GLOBAL SECURITIES LITIGATION AND ENFORCEMENT

Global Securities Litigation and Enforcement provides a clear and exhaustive description of the national regime for the enforcement of securities legislation in cases of misrepresentation on financial markets. It covers 29 jurisdictions worldwide, some of which are important although their law is not well known. It will be an invaluable resource for academics and students of securities litigation, as well as for lawyers, policymakers and regulators.

The book also provides a comprehensive contribution to the debate on whether public or private enforcement is preferable in terms of development of securities markets. It will appeal to those interested in the legal origins theory and in comparative securities law, and shows that the classification of jurisdictions within legal families does not explain the differences in legal regimes. While US securities law often serves as a model for international convergence, some of its elements, such as securities class actions, have not been adopted worldwide.

PIERRE-HENRI CONAC is Professor of Financial Markets Law at the University of Luxembourg. He is the author of *The Regulation of Securities Markets by the French COB and the US SEC* which was awarded several prizes. His research areas deal principally with European, international and comparative securities law. He has been deeply involved in policy-making in securities financial law at the European Union level. From 2011 to 2016 the European Securities and Markets Authority appointed him twice to its consultative Securities and Markets Stakeholder Group.

MARTIN GELTER is Professor of Law at Fordham University School of Law. Previously, he was Assistant Professor in Law at WU Vienna University of Economics, Terence M. Considine Fellow and John M. Olin Fellow at Harvard Law School, Visiting Fellow at the University of Bologna and Visiting Professor at University Paris-II (Panthéon-Assas). Martin holds degrees in law from the University of Vienna, in business administration from WU Vienna, an SJD from Harvard Law School and an MA in Quantitative Methods for the Social Sciences from Columbia University. His scholarship focuses on comparative corporate law and governance.

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Edited by
PIERRE-HENRI CONAC
University of Luxembourg
MARTIN GELTER
Fordham University, New York

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CONTRIBUTORS

SYED IMAD-UD-DIN ASAD has an LL.M. from the Harvard Law School; he is a member of the Lahore High Court Bar Association; he is the founding director of the UMT School of Law and Policy, where he is also an Associate Professor; he is a Visiting Professor at the KU Leuven; he is the first elected associate member from Pakistan of the International Academy of Comparative Law; he has given talks on Islamic law, Islamic finance, and Pakistan at the KU Leuven, the University of Antwerp, the Heidelberg University, the EBS Law School, the Boston University School of Law, the Boston College School of Law, and the Boston Theological Institute. He is working in Pakistan in order to improve the existing system of legal education in the country.

GHEORGHE BUTA heads the Litigation & Arbitration practice, being one of the most best-known and respected experts in commercial, civil, and criminal disputes in Romania. In his outstanding judicial career spanning over three decades, Mr Buta has gathered extensive trial experience, first as prosecutor, then as judge, including with the High Court of Cassation and Justice, where he was President of the Commercial Division. His knowledge and extended expertise cover the fields of business law, civil law, civil procedure, administrative litigation, as well as criminal law and criminal procedure. Furthermore, Mr Buta is arbitrator on the panel of the International Commercial Arbitration Court attached to the Chamber of Commerce and Industry of Romania. Mr Buta holds a PhD in Law '*summa cum laude*' since 2002, being also renowned for his scientific and academic work. For over 10 years, he was a teacher at the 'Babes-Bolyai' University of Cluj-Napoca, and for the past 5 years he has been a 1st degree scientific researcher (university professor) with the Scientific Research Institute 'Acad. Andrei Radulescu' of the Romanian Academy and a member in the Scientific Board of the same institute. Mr Buta is also a member of the Academy of Legal Sciences in Romania, and President of the section on law practice.

EUGENIO J. CÁRDENAS is an attorney at Kirkland and Ellis, LLP and a member of the firm's Capital Markets practice group. His practice focuses on capital markets transactions, representing issuers and underwriters in connection with offerings of equity and debt securities, and advising public companies on corporate governance, SEC compliance and disclosure matters. He holds Doctor of the Science of Law (J.S.D.) and Master of the Science of Law (J.S.M.) degrees from Stanford Law School, where he was a Stanford Program in International Legal Studies (SPILS) Fellow, twice a recipient of the John M. Olin Program in Law and Economics Summer Research Fellowship and Co-Founder and President of the Stanford Program in Law and Society. He holds a Master of Laws (LL.M.) with a concentration in Corporate Law and Governance from Harvard Law School, where he was also a Visiting Researcher and a consultant to the Program on International Financial Systems (PIFS). He completed an externship at the Division of Enforcement (FCPA Unit) of the US Securities and Exchange Commission in Washington, D.C., and his scholarly work on emerging capital markets has been published in the Stanford, Brooklyn and Connecticut *Journals of International Law*. Dr. Cárdenas is originally from Mexico, where he is a licensed attorney and practiced and lectured law prior to moving to the United States.

IRIS H.-Y. CHIU is a Professor of Company Law and Financial Regulation at University College London, whose faculty she joined in September 2009. She previously taught at the School of Law, King's College London, and the University of Leicester. She was a legislative draftsman and State Counsel at the Attorney-General's Chambers in Singapore prior to joining academia. She read law at the National University of Singapore and the University of Cambridge. She completed her doctorate at the University of Leicester.

KYUNG-HOON CHUN is an Associate Professor at Seoul National University (SNU) School of Law, where he teaches corporate law and commercial law. Before joining the SNU faculty in 2010, he practiced law at Kim & Chang in Seoul, Korea, as a partner in the practice areas of corporate law and M&A. After graduating from SNU (bachelor of law) and from the Judicial Research and Training Institute of the Korean Supreme Court, he continued his studies at the graduate school of SNU (Master of Law and PhD in Law) and at Duke University School of Law (LL.M). Since 2010 he has published more than 30 academic articles and book chapters and co-authored several textbooks and commentaries in Korean and English.

PIERRE-HENRI CONAC is Professor of Financial Markets Law at the University of Luxembourg. He is the author of *The Regulation of Securities Markets by the French Commission des opérations de bourse* (COB) and the (SEC) which was awarded several prizes. His research areas deal principally with European, international, and comparative securities law. He has been deeply involved in policy making in securities financial law at the European Union level. From 2011 to 2016, ESMA appointed him twice to its consultative Securities and Markets Stakeholder Group (SMSG).

PIET DELPORT (LL.B, LLD (Pret), H DipTax Law (Wits)) is a professor in Mercantile Law at the University of Pretoria, South Africa, where he teaches company law and securities law at post-graduate level. He is author of various textbooks, including 'The New Companies Act Manual', and is editor and author of Henochsberg on the Companies Act 71 of 2008. He has published articles in academic journals on the subjects of corporate and securities law and is a member of the Companies Tribunal.

OLIVIA DIXON joined the University of Sydney Law School in 2013 as Lecturer in the Regulation of Investment and Financial Markets. Olivia teaches and researches in corporate law, with a particular interest in corporate crime. Prior to entering academia, Olivia practiced as a corporate finance attorney in Sydney and New York. Before becoming an attorney in 2003, Olivia worked as an analyst for a corporate finance company and at the Australian Securities and Investments Commission. Olivia has an LL.M and JSD from New York University, where her doctoral dissertation was an empirical study examining the role of mutual funds as corporate governance monitors.

PAULO DE TARSO DOMINGUES has been a Member of Abreu Advogados since 2008 and a Professor at the Faculty of Law of the University of Porto, where he has taught commercial law and company law since 1998. He is a member of the scientific council of the Faculty of Law of the University of Porto and was president of the pedagogical council of the same faculty (2009–2014). Paulo is the author of more than 80 publications (including both monographs and articles in specialized journals), especially in the area of corporate law.

GUIDO FERRARINI is Emeritus Professor of Business Law at the University of Genoa, and Director of the Centre for Law and Finance and Chair in Governance of Financial Institutions at Radboud University Nijmegen.

He holds a J.D. (University of Genoa, 1972), an LL.M. (Yale Law School, 1978), and a Dr. jur. (h.c., Ghent University, 2009). He is founder and fellow of the European Corporate Governance Institute (ECGI). He was a member of the Board of Trustees, International Accounting Standards Committee (IASC), and an independent director at several Italian blue-chip companies. He was an advisor to the Draghi Commission on Financial Markets Law Reform, to Consob (the Italian Securities Commission), and to the Corporate Governance Committee of the Italian Stock Exchange. He has held Visiting Professor positions at several universities in Europe (Bonn, Frankfurt, Ghent, Hamburg, LSE, UCL, Tilburg and Duisenberg) and the US (Columbia, NYU and Stanford). He is author of many articles in the fields of financial law, corporate law and business law, and editor of several books, including *Financial Regulation and Supervision: A Post-crisis Analysis* (with E. Wymeersch and K. Hopt), OUP 2012; *Boards and Shareholders in European Listed Companies* (with M. Belcredi), CUP 2013; *European Banking Union* (with D. Busch), OUP 2015; *Regulation of the EU Financial Markets: MiFID II & MiFIR* (with D. Busch), OUP 2017; and *Capital Markets Union in Europe* (with Avgouleas and Busch), OUP 2018.

MÓNICA FUENTES NAHARRO is Tenured Professor at the Commercial Law Department, Faculty of Law, Universidad Complutense de Madrid; of counsel (Estudio Jurídico Sánchez Calero); Member of the Working Group on the European Model Company Act (EMCA); and Member of the Informal Company Law Expert Group (ICLEG), European Commission (Internal Markets).

MARTIN GELTER is an expert in comparative corporate law and governance, he joined Fordham Law School in 2009. Previously, he was an Assistant Professor in the Department of Civil Law and Business Law at the WU Vienna University of Economics. He also has been a Terence M. Considine Fellow in Law and Economics at Harvard Law School, and a Visiting Fellow at the University of Bologna, and a Visiting Professor at the University of Paris-II (Panthéon-Assas). He is also a research associate of the European Corporate Governance Institute. In the past years, he has frequently taught in training programs for judges in corporate law in the Republic of Georgia. Martin holds degrees in law from the University of Vienna (Mag.iur., Dr.iur), in business administration from WU Vienna University of Economics (Mag.rer.soc.oec., Dr.rer.soc.oec.), an S.J.D. from Harvard Law School, and an M.A. in Quantitative Methods

for the Social Sciences from Columbia University. His scholarship has appeared in numerous journals both in Europe and in the United States.

FRANKLIN A. GEVURTZ is Distinguished Professor of Law at the University of the Pacific, McGeorge School of Law, and, to quote the United States Court of Appeals for the Ninth Circuit, a 'leading commentator' on corporate law. Courts, lawyers, students, and scholars in the United States and abroad look to his treatise, *Corporation Law*, for authoritative guidance. Professor Gevurtz has written numerous law review articles addressing topics in both comparative and US corporate and securities laws, the laws of other business organizations, the antitrust laws, and the application of US laws to overseas activities. Professor Gevurtz's works have been cited hundreds of times, including by the Supreme Courts of Delaware, Georgia, Minnesota, Pennsylvania, Rhode Island, Wisconsin, and Wyoming, and by United States Courts of Appeals for the First, Ninth and D.C. Circuits. He has also taught as a Visiting Professor at the law schools of the University of California, Berkeley, and Davis and at the Catholic University of Portugal.

PAOLO GIUDICI is Professor of Business Law and Director of the Center for Research on Law and Economics (CRELE) at the Free University of Bolzano, where he teaches Company Law and Capital Markets Law. He is ECGI Research Associate and Professorial Fellow at the Faculty of Law of Tilburg University in the Netherlands. He has written two books and his articles and book chapters are published in top Italian and European law journals and books. He is a regular speaker at academic and business conferences. He is editor of the Italian law journal 'Le Società', where he covers the area concerning listed companies and securities markets. He is partner of Munari Giudici Maniglio Panfili & Associates, a law firm based in Genoa, Italy where he covers matters concerning company, capital markets, and competition law.

YULIYA GUSEVA is an Associate Professor of Law at Rutgers Law School. Her recent scholarship includes articles and essays published in the *Boston College Law Review*, the *Columbia Business Law Review*, the *Cardozo Law Review*, the *University of Pennsylvania Journal of International Law*, the *Georgetown Journal of International Law*, and other distinguished journals. Prior to joining Rutgers, Yuliya Guseva was a Visiting Assistant Professor at Fordham Law School, a postdoctoral research fellow in the Columbia Program in the Law and Economics of Capital Markets, and a Kauffman Legal Research Fellow at Columbia Law School. Her prior legal

experience includes the European Investment Bank, the New York State Banking Department, and Sidley Austin, LLP. Professor Guseva graduated summa cum laude with an S.J.D. from Central European University and was a Harlan Fiske Stone Scholar at Columbia University School of Law where she received her LL.M. She also holds a law degree with highest honours from the Orenburg State University, Russia, where she received 'The Most Outstanding Student' award.

JENNIFER G. HILL is Professor of Corporate Law at the University of Sydney Law School. She has held visiting teaching and research positions at various international law schools, including those at Cambridge University, Cornell University, Duke University, NYU Law School, University of Virginia, University of Texas, and Vanderbilt University. She is a Research Member of the European Corporate Governance Institute (ECGI), where she sits on the Research Committee and chairs the Research Member Engagement Committee. She is a Fellow of the Australian Academy of Law (AAL) and a member of the External Advisory Panel of the Australian Securities and Investments Commission (ASIC). She is also a Research Fellow of the British Academy's recent Future of the Corporation Programme.

ROBIN HUI HUANG is Professor of Law in the Faculty of Law, Chinese University of Hong Kong (CUHK). Prior to joining CUHK, Professor Huang was a tenured staff member in the Faculty of Law at the University of New South Wales in Australia (UNSW), where he is now Adjunct Professor. He has also taught or held visiting positions in various prestigious law schools such as Harvard, Michigan, Oxford, Melbourne, McGill, and Tel Aviv. His research interests include, amongst others, corporate law, financial regulation, commercial dispute resolution, and foreign investment, with a focus on China-related issues. He has written extensively in his areas of expertise, with articles published in some of the top-rated journals in the US, the UK, Australia, Canada, Germany, Israel, Hong Kong, Mainland China, and elsewhere. He is the author of *Securities and Capital Markets Law in China* (Oxford University Press, 2014) and *International Securities Markets: Insider Trading Law in China* (Kluwer Law International, 2006), as well as the editor of *Enforcement of Corporate and Securities Law: China and the World* (Cambridge University Press, 2017).

FERNA İPEKEL KAYALI graduated from Galatasaray University, Law Faculty. She completed her LL.M. at the University of Cambridge and her

Ph.D. at the London School of Economics. Her doctoral thesis was on the comparative analysis of takeover regulation in the UK and France, under the supervision of Professor Paul L. Davies. Her associate professorship thesis was on mergers and acquisitions of privately held companies under Turkish company law. Her research interests are mainly in the areas of Company Law and Capital Markets Law. İpekel Kayalı is currently Associate Professor at İstanbul Medeniyet University, Faculty of Law.

MARIOLA LEMONNIER is Doctor habilitatus in legal sciences of Polish and French law, Professor at the Faculty of Law, University of Olsztyn, Vice Dean of the Faculty. In the years 2015–2016, she was Visiting Professor at the Faculty of Law of Toulouse-Capitole. She is also a member of the International Academy of Comparative Law, President of the Polish Section of the Henri Capitant Association, and a partner in de Virion law firm in Warsaw. Mariola Lemonnier is a practitioner and comparative theoretician of financial markets, the scientific editor of a monograph on Polish law published last year in France, and the author of many articles published abroad regarding the Polish capital markets law. She specializes in European, comparative, and international subjects.

LOES LENNARTS holds a chair in comparative company law at the University of Groningen. She specializes in (comparative and international) company law and insolvency law. In 2017 she was appointed as a member of the Advisory Committee on Company Law of the Ministry of Justice and Safety. Loes is a member of several editorial boards and she regularly publishes and lectures on matters of (comparative and international) company law and insolvency law, in particular on issues of director liability and corporate governance.

JELENA LEPETIĆ was born in 1983 in Kotor, Montenegro. She graduated from University of Belgrade, Faculty of Law, Serbia, in 2006. She completed her doctorate studies, defending dissertation on Conflict of Interest Regulation in Company Law at the same university in 2014. In 2012, she was Max Planck Institute for International Private and Comparative Law scholarship holder and was also awarded DAAD scholarship in 2013. Since 2015, Jelena Lepetić has worked as an Assistant Professor at the University of Belgrade, Faculty of Law, in the area of Business Law, where she teaches Company Law. From 2015 till 2017 she was a Visiting Professor at the University of Eastern Sarajevo, Faculty of Law (department in Srebrenica, Bosnia and Herzegovina) where she was teaching Company Law and Commercial Law. Since 2016, Jelena Lepetić has been

managing editor of the journal *Annals of the Faculty of Law in Belgrade – Belgrade Law Review*. She has been a member of the editorial board of the journal *Law and Economy* since 2017 and a member of the editorial board of the Student Economic Law Review since 2011.

EMMANUEL P. MASTROMANOLIS (LL.M., S.J.D., University of Pennsylvania) is Assistant Professor at the Law School of the University of Athens, Greece. He teaches in the area of Business Law, including Corporate Law, Competition Law and Insolvency Law, both at the undergraduate and graduate levels. His publications relate to Commercial Law, including a monograph entitled *Credit Rating Agencies: Functions, Regulation, Civil Liability* (Nomiki Vivliothiki 2013, in Greek) and an article: 'Causal Nexus in the Context of Investor Damage in Secondary Capital Markets: Reflections After the Amgen and Halliburton US Supreme Court Decisions', *Company and Commercial Law Review* 2015/933, in Greek).

AIMAN NARIMAN MOHD-SULAIMAN obtained an LL.B (Hons) (First Class) from the International Islamic University Malaysia (1993), a Masters of Comparative Laws from the International Islamic University Malaysia (1994), and an SJD from Bond University (2000). She is presently Professor in the Faculty of Law, International Islamic University Malaysia. She teaches company law and corporate governance at the undergraduate and postgraduate level. She has published on company law and corporate governance in several academic journals and has authored *Directors' Duties and Corporate Governance* (Sweet & Maxwell, 2000), *Commercial Application of Company Law in Malaysia* (CCH Asia Pte Ltd, 2002, 2005 2nd ed, 2008 3rd ed), and *Malaysia Company Law: Principles and Practices* (CCH Asia Pte Ltd, 2008 and 2018 2nd ed). She was the consultant for the Malaysian Corporate Law Reform Programme (2004–2008) which led to the Companies Act 2016. She was a Visiting Professor at Fakultas Hukum, Universitas Indonesia (2017) and the School of Law, Bond University as a recipient of the Australian Endeavour Fellowship Award (Nov 2012–April 2013). She is a board member of the Malaysian bourse's regulatory committee, i.e. the Listing Committee of Bursa Malaysia (2015–2018; 2008–2012) and was a member of the audit and risk management committee of the International Islamic University Malaysia (2010–2012; 2015–2017).

VILLE PÖNKÄ (LL.D.) is a Senior Lecturer in Civil Law and Commercial Law and the Director of the International Business Law Master's Degree

Program, teaching contract law and commercial law as well as law and economics at the University of Helsinki, Faculty of Law. Pönkä's main fields of research include company law, cooperative law, and contract law. He is a member of several international scholarly communities such as the European Corporate Governance Institute, the European Consortium for Political Research, and the Nordic Company Law Network. Pönkä is also a member of the board of directors of the Finnish Arbitration Institute (FAI).

VIVIANE MULLER PRADO is a full-time Professor at the Fundação Getúlio Vargas, School of Law in São Paulo, Brazil where she also heads the Center of Securities Regulation. She earned a Ph.D. from University of São Paulo, School of Law. She was a Visiting Researcher at Max Plank Institute for Comparative and International Private Law, Hamburg, Germany, and at Unidroit – International Institute for the Unification of Private Law, Rome, Italy. Before joining academia, she practiced business and corporate law in São Paulo. She conducts research in the areas of corporate law and securities regulation, in particular enforcement design, investor protection, and insider trading.

URIEL PROCACCIA was born in Tel Aviv in 1943. He completed bachelor's and master's degrees in law magna cum laude at the Hebrew University of Jerusalem, and in 1968 received his license to practice law. He received his doctorate of law from Pennsylvania University in 1972 and in the same year joined the Faculty of Law at the Hebrew University of Jerusalem. In 1984, Procaccia was appointed to the Wachtell, Lipton, Rosen and Katz Chair for Company and Securities Law. He specialized in the study of corporate law, the economic approach to law, and law and culture. In the years 1996–1999 Procaccia served as Dean of the Faculty of Law. Procaccia is a member of the Hebrew University's Center for the Study of Rationality and was awarded the Zeltner Prize for Life's Work in 2010. Currently, he serves as a Professor at the Tel Aviv University School of Law. Professor Procaccia has worked extensively to defend human rights and the rule of law in Israel, and has been active in several civil society organizations over the years.

MICHAEL PUCHER obtained a diploma degree in Business Administration (Mag. rer. soc. oec.) in 2004 and a diploma degree in Law (Mag. iur.) in 2005 from the University of Graz. Subsequently, he did a clerkship at various courts within the administrative district of the Higher Regional Court of Graz. From 2006 to 2008, he was research and teaching assistant

at the Institute of Civil and Business Law of WU (Vienna University of Economics and Business). In 2008 he obtained his doctoral degree in Law (Dr. iur.) from the University of Vienna. From 2008 to 2015, he was Assistant Professor at the Institute of Civil and Business Law of WU. In 2011, he obtained a Master of Laws (LL.M.) from Harvard Law School. From 2015 to 2017 he worked as an associate in one of Austria's leading business law firms. Since 2017, he has been working as a legal expert in one of the largest publicly traded international insurance groups in Central and Eastern Europe.

JOTI ROEST is an Associate Professor of corporate law at the Amsterdam Law School at the University of Amsterdam (UvA). She regularly publishes in the area of (European) corporate and business law. Her research focuses on European Company Law and on the position of minority shareholders in closed corporations. She is a Member of the Working Group on the European Model Company Act (EMCA).

STÉPHANE ROUSSEAU is Professor of Law at the University of Montreal's Faculty of Law, where he holds the Chair in Business Law and Governance. He heads the Center for Business Law and International Trade. He holds a doctorate in law from the University of Toronto and a law degree from Laval University. He is a member of the Barreau du Québec.

TATSUYA SAKAMOTO (LL.D) is Professor at Komazawa University, Faculty of Law, in Tokyo, Japan. His area of research and study is Japanese Commercial Law, especially Stock Corporation Law, as well as UK company law in comparison to the Japanese Stock Corporation Law. His scholarship focuses on corporate group issues, especially the protections of minority shareholders of subsidiary corporations under the Stock Corporation Law.

RANA TOUSEEF SAMI is pursuing an LL.B. at the UMT School of Law and Policy in Lahore, Pakistan. Also, he has been working as a research assistant at the school since June 2015. After completing his LL.B., he intends to pursue higher studies in North America or Europe.

EIJI TAKAHASHI (Dr. iur., Göttingen; Dr. iur., Tôhoku-University, Japan), has been Professor at Osaka City University since 2007. He is the director of the Japan Society of Private Law (Nihonshihôgakkai), an associate member of the International Academy of Comparative Law, a member of the editorial board of the Interdisciplinary *Journal of Economics and*

Business Law (IJEBL), and co-editor of the a series of books titled *Recht in Ostasien* (*Law in East Asia*).

WANG-RUU TSENG is a Distinguished Professor of Law at the College of Law, National Taiwan University, Taiwan. She has a Ph.D. from the University of London, as well as an LL.M from Harvard. She is a qualified attorney in Taiwan, specializing in company law, securities regulation, financial services, and markets regulation. She has published numerous books in the above-mentioned fields, such as *Re-constructing the Fundamentals of Company Law* (2017). Her books and articles have been granted with the Award of NTU Excellent Journal and Outstanding Books many times. She served as the government-appointed director of the Taiwan Stock Exchange from 2010 to 2015.

UMAKANTH VAROTTIL is an Associate Professor at the Faculty of Law, National University of Singapore. He specializes in corporate law and governance, mergers and acquisitions, and corporate finance. While his work is generally comparative in nature, his specific focus is on India and Singapore. He has co-authored or co-edited four books in these areas, published articles in international journals and founded the IndiaCorpLaw Blog. He has also taught on a visiting basis at law schools in Australia, India, Italy, New Zealand, and the United States. He is the recipient of several academic medals and honours. Prior to his foray into academia, Umakanth was a partner at a pre-eminent law firm in India. During that time, he was also ranked as a leading corporate/mergers and acquisitions lawyer in India by the Chambers Global Guide.

JASNA VASILJEVIĆ was born in 1974 in Novi Sad, Serbia. She graduated from the University of Belgrade, Faculty of Law, Serbia, in 1997. She passed the bar exam in 2002, after which she worked as an attorney-at-law from 2003. Furthermore, she passed the exam for brokers organized by Securities Commission of the Republic of Serbia. After finishing specialized courses for notaries at the University of Belgrade, Faculty of Law, she passed the state exam for notaries in 2014. From 2005 until 2015, Jasna Vasiljević was working as an advisor at the Securities Commission of the Republic of Serbia. She was a deputy member of the Negotiating team for the Chapters 4, 6 and 9 in which the Securities Commission had a role in the process of the harmonization of Serbian law with EU law. Jasna Vasiljević was a member of the working group in charge of amending the laws concerning securities. She participated at the international conference dedicated to takeovers in Istanbul in 2008 as a representative of

Serbian Securities Commission. Since 2015, she has worked as a notary in Belgrade, Serbia.

MIRKO VASILJEVIĆ was born in 1949 in Prijepolje, Serbia. He graduated from the University of Belgrade, Faculty of Law, Serbia, in 1973. He completed his doctoral studies in 1980 at the same university. From 1990, Mirko Vasiljević worked as a Full Professor at the University of Belgrade, Faculty of Law, in the area of business law, where he has been the head of the Civil Law Department since 2013. He was the first to establish company law as a special course at this faculty. Besides company law, he teaches, *inter alia*, commercial law, capital market law, insolvency law, and insurance law. He was elected Dean of the Faculty of Law for three separate terms between 2004 and 2012. He was a member of the several working groups in charge of drafting the laws in the area of business law. Mirko Vasiljević has been the president of the Business Lawyers Association of Serbia for over 20 years. He is the editor-in-chief of the *Annals of the Faculty of Law in Belgrade – Belgrade Law Review*, which is the leading scientific law journal in Serbia. Also, he is the editor-in-chief of the law journal *Law and Economy*, published by the Business Lawyers Association of Serbia.

DIRK A. VERSE studied law at the universities of Bonn and Regensburg (Germany) and at the National University of Singapore. He earned an M. Jur. degree from the University of Oxford in 1997 and a Doctorate in Law (Dr. iur.) at the University of Regensburg in the same year. After passing his bar exam in Munich in 1999, he worked as an attorney-at-law in one of Germany's leading law firms in corporate law in Düsseldorf and Frankfurt. In 2007, he was appointed as a Professor of Law by the University of Osnabrück. Since 2011, he has been a Professor of Law at the Johannes Gutenberg-University in Mainz and a Director of the Center for German and International Law of Financial Services at the same university. He has published on a wide range of topics, mainly in the field of corporate law, capital markets, and takeover law.

PREFACE

Global Securities Litigation and Enforcement addresses the issue of compensation of investors' losses on securities markets due to misrepresentations. It originates from the Congress of the International Academy of Comparative Law (IACL) which took place in Vienna in July 2014, where Martin Gelter served as the general reporter for the topic 'The Protection of Minority Investors and the Compensation of their Losses'. However, the book is up to date as to 1 January 2018.

Global Securities Litigation and Enforcement provides an in-depth analysis of the enforcement securities law, especially civil liability and litigation. The book covers 29 jurisdictions on all Continents. It is the first book to deal in depth with such a number of jurisdictions worldwide. Therefore, it should be very useful for practitioners and academics alike. Both common law and civil law jurisdiction are included. One conclusion is that there have been significant changes in the last two decades to statutory and case law in many jurisdictions in order to strengthen the protection of investors on securities markets.

The book contributes to the debate on whether public and private enforcement is better in terms of market development. This discussion is linked to the distinction between common law and civil law and the 'legal origins' theory. Advocates of the 'legal origins' theory, developed in 1997 by a group of economists based at Harvard (R. La Porta, F. Lopez-de-Silanes, A. Shleifer and R. Vishny) have suggested that common law is superior to civil law in order to develop a large capital market with a prominent dispersed ownership. However, Professors Howell Jackson and Mark Roe, based at Harvard Law School, suggested in 2009 that it is not primarily private enforcement that correlates with securities market growth, but rather quantifiable measures of public enforcement, such as the size of the regulators' staff, its financial endowment relative to the size of the countries' Gross Domestic Product (GDP), and the purchasing power of its inhabitants.

In the field of securities legislation, the distinction between common law and civil law jurisdictions has always been artificial given that the *Securities Act* of 1933 and the *Securities Exchange Act* of 1934 of the United States are statutory law, and arguably resemble codifications often thought to be typical of civil law legislation. Consequently, they have often served as a model to many civil law jurisdictions.

While adding a more qualitative analysis to the debate, the results in this book largely confirm the views of Professors Howell Jackson and Mark Roe. Many countries still rely primarily on public enforcement and have still developed large securities markets. China is a clear example despite the availability of private remedies.

The book also hopes to provide a better understanding on the issue of whether the globalization of securities markets has led to an adoption of the public and private enforcement model developed in the United States (US). Is the US model followed and, if so, to what extent?

The New Deal securities legislation in the US based on the motto of Louis Brandeis that 'sunlight is said to be the best of disinfectants; electric light the most efficient policeman' has become the international model based on the principle of disclosure.

As to public enforcement, the US model of enforcement by an administrative authority, acting through administrative or judicial courts, has spread around the world. The Securities and Exchange Commission (SEC), established in 1934, has become the international benchmark. The main reason is that the SEC itself is considered one of the best, if not the best, securities regulator in the world. Its strong enforcement track record has contributed to making the US securities markets the largest in the world. Reports promoting 'international best practices', such as the 1998 of the International Organization of Securities Commission (IOSCO) *Objectives and Principles of Securities Regulation* as well as the International Monetary Fund's Financial System Stability Assessments (FSAP), have also contributed to the spread of the SEC model.

As to private enforcement, civil liability under securities law has also been a very important aspect of US corporate governance, especially in the form of securities class actions. Securities class actions rose to prominence after the Supreme Court's decision in *Basic* v. *Levinson* in 1988 that established the fraud-on-the-market theory. However, securities lawsuits have become more difficult in recent years. This concerns, in particular, listed companies not traded in US stock exchanges. While courts previously often permitted such suits under the 'conduct and effects test', with the case of *Morrison* v. *National Australia Bank* in 2010 it has

become considerably more difficult to sue foreign issuers in US courts. This has reduced the availability of US courts to foreign investors and raised the pressure on foreign legislators to provide remedies in their own jurisdictions. Also, the 'internet bubble', which burst in 2001, the spectacular collapses of once-great firms such as Enron and WorldCom, and the great financial crisis of 2008 have caused major losses and generated reforms strengthening securities legislation worldwide and also calls to strengthen public enforcement and to compensate investors.

With the spread of Anglo-American forms of corporate governance around the world in the past three decades, securities litigation has gained significance in many jurisdictions, including civil law countries. This shows again that the distinction between common law and civil law jurisdictions in the field of financial legislation is largely artificial. These developments have taken place through statutory law or through case law.

Legal regimes differ in details, but there are more similarities than differences as to the legal basis for liability (often general tort law in case of secondary market liability), the defendants (including gatekeepers), and loss and transaction causation. The US *fraud-on-the-market theory* has become a major point of reference, even if only a minority of jurisdictions have adopted it. There are also differences in terms of which plaintiffs are allowed to sue – this group may sometimes include buy-and-hold investors – and the nature of the injury for which recovery can be sought.

It appears that the US has influenced many jurisdictions as to substantive securities law. This has been made easier in civil law jurisdictions by the application by courts of flexible general tort law principles or by the establishment of statutory regimes. However, the US approach to securities litigation remains unique, or almost unique, in the world. Almost no jurisdiction fully embraces the highly contentious litigation environment of US securities class actions, with Canada, Israel, and Australia coming closest. This is not surprising as the US securities class action regime is based on a cluster of procedural legal rules (*class action, pre-trial discovery*, *contingent fees*), which other jurisdictions are cautious to fully duplicate because of a fear of abuse. One or several procedural rules are missing, such as the class action itself and often the opt-out rule when class actions are accepted. As to the opt-out rule, it is not widely accepted even in common law jurisdictions. These differences make it difficult to achieve a similar result as in the US. Therefore, the US model of private enforcement through securities class actions and of the 'private attorney general' has not prevailed worldwide even if compensation of investors' losses is accepted in the