

# The Sarbanes-Oxley: Research Potential of Similar Regulations in Other Countries

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## Editorial

The Sarbanes-Oxley Act of 2002 (SOX) enacted by the U.S. congress to restore investor confidence in U.S. capital markets has been subject to a vast number of research studies, but the evidence about its net benefits is inconclusive [1]. Subsequent to its passage, many nations enacted similar legislation, including Canada [2,3], UK and Australia [4], the European Union [5], Japan [6], China [7,8], and the Philippines [9]. However, research on the effects of these regulations has been limited. It would be highly informative to extend the research studies on SOX to those countries that have created similar sets of regulations and assess the evidence regarding their net benefits. Since these countries had the opportunity to learn from the experience of foreign and U.S. companies listed in the U.S. subject to SOX, it is possible that consistent positive results would result.

It is important to note that exact replication of SOX in other countries is unachievable due to differences in country laws, financial and economic systems, ownership structure as well as the degree of market competitiveness and financial development. Nevertheless, empirical evidence should shed light on whether other countries' regulatory changes which mirror SOX (but tailored to their own needs), would result in benefits that more than compensate for the costs of the implementation.

Two current research papers provide evidence on the effects of regulatory changes similar to those by SOX. The first is co-authored by Amoako-Adu and Baulkaran [10] and the second by Wang and Zhang [11] on the Canadian and Chinese settings, respectively. Amoako-Adu and Baulkaran [10] find that SOX had negative valuation effects on Canadian firms cross-listed in the U.S. compared to firms listed only in the Toronto Stock Exchange. According to these authors, the effects of the Canadian regulatory reform equivalent Bill 198 (Canadian SOX), which passed two years after SOX, report no impact on firms' valuation. They argue that investors anticipated the Canadian SOX and adjusted their valuation of TSX listed firms compared to cross-listed firms. Similarly, Wang and Zhang [11] find that the internal controls implemented by Chinese regulators can enhance the regulatory effects at a reduced cost. Notice that these results are preliminary and more work needs to be done to validate their results. Nevertheless these studies represent a promising step forward to extend the research literature on the impact of similar regulatory changes such as SOX on other countries.

In summary, the vast research literature originated by SOX represents a fertile ground to conduct similar studies in other countries that have created their own regulations. An non-exhaustive list of potential research venues on the effects of mirror-SOX regulatory changes in other countries include topics such as changes in: valuation on firms, competitiveness, company risk and corporate risk taking, market liquidity, investor base, firm visibility, shareholders rights, ownership structure, governance, cost of capital, market performance of initial public offerings, issuance cost of debt and equity, quality of earnings, quality of information provided to investors, quality of information provided by auditors, financial disclosure, compliance

costs, insider trading, and efficiency of capital markets. Whether the outcome of these studies provides conclusive evidence on the net benefits of other countries' regulations is ultimately subject to empirical research. Finally, the comparative experiences in the various countries may provide valuable information for modifying legislation to meet national objectives, and information for the design of new legislation concerning capital markets.

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