SECURITIES CLASS ACTIONS IN THE US BANKING SECTOR: BETWEEN INVESTOR PROTECTION AND BANK STABILITY

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Abstract

This paper investigates whether Securities Class Actions (SCAs) can play a role in banking supervision representing both a warning signal of insolvency and a market discipline device stimulating banks' management to carefully evaluate risk. Two groups of US banks are compared in the period 2000-2008. One includes banks that have faced at least one SCA, while the other is composed by non-target banks (control group). Results indicate that collective private litigation procedures are more frequently exerted on financially fragile intermediaries. Furthermore, banks which have been subject to SCAs are likely to reduce their excessive risk positions. This supports the idea that SCAs could be efficiently exploited as a complement to the public supervisory activity in the banking sector.

Keywords: securities class action, bank safety, banking regulation, market discipline.
JEL classification: G2, G3, K4.