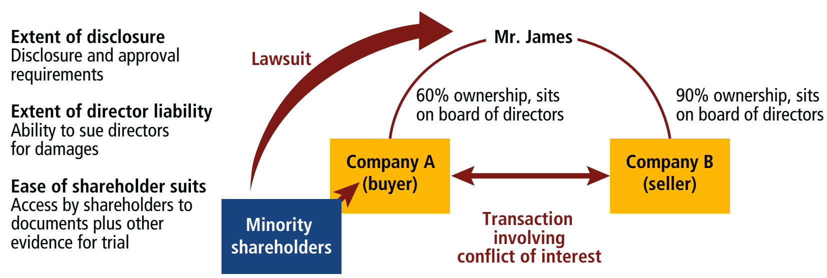
Protecting investors

On December 15, 2010, after 11 months of legal standoff, the Swiss corporation Novartis finally closed a deal to acquire the remaining shares of eye-care company Alcon from minority shareholders. Why did it take almost a year? The acquisition had become a related-party transaction after Novartis purchased a 25% stake from then majority shareholder Nestlé and nominated some of its own directors to Alcon's board. Minority shareholders therefore claimed that the deal required the approval of a committee of independent directors. The parties finally reached an agreement when Novartis increased its offer to a level that minority shareholders deemed fair.[1]

Doing Business measures the strength of legal protections of minority investors against misuse of corporate assets by company directors for their personal gain. The indicators distinguish 3 dimensions of investor protections: rules on the approval and disclosure of related-party transactions (extent of disclosure index), liability of company executives for self-dealing (extent of director liability index) and shareholders' ability to access corporate information before and during litigation (ease of shareholder suits index). The standard case study assumes a related-party transaction between Company A ("Buyer") and Company B ("Seller") where "Mr. James" is the controlling shareholder of both Buyer and Seller and a member of both their boards of directors. The transaction is overpriced and causes damages to Buyer (figure 1).

FIGURE 1 How well are minority shareholders protected against self-dealing in related-party transactions?



The ranking on the strength of investor protection index is the simple average of the percentile rankings on the extent of disclosure, extent of director liability and ease of shareholder suits indices. A higher ranking indicates that an economy's regulations offer stronger investor protections against self-dealing in the areas measured. The indicator does not measure all aspects related to the protection of minority investors, such as dilution of share value or insider trading. Nor does it measure the dynamism of capital markets or protections specific to foreign investors.

This year, for the seventh year in a row, New Zealand ranks highest on the strength of investor protection index, showing that it protects minority investors the most (table 1).

WHY DO MINORITY INVESTOR PROTECTIONS MATTER?

One of the most important issues in corporate governance is self-dealing—the use of corporate assets by company insiders for personal gain. Related-party transactions are the most common example. High ownership concentration and informal business relations can create the perfect environment for such transactions, which allow controlling shareholders to profit at the expense of the company's financial health—whether because company assets are sold at an excessively low price, assets are purchased at an inflated price or loans are given by the company to controlling shareholders on terms far better than the market offers.

Empirical research shows that stricter regulation of self-dealing is associated with greater equity investment and lower concentration of ownership.[2] This is in line with the

TABLE 1 Where are investors protected—and where not?

Most protected	RANK	Least protected	RANK
New Zealand	1	Gambia, The[b]	174
Singapore	2	Guinea[b]	175
Hong Kong SAR, China	3	Kosovo[b]	176
Malaysia	4	Micronesia, Fed. Sts.[b]	177
Canada[a]	5	Palau[b]	178
Colombia[a]	6	Djibouti[c]	179
Ireland[a]	7	Venezuela, RB[c]	180
Israel[a]	8	Suriname	181
United States[a]	9	Lao PDR	182
United Kingdom	10	Afghanistan	183

Note: Rankings are based on the strength of investor protection index. See the data notes for details.

a. Canada, Colombia, Ireland, Israel and the United States are tied in the rankings.

b. The Gambia, Guinea, Kosovo, the Federated States of Micronesia and Palau are tied in the rankings.

c. Djibouti and República Bolivariana de Venezuela are tied in the rankings.

Source: Doing Business database.

view that stronger legal protections make minority investors more confident about their investments, reducing the need for concentrated ownership to mitigate weaknesses in corporate governance.

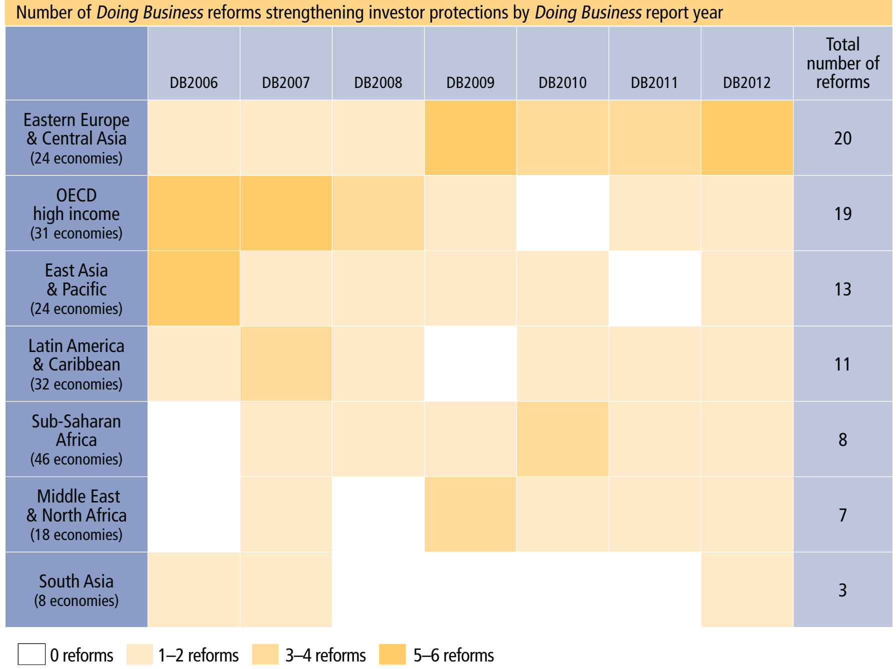
Investor protections matter for the ability of companies to raise the capital needed to grow, innovate, diversify and compete. Without investor protections, equity markets fail to develop and banks become the only source of finance. Economies that have dynamic capital markets tend to effectively protect investors. In these economies investors receive financial information they can trust, they participate in major decisions of the company, and directors are accountable for their managerial decisions. If the laws do not provide such protections, investors may be reluctant to invest, unless they become controlling shareholders.[3]

Minority investor protections can have important implications for firm valuation. Research on 539 large firms in 27 economies shows that firm valuation is higher in economies with good investor protections than in those with poor protections.[4] Other research shows that corporate risk-taking and firm growth rates are positively related to the quality of the system of investor protections. Better systems may lead corporations to undertake riskier but value-enhancing investments.[5]

A study analyzing the effects of related-party transactions on companies listed on the Hong Kong Stock Exchange during 1998–2000 finds that the transactions led to significant losses in value for minority investors. Indeed, the mere announcement of a related-party transaction led to abnormal negative stock returns. The study concludes that investors considered companies with a history of such transactions (even if not prejudicial) to be riskier investments than those with no such history. Another study, looking at 462 Malaysian firms, shows that related-party transactions carried out by family-owned firms are more likely to be used opportunistically to expropriate minority investors.[6]

FIGURE 2 Eastern Europe and Central Asia takes the lead in number of investor protection reforms

Number of *Doing Business* reforms strengthening investor protections by *Doing Business* report year



Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year. The data sample for DB2006 (2005) includes 174 economies. The sample for DB2012 (2011) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies.

Source: Doing Business database.

TABLE 2 Who strengthened investor protections in 2010/11—and what did they do?

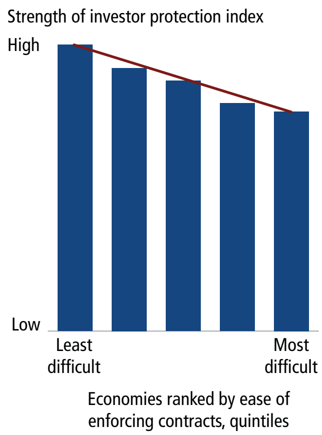
Feature	Economies	Some highlights
Increased disclosure requirements	Belarus; Burundi; Cyprus; Kazakhstan; Lithuania; Sri Lanka	In Sri Lanka the Colombo Stock Exchange amended its listing rules to require immediate disclosure of related-party transactions representing more than 10% of the company's equity or more than 5% of its assets.
Regulated approval of related-party transactions	Burundi; Cyprus; Georgia; Iceland	Burundi adopted a new company act that requires shareholder approval of large related-party transactions.
Allowed access to internal corporate information	El Salvador; Morocco; Peru; Solomon Islands	Peru amended its company law to facilitate access to corporate information for minority investors. El Salvador adopted a new civil procedure code that facilitates access to corporate documentary evidence during the trial and allows direct questioning of parties in a commercial trial.
Made it easier to sue directors	Burundi; Kazakhstan; Vietnam	Kazakhstan clarified the liability regime for company directors involved in prejudicial related-party transactions. Now company directors, if found liable, must pay for the damages caused to the company and disgorge their profits.
Required external review of related-party transactions before they take place	Burundi; Iceland; Kazakhstan	Iceland adopted a new company act that requires review by an independent auditor of the terms of related-party transactions before their approval by a shareholders meeting.

Source: Doing Business database.

WHO REFORMED INVESTOR PROTECTIONS—AND WHAT HAS BEEN DONE?

In the past 7 years 57 economies strengthened their investor protections as measured by *Doing Business*, through 81 legal changes (figure 2). Thirteen did so in 2010/11 (table 2)—a record number of investor protection reforms as recorded by *Doing Business*. Four economies adopted brand-new company legislation, 8 amended existing company or securities legislation, and another 2 adopted new civil procedure rules. Burundi strengthened its legal framework for investor protections the most. It adopted a new company act that requires greater corporate disclosure

FIGURE 3 Efficient court systems and strong investor protections tend to go hand in hand



Note: Relationships are significant at the 1% level after controlling for income per capita.
Source: Doing Business database.

and higher standards of accountability for company directors.

Economies with the strongest protections of minority investors from self-dealing require detailed disclosure, define clear duties for directors, offer wide access to corporate information and provide procedural rules that give minority investors the means to prove their case. While the *Doing Business* protecting investors indicators focus on laws and stock market regulations, protections for minority investors are not only about legislation. They are also about institutions and a robust enforcement system: securities commissions that ensure the correct implementation of regulations on transparency and well-functioning courts that allow investors to obtain a judgment within a reasonable time.[7] Globally, stronger investor protections are associated with more efficient court systems (figure 3).

In regulating self-dealing, both ex ante protections (extensive disclosure and approval requirements) and ex post measures (rights of action for minority investors) are important. Some economies require extensive disclosure requirements but do not feature an equally strong director liability regime or easy access to internal corporate information during trial. Those that perform particularly well in one area, such as Bulgaria, Cambodia, France and Kenya, could therefore further strengthen protections through actions targeting the other aspects of minority shareholder rights.

Ensuring transparency in related-party transactions

Fifty-two of the 183 economies covered by *Doing Business* stand out for the strictest rules on disclosure of related-party transactions (both before and after the conclusion of the transaction). These include France, New Zealand, Singapore and Albania (table 3). Corporate scandals, investor activism, the global financial crisis and unification of accounting standards have prompted governments around the world to strengthen disclosure requirements.[8] Not surprisingly, this was the most common feature in investor protection reforms in the past 7 years, accounting for 39 of the total and 6 of the 13 in the past year. More than 10 economies worldwide, including Honduras and Sudan, do not require disclosure of large related-party transactions.

In the past year 6 economies—Belarus, Burundi, Cyprus, Kazakhstan, Lithuania and Sri Lanka—introduced legal provisions regulating disclosure of related-party transactions. Why does it matter? Providing reliable information on company dealings allows investors to monitor the activities of companies and assess the performance of their management. The OECD corporate governance principles build on the premise that solid disclosure attracts capital and maintains confidence in capital markets.[9] Corporate disclosure also has important implications for the valuation of companies. Empirical research shows that companies that disclose related-party transactions have a higher stock exchange valuation than those that do not.[10] A recent study looks at how investors reacted to the announcement by the U.S. Securities and Exchange Commission in 2007 that it would allow foreign firms listed in the United States to more easily deregister their shares and thereby opt out of U.S. reporting requirements. The study finds that the stock market reaction was negative for firms from economies with weak disclosure and governance regimes—but insignificant for those located in economies with strong investor protections.[11]

In several economies increased protections are benefiting greater numbers of investors thanks to growth in the number of enforcement cases uncovering prejudicial transactions. In Thailand since 2005, more than 85 transactions that failed to comply with the disclosure standards have been suspended while the Thai regulator requests clarification. Thirteen of these were deemed to be prejudicial and were therefore canceled, in each case preventing damage to the

TABLE 3 Who provides strong minority investor protections—and who does not?

Extent of disclosure index (0–10)			
Most		Least	
Bulgaria	10	Afghanistan	1
China	10	Bolivia	1
France	10	Cape Verde	1
Hong Kong SAR, China	10	Croatia	1
Indonesia	10	Honduras	0
Ireland	10	Maldives	0
Malaysia	10	Micronesia, Fed. Sts.	0
New Zealand	10	Palau	0
Singapore	10	Sudan	0
Thailand	10	Switzerland	0

Extent of director liability index (0–10)			
Most		Least	
Albania	9	Afghanistan	1
Cambodia	9	Belarus	1
Canada	9	Benin	1
Israel	9	Bulgaria	1
Malaysia	9	Zimbabwe	1
New Zealand	9	El Salvador	0
Rwanda	9	Marshall Islands	0
Singapore	9	Micronesia, Fed. Sts.	0
Slovenia	9	Palau	0
United States	9	Suriname	0

Ease of shareholder suits index (0–10)			
Easiest		Most difficult	
Kenya	10	Lao PDR	2
New Zealand	10	Senegal	2
Colombia	9	Syrian Arab Republic	2
Hong Kong SAR, China	9	United Arab Emirates	2
Ireland	9	Venezuela, RB	2
Israel	9	Yemen, Rep.	2
Mauritius	9	Afghanistan	1
Poland	9	Guinea	1
Singapore	9	Djibouti	0
United States	9	Iran, Islamic Rep.	0

Source: Doing Business database.

company and preserving its value.[12] In the same period the Malaysian securities commission has sanctioned more than 100 companies for noncompliance with disclosure requirements.[13]

Involving disinterested shareholders in the approval of related-party transactions

Sixty economies require shareholder approval of large related-party transactions (table 4). In the past year, 4 economies—Burundi, Cyprus, Georgia and Iceland—introduced provisions on approval of related-party transactions.

Such approval mechanisms work well only if the law does not allow many exceptions and if the approval is required at the time of the transaction. Other features can also strengthen shareholder approval provisions. Twenty-five of the 60 economies requiring approval of related-party transactions by disinterested shareholders also require review of the terms of these transactions by an independent body (such as an independent auditor) before their approval. The independent auditor will provide an opinion on the terms of the transaction that will help shareholders make an informed decision. But 21 economies, including Costa Rica and the Philippines, allow the chief executive officer or whoever is specified in the company statute to approve related-party transactions. In 44 economies, including Azerbaijan, Panama and the United States, these transactions are approved by the board of directors and interested parties are allowed to vote.

Making directors accountable for their actions

Economies with the strongest protections (figure 4) regulate not only disclosure and approval of related-party transactions but also set out clear rules of accountability for company directors when such transactions turn out to be prejudicial. Directors need clear rules to fulfill their responsibilities effectively. In the past year only 2 economies—Burundi and Kazakhstan—introduced clear rules on the liability of company directors in case of prejudicial related-party transactions.

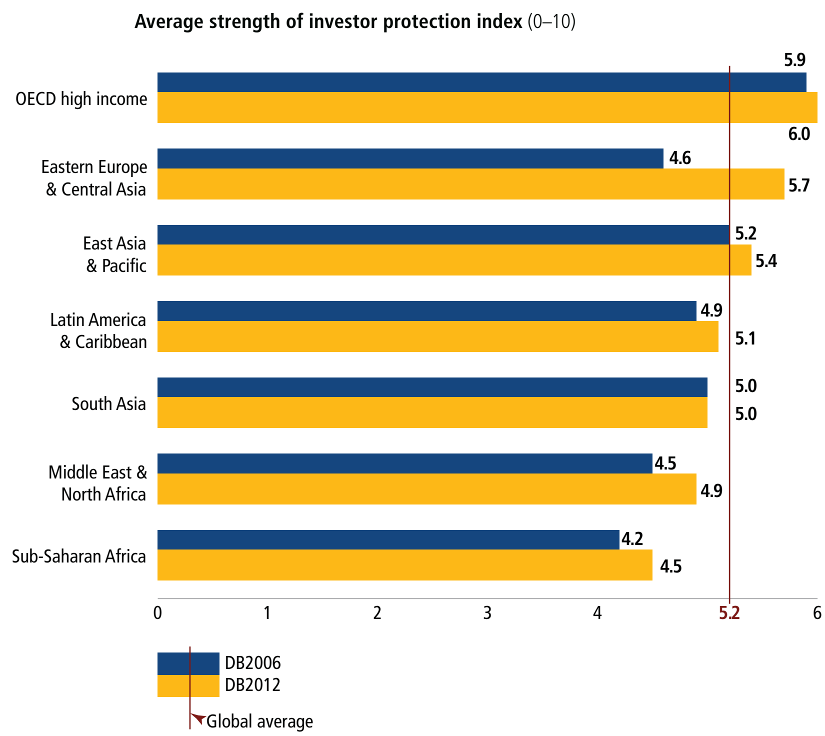
Only 45 of the 183 economies covered by *Doing Business* have clear rules on the liability of company directors in case of abusive related-party transactions. Among those 45, economies take different approaches. Some have a clear catalogue of rights and duties of directors, while others have a special regime of liability for directors in the event of an abusive related-party transaction. Those that prescribe clear rights and duties of directors include Canada, Mexico and the United Arab Emirates, which have rules encouraging directors to be prudent in the company's day-to-day management. Thirty-five economies, including Bulgaria and China, do not clearly stipulate the liability of directors for abusive related-party transactions. In those economies, as long as the interested parties comply with requirements for disclosure and approval of related-party transactions, they are not liable for any harm that results. The other 103 economies have rules on the liability of directors, but often with loopholes.

TABLE 4 Good practices around the world in protecting investors

Practice	Economies[a]	Examples
Allowing rescission of prejudicial related-party transactions	70	Brazil; Mauritius; Rwanda; United States
Regulating approval of related-party transactions	60	France; Iceland; Indonesia; Lebanon; United Kingdom
Requiring detailed disclosure	52	Hong Kong SAR, China; Israel; New Zealand; Singapore
Allowing access to all corporate documents during the trial	45	Chile; Ireland; Morocco; Peru; Poland
Defining clear duties for directors in case of related-party transactions	45	Colombia; Malaysia; Mexico; United States; Vietnam
Requiring external review of related-party transactions	41	Australia; Burundi; Arab Republic of Egypt; Norway
Allowing access to all corporate documents *before* the trial	31	Greece; Japan; South Africa; Sweden

a. Among 183 economies surveyed.
Source: Doing Business database.

FIGURE 4 Strongest investor protections in OECD high-income economies



Note: The data sample for DB2006 (2005) includes 174 economies. The sample for DB2012 (2011) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies. DB2006 data are adjusted for any data revisions and changes in methodology and regional classifications of economies.
Source: Doing Business database.

Facilitating access to corporate documents

Rights of minority investors cannot be protected without easy access to corporate information. Without access to documentary evidence, minority investors may find it difficult to prove that directors have been managing the company's affairs improperly. Economies can have good laws, but if access to corporate information and evidence is limited or courts are inefficient, investors are unlikely to resort to judicial options. In the past year 4 economies—El Salvador, Morocco, Peru and the Solomon Islands—introduced provisions facilitating investors' access to corporate documents before and during a trial relating to director liability.

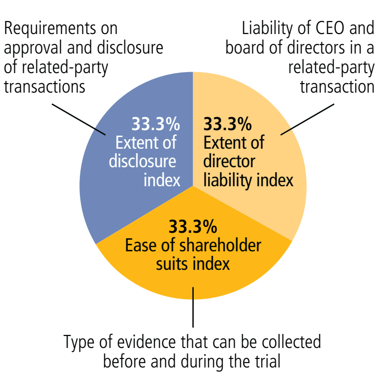
Only 15 of the 183 economies covered by *Doing Business*, including Israel and Japan, permit full access to documentary evidence both before and during the trial. More than 30 economies—including Canada, the Dominican Republic and Hong Kong SAR, China—allow shareholders access to any corporate document they require, but only before the trial. Cyprus, France and the United Kingdom allow shareholders to request the appointment of a government inspector with full powers to verify and obtain copies of any corporate document. El Salvador, Kazakhstan, New Zealand and South Africa require that all company documents related to the case be open for inspection during the trial. Mauritania, the Syrian Arab Republic and the Republic of Yemen permit limited or no access to evidence during the trial, making it virtually impossible for minority investors to prove their case.

DATA NOTES ON PROTECTING INVESTORS

Doing Business measures the strength of minority shareholder protections against directors' misuse of corporate assets for personal gain. The indicators distinguish 3 dimensions of investor protections: transparency of related-party transactions (extent of disclosure index), liability for self-dealing (extent of director liability index) and shareholders' ability to sue officers and directors for misconduct (ease of shareholder suits index). The data come from a survey of corporate and securities lawyers and are based on securities regulations, company laws, civil procedure codes and court rules of evidence. The ranking on the strength of investor protection index is the simple average of the percentile rankings on its component indicators (figure A.1).

FIGURE A.1 Protecting investors: minority shareholder rights in related-party transactions

Rankings are based on 3 indicators



To make the data comparable across economies, several assumptions about the business and the transaction are used.

Assumptions about the business

The business (Buyer):

- Is a publicly traded corporation listed on the economy's most important stock exchange. If the number of publicly traded companies listed on that exchange is less than 10, or if there is no stock exchange in the economy, it is assumed that Buyer is a large private company with multiple shareholders.
- Has a board of directors and a chief executive officer (CEO) who may legally act on behalf of Buyer where permitted, even if this is not specifically required by law.
- Is a manufacturing company.
- Has its own distribution network.

Assumptions about the transaction

- Mr. James is Buyer's controlling shareholder and a member of Buyer's board of directors. He owns 60% of Buyer and elected 2 directors to Buyer's 5-member board.
- Mr. James also owns 90% of Seller, a company that operates a chain of retail hardware stores. Seller recently closed a large number of its stores.
- Mr. James proposes that Buyer purchase Seller's unused fleet of trucks to expand Buyer's distribution of its food products, a proposal to which Buyer agrees. The price is equal to 10% of Buyer's assets and is higher than the market value.
- The proposed transaction is part of the company's ordinary course of business and is not outside the authority of the company.
- Buyer enters into the transaction. All required approvals are obtained, and all required disclosures made (that is, the transaction is not fraudulent).
- The transaction causes damages to Buyer. Shareholders sue Mr. James and the other parties that approved the transaction.

Extent of disclosure index

The extent of disclosure index has 5 components (table A.1):

- Which corporate body can provide legally sufficient approval for the transaction. A score of 0 is assigned if it is the CEO or the managing director alone; 1 if the board of directors or shareholders must vote and Mr. James is permitted to vote; 2 if the board of directors must vote and Mr. James is not permitted to vote; 3 if shareholders must vote and Mr. James is not permitted to vote.
- Whether immediate disclosure of the transaction to the public, the regulator or the shareholders is required.[14] A score of 0 is assigned if no disclosure is required; 1 if disclosure on the terms of the transaction is required but not on Mr. James's conflict of interest; 2 if disclosure on both the terms and Mr. James's conflict of interest is required.
- Whether disclosure in the annual report is

required. A score of 0 is assigned if no disclosure on the transaction is required; 1 if disclosure on the terms of the transaction is required but not on Mr. James's conflict of interest; 2 if disclosure on both the terms and Mr. James's conflict of interest is required.

- Whether disclosure by Mr. James to the board of directors is required. A score of 0 is assigned if no disclosure is required; 1 if a general disclosure of the existence of a conflict of interest is required without any specifics; 2 if full disclosure of all material facts relating to Mr. James's interest in the Buyer-Seller transaction is required.
- Whether it is required that an external body, for example, an external auditor, review the transaction before it takes place. A score of 0 is assigned if no; 1 if yes.

The index ranges from 0 to 10, with higher values indicating greater disclosure. In Poland, for example, the board of directors must approve the transaction and Mr. James is not allowed to vote (a score of 2). Buyer is required to disclose immediately all information affecting the stock price, including the conflict of interest (a score of 2). In its annual report Buyer must also disclose the terms of the transaction and Mr. James's ownership in Buyer and Seller (a score of 2). Before the transaction Mr. James must disclose his conflict of interest to the other directors, but he is not required to provide specific information about it (a score of 1). Poland does not require an external body to review the transaction (a score of 0). Adding these numbers gives Poland a score of 7 on the extent of disclosure index.

TABLE A.1	What do the protecting investors indicators measure?
Extent of disclosure index (0–10)	
Who can approve related-party transactions	
Disclosure requirements in case of related-party transactions	
Extent of director liability index (0–10)	
Ability of shareholders to hold interested parties and members of the approving body liable in case of related-party transactions	
Available legal remedies (damages, repayment of profits, fines and imprisonment)	
Ability of shareholders to sue directly or derivatively	
Ease of shareholder suits index (0–10)	
Direct access to internal documents of the company and use of a government inspector without filing suit in court	
Documents and information available during trial	
Strength of investor protection index (0–10)	
Simple average of the extent of disclosure, extent of director liability and ease of shareholder suits indices	

Extent of director liability index

The extent of director liability index has 7 components:[15]

- Whether a shareholder plaintiff is able to hold Mr. James liable for the damage the Buyer-Seller transaction causes to the company. A score of 0 is assigned if Mr. James cannot be held liable or can be held liable only for fraud or bad faith; 1 if Mr. James can be held liable only if he influenced the approval of the transaction or was negligent; 2 if Mr. James can be held liable when the transaction is unfair or prejudicial to the other shareholders.
- Whether a shareholder plaintiff is able to hold the approving body (the CEO or the members of the board of directors) liable for the damage the transaction causes to the company. A score of 0 is assigned if the approving body cannot be held liable or can be held liable only for fraud or bad faith; 1 if the approving body can be held liable for negligence; 2 if the approving body can be held liable when the transaction is unfair or prejudicial to the other shareholders.
- Whether a court can void the transaction upon a successful claim by a shareholder plaintiff. A score of 0 is assigned if rescission is unavailable or is available only in case of fraud or bad faith; 1 if rescission is available when the transaction is oppressive or prejudicial to the other shareholders; 2 if rescission is available when the transaction is unfair or entails a conflict of interest.
- Whether Mr. James pays damages for the harm caused to the company upon a successful claim by the shareholder plaintiff. A score of 0 is assigned if no; 1 if yes.
- Whether Mr. James repays profits made from the transaction upon a successful claim by the shareholder plaintiff. A score of 0 is assigned if no; 1 if yes.
- Whether both fines and imprisonment can be applied against Mr. James. A score of 0 is assigned if no; 1 if yes.
- Whether shareholder plaintiffs are able to sue directly or derivatively for the damage the transaction causes to the company. A score of 0 is assigned if suits are unavailable or are available only for shareholders holding more than 10% of the company's share capital; 1 if direct or derivative suits are available for shareholders holding 10% or less of share capital.

The index ranges from 0 to 10, with higher values indicating greater liability of directors. Assuming that the prejudicial transaction was duly approved and disclosed, in order to hold Mr. James liable in Panama, for example, a plaintiff must prove that Mr. James influenced the approving body or acted negligently (a score of 1). To hold the other directors liable, a plaintiff must prove that they acted negligently (a score of 1). The prejudicial transaction cannot be voided (a score of 0). If Mr. James is found liable, he must pay damages (a score of 1) but he is not required to disgorge his profits (a score of 0). Mr. James cannot be fined and imprisoned (a score of 0). Direct or derivative suits are available for shareholders holding 10% or less of share capital (a score of 1). Adding these numbers gives Panama a score of 4 on the extent of director liability index.

Ease of shareholder suits index

The ease of shareholder suits index has 6 components:

- What range of documents is available to the shareholder plaintiff from the defendant and witnesses during trial. A score of 1 is assigned for each of the following types of documents available: information that the defendant has indicated he intends to rely on for his defense; information that directly proves specific facts in the plaintiff's claim; any information relevant to the subject matter of the claim; and any information that may lead to the discovery of relevant information.
- Whether the plaintiff can directly examine the defendant and witnesses during trial. A score of 0 is assigned if no; 1 if yes, with prior approval of the questions by the judge; 2 if yes, without prior approval.
- Whether the plaintiff can obtain categories of relevant documents from the defendant without identifying each

document specifically. A score of 0 is assigned if no; 1 if yes.

- Whether shareholders owning 10% or less of the company's share capital can request that a government inspector investigate the Buyer-Seller transaction without filing suit in court. A score of 0 is assigned if no; 1 if yes.
- Whether shareholders owning 10% or less of the company's share capital have the right to inspect the transaction documents before filing suit. A score of 0 is assigned if no; 1 if yes.
- Whether the standard of proof for civil suits is lower than that for a criminal case. A score of 0 is assigned if no; 1 if yes.

The index ranges from 0 to 10, with higher values indicating greater powers of shareholders to challenge the transaction. In Greece, for example, the plaintiff can access documents that the defendant intends to rely on for his defense and that directly prove facts in the plaintiff's claim (a score of 2). The plaintiff can examine the defendant and witnesses during trial, though only with prior approval of the questions by the court (a score of 1). The plaintiff must specifically identify the documents being sought (for example, the Buyer-Seller purchase agreement of July 15, 2006) and cannot just request categories (for example, all documents related to the transaction) (a score of 0). A shareholder holding 5% of Buyer's shares can request that a government inspector review suspected mismanagement by Mr. James and the CEO without filing suit in court (a score of 1). Any shareholder can inspect the transaction documents before deciding whether to sue (a score of 1). The standard of proof for civil suits is the same as that for a criminal case (a score of 0). Adding these numbers gives Greece a score of 5 on the ease of shareholder suits index.

Strength of investor protection index

The strength of investor protection index is the average of the extent of disclosure index, the extent of director liability index and the ease of shareholder suits index. The index ranges from 0 to 10, with higher values indicating more investor protection.

The data details on protecting investors can be found for each economy at http://www.doingbusiness.org by selecting the economy in the drop-down list. This methodology was developed in Djankov and others (2008).

NOTES

1. Agustino Fontevecchia, "Novartis Is Eye-Care King after Acquiring Alcon," *Forbes.com*, December 15, 2010. http://www.forbes.com/2010/12/15/novartis-alcon-pfizer-markets-equities-pharma.html.
2. Djankov and others 2008.
3. Dahya, Dimitrov and McConnell 2008.
4. La Porta and others 2002.
5. John, Litov and Yeung 2008.
6. Munir and Gul 2010.
7. See, for example, Ford (2005); Ahdieh (2003); Black (2001); and Mahoney (1997).
8. Among 152 economies surveyed, 107 permit or require the use of International Financial Reporting Standards through company laws and accounting laws. Adoption rates are high among OECD high-income economies, in Eastern Europe and in Latin America and the Caribbean.
9. OECD 2004.
10. Kohlbeck and Mayhew 2010.
11. Fernandes, Lel and Miller 2010.
12. Information provided by the Securities and Exchange Commission of Thailand.
13. Information provided by Securities Commission Malaysia.
14. This question is usually regulated by stock exchange or securities laws. Points are awarded only to economies with more than 10 listed firms in their most important stock exchange.
15. When evaluating the regime of liability for company directors for a prejudicial related-party transaction, *Doing Business* assumes that the transaction was duly disclosed and approved. *Doing Business* does not measure director liability in the event of fraud.

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