Market reactions to the reform of shareholder derivative litigation in Japan

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ABSTRACT

This paper investigates how stock prices of high-litigation-risk industries reacted to the news on legal changes in shareholder derivative suits in Japan. Specifically, we focus on two amendments to the Japanese Commercial Code. The 1993 Commercial Code amendments lowered the filing fees required to bring derivative actions, while the 2001 Commercial Code amendments attempted to reduce abusive shareholder derivative suits. We find stock prices of the pharmaceutical industry tended to react negatively to the news that increased the likelihood of the passage of the 1993 amendment, while stock prices of the retailing and electronics industries tended to react positively to the news that increased the likelihood of the passage of the 2001 amendment.

Keywords: Litigation, shareholder lawsuits, event study

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