

Internet Appendix A90 Regulation

A90.1 Illustrative Pitch Template Example

Victoria Clout	FoR: 1502 (Regulation/public policy)	Date template completed: 25 February 2015
(A) Working Title	Market impact and the role of litigation funders in securities class actions.	
(B) Basic Research Question	What impact does the incipient market for litigation funding have on the enforcement of mandatory corporate disclosure, as tested through the market impact, over time, to securities class actions.	
(C) Key paper(s)	Humphery-Jenner (2012) JFI Chapple, Clout and Tan (2014) AJM Kim & Skinner (2012) JAE Legg (2008) UNSWLJ	
(D) Motivation/Puzzle	To date there has been a sizable increase in SCAs in the Australian environment since 1999, post the introduction of this legal option and greater number after litigation funds were allowed in the market in 2006. Australia is described as one of the most liberal for class action rules in the world (Miller, 2009). Prior literature suggests that increased levels of disclosure result in more accurate share prices, benefiting shareholders, reducing cost of capital and enhancing the participation in stock markets. In a market where disclosures are made private information gathering does not need to take place, information asymmetry is reduced, and greater liquidity – investors can more accurately analyse firm valuation. Thus, a channel that encourages enhanced disclosure is a benefit to the market as a whole. The Australian market is different to other developed securities markets given the following set of factors: the continuous disclosure regime, the relatively under-funded regulators and the relatively fewer information intermediates per firm.	
THREE		
(E) Idea?	Does the market reaction to the commencement of SCAs change over time, given the increase in frequency of SCAs and the increasing likelihood of settlement? If so, private litigation would appear to be a substitution enforcement mechanism for enforcement of disclosure laws by public regulators. In this case, the role of litigation funders in enabling private enforcement action Australia warrants scrutiny.	
(F) Data?	<p>(1) Country/setting: Australian firms subject to class actions – as there has been a recent rise in securities class actions following the lifting of restrictions on this type of litigation.</p> <p>(2) Expected sample: Approximately 40 litigated firms and 80 non-litigated firms matched by size and industry. For the period 1999 to 2014.</p> <p>(3) Data source(s): The identity of SCA firms, the litigation funders and law firms involved was hand collected from media releases (SIRCA’s <i>Australian Company Announcements</i> database) and from newspaper articles (<i>Factiva</i>). Financial firm data obtained from Morningstar <i>DatAnalysis</i> and share price data from SIRCA’s <i>AusEquities</i>. Timeframe: SCA firms identified at this point and collection of additional data will take no more than 1 week, UNSW subscribes to the above mentioned databases.</p> <p>Researcher assistance needed?: ‘minor’ level assistance for collation of data, Funding/grants? Not essential for viability.</p> <p>(4) Standard data – High quality standard data from all databases and skilled expertise used for the identification of SCA firms.</p> <p>(5) Missing data? An SCA firm will be required to have share price data around the time of the announcement of the class action and also a pre- and post-earning announcement.</p> <p>(6) Will the test variables exhibit adequate (“meaningful”) variation to give good power? The expectation based on prior</p>	

	studies is yes.
(G) Tools?	CAR to be estimated using MathLab and regressions with CAR as the dependent variable using STATA. Pooled regression analysis containing firms that have been subject to a securities class action. Analysis will also take place with SCA firms and non-SCA firms matched by size and industry.
TWO	
(H) What's New?	Very little scholarly research on the economic impact in Australia of securities class actions. This is new given the unique regulation of Australia's financial markets.
(I) So What?	Given the policy debate between private enforcement of public law obligations of corporate disclosure, policy makers, regulators and investors are interested in the drivers of litigation and the role of the new intermediaries, the litigation funders.
ONE	
(J) Contribution?	This study will provide useful evidence on the market impact of securities class actions in Australia and the role of litigation funders in driving investor demand to privately fund a disclosure enforcement action.
(K) Other Considerations	<p>Is Collaboration needed/desirable?</p> <ul style="list-style-type: none"> - <i>Idea</i>: assembled an strong academic team with track record across 2 universities and relevant disciplines - <i>Data</i>: collected from publicly available sources - <i>Tools</i>: required expertise is already available in the assembled team (i.e. econometrics software packages) - Is there a <i>role</i> for a <i>relevant regulatory body</i> to be directly engaged in this project?: Absolutely – issues of enforcement of mandatory disclosure rules are of primary concern to ASIC. Ideally we will be well positioned to inform ASIC on an important matter of market regulation based on the evidence and findings produced. - Are there funding issues? As there is no database available in Australia of securities litigation, identification of the sample is highly specific intensive hand collected exercise. This requires resources to maintain and update. - Can your pitch a “value add” to a relevant regulatory body that would convince them to make \$/in-kind contributions to the research? Are there needed data that a relevant agency might provide? If so, under what circumstances? Are there any other major issues that particularly relate to the policy/regulation dimension of this pitch? – Ideally access to ASIC investigations data on disclosure breaches would provide richer information for our dataset on sample SCA companies. <p>Target Journal(s)? Do you have a “dual” publication strategy? – Yes we believe the research findings cross disciplines – a target journal is accounting and finance and a target journal in securities law.</p> <p>“Risk” assessment:</p> <ul style="list-style-type: none"> - “no result” risk – LOW; - “competitor” risk: LOW – as this is hand-collected data that requires expertise to find the SCA companies. - risk of “obsolescence”: LOW – as the number of companies subject to an SCA is expanding and this will continue to be regulatory dimension for some time to come for the Australia. - other risks? None <p>Is the scope appropriate? – the scope is ideal for an academic paper of this level.</p>