## CONTENTS

page xiv

List of tables

1

List of contributors

Foreword xvii
Preface xix
List of abbreviations xxi
The derivative action: an economic, historical and
practice-oriented approach 1
HARALD BAUM AND DAN W. PUCHNIAK
I Introduction 1
II The derivative action from an economic and functional
perspective 7
1 Definition, characteristics and delimitation 7
a Definition 7
b Characteristics 8
c Delimitation 10
2 Economic efficiencies and inefficiencies 12
a Function 12
b Empirical studies on the derivative action's compensatory value 15
c The comparative value of the empirical research 19

d The ambiguous empirical picture is compounded by

a The need for economic incentives and disincentives

e Illuminating the potential negative effects of derivative

31

35

43

the deterrence effect

26 3 Key elements of regulatory design

actions

b Designing appropriate economic incentives

c Sufficient access to corporate information

		d Making the company the first option 46 e Filtering out unmeritorious actions 47 f Settlement and abandonment 58
		4 The derivative action in context: functional alternatives 60
	III	The derivative action from a historical perspective 64  1 Historical development in the United States 64  2 Historical development in the United Kingdom 66  3 Germany's historical rejection of the derivative action 72
	IV	The derivative action from a practical perspective 74  1 Procedure and practice in the United States 74  2 Procedure and practice in the United Kingdom 77  3 Procedure and practice in France 82  4 Procedure and practice in Germany 84
2		complexity of derivative actions in Asia: an onvenient truth 90
	DAN	W. PUCHNIAK
	I	Introduction 90
	II	The seven leading Asian jurisdictions 98
	III	An overview of the derivative action in Asia 100  1 Japanese derivative actions: the rise of non-economic litigiousness 100  2 South Korean derivative actions: moderately litigious
		and intriguingly unpredictable 104  Taiwanese derivative actions: the chill of financial disincentives and domestic cultural norms 108
		4 Chinese derivative actions: a complex pathway to minority shareholder protection 111
		5 Hong Kong derivative actions: a late and partial break with common law tradition lays a path for reform 114
		6 Singapore's derivative actions: mundanely non-Asian, intriguingly non-American and at the forefront of the Commonwealth 117
		7 Derivative actions in India: explaining the rarity of derivative actions in a sea of litigation 120
	IV	The complexity of derivative actions in Asia: a less convenient, but more realistic, truth 124

3 Land of the rising derivative action: revisiting irrationality to understand Japan's unreluctant shareholder litigant 128

MASAFUMI NAKAHIGASHI AND DAN W. PUCHNIAK

- I Introduction 128
- II Applying the assumption of the economically motivated and rational shareholder litigant to Japan 132
  - 1 The economically motivated and rational explanation for the absence of shareholder litigation in postwar Japan 132
  - 2 Japan's explosion of derivative actions (mis)understood through the lens of the economically motivated and rational shareholder litigant and its testable hypotheses 139
- III Putting the hypotheses of the economically motivated and rational Japanese derivative litigant to the test 144
  - 1 Testing the economically motivated and rational shareholder hypothesis: do shareholders benefit financially from derivative actions in Japan? 144
  - 2 Testing the economically motivated and rational attorney hypothesis: do economically motivated and rational attorneys drive derivative litigation in Japan? 150
  - 3 Testing the financial tracking hypothesis: does the rate of derivative actions track changes in their financial costs/benefits? 155
- IV Providing a rational explanation for 'economically irrational' derivative litigation in Japan 158
  - 1 Demarcating the boundaries between rational and irrational behaviour 158
  - 2 Quasi-rational (non-economically motivated) behaviour drives derivative litigation in Japan 160
  - 3 Purely irrational behaviour as a potential driver of derivative litigation in Japan 163
- V Conclusion 168
  - Appendices 170

		CONTENTS
4	Ir in	vigorating shareholder derivative actions South Korea 186
	H	YEOK-JOON RHO AND KON-SIK KIM
	Ι	Introduction 186
	II	<ul> <li>in South Korea 187</li> <li>Background: the shareholding structure and the legal institutions for shareholder protection 187         <ul> <li>a The shareholding structure 187</li> <li>b Legal institutions for shareholder protection: shareholder direct suits and class actions 189</li> </ul> </li> <li>Overview of the structure of a derivative action 192</li> </ul>
	III	Standing for plaintiffs 196  General shareholding requirement under the KCC 196  Double derivative actions 198  a Concept of a double derivative action and a recent Supreme Court case 198  b Analysis: why are double derivative actions necessary in South Korea? 199
	IV	Entrepreneurial lawyers: fees and incentives 200  1 Lack of shareholders' incentives and the role of entrepreneurial lawyers in derivative actions 200  2 Who will pay the plaintiff's lawyer? 201  3 How much will the plaintiff's lawyer be paid? 203  a Limitation on contingency fees 203  b Limitation of directors' liability 205
	V	Regulation of frivolous actions 206  1 Demand requirement 206 a Introduction 206 b A corporation's decision not to sue 207 c A derivative action filed without going through the demand process 207 d Analysis 209  2 Limiting collusive settlements 210
7	/I	A new trend in case law: digression from the passive role model? 211
V	II	Concluding remarks 213

Appendix 214

5	Derivative actions in Taiwan: legal and	cultural hurdles
	with a glimmer of hope for the future	215

WANG RUU TSENG AND WALLACE WEN YEU WANG

- I Introduction 215
- II The legal mechanism for conducting a derivative action: requirements for maintaining a derivative action 216
  - 1 The shareholder rules 219
  - 2 The 'continuing ownership' rule 220
  - 3 The 'security for damages or costs' rule 220
- III The ambiguity of civil procedure in Taiwanese derivative actions 223
  - 1 Notification of and intervening in a derivative action 224
  - 2 Ambiguity in an involuntary decrease in a plaintiff's shareholdings 225
  - 3 The binding effect of settlements in derivative actions 227
  - 4 Court fees in derivative actions: a flat rate or a percentage? 227
- IV Derivative actions versus direct suits 228
- V The relationship between culture, institutional background and the derivative action 230
  - 1 The controlling shareholder system 230
  - 2 Weak company code 231
  - 3 Emphasis on criminal/administrative sanctions 233
  - 4 Taiwan's legal culture 233
  - 5 Paternalism and mass dispute resolution: 'Asian values' after all? 234
- VI The impact of the derivative action on corporate governance 235
- VII The perception of the derivative action and professional services in the marketplace 237
- VIII Idiosyncrasies in derivative actions: the role of the government-sanctioned non-profit organization 240
  - IX Concluding remarks 241

		CONTENTS
6	Pa	way to minority shareholder protection: derivative ns in the People's Republic of China 243
	DO	ALD C. CLARKE AND NICHOLAS C. HOWSON
	I	ntroduction 243
	II	conomic and legal reform in the PRC and the derivative ction 244
		Introduction: the derivative lawsuit and corporate governance i the Chinese context 244
		Corporatization and its effects 245
		The LLC form and other non-Company-Law forms 249

- 4 The legal representative 253
- 5 The Chinese judiciary: local protectionism, Party control and the avoidance of 'mass' litigant cases 254
- 6 Derivative versus representative 257
- 7 Costs, cost allocation and cost-benefit analysis for shareholder plaintiffs 258

## III Derivative actions before 2006 260

- Non-statutory rule making: CSRC principles, SPC utterances, local 'opinions', and the (draft) 'Omnibus' regulation on the 1994 Company Law 260
- 2 Pre-2006 cases 263
  - Genesis of the 1994 SPC Approving Response and other LLC cases 263
  - b Widely held companies 267
- IV The 2006 Company Law and statutory authorization for derivative actions 269
  - 1 Standing 270
  - 2 Demand 272
  - 3 Defendants and associated causes of action 273
- V The reality of derivative actions in the PRC from 1 January 2006 to date 275
  - 1 Absence of CLS or publicly listed CLS-related cases 275
  - 2 'Straddling' actions: 2006 Company Law application to pre-2006 transactions 278
  - 3 Avoidance of derivative pleadings 279
  - 4 Autonomy and acceptance 280
  - 5 Technical competence 282
  - 6 Difficulties regarding underlying substantive claims 284

		7 Confusion between derivative and representative lawsuits 286 8 Judge-made direct litigation right for supervisors 286 9 Allocation of court fees and 'loser pays all' 287
	VI	Critique of article 152 and reform suggestions 288
	VII	Conclusion 293
7	-	parallel path to shareholder remedies: Hong Kong's rivative actions 296
	PA	UL VON NESSEN, S.H. GOO AND CHEE KEONG
	LO	w
	I	Introduction 296
	II	The common law derivative action: <i>Foss</i> v. <i>Harbottle</i> and its exceptions 297
	III	The reform process in Hong Kong 304  1 The consultancy report 304  2 The report of the Standing Committee on Company Law Reform 305  3 The SCCLR corporate governance consultation paper (July 2001) 307  4 Companies (Amendments) Bill 2003 308
	IV	How successful is Hong Kong's statutory derivative action? 310  1 The judicial pronouncements 311  2 Coexistence with the common law 315  3 Should Hong Kong adopt the British reforms? 319  4 Conclusions and observations on future success 321
8	int	rivative actions in Singapore: mundanely non-Asian, riguingly non-American and at the forefront of the mmonwealth 323
	I	Introduction 323
	II	Law of minority protection 326  1 History and development 326  a English tradition and seeds of change 326  b Development of company law 328  c Evolution of minority protection law 330

9

	2	a Introduction 331 b Critique 332 c Conclusion 336
	3	Statutory derivative action 336 a Impetus for reform 336 b Scope 338 c The law 341
	4	Personal right, corporate right and section 216 348 a Introduction 348 b Giving corporate relief under section 216 349
	5	Conclusion 351
III	D	ebunking Western stereotypes 351
	1	Western stereotypes of Singapore 351
	2	Realities 354  a The evolution of Singapore society and the concurrent rise in shareholder litigation 354  b Singapore's shareholder litigation defies the 'nanny state' and 'Asian values' stereotypes 359
IV	In	triguingly non-American in its success 365
Th an	e ra d co	rity of derivative actions in India: reasons nsequences 369
	K R A R O T	MADITYA KHANNA AND UMAKANTH TIL
I	Int	roduction 369
II	W]	ny have derivative actions? 371
	1	The desirability of derivative suits to enforce corporate laws 371
	2	Application to the Indian context 378
III	Th	e derivative action in India 380
		Foss v. Harbottle and its exceptions 381  a Ultra vires transactions or illegality 382  b Matters requiring special resolution 382  c Fraud on the minority 382  Procedural constraints 383  a The 'clean hands' doctrine 384
		b Order I, rule 8, Civil Procedure Code 1908 384

## CONTENTS

	3 Availability of other remedies 386 a Oppression and mismanagement 386 b Securities laws and SEBI 388	
	4 Other constraints 390 a Directors' duties 390 b Controlling shareholders' duties 391 c Cultural concerns 392 d Costs 393	
	IV Recent developments and reform efforts 394	
	V Conclusions and recommendations for the future	396
10	The derivative action in Asia: some concluding observations 398  DAN W. PUCHNIAK AND HARALD BAUM	
	Legislative appendix 404 Bibliography 422 Index 443	