Executive Gerardo de Prevoisin Legorreta allegedly embezzled $61 million at the start of the Mexico crisis from the parent company of the Aeromexico and Mexicana airline carriers. He fled to Zurich, Switzerland, and remained there for four years before being arrested.	September, 1994	Minorrity shareholders and Mexican law enforcement	Gerardo de Prevoisin Legorreta was arrested in Zurich, Switzerland, in August 1998. He was brought to Mexico, spent time in prison, and then was allowed bail in April 2001.
Grupo Financiero Asemex Banpais, S.A. de C.V.	Ramiro Solis Suarez, ex-president of Banpais, allegedly stole $8 million. Angel Isidoro Rodriguez Saez, the owner of the bank and parent financial group, allegedly stole approximately $80 million.	1995	Minority shareholders and Mexican law enforcement	Financial group owner Angel Isidoro Rodriguez Saez was arrested in June 1998 in Spain on multi-million dollar fraud charges.

Firm	Brief Summary of the Illegal Stealing	Year in which the Illegal Asset Taking Took Place	Those Bringing Forward the Accusation	What Subsequently Happened to the Firm and the Firm's Owner/Senior Manager
Grupo Financiero Invermexico, S.A. de C.V.	Senior executive Salvador Madero Madrigal allegedly stole $8 million from Grupo Financiero Invermexico, the parent company of Banco Mexicano. A $50 million loan from Grupo Financiero Invermexico was also found in the Swiss bank account of Raul Salinas, the brother of former Mexican President Carlos Salinas.	1995	Minority shareholders and Mexican law enforcement	Salvador Madero Madrigal was arrested in San Antonio, Texas. Both the Mexican Stock Exchange and the New York Stock Exchange subsequently delisted Grupo Financiero Invermexico. Regulators sold the group to Banco Santander Central Hispano of Spain.
Grupo Financiero Mexival, S.A. de C.V.	Angel Isidoro Rodriguez Saez, already the controlling shareholder of Grupo Financiero Mexival, decided to purchase Banpais and create Grupo Financiero Asemex Banpais in September 1993. Funds from Mexival were used to purchase Banpais, and he later allegedly stole at least $80 million in 1995.	1995	Minority shareholders and Mexican law enforcement	Financial group owner Angel Isidoro Rodriguez Saez was arrested in June 1998 in Spain on multi-million dollar fraud charges.
Grupo Sidek, S.A. de C.V.	Jose and Jorge Martinez-Guitron, who are brothers, cofounders, and joint executives of Sidek, were removed from company management after being accused by minority shareholders of a diverse range of illegal transactions that partly bankrupted the large business group. The entire Sidek business group had reported $744.5 million in revenues and $148.5 million in net profits in 1993. The exact value of the illegal transactions is unknown, but the illegal transactions allegedly helded lead to the effective bankruptcy of the entire business group.	1995	Minority shareholders, Mexican creditors, and Mexican regulators	Jose and Jorge Martinez-Guitron, the two brothers that founded the Sidek conglomerate, were removed from management.

Firm	Brief Summary of the Illegal Stealing	Year in which the Illegal Asset Taking Took Place	Those Bringing Forward the Accusation	What Subsequently Happened to the Firm and the Firm's Owner/Senior Manager
Grupo Simec, S.A. de C.V.	The controlling owners, Jose and Jorge Martinez-Guitron, were accused by minority shareholders, creditors and regulators with having conducted a diverse range of illegal transactions. The entire Sidek business group had reported $744.5 million in revenues and $148.5 million in net profits in 1993. The exact value of the illegal transactions is unknown, but the illegal transactions allegedly helped lead to the effective bankruptcy of the entire business group.	1995	Minority shareholders, Mexican creditors, and Mexican regulators	Jose and Jorge Martinez-Guitron, the two brothers that founded the Sidek conglomerate, were removed from management.
Grupo Situr, S.A. de C.V.	The controlling owners, Jose and Jorge Martinez-Guitron, were accused by minority shareholders, creditors and regulators with having conducted a diverse range of illegal transactions. The entire Sidek business group had reported $744.5 million in revenues and $148.5 million in net profits in 1993. The exact value of the illegal transactions is unknown, but the illegal transactions allegedly helped lead to the effective bankruptcy of the entire business group.	1995	Minority shareholders, Mexican creditors, and Mexican regulators	Jose and Jorge Martinez-Guitron, the two brothers that founded the Sidek conglomerate, were removed from management.

Table V

This appendix provides details on legal asset taking.

Firm	Summary	Sources
Abaco Grupo Financiero, S.A. de C.V.	Chairman Jorge Lankenau was accused of using minority investors' capital intended for a high-yield fixed-income fund instead to manipulate the share price for the benefit of controlling shareholders	Wall Street Journal (11/19/97)
Aerovias de Mexico, S.A. de C.V.	Chief executive Gerardo de Prevoisin was accused of making massive donations in the tens of millions of dollars to the ruling party with the firm's money. These donations were legal and undisclosed.	Sourcemex Economic News & Analysis on Mexico (8/23/95)
Altos Hornos de Mexico, S.A.	Alonso Ancira, President of AHMSA, did not allow minority shareholders to consider a legimitate takeover by Grupo IMSA. Ancira had already been accused of bankrupting the company through questionable use of funds raised in the debt markets.	Wall Street Journal (6/26/2000)
Banpais, S.A.	Controlling shareholder Angel Isidoro Rodriguez Saez was accused of effectively bankrupting his bank through deliberate financial mismanagement. The government took the bank out of his hands on the grounds of financial mismanagement.	Reforma (4/26/1996), Reforma (11/1/99)
Consorcio G Grupo Dina, S.A. de C.V.	Controlling shareholder Raymundo Gomez Flores was accused of engaged in undisclosed related-party deals that enriched himself at the expense of outside invetors. Before the crisis, he had allegedly engaged in money laundering. After the crisis, he was accused of having engaged in legal expropriation of minority investors.	Wall Street Journal (4/24/2000)
Corporacion Mexicana de Aviacion, S.A. de C.V.	Chief executive Gerardo de Prevoisin was accused of having made illegal and undisclosed donations to the ruling party with the firm's money.	Sourcemex Economic News & Analysis on Mexico (8/23/95)
Cydsa, S.A.	Controlling shareholder Tomas Gonzalez allegedly recapitalized his bank with funds from Cysa without approval from minority shareholders. He allegedly allowed the debt position of Cydsa to deteriorate while bailing out Grupo Financiero Serfin, a financial group would later be taken over by the government.	Wall Street Journal (12/10/97)

Firm	Summary	Sources
Fomento Economico Mexicano, S.A. de C.V.	Controlling shareholders allegedly forced minority shareholders to allow the controlling shareholders to swap illiquid shares in a holding company for new New York Stock Exchange depositary shares. This exchange gave minority shareholders a modest dividend increase, but force the minority shareholders to accept a sharp reduction in the voting power of their shares to 19.2% from 49%. Institutional investors raised loud objections, but they stated that they had no exit option. If they didn't accept the controlling shareholders' demands, the institutional investors would get stuck with a type of FEMSA share that rarerly traded and that traded at a sharp discount. The insitutional investors were unable to engage in collective action and defeat the offer.	Wall Street Journal Europe (5/11/98)
Grupo Casa Autrey	In June 1999, Grupo Casa Autrey had accumulated debt surpassing $200 million. Half of that debt had allegedly been given (often without full disclosure to minority shareholders) to two outside entities owned by Autrey family. The Autrey family allegedly took $100 million out of Grupo Casa Autrey and loaned the money to finance Debir, a vehicle distribution company, and Principa, which has a 26 percent share in Satelites Mexicanos (Satmex).	El Financiero (8/26/99)
Grupo Elektra, S.A. de C.V.	Chairman Ricardo Salinas Pliego had the retail chain purchase a 15% stake in the then-struggling and private TV Azteca, in which he and his family owned around 35%. Minority shareholders in Elektra strongly objected to the transaction.	Forbes (11/1/99)
Grupo Financiero Asemex Banpais, S.A. de C.V.	Controlling shareholder Angel Isidoro Rodriguez Saez was accused of having effectively bankrupted his bank through deliberate financial mismanagement. The government took the bank out of his hands on the grounds of financial mismanagement.	Reforma (4/26/1996), Reforma (11/1/99)
Grupo Financiero Bancomer, S.A. de C.V.	Three U.S. hedge funds went to court in the U.S. and accused Grupo Financiero Bancomer of breach of contract and negligence stemming from its role as trustee for a series of bonds first issued by Grupo Sidek in 1993. The U.S. funds had held around $21 million in Sidek bonds. A U.S. judge agreed to hear the case after denying a motion by Grupo Financiero Bancomer to dismiss the charges.	Wall Street Journal (11/5/97)
Grupo Financiero Mexival, S.A. de C.V.	Controlling shareholder Angel Isidoro Rodriguez Saez was accused of having effectively bankrupted his bank through deliberate financial mismanagement. The government took the bank out of his hands on the grounds of financial mismanagement.	Reforma (4/26/1996), Reforma (11/1/99)

Firm	Summary	Sources
Grupo Financiero Serfin, S.A. de C.V.	General Electric Co.'s NBC unit filed suit in a Mexican court against Grupo Financiero Serfin SA, Mexico 's third-largest banking group, claiming damages of $300 million for alleged breach of fiduciary duty. Serfin's chief executive put the firm in a difficult legal position by violating a trust agreement it had agreed to oversee between General Electric and TV Azteca. Serfin had earlier handled the IPO for TV Azteca. The controlling shareholders of Serfin had engaged in secret dealings with TV Azteca. Sefin agreed to assist in TV Azteca's efforts to renege on an agreement that TV Azteca had made to sell a large minority stake to NBC through an exercise of warrants.	Wall Street Journal (11/5/97)
Grupo Radio Centro, S.A. de C.V.	The Aguirres, the family that controls Grupo Radio Centro, agreed to sell the firm in July 1998 to AMFM Inc.'s Chancellor Media Corp under terms that favored the Aguirres. Chancellor, before later reneging on its own agreement, had agreed to buy shares directly from Aguirre's for twice the share price for a total of $237 million. Minority shareholders were allegedly left out of the transaction, and the objections of minority shareholders were ignored Minority shareholder's objections were unheeded as Grupo Radio Centro took a 51% stake in an upstart phone carrier in 1997. The company later spun off most of the stake in the phone carrier to a company privately owned by the Aguirre family at an artifically low price. Earlier in 1996, the Aguirre family had used record profits to secretly award themselves management fees and paid no dividend to investors. In 1999, the Aguirres threatened to unilaterally take the company private. Minority investors objected to a transaction that would force them to sell out at a big loss.	Babatz Torres (1998), Dow Jones International News (11/22/99)
Grupo Sidek, S.A. de C.V.	Controlling shareholders allegedly used transfer pricing and secret deals to expropriate more than $25 million from companies affiliated with Grupo Sidek. The expropriation reportedly centered around the purchase of land for tourism developments and excess charges on projects done by contractors connected to one of the group's directors. The exact nature of the expropriation was never confirmed, although the senior executives were forced to leave the company after the expropriation came to the attention of creditors and minority shareholders.	Dow Jones International News (4/8/97)
Grupo Simec, S.A. de C.V.	Controlling shareholders allegedly used transfer pricing and secret deals to expropriate more than $25 million from companies affiliated with Grupo Sidek. The expropriation reportedly centered around the purchase of land for tourism developments and excess charges on projects done by contractors connected to one of the group's directors. The exact nature of the expropriation was never confirmed, although the senior executives were forced to leave the company after the expropriation came to the attention of creditors and minority shareholders.	Dow Jones International News (4/8/97)

Firm	Summary	Sources
Grupo Situr, S.A. de C.V.	Controlling shareholders allegedly used transfer pricing and secret deals to expropriate more than $25 million from companies affiliated with Grupo Sidek. The expropriation reportedly centered around the purchase of land for tourism developments and excess charges on projects done by contractors connected to one of the group's directors. The exact nature of the expropriation was never confirmed, although the senior executives were forced to leave the company after the expropriation came to the attention of creditors and minority shareholders.	Dow Jones International News (4/8/97)
Grupo Synkro, S.A. de C.V.	Members of the Ballesteros family, who served as owner-managers, were accused of using as much as 40 percent of the firm's annual sales revenues to purchase airplanes and take "luxurious" trips. The firm later became insolvent.	Reforma (7/31/97)
Ladrillera Monterrey, S.A.	Ladrillera Monterrey announced the resignations of 27 senior managers and employees held responsible for the mysterious disappearance of $7 million. None of the 27 were legally prosecuted.	Reforma (11/1/99)

Table VI

This table presents the results of probit regressions on all asset taking, illegal asset taking and legal asset taking. Each panel presents the results of a probit regression, in which the coefficients show the change in the probability of asset taking for an infinitesimal change in each independent, countinuous variable and for a discrete change in each dummy variable. In Panels 1-7, the dependent variable is a dummy that equals 1 when either the firm's controlling shareholder or senior manager was accused of taking part in any type of asset taking. Panels 8-10 show the results of a probit regression in which the dependent variable is a dummy that equals 1 when either the firm's controlling shareholder or senior manager was accused of illegal asset taking. Panels 11-14 show the results of a probit regression in which the dependent variable that equals 1 when either the firm's controlling shareholder or senior manager was accused of legal asset taking. Table I describes all variables in detail. Robust standard errors are shown below the coefficients.

	DV: All Asset Taking							**DV: Illegal Asset Taking**			**DV: Legal Asset Taking**			
	[1]	**[2]**	**[3]**	**[4]**	**[5] Full Model**	**[6] FRE Firms Excluded**	**[7] FRE Firms Excluded**	**[8]**	**[9]**	**[10] Full Model**	**[11]**	**[12]**	**[13] Full Model**	**[14] FRE Firms Excluded**
Firm has listed ADR	0.2178 **	0.2297 **	0.2358 **	0.2068 **	0.2213 **	0.1900 *	0.1539	0.0711	0.2395 **	0.1976 **	0.2393 ***	0.2172 **	0.2329 **	0.1539
	[0.1063]	[0.1355]	[0.1313]	[0.1359]	[0.1383]	[0.1552]	[0.1502]	[0.0779]	[0.2287]	[0.2028]	[0.1064]	[0.1346]	[0.1375]	[0.1502]
Firm has unlisted ADR	0.2042 ***	0.1412 **	0.1907 ***	0.1918 ***	0.2179 ***	0.1357 *	0.1573 *	0.1509 **	0.0908	0.0868 *	0.1954 ***	0.1500 ***	0.1667 ***	0.1573 *
	[0.0848]	[0.0782]	[0.0799]	[0.0860]	[0.0894]	[0.0926]	[0.0969]	[0.0719]	[0.1225]	[0.0976]	[0.0828]	[0.0723]	[0.0730]	[0.0969]
Firm has owner seated in the CMHN		0.0820	0.0571	0.0671	0.0972 **	0.0604	0.0876		-0.0132	-0.0120		0.0959 **	0.1275 ***	0.0876
		[0.0627]	[0.0513]	[0.0527]	[0.0587]	[0.0731]	[0.0713]		[0.0174]	[0.0158]		[0.0546]	[0.0614]	[0.0713]
Foreign firm ownership pre-crisis			-0.0509	-0.0461	-0.0478	-0.0245	-0.0079		a	a		-0.0318	-0.0328	-0.0079
			[0.0364]	[0.0309]	[0.0282]	[0.0522]	[0.0338]					[0.0280]	[0.0253]	[0.0338]
Firm owned a bank pre-crisis			0.1042	0.1200 *	0.1865 **	0.1168	0.1547 **		a	a		0.1054 *	0.1658 **	0.1547 **
			[0.0876]	[0.0861]	[0.1009]	[0.0852]	[0.0847]					[0.0772]	[0.0921]	[0.0847]
Short-term foreign liabilities/Total liabilities		0.2690 **	0.2666 **	0.2574 **	0.2216 *	0.2150 **	0.1896 **		-0.1122	-0.1343		0.2272 **	0.2016 **	0.1896 **
		[0.1432]	[0.1286]	[0.1418]	[0.1428]	[0.1108]	[0.1286]		[0.0917]	[0.1293]		[0.1270]	[0.1253]	[0.1286]
Total liabilities/ Total assets		0.0284 **	0.0403	0.0291 ***	0.0267 ***	0.1948	0.0839		-0.0184	-0.0205		0.0207 ***	0.0190 ***	0.0839
		[0.0124]	[0.0276]	[0.0112]	[0.0010]	[0.1498]	[0.0921]		[0.0369]	[0.0395]		[0.0076]	[0.0071]	[0.0921]
Foreign sales/ National sales		-0.1516 ***	-0.0773	-0.1408 ***	-0.1407 ***	-0.0894 *	-0.1093 ***		-0.0473	-0.0518		-0.1265 ***	-0.1218 ***	-0.1093 ***
		[0.0565]	[0.0524]	[0.0516]	[0.0514]	[0.0488]	[0.0497]		[0.0452]	[0.0432]		[0.0477]	[0.0471]	[0.0497]
Log of assets		0.0164	0.0114	0.0124	0.0183 **	0.0188	0.0081		0.0106	0.0102		0.0046	0.0102	0.0081
		[0.0114]	[0.0103]	[0.0097]	[0.0101]	[0.0217]	[0.0152]		[0.0076]	[0.0125]		[0.0080]	[0.0080]	[0.0152]
Recommended pre-crisis as high quality firm by Baring					a	a	a			a			a	a
Finance/Real Estate industry		0.1017	0.2449 ***	0.1059	0.0597				0.3097 *	0.1902		0.0632	0.0337	
		[0.1147]	[0.0926]	[0.1252]	[0.1055]				[0.2033]	[0.3427]		[0.0988]	[0.0831]	
Basic Industry		-0.0029	0.0622	-0.0147	-0.0284		-0.0127		0.9100 *	0.9146		-0.0070	-0.0195	-0.0127
		[0.0746]	[0.0811]	[0.0608]	[0.0459]		[0.0481]		[0.1270]	[0.3925]		[0.0555]	[0.0418]	[0.0481]
Capital Goods Industry		0.1606	0.3054 *	0.1079	0.0384		0.1125		0.9920	0.9895		0.1491	0.0828	0.1125
		[0.2366]	[0.2393]	[0.2102]	[0.1507]		[0.1919]		[0.0038]	[0.0547]		[0.2233]	[0.1798]	[0.1919]
All Industry controls	No	Yes	No	Yes	Yes	No	Yes	No	Yes	Yes	No	Yes	Yes	Yes
Joint *p* -value for the		0.1345		0.0797	0.0745		0.2506		0.0000	0.0259		0.1698	0.1623	0.2506
Number of Observations	183	174	183	174	164	123	114	183	71	70	183	174	164	114
Log likelihood	-65.501	-51.3830	-53.8214	-49.601	-45.724	-32.073	-27.314	-40.534	-21.035	-20.335	-58.992	-44.6803	-40.8905	######
p -value	0.0041	0.0001	0.0114	0.0006	0.0005	0.0086	0.0074	0.0249	0.0000	0.0000	0.0025	0.001	0.0013	0.0074
Pseudo R-squared	0.0788	0.2639	0.2431	0.2895	0.3303	0.2968	0.3847	0.0849	0.2712	0.2917	0.0954	0.3028	0.3484	0.3847

Asterisks denote significance levels: * indicates significance at the 10% level, ** at the 5% level, and *** at the 1% level.

The letter *a* denotes the fact that the dummy was automatically dropped from the probit regression when none of the firms with the dummy equal to 1 had insiders accused of asset taking.

Note: The sample size drops from 183 to 174 in Panel [2] because the nine firms from the petroleum, non-financial services and leisure industry did not have insiders accused of asset taking. Those nine firms were automatically dropped from the probit equation when the full industry controls were included in the model. The sample size drops from 183 to 174 in Panel [2] because the nine firms from the petroleum, non-financial services and leisure industry did not have insiders accused of asset taking. Those nine firms were automatically dropped from the probit equation when the full industry controls were included in the model. The sample size drops from 174 to 164 in Panel [5] because none of the 10 firms recommended pre-crisis by Baring had insiders accused of asset taking. Those firms are automatically dropped from the probit regression when the Baring variable is included. The sample size in Panel [6] is 123 because 50 firms from the finance/real estate sector are excluded, and because the probit regression automatically drops the 10 additional Baring-recommended firms whose insiders did not engage in asset taking. The sample size in Panel [7] drops to 114 because once all industry controls are included, the nine firms from the petroleum, non-financial services and leisure industries are automatically dropped from the probit regression. That is because none of those nine firms had insiders accused of asset taking. The sample size in Panel [9] drops to 71 because there were no accusations of illegal asset taking against the firms with foreign ownership, the firms that owned a bank pre-crisis, and the firms from the petroleum, food and tobacco, construction, utilities, textile/trade, non-financial services, and leisure industries. Also, the two remaining firms from the transportation industry each had insiders accused of illegal asset taking. These firms were all automatically dropped from the probit regression once the aforementioned industry and non-industry variables were included in the model. The sample size in Panel [10] drops one further to 70 because the one remaining firm that was recommended pre-crisis by Baring did not engage in asset taking. That firm was automatically dropped from the probit regression once the Baring variable was included in the model. The sample size in Panel [12] drops to 174 because none of the nine firms in the petroleum, non-financial services and leisure industries did not have insiders accused of legal asset taking. Those firms were automatically dropped from the probit regression when the three above industry variables were included in the model. The sample size in Panel [13] further drops to 164 because none of the 10 firms recommended by Baring as being high-quality firms pre-crisis had insiders accused of legal asset taking. These firms were automatically dropped from the probit regression once the aforementioned variables were included in the model. The sample size in Panel [7] drops to 114 because the finance/real estate firms are excluded, and because once all industry controls are included, the nine firms from the petroleum, non-financial services and leisure industries are automatically dropped from the probit regression. That is because none of those nine firms had insiders accused of asset taking.

Table VII

This table shows the history of SEC legal action and private plaintiff action taken against all U.S.-listed Mexican firms and their insiders for securities fraud connected to Mexican firms between 1 January 1995 and 30 June 2002.

Panel A. SEC Legal Action

SEC Legal Release Number/ Administrative Proceeding File Number	Release Date	Company Name	Notes
No SEC legal action taken			

Note: The SEC took a handful actions against Mexican nationals, who were themselves insiders of Mexican firms, but these SEC actions were connected with insider trading by Mexican nationals in U.S.-domiciled firms.

Panel B. Private Litigation

Year	Case Name	Case Summary	Outcome
1995	Greenfield v. Banpais, S.A., filed October 11, 1994 in the Southern District of New York.	The plaintiffs charged the U.S.-listed Mexican firm and its insiders with material misstatements and/or omissions in violation of the federal securities laws.	The plaintiffs received a $9.25 million settlement in October 1995.

Note: This case focused on misrepresentation of the firm's loan-loss provisions and overall health by insiders six months prior to the Mexico crisis. This case did not deal with the alleged theft of $70 million by company insiders that occurred in the months after the case was filed.

Sources: www.sec.gov, Lexis, clerks of the U.S. federal district courts, and interviews with 115 plaintiffs' attorneys

Table VIII: The Rarity and Frequent Ineffectiveness of SEC Action

This table shows the history of SEC legal action taken against all U.S.-listed foreign firms and their insiders between 1 January 1995 and 30 June 2002. This table included the five cases where the SEC sued cross-listed foreign firms in court as well as the one case in which the SEC accepted a formal administrative settlement without going to court.

SEC Legal Release Number/ Administrative Proceeding File Number	Release Date	Country Involved	Company Name	Notes
Securities Exchange Act of 1934 Release No. 46130, Accounting and Auditing Enforcement Release No. 1584; SEC News Digest Issue 2002-124	6/27/2002	Netherlands	Baan	The SEC settled its administrative proceedings with auditor of U.S.-listed Baan for hiding his own personal business ties to the company. The auditor's firm is an affiliated of Ernst & Young. The auditor agreed to pay a $400,000 civil fine and to provide evidence to his independence in all future Dutch audits presented to the SEC.
Litigation Release Nos. 15631 and 17458; SEC News Digest Issue 2002-66; Securities Act of 1933 Release No. 7499; Securities Exchange Act of 1934 Release No. 39596	1/29/98 and 4/4/02	Canada	MTC Electronic Technologies	Insiders engaged in false disclosure and accounting fraud. MTC Electronic Technologies is a British Columbian company listed on the NASDAQ. One associate of the company insiders agreed in 1998 through a SEC administrative proceeding to cease and desist from future violations of the securities laws. The insiders were ordered by a U.S. district judge in April 2002 to pay $33.49 million. The judge also ordered them to avoid all future violations of the securities laws, and barred them from being officers or directors of any public firm. The insiders have been living abroad and have largely ignored the entire case.
Release No. 45579, Press Release 2002-38, SEC News Digest 2002-52	3/18/02	Cyprus, Belgium	ACLN	The SEC suspended U.S. trading of the cross-listed firm's shares after revelations became public that the firm's financial statements were overwhelmingly fraudulent. The trading suspension lasted for the customary 10 days and then was lifted.

SEC Legal Release Number/ Administrative Proceeding File Number	Release Date	Country Involved	Company Name	Notes
Litigation Release Nos. 15419 and 16975; Accounting and Auditing Enforcement Release No. 1385; Accounting and Auditing Enforcement Release No. 940	7/24/97 and 4/26/01	Canada	International Nesmont Industrial Corporation	Insiders fraudulently inflated the Canadian/NASDAQ-listed company's income and assets. In 2001 the insiders were barred from serving as officers or directors of a public corporation and were enjoined against future violations of the federal securities laws. Because the court accepted their inability to pay, the insiders central to the case did not have to pay the judgment against them. Another insider paid a $35,000 civil fine. The SEC did not recoup outside shareholders' losses in this case.
Litigation Release No. 16948	3/30/01	Italy	Montedison	Senior management of this Italian firm inflated earnings while they had a listed ADR. Despite the fact that the company had allegedly overstated company income by $398 million through fraudulent means, the SEC accepted a settlement from the company of just $300,000 with no admission of wrongdoing. The SEC left it to the Italian courts to recoup the ill-gotten gains of the former company insiders.
Administrative Proceeding File Number 3-10318 (aka Release 43372)	9/28/00	Germany	E.ON AG (formerly Veba AG)	The cross-listed German firm falsely denied merger discussions that in fact resulted in a merger with another German firm. The firm, without accepting or denying the charge, agreed with the SEC to a cease and desist settlement related to the false denial of merger discussions. The merger between the two German firms had been completed the year before and was not affected by the settlement.
Litigation Release Nos. 16773, 15010, and 14626	9/27/00, 8/12/96, and 9/6/95	Italy	Luxottica S.p.A.	The SEC sought disgorgement of over $600,000 plus interest from an insider in the U.S.-listed Italian firm and her associate. Another business partner of those two individuals settled his case with the SEC for a $1,000,000 payment. One of the board members of the firms had earlier settled his case with the SEC for $100,000. The insider still being pursued had allegedly learned of the firm's impending takeover of a U.S. firm, and had engaged with associates in illegal insider trading in her employer's ADRs.

SEC Legal Release Number/ Administrative Proceeding File Number	Release Date	Country Involved	Company Name	Notes
Litigation Release Nos. 16251, 16033 and 16022;Securities Act of 1933 Release No. 7629; Securities Exchange Act of 1934 Release No. 40939; Accounting and Auditing Enforcement No. 1097; and more than 15 related releases	8/12/99, 1/21/99, and 1/13/99	Canada	Livent, Inc.	The Canada-based firm and its insiders were charged with eight years of fraud. The company agreed to a cease-and-desist order and agreed to cooperate in the prosecution of the former insiders. Two of the many insiders charged in the case have thus far agreed to pay disgorgement and prejudgment interest. Others have agreed to cease and desist orders, to being barred from practicing their profession before the SEC in the future, and to being barred from serving as officers or directors of a public company. The SEC's investigation is continuing. Separately, the U.S. Attorney's Office for the Southern District of New York has prosecuted criminal cases against four insiders. Two pled guilty to one felony count each, and two others have been charged with 16 felony counts each.
Securities Exchange Act of 1934 Release No. 41409; Accounting and Auditing Enforcement Release No. 1133	5/17/99	Canada	Insignia Solutions PLC	The U.S.-listed Canadian firm was accused of fraudulent financial reporting. The SEC settled the case through an administrative proceeding by which the company agreed to cease and desist from further violations of the U.S. securities laws. The SEC did not recoup any shareholder losses.
Litigation Release No. 15832; Securities Exchange Act of 1934 Release No. 40305; Accounting and Auditing Enforcement Release No. 1061; Accounting and Auditing Enforcement Release No. 1062	8/5/98 and 1/3/96	Japan	Sony	Sony gave inadequate disclosure about the financial condition of Sony Pictures. Sony has an ADR listed on the NYSE. The case was settled through a $1 million fine paid by the company, a cease-and-desist order, and changes in Sony's reporting practices. The SEC did not recoup losses for outside shareholders.

SEC Legal Release Number/ Administrative Proceeding File Number	Release Date	Country Involved	Company Name	Notes
Litigation Release No. 15321	4/9/97	Luxembourg	Objective Invest Holding, S.A.	A firm insider engaged in Illegal insider trading in Olicom, a Danish/NASDAQ-listed company. The insider agreed to settle the case by paying $386,000 and committing not to violate the federal securities laws in the future. The SEC did not deliver direct relief to outside shareholders in this case.
Litigation Release Nos. 14823 and 14533	2/23/96 and 6/19/95	Bermuda	Sea Containers, Ltd.	Prior to their Swedish firm's tender offer for the Bermuda-based shipping company, insider of the Swedish firm engaged in insider trading. A judge issued a default decision against them some seven years later, ordering the two men to disgorge $924,088 in trading profits and $748,220 in prejudgment interest. Private plaintiffs had reached a settlement in their case against these insiders five years before the SEC brought charges and nearly six years before the court took action through a default judgment.
Litigation Release No. 14770; Securities Exchange Act Release No. 36669; Accounting and Auditing Enforcement Release No. 744; Securities Exchange Act Release No. 36670; and Accounting and Auditing Enforcement Release No. 745	1/3/96	France	Pathe Communications Corp.	Firm insiders were charged with responsibility for materially false and misleading disclosures. As a result, they were not forced to pay any fine. They signed a cease and desist order without admitting or denying any illegality. Most of the alleged violations occurred before the summer of 1990, when the U.S. Congress gave the SEC the authority to levy fines for civil violations of federal securities laws. Separately, by October 1999, Credit Lyonnais had paid $4 million to the government to avoid facing criminal charges for its past association with Pathe insiders.

Source: www.sec.gov

Table IX

This table presents the results of regressions on firms' receiving new resources by equity, publicly held debt or syndicated loans from the capital markets during 1995-99. Panels 1-4 present the results of a probit regression on receiving any outside resources for an infinitesimal change in each independent, continuous variable and for a discrete change in each dummy variable.by equity, publicly held debt or syndicated loans from the capital markets within five years of the crisis (1995-99). Panels 5-15 present the results of an OLS regression on the amount of resources received by a firm from the capital market within five years of the crisis, conditional on the firm having received resources. Table I describes all variables in detail. Robust standard errors are shown below the coefficients.

	Probit Regression, DV: Probability of Receiving Resources				OLS Regression, DV: Amount of Resources Received										
	[1]	[2]	[3] Full Model	[4] FRE Firms Excluded	[5]	[6]	[7] Full Model	[8] FRE Firms Excluded	[9] discounted by Mexican CPI	[10] Mexican CPI, FRE Excluded	[11] firm size is $(1993\ \text{assets})^2$	[12] firm size is $(1993\ \text{assets})^3$	[13] firm size is $[\log(1993\ \text{assets})]^2$	[14] firm size is $[\log(1993\ \text{assets})]^3$	[15] firm size is log(1993 sales)
Firm has listed ADR	0.5023 ***	0.3279 **	0.3286 **	0.3323 *	0.9421 ***	0.7168 **	0.6743 **	0.6683 *	0.6415 *	0.6683 *	0.70 **	0.69 **	0.64 *	0.67 **	0.85 *
	[0.0786]	[0.1399]	[0.1404]	[0.1637]	[0.2389]	[0.3098]	[0.3132]	[0.3671]	[0.3222]	[0.3671]	[0.3362]	[0.3357]	[0.3222]	[0.3132]	[0.4437]
Firm has listed ADR and insiders were accused of illegal asset taking	a	a	a	a											
Firm has listed ADR and insiders were accused of any type of asset taking					-0.8642 ***	-0.5549	-0.5002	-0.5509	-0.4075	-0.5509	-0.6006	-0.6088	-0.4075	-0.5002	-1.1092 **
					[0.2948]	[0.4457]	[0.4613]	[0.6115]	[0.4603]	[0.6115]	[0.4888]	[0.4908]	[0.4603]	[0.4613]	[0.4822]
Firm has unlisted ADR	0.2510 **	0.2137 *	0.2173 *	0.1164	0.5154 *	0.5698 **	0.5331 *	0.7482 **	0.5675 *	0.7482 **	0.4585	0.4481	0.5675 *	0.5331 *	0.7785 *
	[0.0981]	[0.1226]	[0.1222]	[0.1430]	[0.2917]	[0.2762]	[0.2774]	[0.3170]	[0.2987]	[0.3170]	[0.3017]	[0.3052]	[0.2987]	[0.2774]	[0.3938]
Firm has unlisted ADR and insiders were accused of illegal asset taking	-0.0844	-0.1909	-0.1944	-0.5292 ***											
	[0.2126]	[0.2446]	[0.2425]	[0.0489]											
Firm has unlisted ADR and insiders were accused of any type of asset taking					0.3214	-0.1015	-0.0603	-0.4053	-0.0960	-0.4053	-0.1907	-0.2000	-0.0960	-0.0603	-0.4324
					[0.2964]	[0.2906]	[0.2922]	[0.3386]	[0.3076]	[0.3386]	[0.3257]	[0.3283]	[0.3076]	[0.2922]	[0.5791]
Firm has owner seated in the CMHN		0.1705	0.1733	0.1846		0.5208 ***	0.4908 ***	0.2073	0.4963 **	0.2073	0.7145 ***	0.7186 ***	0.4963 **	0.4908 ***	0.3860
		[0.1060]	[0.1068]	[0.1347]		[0.1866]	[0.1806]	[0.3181]	[0.1903]	[0.3181]	[0.1902]	[0.1919]	[0.1903]	[0.1806]	[0.3925]
Foreign firm ownership pre-crisis		-0.1938 *	-0.1953 *	-0.2448 **		-0.2266	-0.1820	-0.0633	-0.1871	-0.0633	-0.0577	-0.0482	-0.1871	-0.1820	-0.0441
		[0.0941]	[0.0947]	[0.1021]		[0.2962]	[0.3167]	[0.3614]	[0.3245]	[0.3614]	[0.3487]	[0.3479]	[0.3245]	[0.3167]	[0.4247]
Firm owned a bank pre-crisis		0.2696 **	0.2703 **	0.2685 **		0.2641	0.2302	0.2083	0.1680	0.2083	0.3056	0.3103	0.1680	0.2302	0.1550
		[0.1140]	[0.1145]	[0.1222]		[0.4322]	[0.4282]	[0.4746]	[0.4475]	[0.4746]	[0.4341]	[0.4328]	[0.4475]	[0.4282]	[0.4379]
Short-term foreign liabilities/Total liabilities		-0.1135	-0.1212	-0.0834		0.4457	0.5796	0.4273	0.4961	0.4273	1.1471	1.1650	0.4961	0.5796	0.0342
		[0.2749]	[0.2755]	[0.2727]		[1.1070]	[1.1658]	[1.2733]	[1.2414]	[1.2733]	[1.1291]	[1.1271]	[1.2414]	[1.1658]	[1.2844]
Total liabilities/Total assets		0.0618 **	0.0616 **	0.0982 **		0.1302 ***	0.1271 ***	0.1653 ***	0.1399 ***	0.1653 ***	0.0777 **	0.0779 **	0.1399 ***	0.1271 ***	0.8631
		[0.0250]	[0.0249]	[0.0465]		[0.0404]	[0.0412]	[0.0605]	[0.0430]	[0.0605]	[0.0323]	[0.0329]	[0.0430]	[0.0412]	[1.0768]
Foreign sales/national sales		0.1023 **	0.1018 **	0.0930 **		0.0072	0.0075	0.0220	0.0269	0.0220	-0.0304	-0.0303	0.0269	0.0075	-0.1072
		[0.0500]	[0.0499]	[0.0469]		[0.1490]	[0.1491]	[0.1591]	[0.1569]	[0.1591]	[0.1518]	[0.1515]	[0.1569]	[0.1491]	[0.0698]
Log of assets		0.1205 ***	0.1213 ***	0.1091 **		0.2566 **	0.2419 **	0.3610 **	0.2448 **	0.3610 **	0.0000	0.0000	0.2818 **	0.1857 **	0.4656
		[0.0279]	[0.0282]	[0.0452]		[0.0991]	[0.1009]	[0.1626]	[0.1033]	[0.1626]	[0.0000]	[0.0000]	[0.1189]	[0.0774]	[0.4001]
Recommended pre-crisis as high quality firm by Baring			-0.0323	0.0323			0.2592	0.2027	0.2029	0.2027	0.4325	0.4548	0.2029	0.2592	0.2219
			[0.2144]	[0.2191]			[0.2885]	[0.3047]	[0.3032]	[0.3047]	[0.3268]	[0.3257]	[0.3032]	[0.2885]	[0.3415]
Industry controls included	No	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Joint *p*-value for the industry controls		0.9938	0.9939	0.8047		0.2702	0.3262	0.4981	0.4510	0.4606	0.4471	0.3958	0.4510	0.3262	0.2023
Number of Observations	181	173	173	124	80	80	80	59	80	59	80	80	80	80	49
p-value	0.0001	0.0001	0.0001	0.0000	0.0008	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.1246
Log Likelihood (for probit model)	-112.2327	-91.3771	-91.36683	-61.9806											
Pseudo R-squared (for probit model)	0.0966	0.2298	0.2299	0.2722											
R-squared (for OLS model)					0.1261	0.4107	0.4142	0.4606	0.4148	0.4606	0.3670	0.3652	0.4148	0.4142	0.5215

Asterisks denote significance levels: * indicates significance at the 10% level, ** at the 5% level, and *** at the 1% level.

The symbol *a* denotes the fact that none of the U.S.-listed firms whose insiders engaged illegal asset taking received resources as defined in the model.

Note: In Panel 1, the sample size drops from 183 to 181 because the two U.S.-listed firms whose insiders were accused of illegal asset taking did not receive outside resources as defined in the model. These two firms were automatically dropped in the probit progress once the interaction variable for cross-listing combined with accusation of illegal taking was included. In Panels 2 and 3, the sample size drops from 183 to 173 because the two U.S.-listed firms, the one firm from the petroleum industry, and the three firms from the non-financial services industries received no resources. In addition, the four firms from the utilities industry all received resources as defined in the model. These firms were automatically dropped from the probit regression when all such variables were included in the model. In Panel 4, the sample size dropped to 124 because the finance/real estate firms were excluded from the analysis, because none of the five firms from the petreleum and non-financial services received resources as defined in the model, because the one remaining U.S.-listed firm did not receive resources, and because all four of the utilities industry firms received resources. The probit regression automatically dropped these firms once all these variables were included in the model. In Panel 5, the sample size dropped to 80 because that is the number of firms that received outside resources in the five years after the crisis as defined in Table I. In Panels 8 and 10, the sample size dropped further to 59 because the firms from the finance/real estate industry were excluded from the analysis.

Appendix I

This appendix provides detailed information on Mexican listed ADRs.

Firm	Stock Exchange	Initiation Date	Level II ADR or Level III ADR with IPO	Capital Raised through ADR
Banca Quadrum, S.A. de C.V.	NASDAQ	August, 1993	Level III ADR with IPO	$34,216,996
Banpais, S.A.	NYSE	June, 1993	Level III ADR with IPO	$229,281,250
Bufete Industrial, S.A. de C.V	NYSE	November, 1993	Level III ADR with IPO	$68,448,000
Coca Cola FEMSA, S.A. de C.V.	NYSE	September, 1993	Level III ADR with IPO	$117,270,250
Consorcio G Grupo Dina, S.A. de C.V.	NYSE	March, 1993	Level III ADR with IPO	$230,000,000
DESC, Sociedad de Fomento Industrial, S.A. de C.V.	NYSE	July, 1994	Level III ADR with IPO	$40,800,000
Empresas ICA Sociedad Controladora, S.A. de C.V.	NYSE	April, 1992	Level III ADR with IPO	$591,000,000
Empresas La Moderna, S.A. de C.V.	NYSE	February, 1994	Level III ADR with IPO	$198,270,350
Grupo Casa Autrey	NYSE	December, 1993	Level III ADR with IPO	$73,000,000
Grupo Embotellador de Mexico	NYSE	March, 1994	Level III ADR with IPO	$105,183,000
Grupo Financiero Serfin, S.A. de C.V.	NYSE	November, 1993	Level III ADR with IPO	$364,200,000
Grupo Industrial Durango, S.A. de C.V.	NYSE	July, 1994	Level III ADR with IPO	$77,616,000
Grupo Industrial Maseca, S.A. de C.V.	NYSE	May, 1994	Level II ADR	$0*
Grupo Iusacell, S.A. de C.V.	NYSE	June, 1994	Level III ADR with IPO	$155,745,195
Grupo Mexicano de Desarollo, S.A. de C.V.	NYSE	December, 1993	Level III ADR with IPO	$108,333,316
Grupo Radio Centro, S.A. de C.V.	NYSE	July, 1993	Level III ADR with IPO	$41,250,000
Grupo Simec, S.A. de C.V.	AMEX	July, 1993	Level III ADR with IPO	$53,200,000
Grupo Televisa, S.A. de C.V.	NYSE	December, 1993	Level III ADR with IPO	$862,000,000
Grupo Tribasa, S.A. de C.V.	NYSE	September, 1993	Level III ADR with IPO	$376,000,000
Telefonos de Mexico, S.A. de C.V.	NYSE	May, 1991	Level III ADR with IPO	$2,200,000,000
Transportacion Maritima Mexicana, S.A. de C.V.	NYSE	June, 1992	Level III ADR with IPO	$75,681,798
Tubos de Acero de Mexico, S.A.	AMEX	June, 1967	Level II ADR	$651,000,000*
Vitro, S.A.	NYSE	November, 1991	Level III ADR with IPO	$164,970,000

Note *: Grupo Industrial Maseca previously raised $90 million for a Rule 144a ADR in November 1993. Also, note that Tubos de Acero de Mexico raised its $65,100,000 in a second ADR offering in 1991.

Sources: Citibank database, *Going Public: The IPO Reporter,* and SEC company filings

Appendix II

This appendix provides details on all the firms with unlisted ADRs.

Firm	Type	Initial Date	Funds Raised Directly through the ADR
Abaco Grupo Financiero, S.A. de C.V.	OTC	September, 1994	$100,000,000
Aerovias de Mexico, S.A. de C.V.	144A	November, 1991	$95,437,832
Apasco, S.A. de C.V.	OTC	August, 1992	$0
Bancomer, S.A.	OTC	March, 1992	$1,300,000,000
Cemex, S.A.	OTC	March, 1992	$446,187,500
Cifra, S.A. de C.V.	OTC	September, 1989	$0
Controladora Comercial Mexicana, S.A. de C.V.	OTC	February, 1992	$0
Corporacion GEO, S.A. de C.V.	144a	August, 1994	$44,269,978
Corporacion Industrial Sanluis, S.A. de C.V.	OTC	August, 1990	$0
Corporacion Mexicana de Aviacion, S.A. de C.V.	OTC	July, 1992	$0
El Puerto de Liverpool, S.A. de C.V.	144a	June, 1992	$48,333,600
Empaques Ponderosa, S.A.	OTC	September, 1992	$32,800,000
EPN, S.A. de C.V.	OTC	January, 1990	$0
Far-Ben, S.A. de C.V.	OTC	May, 1994	$0
Fomento Economico Mexicano, S.A. de C.V.	OTC	July, 1992	$87,400,000
Grupo Carso	OTC	January, 1993	$350,000,000
Grupo Financiero Bancomer, S.A. de C.V.	144A	March, 1992	$754,200,000
Grupo Financiero GBM Atlantico, S.A. de C.V.	OTC	March, 1994	$55,386,000
Grupo Financiero Inverlat, S.A. de C.V.	OTC	January, 1994	$0
Grupo Financiero Invermexico, S.A. de C.V.	OTC	September, 1993	$0
Grupo Financiero Prime Internacional	OTC	January, 1994	$0
Grupo Financiero Probursa, S.A. de C.V.	OTC	November, 1993	$0
Grupo Gigante, S.A. de C.V.	144a	July, 1991	$150,000,000
Grupo Posadas, S.A. de C.V.	144a	March, 1992	$28,091,250
Grupo Sidek, S.A. de C.V.	OTC	September, 1989, July 1994	$92,000,000
Grupo Situr, S.A. de C.V.	OTC	December, 1993	$70,000,000
Grupo Synkro, S.A. de C.V.	OTC	January, 1990	$0
Grupo Syr, S.A. de C.V.	OTC	April, 1993	$0
Grupo Video Visa, S.A. de C.V.	144a	June, 1992	$45,000,000
Hylsamex, S.A. de C.V.	OTC	October, 1994	$123,545,880
IEM, S.A. de C.V.	144A	pre-1985	$0
Internacional de Ceramica, S.A. de C.V.	144a	April, 1993	$13,000,000
Kimberly Clark de Mexico, S.A. de C.V.	OTC	November, 1993	$0
Ponderosa Industrial, S.A. de C.V.	OTC	January, 1991	$32,700,000
Sears Roebuck de Mexico, S.A. de C.V.	144a	March, 1992	$101,700,000
Tolmex, S.A. de C.V.	OTC	June, 1990	$0

Appendix III

The appendix presents a description of U.S. securities law cases by private plaintiffs against U.S.-listed foreign firms and their insiders. These civil cases took place between 1934 and June 30, 2002. The year is when the most recent event in the case took place, the country denotes the domicile of the foreign firm, and the case name denotes the most recent court judgment in the case. Information came from Lexis, the clerk of the court, and interviews with 115 plaintiffs' attorneys involved in these cases.

Year	Country	Case Name	Case Summary	Outcome
1968	Canada	Schoenbaum v. Firstbrook, 405 F.2d 215, 92 (2nd Cir. 1968).	The federal district court ruled in 1967 that the Securities Exchange Act did not apply to a Canadian Banff Oil Company listed on AMEX whose directors may have engaged in illegal insider trading. In 1968, the federal appeals court for the Second Circuit reversed the district court on the extraterritoriality issue, and then decided that the insiders had not engaged in illegal insider trading regardless. The case was then decided one final time *en banc* with the same outcome.	The plaintiffs lost and did not receive any compensation.

Year	Country	Case Name	Case Summary	Outcome
1973	Zambia	Kohn v. American Metal Climax Inc., 489 F.2d 262, 94 (3rd Cir. 1973).	The federal district and appeals courts concurred in 1970 and 1972 that the New York-based insiders of a listed Zambian firm called RST had violated the disclosure laws. The district court ordered, and the appeals court for the Third Circuit affirmed, compensation to the plaintiffs in the case. After the judgment, the lead plaintiff in the class-action suit agreed as part of a post-judgment settlement to receive a cash payment of $6.5 million. The district court then approved the settlement, and although the other plaintiffs protested the post-judgment settlement, the appeals court in 1973 approved the settlement as well. The Supreme Court had earlier denied certiorari related to the judgment.	The plaintiffs settled and received a cash settlement of $6.5 million.
1986	Canada	Eltman v. Grandma Lee's, Inc., No. 82 Civ. 1912, at 1 (S.D.N.Y. May 29, 1986).	The plaintiffs charged the U.S.-listed Canadian firm and its insiders with material misrepresentation.	The plaintiffs received a $3 million settlement.

Year	Country	Case Name	Case Summary	Outcome
1987	Denmark	Schwartz v. Novo Industry, A/S, 658 F. Supp. 795, at 1 (S.D.N.Y. April 24, 1987).	The plaintiffs charged the U.S.-listed Danish firm with material misrepresentation.	The judge dismissed the case, deciding that the company's optimistic forecasts for growth might have been fraud in hindsight but did not constitute a violation of the federal securities laws. Also, the judge stated based on a prior U.S. case that firms are not always responsible for statements reported in newspaper articles given that firms do not have complete control over inaccuracies reported about them.
1989	Israel	In re Elscint Ltd. Securities Litigation, 1987 U.S. Dist. LEXIS 16746, at 1 (D. Mass. June 22, 1987).	The plaintiffs charged the U.S.-listed Israeli firm with material misstatements and/or omissions in violation of the federal securities laws.	The plaintiffs received in February 1989 a settlement for $10 million in stock and $1.5 million in cash. The company also paid $500,000 towards the plaintiffs' lawyers' costs and the administration of the settlement.
1989	Canada	Landry v. Price Waterhouse Chartered Accountants, 87 Civ. 727, 1989 U.S. Dist. LEXIS 7139, at 1 (S.D.N.Y June 28, 1989).	The plaintiffs in 1989 charged a U.S.-listed Canadian firm Calgroup Graphics Corporation with financial fraud. The U.S. district court ruled that the court had jurisdiction and allowed the case to proceed.	The plaintiffs withdrew the case.

Year	Country	Case Name	Case Summary	Outcome
1990	Canada	Kaufman v. Campeau Corporation, Civil No. C-1-89-0636, 1990 U.S. Dist. LEXIS 11724 (S.D. Ohio August 2, 1990).	The judge ruled in 1990 that Canadian investors could not join in a U.S. class-action suit against a U.S.-listed Canadian company, Campeau, because the fraud took place in Canada and apparently affected foreign investors. The judge argued furthermore that the Canadian investors could not use the fact that the firm made misrepresentations in its reports to the SEC as the basis for suing Campeau in U.S. court, especially since the fraud took place in Canada.	The parties settled in 1991 for an unspecified amount.
1990	Japan	In re Columbia Securities Litigation, 747 F. Supp. 237, at 1 (S.D.N.Y. September 26, 1990).	The plaintiffs charged the U.S.-listed Sony and its insiders with material missatements and/or omissions prior to the acquisition of Columbia Pictures.	The plaintiffs received a settlement for $25 million in 1993-94.
1990	Bermuda	In re: Sea Containers, Ltd., Securities Litigation, 1990 U.S. Dist. LEXIS 14795, at 1 (D.D.C. October 31, 1990).	The plaintiffs charged the U.S.-listed Bermudan firm with material misstatements and/or omissions in violation of the federal securities laws.	The plaintiffs received a settlement for an unknown amount less than $5 million.

Year	Country	Case Name	Case Summary	Outcome
1991	Canada	Holtz v. National Business Systems, Inc. (settled January 1991)	The plaintiffs charged the U.S.-listed Canadian firm and its auditors with material misrepresentation in the company's financial statements.	The plaintiffs received a $500,000 and 2.75 million warrants for penny stock as part of the settlement, even though almost $400 million in market capitalization had been erased because of the fraud. The auditors agreed to pay $4.85 million in a settlement. The plaintiffs' attornies received approximately 25 percent of the company's settlement and 30 percent of the auditor's settlement amount.
1992	Great Britain	Lindner Fund Inc. v. Polly Peck Int'l PLC, 91 Civ. 6481, 1992 U.S. Dist. LEXIS 9648, at 1 (S.D.N.Y. July 8, 1992). Zeidenberg v. Polly Peck Int'l PLC, 91 Civ. 3246, 1992 U.S. Dist. LEXIS 10983, at 1 (S.D.N.Y. July 7, 1992).	The plaintiffs in 1992 charged both a British listed firm and its British accountant with fraud, but the judge dismissed the case because Polly Peck was already in British bankruptcy proceedings, because even the plaintiff conceded that all relevant assets were in the British jurisdiction, and because the U.S. judge believed that the case would best be adjudicated in Britain since Britain is a sister common-law jurisdiction whose legal process can be trusted as fair.	The plaintiffs lost the case and did not receive any compensation.
1992	Canada	In re Laidlaw Securities Litigation, 1992 U.S. Dist. LEXIS 13935, at 1 (E.D.P.A. September 16, 1992).	The plaintiffs charged the U.S.-listed Canadian firm with material misstatements and/or omissions in violation of the federal securities laws.	The plaintiffs received a settlement of $7,650,000, and the attornies received $2,295,132.

Year	Country	Case Name	Case Summary	Outcome
1993	Canada	Gordon Trust v. Northgate Exploration, Ltd., 91 Civ. 3937, 1993 U.S. Dist. 3990, at 1 (S.D.N.Y. March 31, 1993).	The plaintiff in 1993 charged a U.S.-listed Canadian company with financial misstatements. The plaintiff's motion to certify a class was granted.	The judge approved a settlement for cash and stock worth approximately $1.5 million on 15 August 1995.
1993	Bermuda	Furman v. Sherwood, 833 F. Supp. 408, at 1 (S.D.N.Y. October 5, 1993).	The plaintiffs charged the U.S.-listed Bermudan firm Sea Containers with material misstatements and/or omissions in violation of the federal securities laws.	The judge dismissed most of the plaintiffs' charges. The case then settled for $750,000.
1994	Great Britain	Debora v. WPP PLC, 91 Civ. 1775, 1994 U.S. Dist. LEXIS 5830, at 1 (S.D.N.Y. May 5, 1994).	The plaintiff in 1994 charged the foreign managers of a British listed firm with false disclosure but saw his case dismissed on the merits.	The case was dismissed, and the plaintiff did not receive any compensation.
1994	Japan	Delio v. Sony Corp, filed November 1994 in the Southern District of New York.	The plaintiffs charged the U.S.-listed Japanese firm and its insiders with failing to disclose problems at Sony's U.S.motion pictures studio in a timely manner. The plaintiffs pursued both a derivative case and a securities class action at the same time.	The plaintiffs received a settlement for appoximately $20 million.
1995	Great Britain	In Re Medeva Securities Litigation, Master File No. 93-4376-Kn(AJWx), at 1 (C. Cal. May 30, 1995).	The plaintiffs charged the U.S.-listed British firm and its insiders with material misstatements and/or omissions in violation of the federal securities laws.	The plaintiffs agreed to a settlement for $6.75 million.
1995	Mexico	Greenfield v. Banpais, S.A., filed October 11, 1994 in the Southern District of New York.	The plaintiffs charged the U.S.-listed Mexican firm and its insiders with material misstatements and/or omissions in violation of the federal securities laws.	The plaintiffs received a $9.25 million settlement in October 1995.

Year	Country	Case Name	Case Summary	Outcome
1996	Canada	Duncan v. Pencer, 94 Civ. 0321 (LAP), at 1 (S.D.N.Y. January 18, 1996).	The plaintiffs charged the U.S.-listed Canadian firm Cott Corporation and its insiders with material misstatements and/or omissions in violation of the federal securities laws.	The plaintiffs agreed to a settlement for $3.75 million dollars in April 1997.
1996	Canada	Derensis v. Coopers & Lybrand Chartered Accountants, Civ. No. 94-4202, 1996 U.S. Dist. LEXIS 9757, at 1 (D.N.J. March 12, 1996).	The plaintiff in 1996 charged the U.S.-listed Canadian company International Nesmont Industrial Corporation with financial misstatements, and the judge agreed that the plaintiff had made a prima facie case. The judge further argued that the case should not take place instead in Canada because Canada did not have a well-developed class action procedure.	The parties reached a settlement for just over $4 million.
1996	Australia	Cosmas v. Merrill Lynch & Co., 92 Civ. 6560 (LLM), 1996 U.S. Dist. LEXIS 22562, at 1 (S.D.N.Y. October 15, 1996).	The plaintiffs charged the U.S.-listed Australian firm Orbital Engine with material misstatements and/or omission in violation of the federal securities laws.	The plaintiffs received a settlement for $925,000. The plaintiffs attorneys received just over one third of the settlement in fees and reimbursed costs.
1997	France	Berlinsky v. Alcatel Alsthom Compagnie Generale D' Electricite, aka Alcatel Alsthom, 964 F. Supp. 754, at 1 (S.D.N.Y. May 5, 1997).	The plaintiff charged the U.S.-listed French company and its insiders with material misrepresentations, and the case was settled.	The plaintiffs settled for $8.8 million.

Year	Country	Case Name	Case Summary	Outcome
1997	Canada	Trafton v. Barclays, Case No. C 93-2758, 1997 U.S. Dist. LEXIS 8447, at 1 (N.D. Cal. June 10, 1997).	The plaintiff in 1994 charged some insiders of a U.S.-listed Canadian company called Western Canada Water Enterprises with financial misstatements. The district court judge allowed the case to proceed, and in 1997, there was settlement between the parties for approximately $500,000.	The plaintiffs settled for approximately $500,000.
1997	Argentina	Western Heart Inst., P.C., v. Buenos Aires Embotelladora S.A. (In re Baesa Sec. Litig.), 969 F. Supp. 238, at 1 (S.D.N.Y. July 9, 1997).	The plaintiffs charged the U.S.-listed Argentinean firm and its controlling shareholder, U.S.-based Pepsico, with material misrepresentation.	The plaintiffs settled for approximately $9 million.
1997	Great Britain	Robinson v. TCI/US West Communications Inc., No. 96-50554, 1997 U.S. App. LEXIS 19487 (5th Cir. July 18, 1997).	The appeals court ruled that the case should be tried in Great Britain because most of the fraud took place in a foreign country against a foreign national, and also because Britain provides a suitable forum for settling the dispute between Robinson and a U.S.-listed British firm.	The plaintiff lost the case and did not receive any compensation.
1997	Canada	Friedberg v. Discreet Logic, Inc., Civil Action No. 96-11232-EFH, 959 F. Supp. 42, at 1 (D. Mass. March 7, 1997)	The plaintiffs charged the U.S.-listed Canadian firm and its insider with material misstatements and omissions in violation of the federal securities laws.	In November 1997, the plaintiffs settled the case for $10.8 million. The company paid $7.4 million, and insurance paid the remaining $3.4 million.
1997	Canada	Schoenhaut v. American Sensors, Inc., 96 F. Supp. 785, at 1 (S.D.N.Y. November 14, 1997).	The plaintiffs charged the U.S.-listed Canadian firm and its insiders with material misstatements and/or omissions in violation of the federal securities laws.	The plaintiffs' case was dismissed, with the right granted to seek another amended complaint. The company had earlier declared bankruptcy.

Year	Country	Case Name	Case Summary	Outcome
1997	Hong Kong	In re Radica Games Limited, Securities Litigation, 131 F.3d 148, at 1 (9th Cir. November 14, 1997).	The plaintiffs charged the U.S.-listed Hong Kong firm with material misstatements and/or omissions in violation of the federal securities laws.	The plaintiffs' case was dismissed by the district court, and the dismissal was upheld by the federal appeals court.
1997	Canada	Davis v. Cognos Inc., Civil Case CV 97 7457, filed December 10, 1997 in the Eastern District of New York.	The plaintiffs charged the U.S.-listed Canadian firm and its insiders with material misrepresentation.	The case was voluntarily withdrawn by the plaintiffs after receiving evidence from the defendants that the case would not meet the standard mandated by the Private Securities Litigation Reform Act.
1997	Great Britain	Modlin v. Danka Business Systems PLC, filed December 23, 1997 in the Middle District of Florida.	The plaintiffs charged the U.S.-listed British firm and its insiders with material misrepresentation.	The plaintiffs received a settlement of approximately $2 million after losing a motion to dismiss.
1998	Canada	Btesh v. Bahnman, Civil Action 398CV00213, filed February 3, 1998 in the District of Connecticut.	The plaintiffs charged the insiders of the U.S.-listed Canadian firm Tee-Com with material misrepresentation.	The plaintiffs received approximately $2 million through a settlement. The firm was not a party to the case because it was already bankrupt.
1998	Canada	Graubart v. Insignia Solutions PLC, Civil Action No. C-97-20265, at 1 (N.D. Cal. March 21, 1997).	The plaintiffs charged the U.S.-listed Canadian firms and its insiders with material misrepresentation.	In April 1998, the court approved a $8 million settlement. Of that amount, the company's insurers paid $7.5 million, and the company paid $500,000 and plaintiffs' attorney expenses.
1998	Canada	Jones v. The Loewen Group, Inc, Civ. No. 95-CV-7514, at 1 (E.D.P.A. April 21, 1998).	The plaintiffs charged the U.S.-listed Canadian firms with material misstatements and/or omissions in violation of the federal securities laws.	The plaintiffs agreed to a settlement for $5 million.

Year	Country	Case Name	Case Summary	Outcome
1998	Canada	Danicy v. Delgratia Mining Corporation, Civil Action CV-S-97-00573-PMP (RLH), filed May 8, 1997 in the District of Nevada.	The plaintiffs charged the U.S.-listed Canadian firm with material misrepresentation.	The plaintiffs received 2.5 million shares as a settlement in August 1998, and the shares were worth far less than a dollar a share. The fraud had led to $500 million in shareholder losses.
1998	Canada	In re MTC Electronic Technologies Shareholders Litigation, Civ No. 93-0876, at 1 (E.D.N.Y. October 29, 1998); MTC Electronic Technologies Co., Ltd. v. Leung, CV 94-6293, 1995 U.S. Dist. LEXIS 7448, at 1 (C.D. Cal. May 16, 1995).	The plaintiffs charged the U.S.-listed Canadian firm and its insiders with material misstatements and/or omissions in violation of the federal securities laws, as well as with insider stealing of shares. MTC itself sued a U.S. broker for helping its own malfeasant executives to perpetrate financial fraud. The judge allowed the case to proceed.	The plaintiffs received $72 million in June 1998 as part of the settlement. The company (now called GrandeTel Technologies Inc.) contributed $5 million in cash and $5 million in stock as part of a settlement. Some of the plaintiffs opted out of the settlement and are still pursuing their claims through the courts. The company settled itself with the insiders, who gave the company stock worth $4.9 million. The insiders had been accused of taking $30 million.
1998	Ireland	King v. CBT Group PLC, Civil Case C-98-21014 RMW, filed October 2, 1998 in the Northern District of California.	The plaintiffs charged the U.S.-listed Irish firm, its U.S. subsidiary, and its insiders with material misrepresentation.	The third amended complaint was upheld by the court, and the case is in discovery phase.
1998	Canada	Interbrew S.A. v. Edperbrascan Corporation, 98 Civ. 3547, 1998 U.S. Dist. LEXIS 16559, at 1 (S.D.N.Y October 20, 1998).	A Belgian company in 1998 sued a U.S.-listed Canadian company called Esperbrascan for financial fraud, and the federal district judge dismissed the complaint based on the fact that the alleged fraud took place in Canada and largely affected a foreign company.	The plaintiff lost and did not receive any compensation.

Year	Country	Case Name	Case Summary	Outcome
1998	Israel	Weikel v. Tower Semiconductor, Civil Action 96-3711, 1998 U.S. Dist. LEXIS 19103 (D.N.J. October 20, 1998).	The plaintiffs charged a U.S.-listed and U.S-controlled Israeli company with material misstatements. The Israeli company's shares were sold only in the U.S. The judge allowed the case to proceed and certified a class.	The plaintiffs received $16,500,000 through a settlement.
1998	Israel	Trust Advisers Equity Plus LLC v. ESC Medical Systems Ltd., Civil Action 98-CV-08129, filed November 13, 1998 in the Southern District of New York.	The plaintiffs charged a U.S.-listed Israeli company with material misstatements.	The plaintiffs received a $4.5 million cash and stock settlement.
1999	Great Britain	Itoba Ltd. v. LEP Group PLC, No. 5-92-cv-556(WWE), 1999 U.S. Dist. LEXIS 613, at 1 (D. Conn. January 4, 1999).	In 1995, the second circuit appeals court reversed an earlier magistrate judge's decision and ruled that the U.S.-listed British company LEP could be held accountable for misleading statements that it made as part of SEC filings. In 1999, a Connecticut district court judge allowed the case again to proceed against an insider of LEP. Later, the case was dismissed with prejudice.	The plaintiff's case was dismissed with prejudice by the judge in January 2000.
1999	Canada	Smith v. Dominion Bridge Corporation, Civ. Action 96-7580, 1999 U.S. Dist. LEXIS 2131 (D.E. Pa. March 2, 1999).	The judge in 1999 stayed a case against a U.S.-listed Canadian firm for financial misstatements, concluding that the case could be tried fairly in Canadian bankruptcy court.	The plaintiff lost the case and did not receive any compensation.
1999	Canada	Scibelli et al. v. Northern Telecom, Civ. Action 98CIV7228; filed April 21, 1999 in the Southern District of New York.	The plaintiffs charged the U.S.-listed Canadian firm and its insiders with material misrepresentation prior to the acquisition of U.S.-based Bay Networks.	The case was dismissed on the merits.

Year	Country	Case Name	Case Summary	Outcome
1999	Canada	Mates v. North Am. Vaccine, Inc., Civil Action No. AW-98-3678, 1999 U.S. Dist. LEXIS 9576 (D. Md. June 18, 1999).	Mates charged the U.S.-listed Canadian company and her former insider colleagues with financial fraud, but the charges were dismissed. The judge ruled that the Securities Act was not written to protect Mates in her status as a manager and director.	The plaintiff lost and did not receive any compensation.
1999	Bahamas	Goldkrantz v. Merv Griffin, 1999 U.S. App. LEXIS 32444, at 1 (2nd Cir. December 13, 1999).	The plaintiffs, who were shareholders of U.S.-based Griffin Gaming & Entertainment, charged the U.S.-based Bahamian firm with misrepresentation in its prospectus to Griffin prior to its acquiring Griffin.	The federal appeals court upheld the district court's decision to dismiss the case on the merits.
2000	Great Britain	Angre v. Smallworldwide PLC, No. 99-K-1254, 2000 U.S. Dist. LEXIS 6628, at 1 (D. Colo. April 27, 2000).	The plaintiffs in 2000 charged that insiders of the British listed firm had violated the disclosure laws in falsely promoting their firm's R&D expenditures and future prospects.	The parties are currently in settlement discussions.
2000	Netherlands	In Re Baan Company Securities Litigation, Civ. No. 98-2465, 2000 U.S. Dist. LEXIS 9311, at 1 (D.D.C. June 21, 2000).	The plaintiffs sued the U.S.-listed Dutch company Baan Corp. for financial misstatements.	The case is ongoing.
2000	Canada	In Re Northern Telecom Ltd. Securities Litigation, 116 F. Supp. 2d 446, at 1 (September 28, 2000).	The plaintiffs sued the U.S.-listed Canadian company for omitting information about internal business problems.	The plaintiffs lost and did not receive any compensation.

Year	Country	Case Name	Case Summary	Outcome
2000	Canada	Winkler v. Wigley, Civ. 00-7624, at 1 (2nd Cir. December 6, 2000).	The plaintiffs charged the U.S.-listed Canadian firm NRD Mining and its insiders with material misstatement and/or omission in violation of the federal securities laws.	The defendant company defaulted, and the plaintiffs then pursued a jury trial against two of the remaining defendants. Even though a jury ruled in their favor, the judge dismissed the case. The appeals court ruled in 2000, 18 years after the case began, that the lower court judge was correct in deciding that the remaining defendants' actions did not amount to actionable fraud under the federal securities laws.
2001	Japan	City of Monroe Employees Retirement System v. Bridgestone Corporation, filed January 3, 2001 in the Middle District of Tennessee.	The plaintiffs sued the U.S.-listed Japanese company or material misrepresentation.	The case is in process.
2001	Canada	Gaming Lottery Securities Litigation, 96 Civ. 5567, 2001 U.S. Dist. LEXIS 2034, at 1 (S.D.N.Y. February 27, 2001).	The plaintiffs in 1999 charged a U.S.-listed Canadian company called Gaming Lottery Corporation with financial mistatements, and the judge allowed even the Canadian shareholders to join the case. In 2001, the district judge entered a summary judgment of $10 million against two of the defendants.	In 2001, the district judge entered a summary judgment of $10 million against two of the defendants.

Year	Country	Case Name	Case Summary	Outcome
2001	Germany	Fischer v. Intershop Communications AG, Civil Action No. C 01-0882, filed February 28, 2001 in the Northern District of California.	The plaintiffs charged the U.S.-listed German firm and its insiders with material misrepresentation.	The plaintiffs are amending their complaint and preparing to resubmit it to the court.
2001	Israel	Dadabhoy v. Nice Systems, Ltd., filed March 1, 2001 in the District of New Jersey.	The plaintiffs charged the U.S.-listed Israeli firm and its insiders with material misrepresentation.	The case is in process.
2001	Canada	McNamara v. Bre-X Minerals Ltd., 5:97-CV-159, 2001 U.S. Dist. LEXIS 4571, at 1 (E.D. Tex. March 30, 2001).	The plaintiffs in 1999 sued a U.S.-listed Canadian company Bre-X for financial misstatements, and the judge accepted the prima facie case against both Bre-X and its holding company despite the fact that the holding company called Bresea had only an unlisted ADR. The judge concluded that by giving Canadian documents to the SEC, Bresea must have known that it was potentially defrauding American investors. In 2001, the district judge dismissed the case against some of the defendants while allowing the case to proceed against others.	The case is still in process and has not reached trial yet.
2001	India	Karakunnel v. Rediff.com India Ltd., filed May 3, 2001 in the Southern District of New York.	The plaintiffs charged the U.S.-listed Indian firm and its insiders with material misrepresentation in the prospectus.	The case is in process.

Year	Country	Case Name	Case Summary	Outcome
2001	Canada	In re The Loewen Group, Inc. Securities Litigation, CIVIL ACTION NO. 98-6740, 2001 U.S. Dist. LEXIS 6482 (E.D. Penn. May 16, 2001).	The plaintiffs charged the U.S.-listed Canadian firm and its insiders with material misrepresentation.	The case was released from civil suspension docket, and the motion to dismiss is now being decided by the judge. The plaintiffs went to the Delaware bankruptcy court, which was responsible for a large percentage of the Loewen Group's assets. The bankrupcty court in Delaware allowed the plaintiffs to continue to include the Loewen Group as a named defendant in the case, even though the company will not be responsible for paying any judgment. The decision of the bankrupcty court in Delaware allowed the plaintiffs to continue their case against the company insiders.
2001	Canada	Kaplowitz v. ATI Technologies Inc., Civil Action 01-CV-2541, filed May 25, 2001.	The plaintiffs charged this U.S.-listed Canadian firm with material misrepresentation.	The case was dismissed by the court on the merits.
2001	Canada	In re Corel Corporation Inc., 00-CV-1257, 2001 U.S. Dist. LEXIS 7144 (E.D. Pa. May 31, 2001).	The plaintiffs charged the U.S.-listed Canadian company with material misstatements, and the judge accepted that the case should be tried in the U.S.	The case is in discovery phase.

Year	Country	Case Name	Case Summary	Outcome
2001	Germany	In re Deutsche Telekom AG Securities Litigation, filed May 31, 2001 in the Southern District of New York	The plaintiffs charged the U.S.-listed German firm and its insiders with material misstatement and omissions in the firm's SEC registration statements.	The case is in discovery phase.
2001	Great Britain	In re Independent Energy Holdings PLC Securities Litigation, Master File OO Civ. 6689, 2001 U.S. Dist. LEXIS 10340 (S.D.N.Y. July 26, 2001).	The plaintiffs charged the insiders of the U.S.-listed British firm with material misrepresentation and omission in the prospectus filed before the SEC. The district court judge dismissed part of the case on the merits and allowed the remainder of the case to proceed.	The case is still in process.
2001	Canada	Shapiro v. Delano Technology Corporation, filed August 2, 2001 in the Southern District of New York.	The plaintiffs charged the U.S.-listed Canadian firm with material misrepresentation in its Prospectus.	The case is in process.
2001	Canada	In re: Arakis Energy Corporation Securities Litigation, 2001 U.S. Dist. LEXIS 19873, at 1 (E.D.N.Y. August 17, 2001).	The plaintiffs charged the U.S.-listed Canadian firm and its insiders with material misrepresentation.	The plaintiffs received a $24 million settlement based on an estimate of more than $59 million in losses to the plaintiffs. The attorneys were granted a 25 percent share of the settlement by the judge.
2001	Philippines	Chin v. PSI Technologies Holdings, Inc., filed September 4, 2001 in the Southern District of New York.	The plaintiffs charged the U.S.-listed Filipino firm and its insiders with material misrepresentation in its prospectus.	The case moved to the Northern District of Virginia, where it was dismissed. PSI Technologies is the current subject of another related suit (see below).

Year	Country	Case Name	Case Summary	Outcome
2001	Cayman Islands	Satty v. Netease.com, Inc., filed October 22, 2001 in the Southern District of New York.	The plaintiffs charged the U.S.-listed Cayman Islands firm and its insiders with material misrepresentation. The firm has executive offices in Beijing.	The case is in process.
2001	France	Williams v. MGM-Pathe Communications Co., 129 F.3d 1026, at 1 (9th Cir. November 19, 1997)	The plaintiffs charged the U.S.-listed French firm Pathe Communications Corp. and its insider with material misstatement and/or omissions In violations of the federal securities law.	Even though the defendants were responsible for at least $1.5 billion in fraud, the plaintiffs agreed to a settlement for $4.5 million. The plaintiffs' attorneys were awarded $1.5 million of that settlement. Florio Fiorini signed a plea agreement with U.S. law enforcement in October 2001, by which Fiorini will serve 41 months in a U.S. prison, will pay a fine of $100,000, and then will not be allowed to return to the U.S. for ten years. Financier Giancarlo Parretti, who the CEO of Pathe, is still delaying extradition from Italy to the United States.
2001	Turkey	In re Turkcell Elitism Hizmetler, A.S. Securities Litigation, 202 F. Supp. 2d 8, 2001 U.S. Dist. LEXIS 17950, at 1 (S.D.N.Y. November 2, 2001).	The plaintiffs charged the U.S.-listed Turkish firm and its insiders with material misrepresentation.	The plaintiffs' case survived a motion to dismiss and is in process.

Year	Country	Case Name	Case Summary	Outcome
2001	Canada	In re Livent, Inc. Securities Litigation, 193 F. Supp. 2d 750; 2002 U.S. Dist. LEXIS 3854 (S.D.N.Y. March 5, 2002); In re Livent, Inc. Noteholders Litigation, 174 F. Supp. 2d 144, 2001 U.S. Dist. LEXIS 19688 (S.D.N.Y. November 27, 2001).	In two separate but closely related case, the shareholders and noteholders of U.S.-listed Livent charge the firm and its insiders with material misrepresentations	The two cases have survived motions to dismiss and are in process.
2001	France	Friedman v. Alcatel Alsthom, C.A. No. 16650, 752 A.2d 544, 1999 Del. Ch. Lexis 240 (November 10, 1999).	The plaintiffs charged the U.S.-listed French firm Alcatel with material misstatements made in SEC filings just prior to the acquisition of a U.S. company, and the judge accept the prima facie.	The case was settled in December 2001 for $75 million. The related case by shareholders who had purchased Alcatel stock directly was dismissed.
2001	Belgium	Mautner v. ACLN, Ltd., filed December 27, 2001 in the Southern District of New York.	The plaintiffs charge the U.S.-listed Belgian company and its insiders with material misrepresentation.	The case is in process.
2002	Canada	In re Nortel Networks Corp. Securities Litigation, Consolidated Civil Action No. 01-CV-1855, filed January 22, 2002 in the Southern District of New York.	The plaintiffs charged the U.S.-listed Canadian firm and its insiders with material misstatements and/or omissions in violation of the federal securities laws.	The case is in process.
2002	Ireland	Krause v. Elan Corporation, PLC, filed February 2002 in the Southern District of New York.	The plaintiffs charged the U.S.-listed Irish firm with material misstatements in violation of the federal securities laws.	The case is in process.

Year	Country	Case Name	Case Summary	Outcome
2002	Germany	Buxbaum v. Deutsche Bank AG, 196 F. Supp. 2d 367, at 1 (S.D.N.Y. February 7, 2002).	The plaintiffs, who were shareholders of U.S.-based Bankers Trust, charged Deutsche Bank with material misrepresentation and an effort to keep the Bankers Trust share price down prior to the acquisition of the company.	The plaintiffs' case has survived a motion for dismiss by the defendants and is in process.
2002	Canada	In re Cinar Corporation Securities Litigation, 186 F. Supp. 2d 279, at 1 (S.D.N.Y. February 25, 2002).	The plaintiffs charged the U.S.-listed Canadian firm and its insiders with material misstatements and/or omissions in violations of the federal securities laws.	The plaintiffs' case survived a motion to dismiss and is in process.
2002	Ireland	Linn v. Allied Irish Banks, PLC, filed March 2002 in the Southern District of New York.	The plaintiffs charged the U.S.-listed Irish firm and its insiders with material misstatements and/or omissions in violation of the federal securities laws.	The case is in process.
2002	Israel	Kremerman-Dekel v. Gilat Satellite Networks, Inc., filed March 8, 2002 in the Eastern District of Virginia.	The plaintiffs charged the U.S.-listed Israeli firm and its insiders with material misrepresentation.	The case is in process.
2002	Germany	In re Daimler Chrysler Securities Litigation, Civil Action No. 00-993/00-984/01-004-JJF, at 1 (D.Del. March 22, 2002).	The plaintiffs charge the U.S.-listed German firm with material misrepresentation prior to the acquisition of Chyrsler.	The judge accepted parts of the case as valid claims, and the case is proceeding.
2002	Canada	Kane v. Zisapel, Civil Action No. 00-16344, 2002 U.S. App. LEXIS 5204, at 1 (9th Cir. March 27, 2002).	The plaintiffs charged the U.S.-listed Canadian firm Madge Networks and its insiders with material misrepresentations.	The appeals court affirmed the district court's decision to dismiss the case, saying that the plaintiffs' case did not meet the standards of the Private Securities Litigation Reform Act.

Year	Country	Case Name	Case Summary	Outcome
2002	Canada	DiRienzo v. Philip Services Corp., 2002 U.S. App. LEXIS 5622, at 1 (2nd Cir. April 1, 2002).	The district judge explained that he found the earlier Trafton and Derensis judgments unpersuasive and ruled that the charges of financial impropriety against the U.S.-listed Canadian firm should be tried in Canadian court. A panel of the federal appeals court for the Second Circuit reversed the district judge, deciding more than once that American plaintiffs ought to be able to pursue their cases against U.S.-listed foreign firms in U.S. courts. The panel of judges called for the case to go forward in the district court.	The Appeals Court ruled that the case could be tried in the U.S., and the case was remanded to the Southern District of New York for further proceedings.
2002	France	Karlin v. Alcatel, S.A., Former Xylan Corporation Stockholders v. Alcatel, S.A., Case No. SA CV 00-0214 DOC (EEx), at 1 (C.D. Cal. August 13, 2001).	The plaintiffs charged the U.S.-listed French firm and its insiders with material misrepresentation.	The plaintiffs agreed to a $10.5 million settlement, which was due to be approved by the court on April 15, 2002.
2002	Argentina	In re NTL, Inc, Securities Litigation, filed April 18, 2002 in the Southern District of New York.	The plaintiffs charge the U.S.-listed Argentinean firm and its insiders with material misstatements and/or omissions in violation of U.S. federal securities law.	The case is in process.

Year	Country	Case Name	Case Summary	Outcome
2002	Canada, United Kingdom, Switzerland, Singapore, China, Iceland, Argentina, Japan, Bermuda, Spain, Korea, Virgin Islands, Phillipines, Israel, India, the Netherlands	In re Initial Public Offering Securities Litigation, Master File No. 21 MC 92 (SAS), filed April 19, 2002 in the Southern District of New York	The plaintiffs charged the underwriters of numerous IPOs, including the IPOs of U.S.-listed foreign firms, with allegedly failing to disclose their efforts to allegedly infrate the price of new IPOs through kickbacks given to those who promised to purchase the stock at elevated prices. The U.S.-listed foreign firms and their insiders who signed the SEC registration statements for the IPOs were also charged as codefendants. These U.S.-listed foreign firms include 724 Solutions (Canada), AIrspan (United Kingdom), Bookham Technology (United Kingdom), Carrier1 International (Switzerland), Chartered Semiconductor (Singapore), Chinadotcom (China), Decode Genetics (Iceland), Delano Technology (Canada), El Sitio (Argentina), Exfo (Canada), Gigamedia (China), GT Group Telecom (Canada), Internet Initiative Japan (Japan), Jazztel (Spain), Korea Thrunet (Korea), Marvell Technology (Bermuda), OpenTV (British Virgin Islands), Pacific Internet (Singapore), PSI Technologies Holdings (Philippines), Radware (Israel), Satyam Infoway (India), SMTC (Canada), Terra Networks (Spain), United Pan Europe (the Netherlands), and Versatel Telecom International (the Netherlands).	The case is in process.

Year	Country	Case Name	Case Summary	Outcome
2002	Canada	In re Laidlaw Inc. Securities Litigation, 2001 U.S. Dist. LEXIS 5231, at 1 (J.P.M.L. April 19, 2001).	The shareholder and bondholder plaintiffs separately charged the U.S.-listed Canadian firm with material misstatements and/or omissions in violation of the federal securities laws.	In January 2002, the bondholder plaintiffs agreed to a settlement for $42.9 million. The rest of the case is ongoing.
2002	Israel	Dov Pharmaceuticals, filed May 2, 2002 in the Southern District of New York.	The plaintiffs charge the U.S.-listed Israeli firm with material misrepresentations in the prospectus.	The case is in process.
2002	France	Hansbro v. Alcatel SA, filed May 29, 2002 in the Southern District of New York.	The plaintiffs charged the U.S.-listed French firm and its insiders with material misrepresentation.	The case is in process.
2002	Switzerland	Pinker v. Roche Holdings Ltd., 292 F.3d 361, 2002 U.S. App. LEXIS 10299 (3rd Cir. May 30, 2002).	The plaintiffs charged the U.S.-listed Swiss firm with material misstatements and/or omissions in violation of the federal securities laws.	The appeal court reverse an earlier district court decision which had said that Roche's listed ADR did not make it liable to U.S. securities laws. The case is again in process.
2002	Japan	In re Crayfish Company Securities Litigation, 2002 U.S. Dist. LEXIS 10134, at 1 (S.D.N.Y. June 6, 2002).	The plaintiffs charge the U.S.-listed Japanese firm and its insiders with material misstatements and/or omissions in violation of the federal securities laws.	The lead plaintiff and co-lead counsel have been appointed, and the case is in process.
2002	Israel	Khan v. ECI Telecom, filed June 15, 2001 in the East District of Virginia.	The plaintiffs charged the U.S.-listed Israeli firms and its insiders with material misrepresentation.	The parties agreed to a $21 million settlement in May 2002. The claims against the individual defendants were dropped, and the company's insurance policy paid for the settlement.

Year	Country	Case Name	Case Summary	Outcome
2002	Belgium	In re Lernout & Hauspie Securities Litigation, Civ. Action No. 00-CV-11589-PBS (consolidated) n1, at 1 (D. Mass. June 19, 2002).	The plaintiffs charged the U.S.-listed Belgiam firm and its insiders with material misrepresentation.	The case has survived a motion to dismiss and is in process.
2002	Singapore	Flextronics International Ltd., filed July 1, 2002, in the Southern District of New York.	The plaintiffs charged the U.S.-listed Singaporean firm and its insiders with material misrepresentation.	The case is in process.
2002	France	Rosenbaum Partners v. Vivendi Universal, Inc., filed July 18, 2002 in the Southern District of New York.	The plaintiffs charged the U.S.-listed French firm and its insiders with material misrepresentation.	The case is in process.
2002	Great Britain	Lazar v. Micro Focus Group PLC, Civil Action No. 98CIV.8591, filed December 3, 1998 in the Southern District of New York.	The plaintiffs charged the U.S.-listed British firm and its insiders with material misrepresentation. The plaintiffs pointed to the firm's Prospectus issued prior to the acquisition of the U.S.-based Intersolv.	The plaintiffs recently agreed to a settlement of unknown amount.
2002	Ghana	In re Ashanti Goldfields Securities Litigation, filed July 28, 2002 in the Southern District of New York	The plaintiffs charged the U.S.-listed Ghanaian firm and its insiders with material misstatements and/or omissions in violation of the federal securities laws.	The case is in process.