Institutional mobility in global capital markets

Rachel Hayes

Roger Silvers

Institutional features

Humanly devised rules that shape human interaction (North 1990)

➢ Law and finance (LLSV)
  ➢ Legal rules and their enforcement determine economic outcomes

➢ Prior work views institutions as <u>country-level</u> factors
  ➢ Makes sense in many contexts, since laws/institutions are typically organized at country level
    ➢ e.g., quality of the courts, contract enforcement, property rights, culture, etc.
  ➢ "At some level it is ***<u>obvious</u>*** that institutions matter."

Acemoglu and Robinson (2001)

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> > ➢ "At some level it is ***obvious*** that institutions matter."
> > > Acemoglu and Robinson (2001)
>
> ➢ ***Not*** so obvious in global contexts…
> > ➢ Capital is *mobile*
> > ➢ Institutional features are ***NOT***! (at least not naturally)
> > > ➢ Securities laws do not magically transfer across borders
> > > ➢ Global markets (new frontiers for investment, savings, development, growth)
> > > > ➢ Achilles heal—No single regulator can investigate or enforce laws unilaterally
> > > > ➢ Scatter transactions, assets, records, claimants, and relevant legal entities across different jurisdictions

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Cooperation is _**the**_ critical solution—
it mobilizes/extends specific legal rules (and their enforcement) to foreign jurisdictions

Institutional features are no longer inert country-based "silos,"

When economic activities span different jurisdictions (as they do in global markets), institutional features become _interactive_ and are _jointly_ determined by country-pair relationships:

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Which _specific_ strands of Swiss legal system can be mobilized into Hong Kong?
(and vice-versa)

Okay, institutional mobility (via cooperation) is critical and determined by each ***country-pair***...

➤ ...but how could we possibly test this?

  ➤ we need to systematically which countries' cooperate and when (and which individual capacities!)

➤ cooperative instruments are observable (***if*** you know what to look for!)

(1) Hague Conventions (Evidence/Service)
(2) Financial Intelligence Units
(3) Ad hoc efforts (e.g. letters rogatory)
(4) Mutual Legal Assistance Treaties
(5) Memoranda of Understanding (MoUs)

$M\&A_{ijt} = f(\text{cooperation, controls})$

Other notes (what out paper is NOT about):
- Bilateral investment treaties (BITs) intend to limit political risks;
  - *governmental* discrimination against foreign investors (e.g., nationalizing an industry, or enacting discriminatory labor, health, or pollution rules)
  - This is *NOT* cooperation (explicitly or implicitly)
- Cooperation protects against expropriation by other agents in securities markets (e.g., management, firms, advisors, investors, banks, broker-dealers, and stock exchange personnel)

Legal analyses—how regulators use cooperative instruments at different stages of litigation

➤ Highly technical, yet generalized to describe common themes

(specific capacities)	Ad Hoc	Hague Conventions	Financial Intelligence Units	MLATs	MoUs
Acquiring records					
Freezing Assets					
Serving defendant					
Taking depositions					
Enforcing a judgement					
Post-info sharing considerations					

➤ The "Secret Sauce"—section II provides insights based on extensive interactions with high-level 'special forces' (quasi-qualitative methods)

  ➤ Takes you into the world of global securities regulation, through the eyes of the regulator
  ➤ Notably difficult task
    ➤ Inordinate amount of bureaucratic hurdles
    ➤ Regulatory personnel difficult to identify/access
    ➤ Reticent to give details

  ➤ Insights are not easily generated by anyone else
    ➤ Not as simple as a "black letter" reading of the law
    ➤ Not the product of running regressions
    ➤ Not able to borrow from legal scholars

Contribution (I) (perhaps the largest…certainly the most difficult)

➤ Section II provides insights that will help
  ➤ Academics craft new (and better) RQs, hypotheses, tests, and interpretations
  ➤ Policy makers anticipate issues (e.g., constitutional infringement)
    ➤ e.g., (footnote 14): "MoUs provide an interesting privilege, in that the information a foreign regulator shares cannot be provided to the defense." (Hayes and Silvers, 2024)

SEC sought info on Ripple and XRP from 20 foreign entities, including trading platforms

Ripple accuses SEC of 'intimidation tactic' in seeking XRP info overseas

Battlefield for SEC v. Ripple lawsuit goes global as defense lawyers seek to stop SEC from obtaining information on Ripple and XRP from foreign regulators.

➤ We argue that prevailing "law and finance" perspective is incomplete
  ➤ Add a novel concept of institutional mobility more accurately reframes institutional features in global settings

(not)

Mobile
Each *component* of a legal system is a unique country-***pair*** level construct
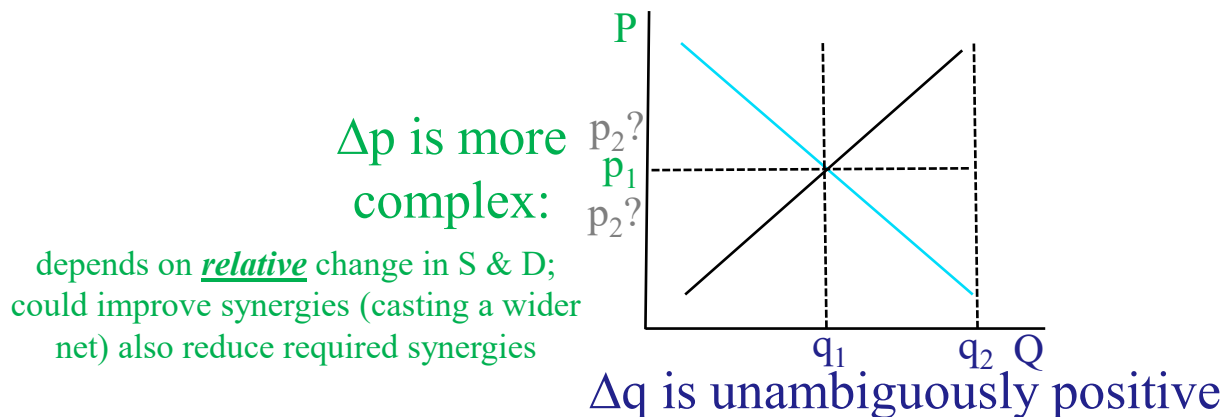
Inert
Legal systems are country level constructs

- ➢ **M&A is an important mechanism for efficient (domestic/global) resource allocation**(Burkart et al. 2014)
  - ➢ Search frictions, information issues, market-related risks and regulatory uncertainty hamper cross-border M&A (Deloitte 2017; Giambona et al. 2017)

Effect of cooperation on M&A unclear ex ante:

  - ➢ Negative effect
    - ➢ if regulatory scrutiny is burdensome
    - ➢ if M&A is motivated by regulatory arbitrage
    - ➢ If insiders plan to divert corporate resources after acquisition (becomes more difficult)
    - ➢ if FPI crowds out M&A (regulators very concerned about FPI *reducing* M&A)
  - ➢ No effect
    - ➢ if private due diligence offers sufficient/superior protection against these risks
    (which is generally the thinking in domestic settings)
  - ➢ Positive effect
    - ➢ *if* mobilizing investor protection resolves these economic frictions
      - ➢ creates positive shock to supply (target firms) and demand (acquiring firms)

Δp is more complex:

depends on ***relative*** change in S & D; could improve synergies (casting a wider net) also reduce required synergies

P

$p_2?$
p_1
$p_2?$

q_1 q_2 Q

Δq is unambiguously positive

Empirical design

> ## FEs and controls for stuff that varies in the time-series of a given country-pair:
> > - bilateral trade (USD)
> > - trade agreements
> > - investment treaties (BITs)
> > - tax treaties

$$M\&A_{ijt} = \gamma_0 \boxed{+ \lambda_1 Cooperation_{ijt}} + \sum_{c=2}^{C} \lambda_{ijt} \, Controls + \sum_{i=C+1}^{I} \lambda_{it} \, Acquiror \times time \, FEs + \sum_{j=C+I+1}^{J} \lambda_{jt} \, Target \times time \, FEs + \sum_{m=C+I+J+3}^{M} \lambda_m \, Acquiror \times Target \, (country \, pair) \, FEs + \upsilon_{ijt}$$

> ## Countries join cooperative instruments at different times
> > ### Identification benefits
> >
> > ### We emphasize **_multi_**lateral configurations
> > > - Lock-step timing helps mitigate reverse causality and omitted variable bias
> > > > - Linkages between countries are plausibly exogenous (especially to market outcomes, like cross-border M&A)

(1) Hague Conventions
(2) Financial Intelligence Units
(3) Ad hoc efforts
(4) MLATs
(5) MoUs

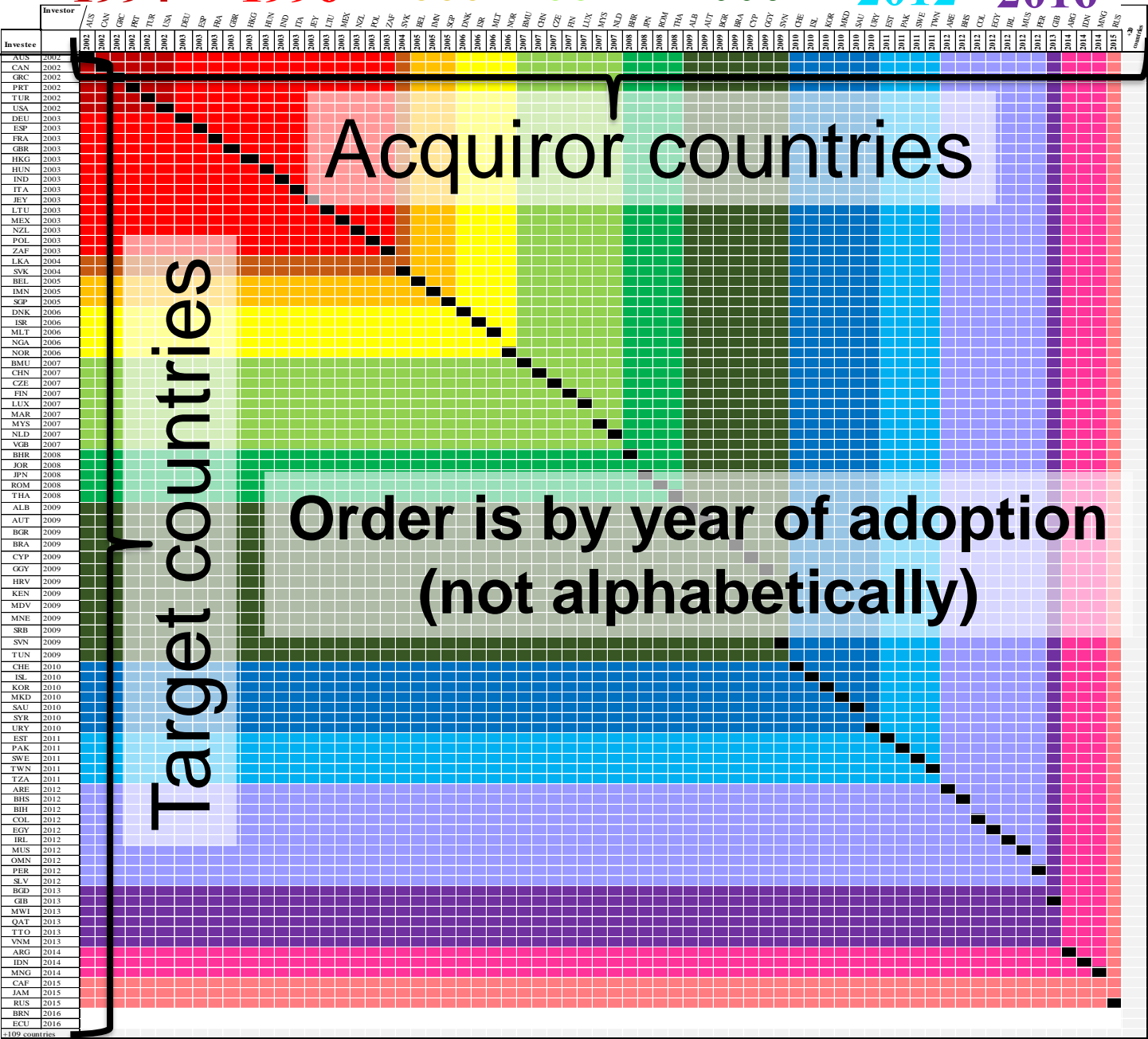> ## Let's examine how cooperative instruments create abrupt changes in legal capacities that cascade throughout network of country pairs

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Treatment adoption plot for multilateral instruments: *FIUs*

(Sweden's FIU is a division of the Swedish Police)

Treatment adoption plot for multilateral instruments: *FIUs*

Acquiror countries

Target countries

Order is by year of adoption (not alphabetically)

Formation of connections

Hypothetical endogeneity:
US strong-arms India to join
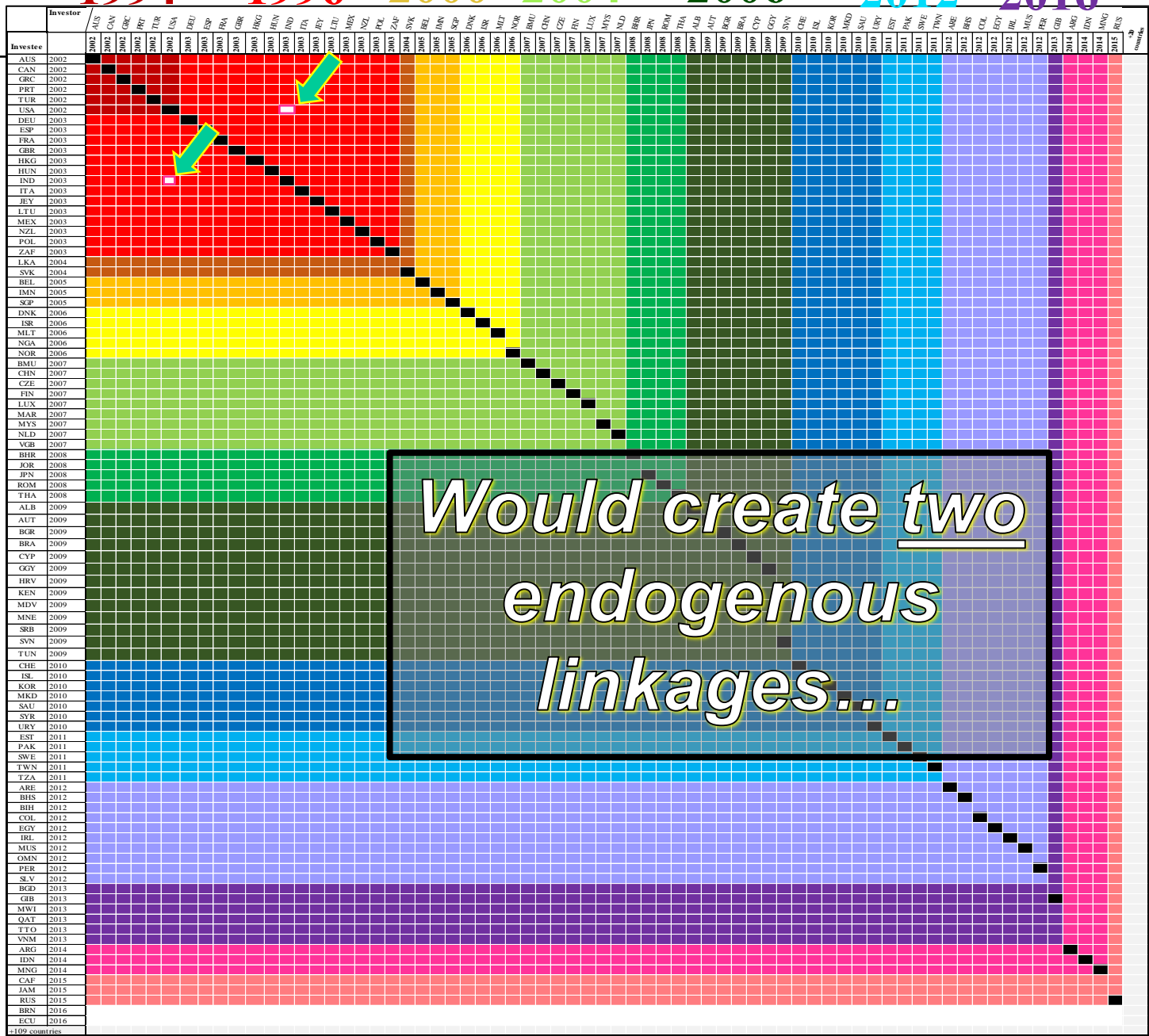
Would create two endogenous linkages...

Hypothetical endogeneity:
US strong-arms
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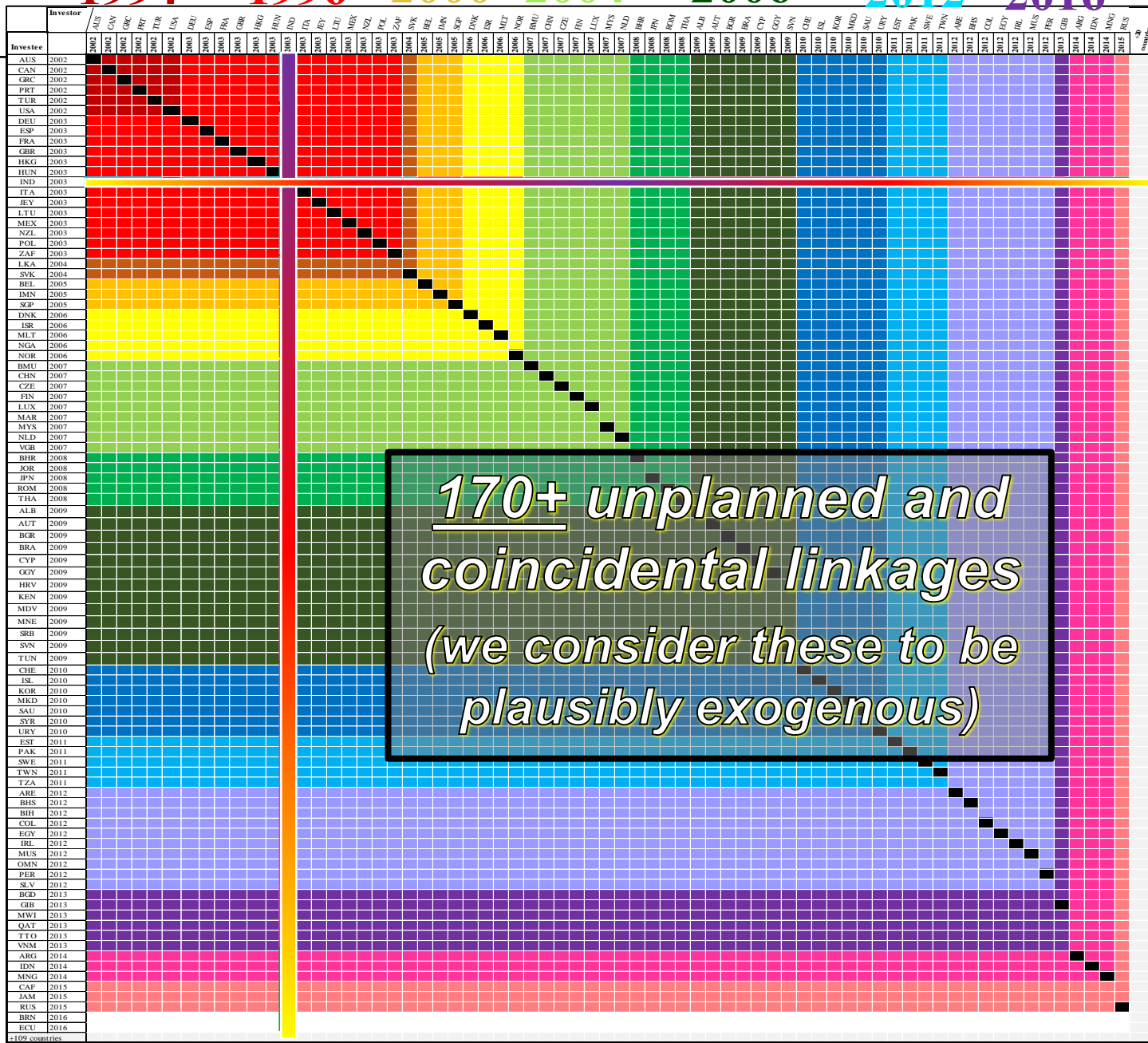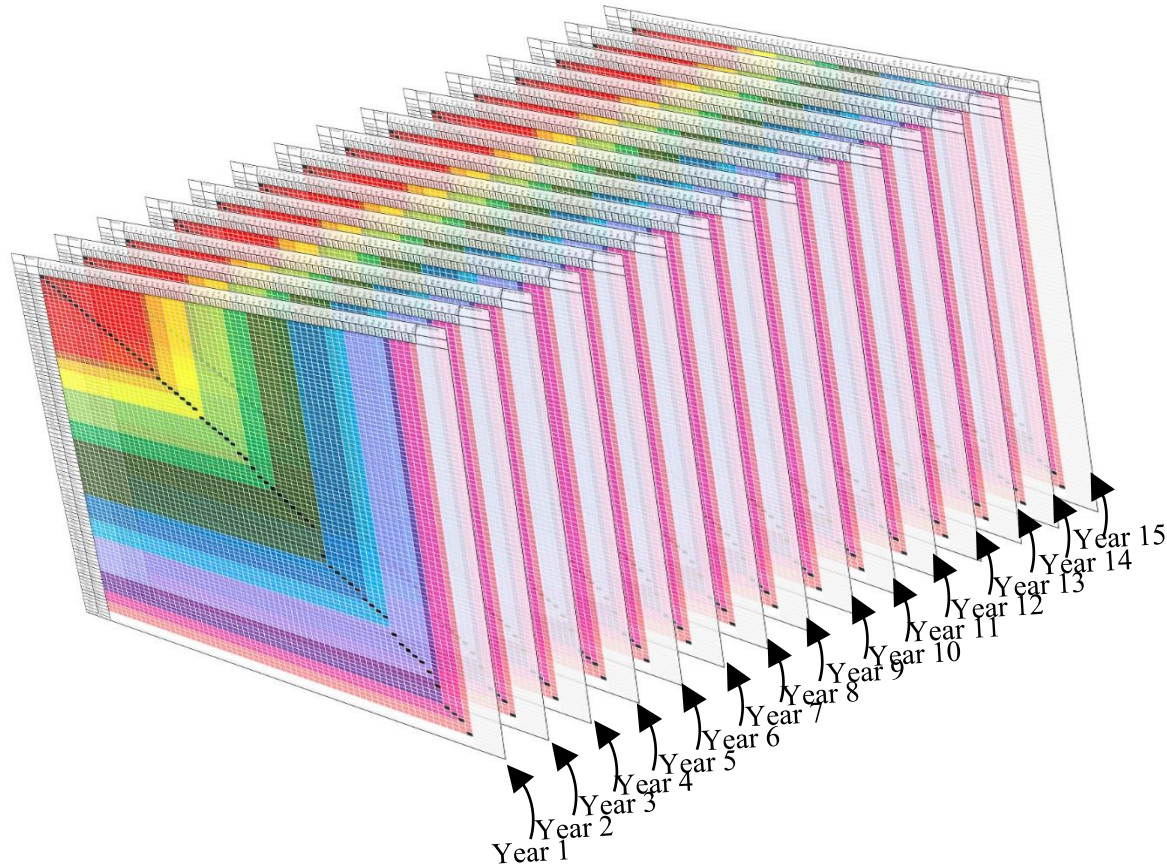
170+ unplanned and coincidental linkages (we consider these to be plausibly exogenous)

Building a counterfactual with three-way FEs

Unit of observation becomes the **country-pair-year**

Year 1
Year 2
Year 3
Year 4
Year 5
Year 6
Year 7
Year 8
Year 9
Year 10
Year 11
Year 12
Year 13
Year 14
Year 15

*Our sample has 27 years

Building a counterfactual with three-way FEs
(inspired by "gravity" model of international trade)

(1) $M\&A_{ijt} = \gamma_0 + \lambda_1 Cooperation_{ijt} + \sum_{c=2}^{C} \lambda_{ijt} Controls + \boxed{\sum_{i=C+1}^{I} \lambda_{it} Acquiror \times time\ FEs} + \boxed{\sum_{j=C+I+1}^{J} \lambda_{jt} Target \times}$

$\boxed{time\ FEs} + \sum_{m=C+I+J+3}^{M} \lambda_m Acquiror \times Target\ (country\ pair)\ FEs + v_{ijt}$

Acquiror × year FE
(shares same "i" in pair)
Target × year FE
(shares same "j" in pair)

➤ Design helps rule out counter explanations:
   ➤ Unobserved factors in (1) the acquiror market or (2) the target market
      ➤ time-variant country-level factors (e.g., growth, overvaluation, interest rates, technological innovation, etc.)

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Building a counterfactual with three-way FEs

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Country-pair FE

Acquiror × year FE

Target × year FE

➢ Design helps rule out counter explanations:
  ➢ Unobserved factors in (1) the acquiror market or (2) the target market
    ➢ time-variant country-level factors (e.g., growth, overvaluation, interest rates, technological innovation, etc.)
  ➢ (3) Time-invariant factors at the country pair level
    ➢ Clearly, HKG-CHN are more likely to have M&A than NZL-ZWE

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Building a counterfactual with three-way FEs

(1) $M\&A_{ijt} = \gamma_0 + \lambda_1 Cooperation_{ijt} + \sum_{c=2}^{C} \lambda_{ijt} Controls + \sum_{i=C+1}^{I} \lambda_{it} Acquiror \times time FEs + \sum_{j=C+I+1}^{J} \lambda_{jt} Target \times time FEs + \boxed{\sum_{m=C+I+J+3}^{M} \lambda_m Acquiror \times Target (country\ pair) FEs} + v_{ijt}$

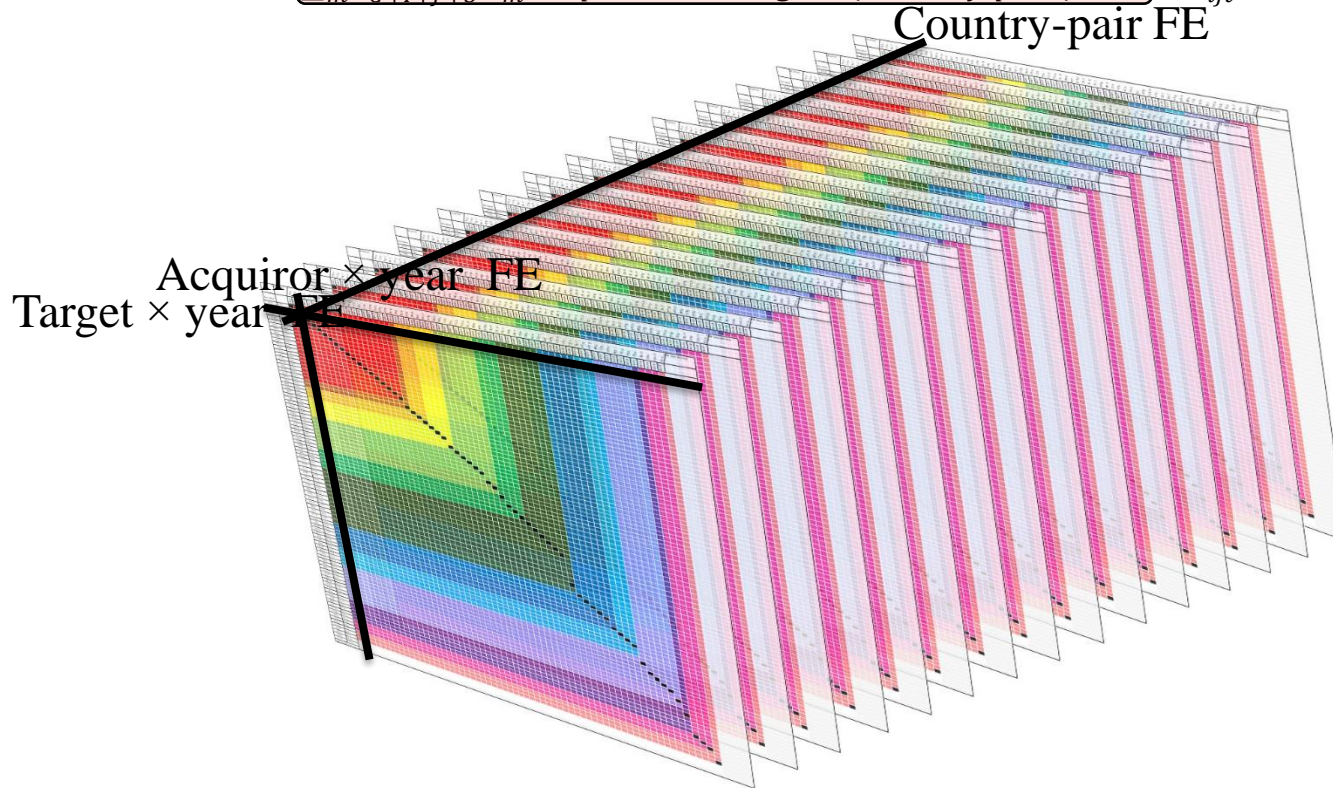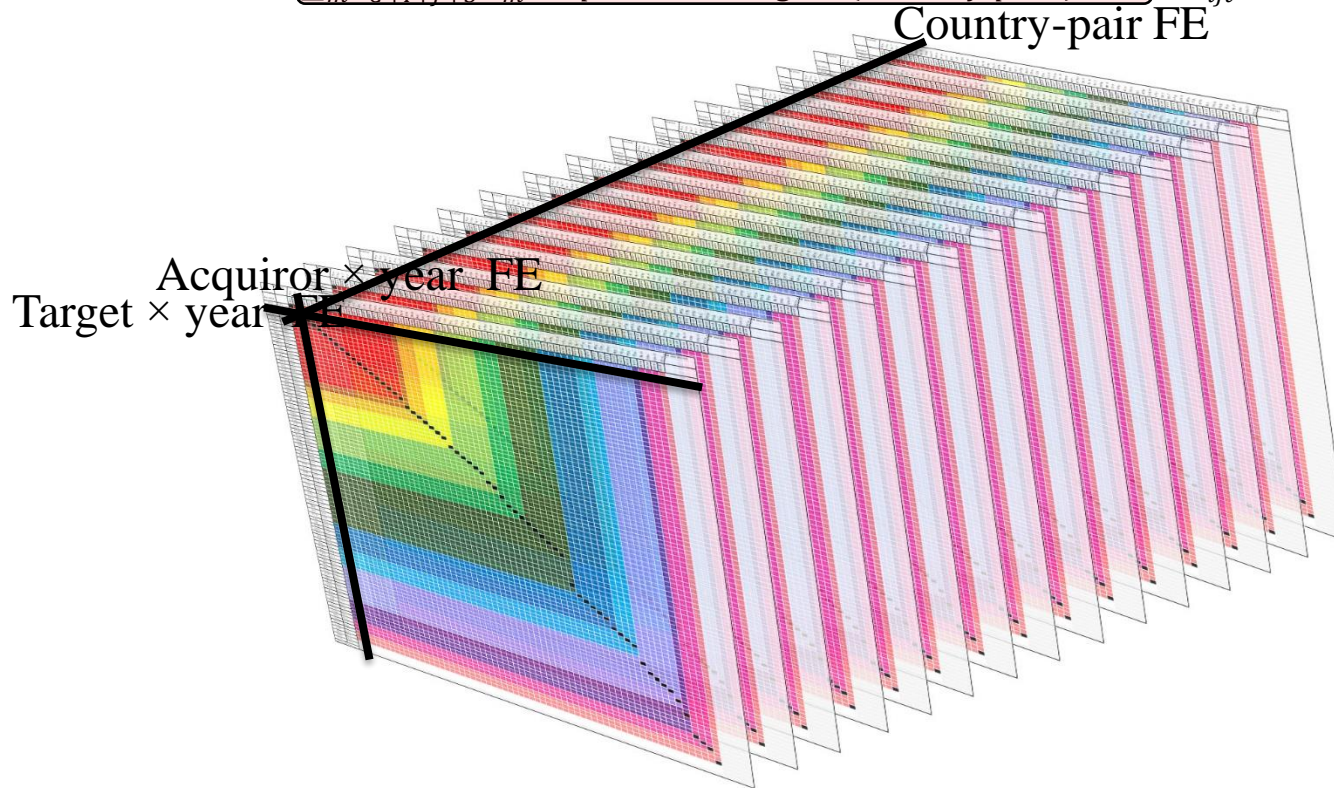Country-pair FE

Acquiror × year FE

Target × year FE

➢ Design helps rule out counter explanations:
  ➢ Unobserved factors in (1) the acquiror market or (2) the target market
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  ➢ (3) Time-invariant factors at the country pair level
    ➢ Clearly, HKG-CHN are more likely to have M&A than NZL-ZWE

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Cross-border M&A sample and main test

➤ M&A (dollars and counts) serve as the DV

$$M\&A_{ijt} = \gamma_0 + \boxed{\lambda_1 Cooperation_{ijt}} + \sum_{c=2}^{C} \lambda_{ijt}\ Controls + \sum_{i=C+1}^{I} \lambda_{it}\ Acquiror \times\ time\ FEs + \sum_{j=C+I+1}^{J} \lambda_{jt}\ Target \times$$
$$time\ FEs + \sum_{m=C+I+J+3}^{M} \lambda_m\ Acquiror \times Target\ (country\ pair)\ FEs + v_{ijt}$$

➤ Sample properties
  ➤ SDC Platinum Mergers & Acquisitions
  ➤ Include only public targets and acquirors
  ➤ 1994-2019
  ➤ Total deals~$9 Trillion (USD) (~$12 in constant 2020 USD)

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Potential issues

- Estimation issues—DV commonly takes on "zero" values
  - Can impart bias (and inconsistency!) to log-linear OLS estimates
  - Possible solution: PPML and iOLS (Bellégo et al. 2022)

iOLS

Log(1+Y)

iOLS adds *observation*-specific value to the outcome (instead of a constant) which is scaled using a hyper-parameter

PPML

places too much weight to the zeros

model selection procedure optimizes matching between conditional probability and actual prevalence of zeros in the data (there's no guarantee this is the "correct" thing to optimize)

places too much weight on large values

- Staggered diff-in-diff issues
  - Estimates suffer from "bad comparisons" or can be contaminated by treatment effects in other groups [Goodman-Bacon (2021); Sun and Abraham (2021); de Chaisemartin and D'Haultfoeuille (2020); Calloway and Sant'Anna (2020); Borusyak and Jaravael (2017)]
  - We are working on it (that will be a methodological contribution as well)

- 'Reusing' Natural Experiments (Heath et al. 2022) (not unique to natural experiments Bonferroni, Tukey, Sheffe apply to *all* multiple hypothesis testing)
  - There are *maybe* half a dozen potential outcomes available in our (global) setting
    - (Not at all like the 293 outcome variables in Compustat)
  - *t*-stats are currently 2.48, 2.77, 4.38, and 4.87 in the main tests (we would still reach statistical significance)
  - dozens of LLSV studies of similar DVs (GDP, GDP/capita) regressed on similar IVs (investor protection)
    - But they make ***different*** points and arm researchers with ***new*** empirical measures…just like we do

M&A tests

	(1) OLS ln(1+M&A ($US))	(2) iOLS ln(1+M&A ($US))	(3) PPML M&A ($US)
MMoU	0.028***	0.160**	0.283**
	(2.77)	(2.74)	(1.99)
Hague	0.031***	0.445***	0.338*
	(4.87)	(8.61)	(1.73)
Bilateral MoU	0.025**	0.100***	0.070
	(2.48)	(2.95)	(0.75)
FIU	0.038***	0.167***	-0.114
	(4.38)	(3.54)	(-0.80)
Bilateral Trade	0.000***	-0.000	-0.000
	(3.40)	(0.42)	(-0.11)
Bilateral treaty	-0.003	0.121**	-0.026
	(-0.48)	(2.54)	(-0.26)
Trade agree	0.035***	-0.259***	0.113
	(4.90)	(-7.08)	(0.99)
Tax treaty	0.043***	-0.224***	0.169
	(4.57)	(-3.51)	(1.18)
N	187,920	17,483	21,708
(Pseudo) R^2	0.396	-	0.443
Acquiror×Year	Y	Y	Y
Target×Year	Y	Y	Y
Acquiror×Target	Y	Y	Y

➢ Supports our legal analyses
  ➢ Institutional mobility determines cross-border M&A activity

Other results (unreported here):

➢ Decompose effect into deal frequency and deal size
  ➢ Both increase, but deal size increases more

➢ Legal analyses imply instruments often work well in tandem
  ➢ Interactive effects of cooperative instruments

➢ Cross-sectional results
  ➢ Somewhat mixed/inconsistent across different instruments

➢ Deal-specific tests (mostly-pricing)
  ➢ Weakly supports increases in *Target CAR* and *Target deal premium*

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Contribution (II)—to literature on cross-border investment patterns and regulatory cooperation on investment specifically

- Institutional mobility increases cross-border M&A
  - FPI does not appear to crowd out M&A
  - We describe how a *constellation* of instruments/capacities works (sometimes in unison) to mobilize an arsenal of specific legal components to foreign jurisdictions
    - FIUs or Hague Convention have never been used empirically (to our knowledge)
      - Only other multilateral instruments are trade agreements (and MMoU), but the network insights are undeveloped
    - By contrast, prior work focuses on: (i) a ***single*** specific instrument (the MMoU) as exclusive mechanism for foreign assistance, and (ii) US cross-listed firms and FPI
  - Relevant to development literature (e.g., M&A is stabilizing, increases output growth, etc.)

- Differences from prior work
  - RQ, institutional insights, theoretical reframing, estimation techniques, sample, design features, inferences, dependent variable, and majority of the independent variables

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Contribution (III)—to literature on cross-border M&A

➢ **Institutional mobility is a novel channel through which institutional features influence M&A**
  ➢ May explain recent findings that suggest cross-border M&A depends on political uncertainty and diplomacy (Lee 2018; Cao et al. 2019; Aleksanyan et al. 2021)

➢ **(public) regulation is much more important than prior work concludes** (Bris and Cabolis 2008) (LLSV, etc.)
  ➢ nominal changes in the country whose laws govern were probably not real changes in Bris and Cabolis' setting (cross-border legal frictions may render such changes immaterial)

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Contribution (IV)—
to economics, law, finance, and accounting literatures generally

➤ Variation in institutional features is hard to find

➤ Several measures of abrupt changes in time-series of country pairs:

- ➤ institutional mobility
- ➤ Specific components of legal systems that are transferable

- ➤ cross-border enforcement capacity
- ➤ in turn, cross-border expropriation risk
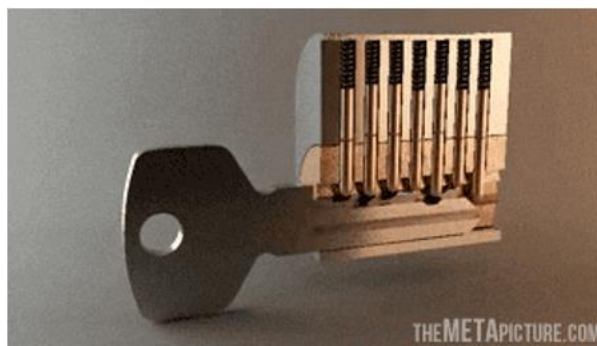
➤ **Staggered, lock-step timing of multilateral arrangements**
  - ➤ Improves identification and reduces endogeneity concerns
  - ➤ ***Precisely*** relevant to capital markets
    - ➤ as opposed to other generic "gravity" variables (e.g., geographic distance, shared language etc.), telephone call volume, migration patterns, cultural distances, and (Eurobarometer, "trust") surveys
      (Gould 1994; di Giovanni 2005; Portes and Rey 2005; Daude and Fratzscher 2008; Guiso et al. 2008, 2009; Cohen et al. 2017)
    - ➤ Doesn't give policymakers much to work with

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Thanks!

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Cautions and direction for future work

➢ Cooperation—a double-edged sword?
  ➢ Constitutional infringements (mainly rights in criminal cases/fair trial 5th & 6th amendment)
  ➢ Deficiencies in procedural safeguards
    ➢ In era of 'disinformation,' other country's policies implemented on US soil
      ➢ (or vice versa)
    ➢ Imagine another country freezing *you* out of all *your* money, in *your* bank <u>without judicial review</u>
      ➢ Can't pay for mortgage, food, or legal representation
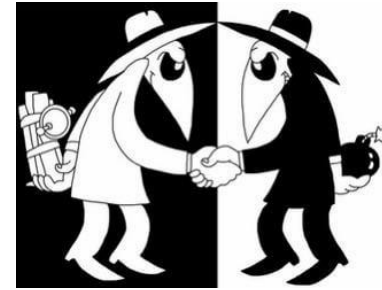
➢ Future work…what would I like to learn more about?
  ➢ Other cross-border settings
    ➢ Colleges of international regulators (banking groups, macroprudential regulation, and insurance)
    ➢ Central counterparty clearing
    ➢ Crypto asset regulation
    ➢ Technology diffusion

  ➢ Other concepts/ideas
    ➢ Strategic non-adoption of cooperative mechanisms
    ➢ Network-based treatments are fascinating

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Cooperation _**the**_ critical solution to resolving global jurisdictional issues

➢ It mobilizes institutional features

➢ Motivating quote: Bill Coen (former Secretary General of Basel Committee)

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26 papers by La Porta, Lopez-de-Silanes, Shleifer, Vishny can be summarized as:

➢ (index of) Investor protection rules and…
  ➢ Investor protection
    ➢ Tunneling
    ➢ self dealing
    ➢ Quality of the courts
    ➢ Judicial independence
    ➢ Dividend policies
  ➢ Business rules
    ➢ Formalism
    ➢ eviction of a nonpaying tenant and collection of a bounced check

➢ GDP
  ➢ Stock market cap-to-GDP (x4)
  ➢ GDP/capita (x8)
  ➢ Value added/employee
➢ Corporate valuation
➢ Ownership
  ➢ External finance
  ➢ Small investor participation
  ➢ Government ownership of banks
  ➢ M&A

➢ And none of these even claim to be causal (usually index regressed on index)

➢ But they make ***different*** points and arm researchers with ***new*** empirical measures…just like we do!

  ➢ If a better understanding of global market regulation is worthwhile, we will need more studies on the subject from qualified experts

Quiz

➢ What concerns should regulators have when making requests for assistance to foreign counterparts?
  ➢ various penalties including the risk of ***imprisonment***

➢ Do HEC/HSC apply to investigative stages?
  ➢ No, they only apply one litigation formally proceeds

➢ Outside of this paper, how many empirical studies are there of HEC/HSC/FIUs/MLATs?
  ➢ Virtually none; Why not? Probably because no one understood their role in global market regulation.

➢ Which instrument has the highest pleading standards, and why does that matter?
  ➢ MLAT; because, as civil agencies, regulators are accustomed to lower standards

➢ Which mechanism is the best for freezing assets?
  ➢ MoUs are more nimble but impermeant
  ➢ MLAT takes a long time but is virtually bulletproof (criminal authority)

➢ When instruments are used in tandem, are the capacities *duplicative* or *complementary*, and why?
  ➢ Complementary; see MLAT/MoU for freezing assets

➢ Why would prosecutors give special privileges to defendants that they do not *have* to?
  ➢ Rule 28 of the Federal Rules of Civil Procedure (see US v. Salim (1988)).

➢ What problems do different legal customs produce in cross-border settings?

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Other examples abound…

➢ "MoUs provide an interesting privilege, in that the information a foreign regulator shares **_cannot be provided to the defense_**." (Hayes and Silvers, 2024, footnote 14)

➢ Ripple: "The SEC's MOUs with foreign powers represent an extraordinary tool to which private litigants…**_have no equivalent_** and which **_has no place in litigation_**. And it represents an **_end run around the Court's authority to oversee the extent of foreign discovery necessary in the litigation_**," the defense lawyers wrote.

➢ "The SEC contends that there is legal precedent for it to use 'Requests for Assistance' during civil litigation 'because they are requests — **_not subpoenas enforceable by federal courts_** — and therefore **_not prohibited by the Federal Rules of Civil Procedure_**.'"

➢ The SEC has agreed to provide Ripple with the "substance" of the requests, but not the correspondence with foreign regulators related to the requests, saying that it was "privileged or otherwise protected from disclosure."

➢ Ripple's lawyers say that the SEC has refused to stop using the MOU parties from whom it has sought discovery, despite promising to do

BY MICHELLE LIM

SEC sought info on Ripple and XRP from 20 foreign entities, including trading platforms

SEC says info on Ripple and XRP transactions overseas is important to lawsuit. But of the nine foreign regulators the SEC asked, two refused to help.

Ripple accuses SEC of 'intimidation tactic' in seeking XRP info overseas

Battlefield for SEC v. Ripple lawsuit goes global as defense lawyers seek to stop SEC from obtaining information on Ripple and XRP from foreign regulators.

Ripple accuses SEC of 'intimidation tactic' in seeking XRP info overseas 1

Additional results

- Support:
  - Synergy—more cooperative mechanisms, more cross-border M&A

TABLE 4—COOPERATION AND CROSS-BORDER M&A: INTERACTIONS

		No Financial Intelligence Unit (FIU)			Financial Intelligence Unit (FIU)	
No Hague		**No**	**MMoU**		**No MMoU**	**MMoU**
	No Bilateral	*(ref group)*	0.056	**No Bilateral**	0.036	0.099
	Bilateral	-0.023	0.145	**Bilateral**	0.104	0.135
Hague Convention		**No**	**MMoU**		**No MMoU**	**MMoU**
	No Bilateral	0.022	0.072	**No Bilateral**	0.109	0.131
	Bilateral	0.111	0.377	**Bilateral**	0.261	0.089

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Additional results:

Cross-border M&A decomposed into (1) deal frequency and (2) deal value

TABLE 5—M&A COUNTS AND PRE-COOPERATION LEVELS OF M&A

	(1)	(2)	(3)
	$ln\,(1 + \#deals)$ +	$ln\,(1 + \overline{deal\ size})$ =	$ln(1 + M\&A\ (\$US))$
MMoU	0.008***	0.019**	0.028***
	(2.76)	(2.15)	(2.77)
Hague Convention	0.011***	0.020***	0.031***
	(7.11)	(4.43)	(4.87)
Bilateral MoU	0.007***	0.018**	0.025**
	(3.13)	(2.07)	(2.48)
FIU	0.012***	0.026***	0.038***
	(5.78)	(4.52)	(4.38)
Bilateral Trade	0.000**	0.000***	0.000***
	(2.25)	(3.37)	(3.40)
Bilateral Investment Treaty	-0.001	-0.002	-0.003
	(-0.73)	(-0.35)	(-0.48)
Trade agreement	0.011***	0.024***	0.035***
	(5.77)	(4.92)	(4.90)
Tax treaty	0.015***	0.028***	0.043***
	(6.16)	(3.98)	(4.57)
N	187,920	187,920	187,920
R^2	0.538	0.339	0.396
Acquiror×Year	Y	Y	Y
Target×Year	Y	Y	Y
Acquiror×Target (country pair)	Y	Y	Y

Additional results:
Cross-border M&A cross-sectional result

TABLE 6—COOPERATION AND CROSS-BORDER M&A: CROSS-SECTIONAL TESTS

MMoU — *Acquiror Regulatory Quality*

Target Regulatory Quality		Low	High
	Low	0.031***	0.019
	High	0.066***	0.017

HC — *Acquiror Regulatory Quality*

Target Regulatory Quality		Low	High
	Low	0.026**	0.036***
	High	0.017	0.035***

Bilateral MoU — *Acquiror Regulatory Quality*

Target Regulatory Quality		Low	High
	Low	0.016	0.078***
	High	0.039*	0.012

FIU — *Acquiror Regulatory Quality*

Target Regulatory Quality		Low	High
	Low	0.035***	0.036***
	High	0.025***	0.044***

➢ Not particularly consistent across different instruments

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Seizable assets main test

➢ Generalized diff-in-diff with Tobin's Q is the DV

$$Tobin's\ Q = \beta_0 + \gamma_1 Cooperation_t + \beta_2 US\ Assets\ + \beta_3 Cooperation_t \times US\ Assets\ + \sum_{i=i+3}^{I} \beta_{it}\ Home\ country\ FEs + \sum_{t=1}^{T} \beta_{jt}\ Year\ FEs + \omega_{i,j}$$

TABLE 9—COOPERATION, SEIZABLE ASSETS, AND VALUATION–MAIN TESTS

	(2) Cooperation = Bilateral MOU	*(2)* Cooperation = MMoU	*(2)* Cooperation = FIU	*(2)* Cooperation = Hague Convention
Fraction US Assets	-0.275*	-0.389***	-0.496***	-0.244
	(-1.93)	(-3.54)	(-4.06)	(-1.42)
Cooperation	-0.089	-0.027	-0.096	-0.535***
	(-0.76)	(-0.44)	(-1.60)	(-3.78)
Fraction US Assets × Cooperation	0.179	0.434***	0.542***	0.126
	(1.08)	(3.01)	(3.61)	(0.67)
N	20,119	20,119	20,119	20,119
R^2	0.049	0.049	0.049	0.049
Year	Y	Y	Y	Y
(Home) Country	Y	Y	Y	Y

➢ Stronger valuation response when assets can be seized
  ➢ Possible worst case scenario is having cross-border oversight, but no way to enforce it

➢ Cross-listed firms' assets in US promotes legal bonding
  ➢ Prior literature attributed it to increase advertising, product demand, and firm visibility (Baker et al. 2002; Coffee 2002; Licht 2003)

Additional results

> ## Support:

>> ### Synergy—more cooperative mechanisms, more cross-border M&A

TABLE 4—COOPERATION AND CROSS-BORDER M&A: INTERACTIONS

		No Financial Intelligence Unit (FIU)			Financial Intelligence Unit (FIU)	
No Hague		**No**	**MMoU**		**No MMoU**	**MMoU**
	No Bilateral	*(ref group)*	0.056	**No Bilateral**	0.036	0.099
	Bilateral	-0.023	0.145	**Bilateral**	0.104	0.135
Hague Convention		**No**	**MMoU**		**No MMoU**	**MMoU**
	No Bilateral	0.022	0.072	**No Bilateral**	0.109	0.131
	Bilateral	0.111	0.377	**Bilateral**	0.261	0.089

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Additional results:
Cross-border M&A decomposed into (1) deal frequency and (2) deal value

TABLE 5—M&A COUNTS AND PRE-COOPERATION LEVELS OF M&A

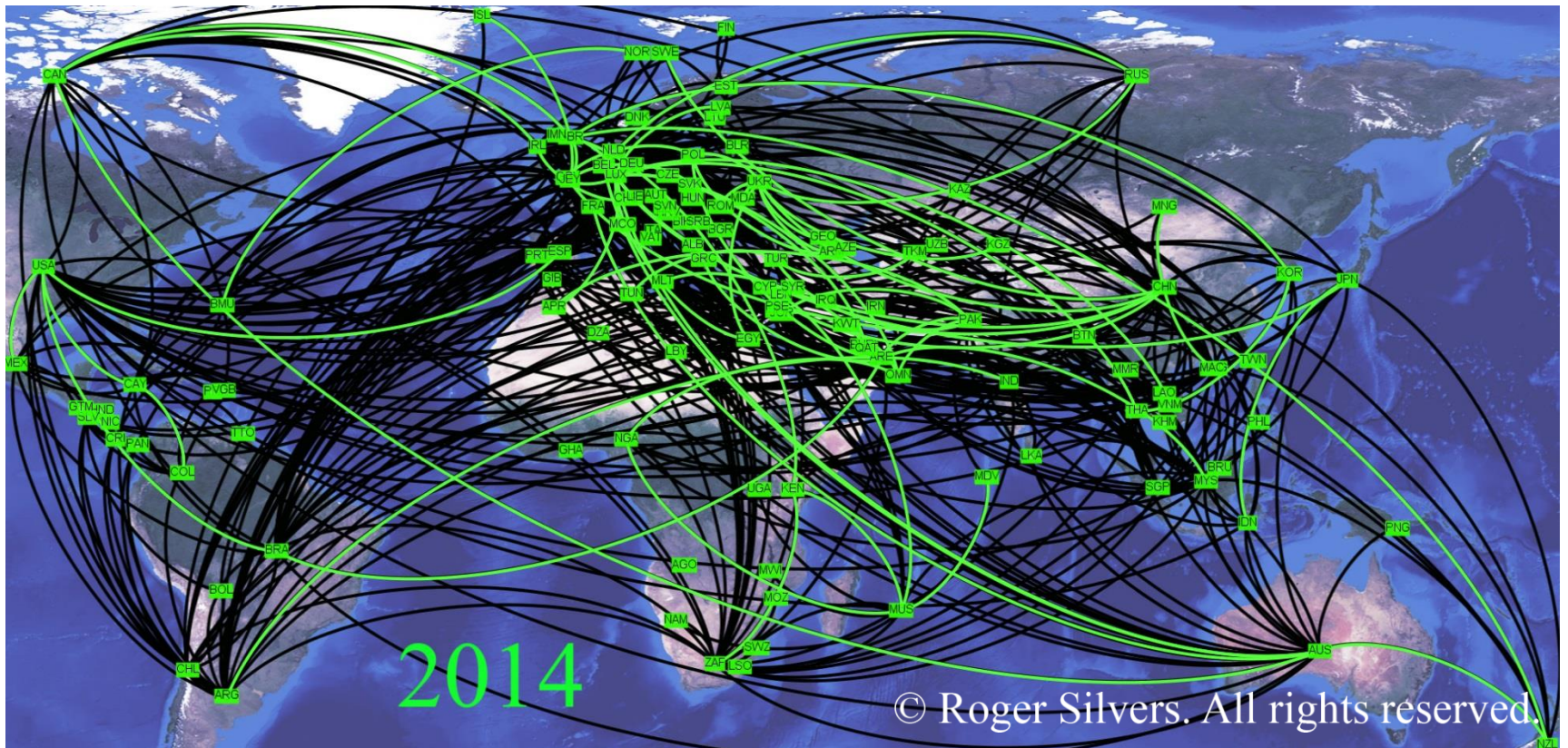|	(1)	(2)	(3)
	$ln(1 + \#deals) + ln(1 + \overline{deal\ size})$		$= $ $ln(1 + M\&A\ (\$US))$
MMoU	0.008***	0.019**	0.028***
	(2.76)	(2.15)	(2.77)
Hague Convention	0.011***	0.020***	0.031***
	(7.11)	(4.43)	(4.87)
Bilateral MoU	0.007***	0.018**	0.025**
	(3.13)	(2.07)	(2.48)
FIU	0.012***	0.026***	0.038***
	(5.78)	(4.52)	(4.38)
Bilateral Trade	0.000**	0.000***	0.000***
	(2.25)	(3.37)	(3.40)
Bilateral Investment Treaty	-0.001	-0.002	-0.003
	(-0.73)	(-0.35)	(-0.48)
Trade agreement	0.011***	0.024***	0.035***
	(5.77)	(4.92)	(4.90)
Tax treaty	0.015***	0.028***	0.043***
	(6.16)	(3.98)	(4.57)
N	187,920	187,920	187,920
R^2	0.538	0.339	0.396
Acquiror×Year	Y	Y	Y
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Additional results:
Cross-border M&A cross-sectional result

TABLE 6—COOPERATION AND CROSS-BORDER M&A: CROSS-SECTIONAL TESTS

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Stage 1: What predicts cooperative instruments?

$$(3) \qquad h(t_{\{i,j\}}) = \alpha_0 + \alpha_1 GDP_t^B + \alpha_2 GDP_t^S + \alpha_3 Shared\ language + \alpha_4 Current\ colony +$$
$$\alpha_5 Common\ Colony + \alpha_6 Same\ country + \alpha_7 Border + \alpha_8 \log(Distance) +$$
$$\gamma_1 TEST\ VARIABLE(S) + \varepsilon_{i,j}$$

- ➢ The model
  - ➢ **What makes regulators engage** in these arrangements?

- ➢ Bilateral arrangements are probably directed
  - ➢ I set it up as 'BIG' and 'SMALL' based on GDP

- ➢ Variables of interest
  - ➢ Number of cross-listed firms between them (+) (duh!)
  - ➢ Shared legal origin increased HR (+)
  - ➢ Cross-border friction proxies
    - ➢ Some reduce the probability of a cooperative arrangement (a country's financial secrecy)
      - ➢ When larger of a pair is tax haven, MoU is less likely
      - ➢ When smaller of pair is tax haven, MoU is more likely
      - ➢ Indicates a **hegemonic dynamic**
    - ➢ Others (blocking statutes) have a HR>1
      - ➢ Suggests that arrangements can specifically target obstacles to cooperation.

- ➢ Control (gravity) variables bear the expected signs
  - ➢ Hazard ratios (event ratio for bilateral MoUs) are
    - ➢ share a colonial tie: 3.5
    - ➢ common language: 2.54
    - ➢ physical border:1.28
    - ➢ geographically closer: ~2.

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Countries joining the OECD since 1994

➤ There is no information sharing provision for the OECD

Costa Rica	2021	Chile	2010
Colombia	2020	Slovak Republic	2000
Lithuania	2018	Korea	1996
Latvia	2016	Poland	1996
Estonia	2010	Hungary	1996
Slovenia	2010	Czech Republic	1995
Israel	2010	Mexico	1994

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A motivating example...the first cooperation arrangement

- ➤ March 10, 1981: Classic insider trading pattern
  - ➤ OTM option trade in St Joe Minerals
  - ➤ Following day: Seagram Company announces acquisition of St. Joe
  - ➤ Prices jump, position is closed, netting a 1-day profit of ~$6.3 million

- ➤ SEC investigates, only to find out that:
  - ➤ Trading came from **BSi**, subject to Swiss bank secrecy
  - ➤ SEC demands **BSi** turn over customer name(s)
  - ➤ **BSi** says, love to, but disclosure subjects us to criminal liability in Switzerland

- ➤ Nov 1981: SEC sues **BSi**
  - ➤ Pollack: "travesty of justice" to allow participation in US markets while evading applicable laws
  - ➤ Banks to be fined $50,000/day

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A motivating example…ruling sends shockwaves through Swiss banks

➤ Swiss banks realized position as a global banking player was in jeopardy
  - ➤ Swiss banks advise SEC to make request under the MLAT
    - ➤ Ran into numerous snags: insider trading wasn't illegal (dual criminality)
    - ➤ As stopgap, they used a prohibition again "stealing a corporate secret"

➤ 1984: SEC *finally* learns the identity of the trader
  - ➤ Giuseppe Tome—an advisor/confidant to Edgar Bronfman (CEO&Chair of acquiring company)
  - ➤ SEC was (eventually) able to obtain disgorgement of illegally obtained profits

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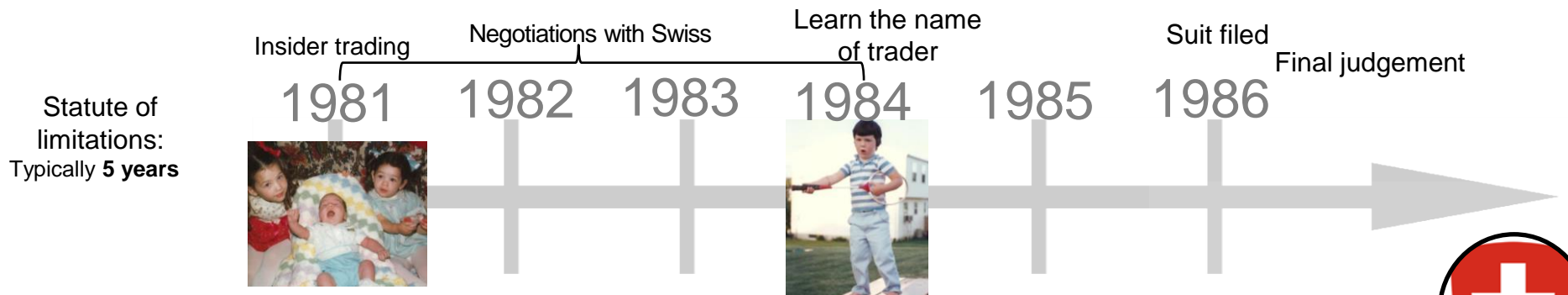 ➢ SEC was (eventually) able to obtain disgorgement of illegally obtained profits

Statute of limitations: Typically **5 years**

Insider trading	Negotiations with Swiss	Learn the name of trader	Suit filed / Final judgement
1981	1982 1983	1984	1985 1986

➢ Swiss propose an MoU (memorandum of understanding)
  ➢ If certain conditions were met, it would trigger a waiver of Swiss bank secrecy laws, allowing Swiss banks to:
    ➢ (1) comply with US demands and (2) not violate Swiss laws

MOU — Convention 16 — information — SwissBanking Swiss Bankers Association