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Abstract

The U.S. Securities and Exchange Commission designates foreign-domiciled firms with securities trading in the U.S. markets as either foreign private issuers (FPIs) or domestic filers and permits exemptions from U.S. domestic securities regulation for firms that qualify as FPIs. We study the stock market reaction to foreign-domiciled firms that lose or gain FPI status for an arguably exogenous reason while maintaining their cross-listing status. After loss of FPI status, foreign firms are required to comply with U.S. domestic issuers' continuous filing requirements, such as filing quarterly financial statements using U.S. GAAP, disclosure of insider trading, and compliance with corporate governance requirements of U.S. domestic issuers. We document a significantly positive market reaction when foreign firms lose their exemptions and must comply with regulatory requirements of U.S. domestic issuers. Further, we find that the market reacts negatively to an increase in financial statement requirements and reacts positively to fully adopting U.S. corporate governance requirements.

Keywords: Corporate governance, financial reporting, foreign private issuer, market reaction.

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1. Introduction

In 1979,[1] the U.S. Securities and Exchange Commission (SEC) adopted its current regulatory framework governing foreign-domiciled firms. The framework permits foreign-domiciled firms to follow regulatory and disclosure requirements that are less stringent than the requirements for U.S. domestic issuers, but typically more stringent than their home-country requirements. A significant literature examines the economic consequences of cross-listing in (and de-registering from) the U.S. and initiating (ceasing) compliance with the requirements of foreign private issuers. Less well understood is whether investors care about the exemptions granted to foreign private issuers (FPIs). Using a unique setting, we provide evidence about whether the U.S. stock markets value the disclosure and regulatory exemptions currently granted to FPIs.

To study the costs and benefits of the two different levels of regulation for foreign-domiciled firms in the U.S., we exploit that some foreign-domiciled firms *change* FPI status over time, primarily due to events that are likely involuntary and outside managers' direct control in the spirit of Gow et al. (2016). When foreign-domiciled firms *lose* their FPI status with the SEC, they continue their listing in the U.S. but become subject to the same, stricter regulatory requirements as U.S. domestic issuers. Conversely, when foreign-domiciled firms that are U.S. domestic filers with the SEC *gain* FPI status, they continue their U.S. listing but are permitted exemptions from certain regulatory requirements. Looking at foreign domiciled firms that lose or gain their FPI status with the SEC allows us to investigate some of the – possibly unintended – economic consequences of two-tiered reporting requirements. Moreover, we are able to document how the market perceives specific differences in requirements (e.g., financial statement disclosures vs. corporate governance). Identifying the specific consequences for firms that lose their FPI status informs regulators regarding which requirements the market views as beneficial versus costly.

[1] Adoption of Foreign Issuer Integrated Disclosure System, Exchange Act Release No. 16,371 (Nov. 29, 1979).

Our setting provides an opportunity to test whether and how the U.S. stock markets value the exemptions from U.S. domestic reporting requirements because our sample firms remain cross-listed with their shares trading in the U.S. before and after their change in FPI status. Thus we can study the effect of switching to a different regulatory system while holding the country, enforcement, and shareholder protections more constant. The cost of this relatively clean test is that we sacrifice a larger sample size.

Whether stock market value tends to increase when a firm moves from FPI disclosure and regulatory requirements to the requirements for U.S. domestic issuers is not obvious. Loss of FPI status results in increased disclosure and regulatory requirements. Shareholders may view increased requirements as value enhancing if greater transparency and stricter corporate governance limits managers' and/or controlling shareholders' ability to extract rents (e.g., Stulz 1999; Coffee 1999, 2002; Core et al. 2006; Berger and Hann 2007). In contrast, increased costs of compliance[2] with additional standards may decrease firm value (e.g., Zhang 2007; Leuz et al. 2008; Li 2014). Law practitioners overwhelmingly focus on the benefit of maintaining FPI status to avoid the additional compliance costs of U.S. domestic issuers (e.g., Cohn and Vivero 2013). On the other hand, the exemptions may not be significant enough to affect firm value. In adopting the Foreign Issuer Integrated Disclosure System in 1979, the SEC determined the requirements for FPIs were sufficient to protect U.S. investors. Frost and Kinney (1996) find similar correlations between earnings and stock returns for foreign-domiciled (FPIs) and U.S. domiciled issuers matched on size and industry, suggesting that foreign issuers' lower disclosure levels may not, on average, impair the usefulness of earnings for valuing FPIs.

To determine whether the stock market on balance views the change in reporting requirements as beneficial or costly, we examine the short-window stock market reaction to firms' announcement of

[2] For example, following its loss of FPI status, Alpha & Omega Semiconductor Limited reported in its Management Discussion & Analysis the following increase in costs, "In addition, we incurred $1.1 million of professional fees related to the conversion of our financial statements under IFRS to U.S. GAAP and a $0.9 million incremental expense associated with the requirements of being a public company." These additional costs are not trivial as they represent 2.9% and 2.4% of the firm's reported net income, respectively.

change in FPI status.[3] Specifically, we calculate the cumulative abnormal return (*CAR*) for the three-day period centered on the announcement of a change in FPI status. Our results are consistent with U.S. domestic reporting and regulatory requirements providing incremental value to shareholders above FPI requirements as we find a statistically significant 2.30% *CAR* for firms that lose their FPI status. We find a statistically insignificant negative *CAR* of -1.79% for firms that gained FPI status.

In addition to examining the market's overall reaction to a change in FPI status, we examine how the market reacts to exemptions FPIs receive from U.S. domestic regulatory requirements, which may differentially affect firm value. Specifically, we identify the exact requirements that changed within each firm, and classify them into three broad categories: *Financial Statements, Disclosure of Insider Information,* and *Corporate Governance.* The reporting requirements grouped in the *Financial Statements* category relate to the timeliness, quality and quantity of information disclosed in the financial statements. These requirements are costly to implement but likely provide more transparent reporting thereby reducing agency costs. *A priori* the effect on firm value is ambiguous. The reporting requirements grouped in the *Disclosure of Insider Information* category relate to the disclosure of inside information, such as insider ownership and sales as well as private disclosure of management information. The predicted effect of this category of requirements is unclear as theory indicates either positive or negative trading profits related to the disclosure of insider information (see Huddart et al. 2001, 2006). The last category of reporting requirements grouped in *Corporate Governance* relate to corporate governance. Theoretical and empirical evidence supports that stronger (weaker) corporate governance is associated with better (poorer) operating performance, which the market rewards with higher prices. An alternative view is that the optimal governance structure will vary from firm to firm (Baysinger and Butler 1985).

[3] A fundamental challenge for event studies in the cross-listing literature is that the market reaction to the U.S. cross-listing announcement may signal positive news about firms' growth prospects rather than for foreign firms' bonding with U.S. laws and institutions. Our study is less likely to be affected by this issue for three reasons. First, FPI status changes for the majority of firms in our sample because of an increase or decrease in their U.S. investor base, which is outside the direct control of managers. Second, the announcement of a change in FPI status is unlikely to signal a change in firms' growth prospects. If, for example, improvements in a firm's U.S. growth prospects attract U.S. investors, which causes the change in FPI status, the information related to growth prospects should be incorporated in the firm's stock price prior to the announcement of the change in FPI status. Third, we document that the change in the type and number of FPI requirements is associated with the market reaction to the announcement of the change in status.

Thus, losing FPI status may force firms away from their optimal governance structure and negatively impact operating performance.

Overall, our results suggest that shareholders view the extensive disclosure requirements relating to the *Financial Statements* category as costly while they find that *Corporate Governance* related requirements add value. Understanding how the stock markets value the various requirements may help U.S. regulators focus on the key differences. Our results add to a growing body of evidence that requiring FPIs to adopt the same corporate governance requirements as U.S. domestic issuers may benefit equity investors in the U.S. markets.[4]

In additional analysis we mitigate concerns of test misspecification or omitted correlated bias. Specifically, in the spirit of Larcker et al. (2011), we perform Monte Carlo simulations which support that the change in FPI requirements is unrelated to daily returns in the absence of the announcement of a change in FPI status. Results are also robust to other factors that change in the short-window around the change in FPI status.

We also examine individual FPI exemptions and document firms appear to suffer proprietary costs from the disclosure of segment information. In this analysis, we find some evidence that the disclosure of share ownership and sales is also viewed negatively by market participants. This finding seems generally consistent with the Huddart et al. (2006) who predict that mandated disclosure of insiders' trades can allow multiple informed insiders to extract more information rents from other uninformed traders. Additionally, we confirm that the stock markets view increases in corporate governance standards of FPIs as value enhancing. Finally, we examine cross-sectional differences in firm size (Iliev 2010). Stock market reactions suggest that the financial statement compliance costs are more onerous for smaller firms than for larger firms. As competition increases among stock exchanges around the world to attract firms, differences in regulatory requirements can be an important factor. Our results are informative to regulators seeking to establish policies that are valued by market

[4] Foley et al. (2014) document that 80% of FPIs in the U.S. opt out of at least one U.S. corporate governance rule. When opting out, they generally opt to comply with weaker governance standards. They find this negatively affects the value of the firms' cash holdings consistent with higher agency costs.

participants.

The paper proceeds as follows. Section 2 describes institutional details about FPIs, the potential effects of a change in FPI status, and our hypothesis development. Section 3 identifies the sample firms. Section 4 presents the results of market reaction surrounding a change in FPI status. Section 5 provides additional analyses. Section 6 concludes and offers suggestions for future research.

2. Background and Hypothesis Development

A FPI is an issuer that is incorporated or organized under the laws of a jurisdiction outside the U.S. A company maintains its status as a FPI unless it fails the ownership test and one of the three business contacts tests as defined in Rule 405 of the Securities Act of 1933, stated below:

(1) *Ownership Test*: More than 50% of its outstanding voting securities are directly or indirectly owned by U.S. residents; and

(2) *Business Contacts Tests*: Any of the following apply
   (a) The majority of its executive officers or directors are U.S. citizens or residents.
   (b) More than 50% of its assets are in located in the U.S.
   (c) Its business is administered principally in the U.S.

Beginning as early as 1964, the SEC sought public comments regarding the appropriate reporting rules for these companies. Countervailing arguments in the debate include: 1) heightened regulation for the protection of investors and the need for equal reporting requirements for domestic and foreign issuers, and 2) promotion of public interest by encouraging foreign issuers to participate in highly regulated U.S. markets (Davidoff 2010).

Over time, the SEC reached a balance between countervailing interests and adopted an integrated disclosure system for FPIs. In 1982 the SEC stated, "in developing the proposals the Commission sought to balance the policies of protecting investors by requiring substantially the same disclosure from domestic and foreign issuers and of promoting the public interest by encouraging foreign issuers to register their securities with the Commission" (SEC 1982). Thus, foreign-domiciled firms can enter the U.S. markets, list their securities as FPIs, and receive exemptions from some U.S. securities regulatory requirements applicable to domestic filers. As a result, not all firms listed in U.S. capital markets must

comply with the same regulatory requirements.

The relaxed disclosure and regulatory requirements encourage foreign firms to access the U.S. capital markets, but this may come at a cost to U.S. investors by impairing their ability to evaluate FPIs' financial performance. Frost and Kinney (1996) address this question by examining the disclosures of a sample of 156 FPIs during 1989 and 1990 compared to U.S. firms matched on size and industry. They find that foreign issuers file fewer interim reports as well as file their earnings announcements, interim reports, and annual reports on a less timely basis than their U.S. matched firms. Among FPIs, they document differences in disclosures based on their filing status. Lastly, they document that foreign firm and U.S. firm earnings/stock returns correlations are similar and have similar significance levels for most country and disclosure partitions. Frost and Kinney (1996: 81) conclude that "the descriptive evidence on earnings/return associations for foreign issuers and the U.S. comparison firms suggests that foreign issuers' lower disclosure levels may not, on average, impair the usefulness of earnings for valuing these firms."

Further, prior literature examines firms that enter U.S. markets. Cross-listing studies posit that foreign firms list shares in the U.S. to subject themselves to stricter regulatory requirements and enforcement, thereby attempting to separate themselves from other firms in their home market, which results in higher market valuations (Piotroski and Srinivasan 2008; Doidge et al. 2004). Other studies examine foreign firms that delist and/or deregister from U.S. exchanges and find mixed market reactions attributable to either differences in compliance costs or governance-related factors (Fernandes et al. 2010; Marosi and Massoud 2008; Hostak et al. 2006; Witmer 2006). The cross-listing literature examines firms moving from home country regulatory requirements and institutions and adopting FPI requirements and bonding with U.S. institutions (e.g., legal environment). The event we study is distinct from this literature. We examine how the market perceives moving from FPI regulatory requirements to U.S. domestic regulatory requirements while holding constant the bonding with U.S. institutions because our sample firms are listed in the U.S. and subject to U.S. securities laws before and after the change in FPI status. Thus we can study the within-firm effect of switching to a different regulatory system while

holding the country, enforcement, and shareholder protections constant.

We identify firms that lose or gain FPI status and examine the market reaction to the announcement of the change in filing status. If U.S. domestic reporting requirements provide net benefits to shareholders relative to FPI reporting requirements, then we would expect a positive (negative) market reaction after losing (gaining) FPI status. On the other hand, Marosi and Massoud (2008) and Li (2014) find that some U.S. securities regulation of FPIs appears costly and excessive. U.S. law firms specializing in helping foreign firms access U.S. public markets tout the benefits of maintaining FPI status and describe losing FPI status as costly (Cohn and Vivero 2013). If the cost of complying with increased regulatory requirements exceeds the benefits, we would expect a negative (positive) market reaction upon losing (gaining) FPI status. Thus, whether and how the market values the exemptions from full U.S. domestic disclosure and regulatory compliance is an empirical question. As such we test the following null hypothesis:

HYPOTHESIS 1. A change in regulatory requirements (FPI status) has no effect on firms' market value.

Another key innovation in our study is that we investigate how the market perceives the specific requirements that change when a firm gains or loses its FPI status. We identify specific differences in the reporting requirements between domestic and foreign filers, as summarized in Table 1. By examining the reporting requirements, we are relaxing the assumption of prior literature that all differences have the same directional impact.

Insert Table 1

The differences in reporting and regulatory requirements between domestic and foreign filers may be grouped in four broad categories: *Financial Statements*, *Disclosure of Insider Information*, *Corporate Governance*, and *Initial Registration with the SEC.* We discuss the requirements in each relevant category and the prior literature related to each requirement, except for *Initial Registration with the SEC* since all firms in our sample are already listed and trading in the U.S. Not all of these requirements affect each FPI since some FPIs' home countries share the same requirements as the U.S.

Thus we perform a detailed review of each firms' filings and calculate the change in FPI requirements based on the actual number of requirements that changed for each firm.

The reporting requirements grouped in the *Financial Statements* category relate to the timeliness, quality and quantity of information disclosed in the financial statements. We discuss each of the requirements in this category in the following paragraphs.

FPIs are not required to meet accelerated filing requirements. Most domestic filers have 75 days from the end of their fiscal year to file their annual report, whereas FPIs are permitted six months.[5] To the extent that shareholders view timely reporting as more beneficial than costly, we would expect markets to respond positively to the announcement that an FPI lost its status and must begin to meet accelerated filing requirements and file interim financial statements.

FPIs may file non-U.S. GAAP financial statements. FPIs have for a long time been permitted to file financial statements prepared using accounting standards permitted by their home country or exchange with reconciliation to U.S. GAAP. For fiscal years ending after November 15, 2007, the SEC allowed FPIs that prepare financials statements in accordance with International Financial Reporting Standards (IFRS) to file with the SEC without reconciliations to U.S. GAAP (Gordon et al. 2012; Hansen et al. 2014). Regardless, foreign-domiciled issuers that lose FPI status, even those reporting under IFRS without reconciliation, must adopt U.S. GAAP. Wilford (2016) finds that foreign firms reporting under U.S. GAAP are more likely to report material weaknesses. Overall, a shift in GAAP could result in a change in the quality of reported financial information.

Domestic issuers are required to make segment disclosures consistent with Statement of Financial Accounting Standard (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information*. Prior to fiscal years ending after December 15, 2009, FPIs had the option to omit segment data from their financial statements. Ettredge et al. (2005) evaluate the effect of firms'

[5] FPIs typically file their financial statements with the U.S. SEC on either Form 20-F or, if Canadian, on Form 40-F. We collectively refer to annual financial statements as filed on Form 20-F. Beginning 12/15/2011, all FPIs must begin filing financial statements within four months of their fiscal year end. Bryant-Kutcher et al. (2013) and Doyle and Magilke (2013) provide evidence of a tradeoff between timeliness and reliability for U.S. domestic filers subject to shortened filing deadlines.

adoption of SFAS 131 and find that segment disclosures increase the stock market's ability to predict firms' future earnings. Berger and Hann (2003) find that segment data prepared and presented under SFAS 131 affects market valuations. FPIs that previously omitted segment data would become required to initiate segment reporting upon losing FPI status. As a consequence, we predict that firms that lose (gain) FPI status experience improvement (deterioration) in their information environment.

FPIs received an extension from full compliance with requirements of Sarbanes Oxley Act of 2002 (SOX). In particular, the SEC extended the required date for the auditor's attestation report on the company's internal controls until the company files its first Form 20-F for a fiscal year ending on or after July 15, 2007. SOX could have changed the benefits of listing in the U.S. markets (e.g., Romano 2005, Engel et al. 2007, Piotroski and Srinivasan 2008, and Bova et al. 2014). The expected benefits of a U.S. listing could increase due to the stricter governance requirements of SOX. Consistent with this, Li et al. (2008) document a positive relationship between SOX event returns and the extent of earnings management, consistent with the market expecting SOX to constrain firms' earnings management. The benefits, similar to the legal bonding hypothesis (Stulz 1999; Coffee 1999, 2002), could increase (decrease) for firms that lose (gain) FPI status. On the other hand, to the extent that increased compliance costs outweigh additional benefits (e.g., Li 2014), we would expect the opposite results. Consistent with the latter argument, Bova et al. (2014) find reduced benefits from publicly-traded equity in the U.S. markets after SOX.

The SEC changed the continuous disclosure requirement under the 1934 Exchange Act over time. While initially mandating annual financial statements, the SEC mandated semi-annual reporting in 1955 and quarterly reporting in 1970. Currently, FPIs are exempt from quarterly reporting in the U.S. according to Rule 13a-13(b)(2) of the 1934 Exchange Act.[6] Prior research examines the effects of reporting frequency. McNichols and Manegold (1983) examine the initiation of interim reporting and find that greater marginal information content of annual earnings reports when not preceded by quarterly

[6] FPIs that are required to report on a quarterly basis in their home country (e.g., Canada) must promptly file the same information with the SEC using a Form 6-K.

reports. Butler et al. (2007) find that firms that voluntarily increase reporting frequency experience an increase in the timeliness of earnings. Firms that lose FPI status become obligated to disclose interim reports, quarterly, which is higher frequency reporting than is typical outside of North America.

Ex ante, the effects of the reporting requirements in *Financial Statements* on firm value are unclear. On one hand, the requirements likely provide more transparent reporting thereby reducing agency costs (e.g., Stulz 1999; Coffee 1999, 2002; Core et al. 2006; Berger and Hann 2007). On the other hand, the reporting requirements in *Financial Statements* increase compliance costs and may decrease firm value (e.g., Leuz et al. 2008; Li 2014).

The reporting requirements grouped in the *Disclosure of Insider Information* category relate to the disclosure of inside information, such as insider ownership and sales as well as private disclosure of management information. FPIs are exempt from the disclosure of ownership percentages of major owners and sales of ownership under Section 16 of the 1934 Exchange Act. Currently, domestic companies are required to file initial statements of beneficial ownership as well as changes in beneficial ownership of executives and directors among others. Prior research documents evidence suggesting that managers backdate the grant date and exercise date of stock options (Lie 2005; Heron and Lie 2007; Cicero 2009). This indicates that seemingly small regulatory changes can have material impact on inferences from data and, hence, enforcement. Firms that lose (gain) FPI status must disclose more (less) share ownership information, which could impact insider trading and firm value (Baiman and Verrecchia 1995, 1996; Huddart et al. 2001, 2006).

Domestic issuers must comply with Regulation Fair Disclosure (FD) since 2000. Regulation FD provides that when an issuer discloses material nonpublic information to certain individuals or entities, the issuer must make public disclosure of that information (Heflin et al. 2012). In this way, the SEC aims to promote full and fair disclosure. Unless otherwise directed by their home country requirements, FPIs are not required to comply with Regulation FD and thus losing (gaining) FPI status results in more (less) widely disseminated disclosures.

The predicted market reaction to reporting requirements grouped in the *Disclosure of Insider*

Information category is also unclear. Huddart et al. (2001) predict lower expected trading profits to a single insider when disclosure of insider trades is mandatory. In contrast, Huddart et al. (2006) suggest that mandatory disclosure of insiders' trading can work as a coordination mechanism yielding them with incentives to trade less aggressively resulting in higher expected profits to insiders when their trades are publicly disclosed. While their analytical settings and opposite predictions do not map directly into stock market reactions, it seems possible that the direction of the market reactions is not determinable ex ante.

The last category of reporting requirements grouped in *Corporate Governance* relate to corporate governance. FPIs are exempt from the proxy rules and some of the corporate governance requirements applicable to domestic issuers.[7] The NYSE and NASDAQ both grant substantial flexibility to FPIs by allowing them to follow their home country corporate governance practices rather than the stock exchange corporate governance requirements. The one exception for both exchanges is that they each require firms to have an audit committee composed solely of independent board members as set forth in Rule 10A-3 under the Exchange Act.[8] The literature posits that weaker governance is likely associated with poor operating performance, which, in an efficient market, should be priced by investors (Core et al. 2006). Gompers et al. (2003) document a positive association between corporate governance and firm value (Tobin's Q) but fail to find that weaker governance is associated with poor performance. However, Core et al. (2006) and Bhagat and Bolton (2008) document a robust relationship between weak corporate governance and poor future operating performance. Thus, theoretical and some empirical evidence supports that stronger (weaker) corporate governance is associated with better (poorer) operating performance, which the stock market rewards with higher prices. Alternatively, Baysinger and Butler (1985) point out that the optimal governance structure will vary between firms. Thus, losing FPI status may force firms away from their optimal governance structure and negatively impact operating

[7] Becker et al. (2013) document the value of proxy rules showing that the market positively values increased shareholder access via the proxy process.
[8] Agrawal and Chadha (2005) document that firms with an independent director of the audit committee have a lower probability of restating their financial statements.

performance. How this affects foreign-domiciled firms that change FPI status depends on whether the changes in corporate governance practices between FPIs and domestic firms are valued by the market.

Given that the directional impact of the regulatory requirements may be different across the groups, we test the following null hypothesis:

HYPOTHESIS 2. *The number of regulatory requirements that change in the categories Financial Statements, Disclosure of Insider Information, and Corporate Governance following a change in FPI status has no effect on firms' market value.*

3. Sample

Bloomfield et al. (2016) calls for researchers to gather new data. We respond by collecting a sample of firms and variables that can deepen our understanding of U.S. regulation of foreign-domiciled companies. Our initial sample consists of foreign-domiciled firms that lose or gain their FPI status between 2000 and 2015. We identify our sample through two sources. First, the SEC publishes annual lists of non-domestic registered and reporting companies.[9] Using these annual lists, we identify foreign-domiciled firms that either were at one time on the list and subsequently were removed (but remain trading in the U.S.) or foreign-domiciled firms trading in the U.S. that were not on the list, but were subsequently added. Second, since FPIs file annual financial statements on Form 20-F or Form 40-F,[10] we download all Forms 20-F and Forms 40-F from the SEC's Edgar system. We identified firms that filed a Form 20-F or Form 40-F and subsequently began filing a Form 10-K. Conversely, we identified firms that filed a Form 10-K and subsequently began filing either a Form 20-F or Form 40-F. Finally, we read through all SEC filings to verify proper identification of sample firms and also to identify the day the firm first announced a change in FPI status (See Appendix for an example). Results from following these two search procedures are presented in Table 2. We identify a total of 137 firms that lost their FPI status. From similar search procedures, we identify a total of 69 firms that gained FPI status.

Insert Table 2

As discussed previously, firms can lose or gain FPI status based upon meeting certain

[9] The SEC's lists can be found at http://www.sec.gov/divisions/corpfin/internatl/companies.shtml

[10] A FPI may also voluntarily file on Form 10-K; however, the FPI then has to meet all the reporting requirements of domestic filers. Thus a change in FPI status would not be associated with any change in its disclosures for this firm, which is the primary focus of our study.

conditions. To highlight the effect of the change in reporting requirements we exclude firm observations that are confounded by a separate fundamental change that could cause the change in FPI status. For example, a firm could lose its FPI status when the percentage of its shareholders [technically "holders of record"] that are U.S. citizens exceeds 50 percent. This could occur as a result of a FPI merging with a target firm whose shareholders are primarily U.S. citizens. To investigate this, we read through the financial statements for the year before and after the change in FPI status and identified firms that experienced a structural change (i.e., merger, acquisition, share offering, or bankruptcy) that could confound the effect of a change in reporting requirements. Thus, we eliminated 32 (31) firms that lost (gained) FPI status in conjunction with such a structural change in the entity.

Next, some firms *voluntarily* complied with U.S. reporting standards despite meeting the qualifications of a FPI. To avoid concerns about firms' incentives to self-select into a set of reporting standards we also removed the firms that voluntarily started or stopped reporting as a domestic filer. As such, we removed 38 (8) firms that lost (gained) FPI status. Finally, we were unable to obtain sufficient data to run our tests for 9 (7) firms that lost (gained) FPI status. Thus, our final sample contains 81 firms, 58 firms that lost FPI status and became fully compliant with U.S. securities regulation and 23 firms that gained FPI status and discontinued meeting all reporting standards of domestic filers.[11]

3.1 Why Firms' FPI Status Changed

As discussed previously, a foreign firm qualifies as a FPI if it passes either the Ownership test or Business Contacts test (i.e., the firm does not have U.S. ownership exceeding 50% or does not meet any of the three Business Contacts criteria). Failing one or both of those tests in a particular year could cause a loss of a foreign firm's FPI status. For example, a FPI may have always failed the Business Contacts test (e.g., its business is principally administered in the U.S.), but passed the Ownership test until the U.S. share ownership surpassed the 50% threshold causing the firm to lose its FPI status. In contrast, U.S. share ownership may have always been greater than 50%, but the FPI firm passed all three criteria of the Business Contacts test. Then if the FPI firm failed one of the three Business

[11] No sample firms lost FPI status and then later regained FPI status or vice versa.

Contacts tests (e.g., because more than 50% of the firm's assets were in the U.S.) the firm would lose its FPI status because it had always failed the Ownership test. Finally, a FPI could have always passed both tests and then failed both tests in the same year.

The distinction between these examples is important as changes in U.S. share ownership are not under the firm's direct control and less likely reflect a strategic choice by the firm. In contrast, changes to the Business Contacts test are under the firm's direct control and likely reflect a strategic choice by management. Firm management may attempt to bond to higher disclosure and governance standards as it may be associated with better performance, which the market rewards with higher prices (e.g., Doidge et al. 2004). However, increased standards may limit management's ability to extract rents from outside shareholders. Thus, whether all firms would pool to the same set of standards when given the option to choose is not clear. We examine the SEC filings for each firm to identify the reason for the change in FPI status. In Table 2, Panel B we document that 64 (79%) of the 81 firms in our sample changed FPI status due to a shift in U.S. share ownership, consistent with the change in status being largely outside of the firm's control. As such, we focus our discussion and analyses on these 64 firms. We present results for the full sample of 81, but note that the 17 firms that changed status due to the Business Contacts test may reflect strategic decisions that considered the effect on FPI status.

3.2 Descriptive Statistics

Table 1 documents the FPI exemptions from U.S. disclosure and regulation. Not all of these requirements affect each FPI since some FPIs' home countries share the same requirements with the U.S. Further, some FPIs voluntarily comply with some of the disclosure and regulatory requirements for U.S. domestic registrants.[12] As such, we examine each firm's SEC filings to identify which of the first nine requirements detailed in Table 1 actually change when a firm changes FPI status.[13] This makes our study unique in its ability to examine the impact of specific requirements.

[12] All but three countries (Australia, New Zealand, and the United Kingdom) in our sample permit the use of U.S. GAAP for firms cross-listed in the U.S.

[13] We excluded the last two requirements since initial registration is not applicable to our sample of foreign firms already listed in the U.S.

Table 2, Panel C reports substantial changes related to the timeliness and quality of financial statements. Upon losing (gaining) FPI status, 59% of firms changed to (from) accelerated filing, 48% changed to (from) U.S. GAAP, 31% altered their segment disclosures, 22% initiate (cease) auditor's attestation of internal controls, and 20% of firms change to (from) quarterly reporting. Changes to the disclosure of insider information related to share ownership and sales affected 42% of firms while Regulation FD affected 33% of firms. The majority of firms experienced changes related to corporate governance upon losing (gaining) FPI status: 73% began (terminated) compliance with proxy rules, and 83% changed compliance with U.S. stock exchange governance standards. The changes in FPI requirements for the full sample are similar.

In Table 3 Panel A, we document that 50% (65%) of the firms that lose (gain) FPI status are Canadian. This appears to be a fairly representative sample given that from 2000 to 2015, Canadian firms represented 41% of all FPIs, consistent with the geographic proximity and substantial integration between the U.S. and Canadian capital markets (Jackson 2006).[14] While the capital markets in the U.S. and Canada share similarities as evidenced by the Multi-jurisdictional Disclosure System (MJDS),[15] substantial differences remain between the two countries that could cause the market to react when Canadian firms change FPI status.[16] For example, Bhattacharya (2006) documents that Canada has fewer securities laws and laxer enforcement of these laws than the U.S., particularly related to insider trading. Morck and Yeung (2006) and Halpern and Puri (2007) document differences in corporate governance and ownership structures that cause valuations of Canadian public companies to be significantly lower than those found in the U.S. Even between accounting standards, U.S. GAAP is generally perceived as more costly to implement than Canadian GAAP (AcSB 2011), more rules-oriented, and more detailed than both IFRS and Canadian GAAP.

In Table 3, Panel B, we display the distribution of the sample firms across U.S. stock

[14] In 2013, 51% of foreign direct investment in Canada was from the U.S. (Statistics Canada: http://www.statcan.gc.ca/daily-quotidien/140425/t140425a001-eng.htm).
[15] Adopted in 1991, the MJDS permits Canadian (U.S.) issuers to access U.S. (Canadian) capital markets using prospectuses prepared in accordance with Canadian (U.S.) disclosures.
[16] See Section 5.3 for further discussion.

exchanges noting that 43% of firms that lost FPI status list on the NASDAQ while 65% of the firms that gain FPI status list on an Over the Counter (OTC) market. Event-date clustering can be problematic for the event study methodology (Bernard 1987; Schipper and Thompson 1983). Table 3, Panel C indicates that this is unlikely a concern in our setting as events do not cluster by year within the sample.[17]

Insert Table 3

A change in FPI status can affect firms differently. Thus, we create a variable labeled *FPI Score*, which is the number of requirements from Table 1 (excluding the two requirements related to initial registration with the SEC) with which a firm complies. *ΔFPI Score* is *FPI Score* after the change in FPI status less *FPI Score* before the change in FPI status and is positive (negative) for firms that lose (gain) FPI status. In Table 3, Panel D we document that firms that lose (gain) FPI status on average change 4.0 (-4.4) of the exemptions in regulatory requirements.

The FPI exemptions relate to three main categories: financial statements, disclosure of insider information, and corporate governance. Accordingly, we also create three variables that count firms' compliance with the requirements in these three areas before and after the change in FPI status. We then calculate the change (*Δ*) in each of these areas as the score after the change in FPI status less the score before the change in FPI status. *Financial Statements* relates to the timeliness, quality, and quantity of information disclosed in financial statements. It is calculated as the number of the following five requirements that a firm complies with: Accelerated Filing, U.S. GAAP, Segment Disclosure, Auditor's Attestation on Internal Controls, and Quarterly Filings. *Disclosure of Insider Information* relates to information on insiders ownership and sales as well as selective disclosure of material inside information. This is calculated as the number of the following two requirements that a firm complies with: Disclosure of Insider Ownership and Sales and Regulation FD. Lastly, *Corporate Governance* is calculated as the number of the following two requirements that a firm complies with: Proxy Rules and

[17] Fernandes et al. 2010 examine the 2007 SEC Rule 12h-6, which makes it easier for foreign firms to deregister with the SEC. Rule 12h-6 does not appear to impact the sample firms, as we do not identify any clustering in the number firms that lose/gain FPI status after its passage.

U.S. Stock Exchange Corporate Governance. As with *ΔFPI Score*, *ΔFinancial Statements*, *ΔDisclosure of Insider Information*, and *ΔCorporate Governance* are positive (negative) for firms that lose (gain) FPI status. Table 3, Panel D details that the average score for *ΔFinancial Statements*, *ΔDisclosure of Insider Information*, and *ΔCorporate Governance* for firms that lose FPI status is 1.7, 0.8, and 1.5, respectively, and for firms that gain FPI status is -2.1, -0.6, and -1.7, respectively.

Table 3, Panel D also indicates that firms that lose FPI status are larger as evidenced by average total assets of $1,104.4 million compared to $52.1 million for firms that gain FPI status.

4. Results

We calculate the cumulative abnormal return (*CAR*) for the three-day period centered on the announcement of a change in FPI status. As is standard, we calculate expected returns using the market model estimated for 260 trading days to 10 trading days before each firm's announcement of a change in FPI status. We end the estimation period 10 days prior to the event to prevent contamination of the event window. We use the Center for Research in Security Prices (CRSP) value-weighted return to proxy for the market return. The daily abnormal return is calculated as the firm's daily return less the expected daily return estimated using the market model. The *CAR* is the sum of the daily abnormal returns for the three-day period centered on the announcement of a change in FPI status. In Tables 4 – 7, we present results for the sample of firms that change FPI status due to passing (failing) the Ownership Test because less than (more than) 50% of the firm's shares are owned by U.S. residents and for the full sample. Since share ownership by U.S. residents is not under the direct control of the firm and the change in FPI status for these firms is more likely an exogenous event, we focus our discussion of the results for this sample.

Our results in Table 4 are consistent with U.S. domestic issuer requirements providing value to shareholders relative to FPI requirements. We document a positive and significant *CAR* when firms announce a loss of FPI status. For firms that announce gaining FPI status, the sign of the mean and median cumulative abnormal return is negative, but not statistically significant. The lack of statistical significance may be due to the small sample size of 20 firms. The results are similar for the full sample.

Overall, Table 4 provides some evidence to reject the null in hypothesis 1 that the change in FPI status has no effect on firms' market values.

Insert Table 4

Next we investigate whether the effect on firm value varies with the type of change in requirements for the three broad categories (*Financial Statements*, *Disclosure of Insider Information*, and *Corporate Governance*) of regulatory differences between FPIs and domestic issuers. In column 1 of Table 5 Panel A, we report the regression of cumulative abnormal returns on the changes in these three broad categories for the ownership sample. The results indicate that the market views the changes related to *Financial Statements* as costly and the changes to *Corporate Governance* as value enhancing. Specifically, the coefficient on *ΔFinancial Statements* is -0.013 and statistically significant (p-value 0.045). This finding is consistent with the market viewing the costs of these requirements as exceeding their benefits. The coefficient on *ΔDisclosure of Insider Information* is not statistically significant, which is not surprising given the conflicting theories surrounding the disclosure of insider trading. The coefficient on *ΔCorporate Governance* is 0.022 and statistically significant (p-value 0.016), which is consistent with the market viewing these changes as improving the governance of the firm. Accordingly, we reject the null in hypothesis 2. This result is important because it provides evidence that the change in the type of requirements is associated with the market's reaction to changes in FPI status, which reduces concerns that we may be picking up spurious correlations. This result should be of interest to regulators as they contemplate the appropriate disclosure and corporate governance requirements for FPIs and U.S. domestic issuers. Specifically, our results suggest that requiring all FPIs to adopt the corporate governance requirements of U.S. domestic issuers may benefit U.S. investors.

In the second and third columns, we examine the firms that lost and gained FPI status separately instead of pooling them together. We note that for the firms that lost FPI status, the magnitude of the coefficients on *ΔFinancial Statements* (-0.014) and *ΔCorporate Governance* (0.024) is similar to the pooled results in column 1 and both remain statistically significant. For firms that gained FPI status we

fail to note any statistical significance. While this could be due to the reduced sample size of 20 firms that gained FPI status, results appear concentrated among firms that lost FPI status.

Insert Table 5

5. Additional Analyses

5.1 Monte Carlo Simulation

We perform Monte Carlo simulation to mitigate two possible concerns. First, our findings might result from test misspecification or an omitted correlated determinant of the cross-section of returns**.** Our tests are predicated on the assumption that, absent the announcement of the change in FPI status, daily stock returns are unrelated to the change in FPI requirement variables. If this is not the case, then we would expect our change in FPI requirement variables to be related to daily returns even in the absence of the announcement of a change in FPI status and that the sign of the relation between change in FPI requirements and daily returns would be the same on non-announcement days. Second, our prior tests rely on asymptotic normality. Monte Carlo simulations relax this assumption.

We address these concerns by performing a Monte Carlo analysis using the same approach as Larcker et al. (2011). Specifically, we simulate our results under the null hypothesis that the announcement dates of firms' changes in FPI status are unrelated to disclosure and corporate governance changes. For each firm, we randomly select one non-announcement day from the year preceding the announcement date of a firm's change in FPI status and regress the three-day cumulative abnormal return centered on the randomly chosen non-announcement day on the categories of the change in *FPI Score* (*ΔFinancial Statements*, *ΔDisclosure of Insider Information*, and *ΔCorporate Governance*). We repeat this step one thousand times retaining coefficient estimates for each iteration. We then test whether the coefficient estimates from Table 5 are different from the average of the non-announcement day coefficients using the empirical distribution of the one thousand non-announcement coefficient estimates (instead of testing if the coefficient estimates are different from zero as in Table 5).

Essentially, this test is a difference-in-difference estimator that assesses whether the cumulative

abnormal return on the announcement date of firms' announcements of change in FPI status varies cross-sectionally with the change in the type of FPI requirements, and whether the variation is significantly different between announcement and non-announcement dates. Comparing results from announcement and non-announcement days controls for any temporally constant relationship between cumulative abnormal returns and the variables of interest, and rules out that what we document is a general phenomenon not related to the change in FPI requirements.

The results of the Monte Carlo simulations are presented in Table 6. Our findings from the Monte Carlo analysis are consistent with those reported in Table 5. For the ownership sample, the average of the coefficient estimates for *ΔFinancial Statements*, *ΔDisclosure of Insider Information*, and *ΔCorporate Governance* are nearly zero and significantly different from the event-day coefficients on *ΔFinancial Statements* and *ΔCorporate Governance*. Thus, our inferences are similar whether we test if coefficients are different from zero (Table 5) or different from the average of non-event coefficients (Table 6). This helps minimize concerns about test misspecification and omitted determinants of the cross-section returns. Additionally, in columns 2 and 3 we find that results are concentrated among firms that lose FPI status.

Insert Table 6

The cumulative evidence of the relation between the cumulative abnormal returns and the change in the type of FPI requirements suggests the market is reacting to the change in FPI requirements, and is not the result of test misspecification or an omitted determinant of the cross-section of returns. First, the events in our setting are not clustered in time and are arguably exogenous (i.e., due to ownership changes). Second, the correlation between the type and number of changes in FPI requirements further suggests the market is reacting to the effects of the change in FPI status. Third, the Monte Carlo analysis rules out that the market reaction is due to a general phenomenon instead of the effects of the change in FPI status. Lastly, the short-window analysis centered on the announcement of the change FPI status further strengthens our confidence that our results are due to the change in FPI disclosure and regulatory requirements and not due to correlated changes in firm

characteristics that lead to a change in the level of U.S. ownership. If changes in firm characteristics lead U.S. investors to purchase more shares, which then leads to a change in FPI status, that information would be reflected in firms' market values prior to the announcement of the change in FPI status.

5.2 Individual Exemptions

By identifying specific reporting requirements that change when a firm gains or loses its FPI status we can investigate how the market perceives the specific requirements. For example, we can evaluate whether the negative association between *ΔFinancial Statements* and stock returns is due to a single or multiple reporting requirements. In Table 7 we document a negative and significant coefficient on *ΔSegment Disclosure* (-0.029, p-value 0.091), consistent with proprietary costs associated with disclosing segment information. Additionally, we note a negative association between *ΔDisclosure of Share Ownership and Sales* and stock returns (-0.033, p-value 0.033). This finding seems generally consistent with Huddart et al. (2006) who predict that mandated disclosure of traders can allow multiple informed insiders to extract more information rents from other uninformed traders. However, we note that this result should be interpreted with caution since the coefficient on *ΔDisclosure of Insider Information* is insignificant in Table 5. Results in Table 7 confirm that the market views increases in corporate governance standards of FPIs as value enhancing as *ΔU.S. Stock Exchange Corporate Governance* is positive and significant (0.064, p-value 0.005). We document similar results from the full sample in column 2. Additionally, consistent with prior literature (Bryant-Kutcher et al. 2013; Doyle and Magilke 2013) results suggest there is a cost-benefit trade-off between the timeliness and/or the quality of reporting as *ΔAccelerated Filing* is negative and significant (-0.032, p-value 0.089). This result is also consistent with increased direct costs (e.g. audit fees) associated with meeting accelerated filing deadlines. Finally, we note a positive and significant (0.041, p-value 0.051) association between the initiation of an internal control audit and market value, suggesting investors value improved corporate governance (Farber 2005). Again, we caution interpretation of the results on *ΔAccelerated Filing* and *ΔAuditor's Attestation on Internal Controls* as the coefficients estimates are only significant in the full

sample.

5.3 Canadian Firms

Over 50 percent of our sample firms are headquartered in Canada which could impact the generalizability of results to other countries if our results are concentrated within the subsample of Canadian or non-Canadian firms. As such, we segregate Canadian and non-Canadian firms and find that both experience statistically significant positive abnormal returns upon losing FPI status. Additionally, firms that gain FPI status experience insignificant negative abnormal returns in both subsamples. Results for both sets of firms are similar to those presented in Table 4.

Next, we examined whether the number of changes in FPI requirements and the categories of changes in FPI requirements for Canadian firms and non-Canadian firms is similar and found no statistical differences in the overall number of changes nor in the changes at the category level. Finally, we repeated the regression analysis from Table 5 for the two subsamples. While we fail to identify any statistical significance on the variables of interest in either regression, the direction and magnitude of the coefficients on *ΔFinancial Statements, ΔDisclosure of Insider Information,* and *ΔCorporate Governance* are similar across the subsamples. Failure to reject the null is likely due to the small sample sizes of 35 Canadian and 29 non-Canadian firms. While making broad conclusions with a small sample is challenging, non-Canadian firms do not appear to solely drive the cross-sectional differences in the change in FPI requirements.

5.4 Firm Size

Compliance with the more stringent U.S. requirements for financial statements may have a fixed cost component that makes compliance relatively more burdensome for smaller firms. Similarly, smaller firms may benefit more from governance requirements they would not otherwise meet. As such, we created an indicator variable equal to one if the firm is below the median size, and zero otherwise. We then interacted this indicator variable with *ΔFinancial Statements, ΔDisclosure of Insider Information,* and *ΔCorporate Governance*. In untabulated analysis, we find the main effect of *ΔFinancial Statements,* and *ΔCorporate Governance* remains consistent with prior analysis. Further,

we find an incremental negative market reaction for small firms complying with the financial statement requirements, i.e., the coefficient on the interaction of the indicator variable and *ΔFinancial Statements* is negative and statistically significant. Results are consistent with Iliev (2010) who finds that increased regulatory requirements imposed by the Sarbanes-Oxley Act of 2002 were particularly onerous to smaller firms.

5.5 Legal Environment

In Morrison v. National Australia Bank, the U.S. Supreme Court affirmed that Section 10(b) claims do not apply extraterritorially (Cohn and Vivero, 2013). Thus, after the 2010 Supreme Court ruling, the legal environment may have changed for foreign-domiciled issuers.

Of the 64 firms in our sample, 17 changed FPI status after the 2010 ruling. To investigate whether our overall results are driven by a change in the legal environment for these 17 firms, we performed the same regression analysis contained in Table 5. However, we included a dichotomous variable equal to one for observations after the 2010 ruling and an interaction term with the changes in the components of *FPI Score*. Untabulated results are consistent with those reported in Table 5. Further, we found no statistically significant results for the dichotomous variable nor the interaction terms. While results appear consistent with the changes in reporting requirements causing the market reaction and not any change in the legal environment, we caution readers to interpret with caution due to the small sample size of firms that change status after the Morrison ruling.

5.6 Influential Observations

We examine whether influential observations may be driving our results by examining Cook's D, a common measure of the influence of an observation in ordinary least squares regression (Cook 1979). As is standard, observations with a Cook's D of more than 4/n are considered influential. We identified four observations with Cook's D values greater than 4/64 in our sample. After deleting these observations, we find similar coefficient estimates and even stronger statistical significance. As such, our results do not appear to be attributed to influential observations.

5.7 Concurrent Events

As described in Section 3, we removed firms that had a significant acquisition or share offering. However, it is possible that other correlated events or changes in firm characteristics occurred in the same period as the change in FPI status. We address this concern in three ways. First, we control for short-term events leading up to the change in FPI status by estimating abnormal returns using the four-factor model that accounts for momentum (Fama and French 1993; Carhart 1997) and find that results are quantitatively and qualitatively similar. Second, in Section 5.1 we performed Monte Carlo analyses by selecting a one-year period preceding the event date to address characteristics of the firms that are constant over time. Alternatively, using a smaller window controls for concurrent events that may be correlated with stock returns. As such, we re-performed the Monte Carlo analysis from Section 5.1 by limiting the non-announcement window to just the one month prior to the change in FPI status. Results of this additional Monte Carlo analysis are unchanged, providing additional support that other current events are not impacting results. Third, to investigate the robustness of our results to significant open market share purchases by a small number of institutional investors, we collected institutional ownership from Form 13f filings in the quarter prior to and after a change in FPI status.[18] Next, we estimated results in Table 5 after removing eight firms that had a greater than five percent change in the institutional ownership during the quarter preceding the change in FPI status. Results and interpretations are quantitatively and qualitatively similar.[19]

Despite results of this sensitivity analysis, lack of detail in firm disclosures prevent definitive conclusions regarding the cause of the change in FPI status. After examining firms' disclosures both in SEC filings and the popular press, we conclude that the overwhelming majority of firms do not disclose the reason for a change in ownership percentage. Further, firms omit the actual foreign ownership percentages surrounding the change, merely disclosing they have crossed the 50 percent threshold. Thus, while results are robust to changes in institutional ownership, we are unable to examine whether the change is due to large purchases/sales from a small number of non-institutional investors or whether the

[18] The mean change in the percentage of shares held by institutional investors was a statistically insignificant increase of less than one percent.
[19] We thank a reviewer for these suggestions.

firm was already very close to the 50 percent threshold.

6. Conclusion and Future Work

Countervailing arguments in the debate over foreign-domiciled firms include a heightened regulation for the protection of investors and a promotion of public interest by encouraging foreign issuers to participate in highly regulated U.S. markets (Davidoff 2010). Over time, the SEC has adopted an integrated disclosure system for FPIs. Thus, foreign firms designated as FPIs can enter the U.S. markets and list securities without complying with the U.S. SEC requirements of domestic firms. Exemptions from U.S. domestic reporting relate to the timeliness, quality, and access to financial information as well as corporate governance practices. We study the market reaction of foreign firms losing or gaining foreign private issuer status. When foreign firms lose their FPI status, and therefore must commence full compliance equivalent to U.S. domestic issuers, the foreign firms experience a statistically significant positive cumulative abnormal stock return over the three-day window beginning one day before the announcement. We further document how this stock market reaction relates to both the type and number of regulatory requirements that change. Specifically, we find that the stock market reacts negatively to the financial statement requirements and positively to the corporate governance requirements.

Results could have important policy implications for regulators, particularly with respect to corporate governance requirements. Given that 80% of FPIs in the U.S. opt out of at least one U.S. corporate governance rule (Foley et al. 2014), a significant gap exists between FPIs and domestic filers. Differences in governance standards may be concerning to potential investors of foreign-domiciled firms. The increased value from governance standards appears to overcome any decrease in value associated with increased costs to comply with other disclosure requirements as the overall CAR is positive (negative) for firms losing (gaining) FPI status. Results suggest regulators might consider removing any corporate governance exemptions for foreign-domiciled firms.

Future work might investigate how the U.S. cross-listing premium is associated with foreign-domiciled firms that enter the U.S. markets and list their securities as FPIs versus foreign-domiciled firms

that fully comply with all U.S. securities regulation applicable to domestic firms. The literature on the U.S. cross-listing premium (e.g., Doidge et al. 2004) posits several sources of the premium including, a lower risk premium from more efficient risk-sharing (Foerster and Karolyi 1999), easier access to capital at a lower cost (Lins et al. 2003), more extensive, high quality disclosure than listing in the firm's home country (Coffee 2002), and better shareholders' protection through greater scrutiny and monitoring (Stulz 1999; Coffee 1999, 2002). Partitioning by whether foreign-domiciled firms cross-list as FPIs or full compliance with all U.S. domestic issuers' requirements may yield additional insights for this literature.

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Appendix

Example of change in FPI status disclosure

Invesco PLC lost FPI status in 2007. They described some of the disclosure requirement changes that firms face upon losing FPI status on Form 8-K dated July 18, 2007 as follows:

> "On July 18, 2007, the company determined that it no longer satisfied the definition of "foreign private issuer" under the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). In consequence, the company has begun filing Current Reports on Form 8-K and will commence filing Quarterly Reports on Form 10-Q (beginning with the period ending September 30, 2007) and Annual Reports on Form 10-K (beginning with the annual report for fiscal year 2007), as well as proxy statements with respect to meetings of shareholders, with the SEC as if it were a fully domestic U.S. company. On July 18, 2007, the company issued a press release with respect to the above."

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Table 1

Requirements of U.S. registrants and FPIs.

Requirement	U.S. registrant	FPI
Financial Statements		
Accelerated Filing	Yes	No
U.S. GAAP	Yes	No
Segment Disclosure	Yes	No
Auditor's Attestation on Internal Controls (prior to 2007)	Yes	No
Quarterly Filings	Yes	No
Disclosure of Insider Information		
Disclosure of Share Ownership and Sales	Yes	No
Regulation FD	Yes	No
Corporate Governance		
Proxy Rules	Yes	No
U.S. Stock Exchange Corporate Governance	Yes	No*
Initial Registration with the SEC		
Direct Registration Program (Sec 17A, '34 Act)	Yes	No
Confidential First Time Registration Statements	No	Yes

Notes: The table details the regulatory requirements that are different between U.S. domestic firms and FPI status firms.

*Exception: Both the NYSE and NASDAQ permit FPIs substantial flexibility to follow their home country corporate governance practices provided that the FPI discloses any differences in corporate governance practices from those followed by U.S. domestic companies and that the FPI follows the Audit Committee requirements of Rule 10A-3 under the Exchange Act, which includes the requirement that each audit committee member be an independent member of the board of directors.

Table 2

Sample formation.

	Lose FPI status	Gain FPI status
Panel A: Sample formation		
Firms identified from SEC lists and filings	137	69
Firms with fundamental change (e.g., merger)	(32)	(31)
Firms voluntarily complying with U.S. reporting requirements	(38)	(8)
Firms without sufficient data	(9)	(7)
	58	23

FPI test	Frequency	Percentage
Panel B: Why firms' FPI status changed		
Ownership Test	64	79%
Business Contacts Test	17	21%
	81	100%
Specific Business Contacts that change:		
Executives/directors	6	35%
U.S. assets	7	41%
Business administered in U.S.	4	24%
	17	100%

	Ownership sample (N=64)		Full sample (N=81)	
Requirement	Frequency	Percentage	Frequency	Percentage
Panel C: Frequency of specific requirements that change with the FPI status change				
Financial Statements				
Accelerated Filing	38	59%	52	63%
U.S. GAAP	31	48%	39	48%
Segment Disclosure	20	31%	22	27%
Auditor's Attestation on Internal Controls (prior to 2007)	14	22%	16	20%
Quarterly Filings	13	20%	16	20%
Disclosure of Insider Information				
Disclosure of Share Ownership and Sales	27	42%	36	44%
Regulation FD	21	33%	28	34%
Corporate Governance				
Proxy Rules	47	73%	61	74%
U.S. Stock Exchange Corporate Governance	53	83%	70	85%

Notes: The table reports the formation of the sample of firms that change FPI status (Panel A), why firms' FPI status changed (Panel B), and which specific requirements actually change following a change in FPI status (Panel C). We removed firms that changed their FPI status due to fundamental changes, which we defined as a merger, acquisition, major share offering, or bankruptcy. Additionally, we removed firms that were technically FPIs, but voluntarily filing under full U.S. reporting requirements, that voluntarily chose to switch to FPI reporting using a 20-F or 40-F.

Table 3

Sample description.

	Ownership sample				Full sample			
	Lose FPI status		Gain FPI status		Lose FPI status		Gain FPI status	
Country	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Panel A: Countries								
Antigua	0	0%	1	5%	0	0%	1	4%
Australia	2	5%	0	0%	2	3%	0	0%
Bermuda	5	11%	0	0%	5	9%	0	0%
British Virgin Islands	3	7%	1	5%	3	5%	2	9%
Canada	22	50%	13	65%	31	53%	13	57%
Cayman Islands	2	5%	2	10%	2	3%	2	9%
Ireland	1	2%	0	0%	2	3%	0	0%
Israel	2	5%	2	10%	4	7%	3	13%
Liberia	1	2%	0	0%	1	2%	0	0%
Marshall Islands	1	2%	0	0%	1	2%	1	4%
Neth. Antilles	1	2%	0	0%	1	2%	0	0%
New Zealand	0	0%	1	5%	0	0%	1	4%
Panama	0	0%	0	0%	1	2%	0	0%
Switzerland	1	2%	0	0%	1	2%	0	0%
United Kingdom	3	7%	0	0%	4	7%	0	0%
	44	100%	20	100%	58	100%	23	100%

	Ownership sample				Full sample			
	Lose FPI status		Gain FPI status		Lose FPI status		Gain FPI status	
U.S. stock exchange	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Panel B: U.S. stock exchanges								
AMEX	4	9%	2	10%	5	9%	2	9%
NASDAQ	19	43%	4	20%	26	45%	6	26%
NYSE	14	32%	1	5%	18	31%	1	4%
OTC	7	16%	13	65%	9	16%	14	61%
	44	100%	20	100%	58	100%	23	100%

(The table is continued on the next page.)

Table 3 (continued)

	Ownership sample				Full sample			
	Lose FPI status		Gain FPI status		Lose FPI status		Gain FPI status	
Year	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Panel C: Announcement year of change in FPI status								
1999	1	2%	1	5%	1	2%	1	4%
2000	5	12%	1	5%	6	10%	1	4%
2001	0	0%	0	0%	2	3%	0	0%
2002	2	5%	1	5%	3	5%	1	4%
2003	2	5%	3	15%	3	5%	3	13%
2004	3	7%	3	15%	3	5%	3	13%
2005	3	7%	3	15%	4	7%	3	13%
2006	4	9%	1	5%	5	9%	2	9%
2007	3	7%	2	10%	4	7%	2	9%
2008	3	7%	3	15%	4	7%	4	19%
2009	3	7%	0	0%	3	5%	1	4%
2010	2	5%	0	0%	2	3%	0	0%
2011	4	9%	0	0%	4	7%	0	0%
2012	1	2%	1	5%	2	3%	1	4%
2013	2	5%	1	5%	4	7%	1	4%
2014	4	9%	0	0%	6	10%	0	0%
2015	2	5%	0	0%	2	3%	0	0%
	44	88%	20	100%	58	100%	23	100%

	Ownership sample						Full sample					
	Lose FPI status (N=44)			Gain FPI status (N=20)			Lose FPI status (N=50)			Gain FPI status (N=23)		
Variable	Mean	Median	Std Dev	Mean	Median	Std Dev	Mean	Median	Std Dev	Mean	Median	Std Dev
Panel D: Descriptive statistics												
ΔFPI Score	4.0	4.0	1.6	-4.4	-4.5	1.5	4.1	4.0	1.5	-4.5	-5.0	1.6
ΔFinancial Statements	1.7	2.0	1.3	-2.1	-2.0	1.0	1.7	2.0	1.2	-2.1	-2.0	1.0
ΔDisclosure of Insider Information	0.8	1.0	0.7	-0.6	-0.5	0.7	0.8	1.0	0.7	-0.7	-1.0	0.8
ΔCorporate Governance	1.5	2.0	0.8	-1.7	-2.0	0.5	1.6	2.0	0.7	-1.6	-2.0	0.5
Total Assets	1,104.4	98.5	2,800.0	52.1	16.9	145.3	1,133.5	83.9	2,940.5	66.3	16.9	141.4

(The table is continued on the next page.)

TABLE 3 (continued)

Notes: The table provides descriptive statistics about the foreign domicile, U.S. stock exchange listing, announcement year of the change in FPI status, and firm characteristics. *FPI Score* is the number of requirements from Table 1 (excluding the two requirements related to initial registration with the SEC) that a firm complies with before and after the change in FPI status. *FPI Score* is the number of requirements from Table 1 (excluding the two requirements related to initial registration with the SEC) that a firm complies with calculated both before and after the change in FPI status. *ΔFPI Score* is *FPI Score* after the change in FPI status less *FPI Score* before the change in FPI status. *Financial Statements* relates to the timeliness, quality, and quantity of information disclosed in financial statements. It is calculated as the number of the following five requirements that a firm complies with: Accelerated Filing, U.S. GAAP, Segment Disclosure, Auditor's Attestation on Internal Controls, and Quarterly Filings. *Disclosure of Insider Information* relates to information on insiders ownership and sales as well as selective disclosure of material inside information. This is calculated as the number of the following two requirements that a firm complies with: Disclosure of Insider Ownership and Sales and Regulation FD. *Corporate Governance* is calculated as the number of the following two requirements that a firm complies with: Proxy Rules and U.S. Stock Exchange Corporate Governance. *ΔFinancial Statements*, *ΔDisclosure of Insider Information*, and *ΔCorporate Governance* is the value of *Financial Statements*, *Disclosure of Insider Information*, and *Corporate Governance*, respectively, after the change in FPI status less the value before the change in FPI status. *Total Assets* is total assets of the firm and is measured in the year prior to changing FPI status.

Table 4

Stock market reaction to firms' announcement of a change in FPI status.

	Firms that lose FPI status			Firms that gain FPI status		
		CAR			*CAR*	
	N	Mean	Median	N	Mean	Median
Ownership sample	44	2.30% ***	2.61% **	20	-1.79%	-0.78%
		(0.010)	(0.013)		(0.298)	(0.498)
Full sample	58	1.53% *	1.28% *	23	-2.17%	-1.07%
		(0.087)	(0.096)		(0.176)	(0.297)

Notes: The table reports the market reaction to firms' announcement of losing (gaining) FPI status and initiating (ceasing) U.S. domestic reporting. The ownership sample consists of firms that lost (gained) FPI status due to U.S. residents' ownership of a firm's shares outstanding increasing (decreasing) above (below) 50%. *CAR* is the cumulative abnormal return from one trading day before the announcement of the loss of FPI status to one trading day after the announcement where abnormal returns are estimated as the difference between the firm's return and its expected return using the market model. *, **, and *** represent statistical significance at the 10%, 5%, and 1% levels based on two-tailed t-tests for the mean and Wilcoxon signed-rank tests for the median (p-values in parenthesis).

Table 5

Regression of cumulative abnormal return on the categories of the change in *FPI Score*.

Variable	Firms that lose and gain FPI status *CAR*	Firms that lose FPI status *CAR*	Firms that gain FPI status *CAR*
Panel A: Ownership sample			
Intercept	-0.010	0.000	-0.091
	(0.495)	(0.999)	(0.247)
ΔFinancial Statements	-0.013 **	-0.014 *	-0.019
	(0.045)	(0.065)	(0.357)
ΔDisclosure of Insider Information	0.003	-0.017	0.042
	(0.762)	(0.195)	(0.107)
ΔCorporate Governance	0.022 **	0.024 *	-0.025
	(0.016)	(0.057)	(0.545)
Size	0.004	0.005	0.008
	(0.286)	(0.277)	(0.315)
N	64	44	20
Adjusted R^2	0.14	0.14	0.05

(The table is continued on the next page.)

Table 5 (continued)

Variable	Firms that lose and gain FPI status *CAR*	Firms that lose FPI status *CAR*	Firms that gain FPI status *CAR*
Panel B: Full sample			
Intercept	-0.003	0.041	-0.050
	(0.849)	(0.312)	(0.436)
ΔFinancial Statements	-0.007	-0.010	-0.023
	(0.261)	(0.206)	(0.152)
ΔDisclosure of Insider Information	0.008	-0.009	0.045
	(0.442)	(0.504)	(0.040)
ΔCorporate Governance	0.015 **	0.005	0.001
	(0.041)	(0.716)	(0.987)
Size	0.000	-0.002	0.006
	(0.922)	(0.618)	(0.365)
N	81	58	23
Adjusted R^2	0.03	0.02	0.11

Notes: The table reports the ordinary least squares regression of the market reaction to firms' announcement of losing (gaining) FPI status and initiating (ceasing) U.S. domestic reporting on the change in reporting requirements. The ownership sample consists of firms that lost (gained) FPI status due to U.S. residents' ownership of a firm's shares outstanding increasing (decreasing) above (below) 50%. *FPI Score* is the number of requirements from Table 1 (excluding the two requirements related to initial registration with the SEC) that a firm complies with before and after the change in FPI status. *CAR* is the cumulative abnormal return from one trading day before the announcement of the loss of FPI status to one trading day after the announcement where abnormal returns are estimated as the difference between the firm's return and its expected return using the market model. *Financial Statements* relates to the timeliness, quality, and quantity of information disclosed in financial statements. It is calculated as the number of the following five requirements that a firm complies with: Accelerated Filing, U.S. GAAP, Segment Disclosure, Auditor's Attestation on Internal Controls, and Quarterly Filings. *Disclosure of Insider Information* relates to information on insiders ownership and sales as well as selective disclosure of material inside information. This is calculated as the number of the following two requirements that a firm complies with: Disclosure of Insider Ownership and Sales and Regulation FD. *Corporate Governance* is calculated as the number of the following two requirements that a firm complies with: Proxy Rules and U.S. Stock Exchange Corporate Governance. *Δ* for the above variables is calculated as the value of each variable after the change in FPI status less the value before the change in FPI status. *Size* is the log of total assets in the year prior to the change in FPI status. *, **, and *** represent statistical significance at the 10%, 5%, and 1% levels based on robust standard errors (two-tailed p-values in parenthesis).

Table 6

Monte Carlo simulation of stock market reaction to change in FPI status.

	Firms that lose and gain FPI status		Firms that lose FPI status		Firms that lose FPI status	
	CAR		*CAR*		*CAR*	
Variable	*β*	*E[β]*	*β*	*E[β]*	*β*	*E[β]*
Panel A: Ownership sample						
ΔFinancial Statements	-0.013	0.001	-0.014	0.001	-0.019	-0.006
		[0.000]***		[0.065]*		[0.760]
ΔDisclosure of Insider Information	0.003	0.000	-0.017	0.004	0.042	-0.027
		[0.869]		[0.350]		[0.382]
ΔCorporate Governance	0.022	-0.001	0.024	-0.001	-0.025	-0.007
		[0.000]***		[0.088]*		[0.769]
Size	0.004	-0.001	0.000	-0.001	0.008	0.001
		[0.467]		[0.921]		[0.637]
N		64		44		20

	Firms that lose and gain FPI status		Firms that lose FPI status		Firms that lose FPI status	
	CAR		*CAR*		*CAR*	
Variable	*β*	*E[β]*	*β*	*E[β]*	*β*	*E[β]*
Panel B: Full sample						
ΔFinancial Statements	-0.007	0.001	-0.010	0.000	-0.023	0.012
		[0.078]*		[0.297]		[0.218]
ΔDisclosure of Insider Information	0.008	0.007	-0.009	0.004	0.045	0.014
		[0.923]		[0.268]		[0.421]
ΔCorporate Governance	0.015	-0.002	0.005	0.000	0.001	-0.008
		[0.000]***		[0.089]*		[0.876]
Size	0.000	-0.002	-0.002	-0.001	0.006	-0.005
		[0.723]		[0.851]		[0.340]
N		81		58		23

Notes: The table reports the Monte Carlo analysis simulating the expected cross-sectional variation in event returns under the null hypothesis. The analysis is performed using the full sample and ownership sample, the latter of which consists of firms that lost (gained) FPI status due to U.S. residents' ownership of a firm's shares outstanding increasing (decreasing) above (below) 50%. The simulation is as follows. First, we estimate coefficients from a regression of cumulative abnormal returns on the categories of the change in *FPI Score* (*ΔFinancial Statements* , *ΔDisclosure of Insider Information* , and *ΔCorporate Governance*), where *FPI Score* is the number of requirements from Table 1 (excluding the two requirements related to initial registration with the SEC) that a firm complies with before and after the change in FPI status. Second, we randomly select one non-announcement day for each firm from the year preceding the announcement date of firms' change in FPI status and regress the three-day cumulative abnormal return centered on the randomly chosen non-announcement day on the categories of the change in FPI score. Third, we repeat the second step one thousand times retaining coefficient estimates for each iteration. Last, we test whether the estimated coefficients for the event days (β) are statistically significantly different from the average of the one thousand estimated coefficients for the non-announcement days ($E[\beta]$) using the empirical distribution of β on non-announcement days to compute the standard error of $E[\beta]$. p-values (two-tailed) for the test $\beta = E[\beta]$ are in brackets. *CAR* is the cumulative abnormal return from one trading day before the announcement of the loss of FPI status to one trading day after the announcement where abnormal returns are estimated as the difference between the firm's return and its expected return using the market model. *Financial Statements* relates to the timeliness, quality, and quantity of information disclosed in financial statements. It is calculated as the number of the following five requirements that a firm complies with: Quarterly Filings, Accelerated Filing, Auditor's Attestation on Internal Controls, U.S. GAAP, and Segment Disclosure. *Disclosure of Insider Information* relates to information on insiders ownership and sales as well as selective disclosure of material inside information. This is calculated as the number of the following two requirements that a firm complies with: Disclosure of Insider Ownership and Sales and Regulation FD. Corporate Governance is calculated as the number of the following two requirements that a firm complies with: Proxy Rules and U.S. Stock Exchange Corporate Governance. Δ for the above variables is calculated as the value of each variable after the change in FPI status less the value before the change in FPI status. Size is the log of total assets in the year prior to the change in FPI status. *, **, and *** represent statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 7

Regression of cumulative abnormal return on the changes in the individual FPI exemptions.

	Ownership sample	Full sample
Variable	*CAR*	*CAR*
Intercept	-0.048	-0.003
	(0.149)	(0.930)
ΔAccelerated Filing	-0.025	-0.032 *
	(0.168)	(0.089)
ΔU.S. GAAP	0.021	0.002
	(0.246)	(0.906)
ΔSegment Disclosure	-0.029 *	-0.014
	(0.091)	(0.450)
ΔAuditor's Attestation on Internal Controls	0.016	0.041 *
	(0.400)	(0.051)
ΔQuarterly Filings	-0.013	-0.017
	(0.527)	(0.460)
ΔDisclosure of Share Ownership and Sales	-0.033 **	-0.027 *
	(0.033)	(0.085)
ΔRegulation FD	0.005	-0.012
	(0.788)	(0.526)
ΔProxy Rules	0.012	-0.006
	(0.550)	(0.772)
ΔU.S. Stock Exchange Corporate Governance	0.064 ***	0.058 **
	(0.005)	(0.023)
Size	0.006	-0.001
	(0.138)	(0.282)
N	64	81
Adjusted R^2	0.22	0.07

Notes: The table reports the ordinary least squares regression of the market reaction to firms' announcement of losing (gaining) FPI status and initiating (ceasing) U.S. domestic reporting on the change in reporting requirements. The ownership sample consists of firms that lost (gained) FPI status due to U.S. residents' ownership of a firm's shares outstanding increasing (decreasing) above (below) 50%. *CAR* is the cumulative abnormal return from one trading day before the announcement of the loss of FPI status to one trading day after the announcement where abnormal returns are estimated as the difference between the firm's return and its expected return using the market model. *Accelerated Filing* is equal to 1 if the firm is an accelerated filer, and 0 otherwise. *U.S. GAAP* is equal to 1 if the firm reports using U.S. GAAP, and 0 otherwise. *Segment Disclosure* is equal to 1 if the firm discloses segment data, and 0 otherwise. *Auditor's Attestation on Internal Controls* is equal to 1 if the firm's auditor attests on internal controls, and 0 otherwise. *Quarterly Filings* if the firm files quarterly financial statements, and 0 otherwise. *Disclosure of Insider Ownership and Sales* if the firm discloses insider ownership and sales consistent with U.S. requirements, and 0 otherwise. *Regulation FD* is equal to 1 if the firm is not permitted to make selective disclosures, and 0 otherwise. *Proxy Rules* if the firm files proxy information, and 0 otherwise. *U.S. Stock Exchange Corporate Governance* is equal to 1 if the firm does not opt out of any of the U.S. stock exchange corporate governance requirements, and 0 otherwise. *Δ* for the above variables is calculated as the value of each variable after the change in FPI status less the value before the change in FPI status. *Size* is the log of total assets in the year prior to the change in FPI status. *, **, and *** represent statistical significance at the 10%, 5%, and 1% levels based on robust standard errors (two-tailed p-values in parenthesis).