

# Accepted Manuscript

## What Makes the Bonding Stick? A Natural Experiment Testing the Legal Bonding Hypothesis

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PII: S0304-405X(18)30125-9  
DOI: [10.1016/j.jfineco.2018.05.001](https://doi.org/10.1016/j.jfineco.2018.05.001)  
Reference: FINEC 2896

To appear in: *Journal of Financial Economics*

Received date: 27 August 2013  
Revised date: 23 March 2017  
Accepted date: 5 April 2017

Please cite this article as: Amir N. Licht , Christopher Poliquin , Jordan I. Siegel , Xi Li , What Makes the Bonding Stick? A Natural Experiment Testing the Legal Bonding Hypothesis, *Journal of Financial Economics* (2018), doi: [10.1016/j.jfineco.2018.05.001](https://doi.org/10.1016/j.jfineco.2018.05.001)

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## What Makes the Bonding Stick? A Natural Experiment Testing the Legal Bonding Hypothesis

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### ABSTRACT

We use a US Supreme Court case, *Morrison v. National Australia Bank* (2010), as a natural experiment to test the legal bonding hypothesis. By decreasing the potential liability of US-listed foreign firms, particularly due to class action lawsuits, *Morrison* arguably eroded their legal bonding to compliance with disclosure duties. Nevertheless, we find evidence of an increase or insignificant change in share values. Tests of longer-run effects of the legal event indicate that foreign firms' disclosure quality and likelihood of facing enforcement actions remained stable, as did investors' revealed preferences for trading on US markets. These results go against the legal bonding hypothesis but are consistent with reputational bonding and with market-based accounts of US cross-listing. Our results may contribute to ongoing debate about civil enforcement of securities laws through class actions.

This version: 19 April 2018

JEL classifications: G15, G18, G38

Keywords: bonding, class actions, cross-listing, corporate governance, civil liability, reputation

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\* Corresponding author. We thank Chris Allen and Eyal Arazi for research assistance. We thank the Securities and Exchange Commission staff and the attorneys from the different sides who gave generously of their time in answering our questions. For helpful comments we thank an anonymous referee, Kee-Hong Bae, Bobby Bartlett, Bernard Black, Steve Choi, Jim Cox, Robert Jackson, Alon Klement, Tim Lohse, Roni Michaely, Graham Partington, and Ed Rock, as well as participants in seminars and conferences at University of New South Wales School of Business Research Workshop; University of Sydney School of Business Research Workshop; Corporate Governance in Emerging Markets, Infinity Conference on International Finance, Summer Finance at IDC, American Law and Economics, European Law and Economics, Boston University, City University of Hong Kong, Chinese University of Hong Kong, Hong Kong University, and Hong Kong University of Science and Technology. Any errors are our responsibility.

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