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ABSTRACT

PREDICTABILITY OF DELISTING BEHAVIOR OF NON-US FIRMS LISTED ON US STOCK EXCHANGES: DO MARKET CHARACTERISTICS AND GENERAL MARKET CONDITIONS MATTER IN A PRE- AND POST-SOX CONTEXT?

From 1990 until the enactment of the Sarbanes-Oxley Act of 2002 (SOX), fifty-five non-U.S. companies voluntarily delisted their American Depositary Receipts (ADR) from U.S. stock exchanges. In the six years from its enactment through 2008, ninety-six non-U.S. firms chose to voluntarily delist. Significant attention has been given to the impact of SOX upon U.S. and global capital markets, and the recent increase in the number of voluntary delistings by non-U.S. firms indicates that SOX has affected foreign firm listing choice with regard to U.S. capital markets. Drawing upon the stream of capital market and accounting research focused on bonding theory, capital market segmentation, and signaling hypothesis, this research investigates the effect of SOX legislation on the voluntary delisting behavior of foreign firms cross-listed in the U.S. using the ADR listing mechanism from 1990 through 2008. This research uncovers evidence that both the level of investor protections and the level of required financial disclosure in the non-U.S. market can be significant predictors of delisting behavior, but only in the post-SOX environment. These findings support the notion that foreign firms use U.S. capital markets as a mechanism with which to bond to the U.S. regulatory environment thus supporting bonding theory, and they use U.S. capital markets to signal

to investors and other stakeholders their intention to willingly provide more transparency in financial disclosure thus supporting signaling hypothesis.