



CORNERSTONE RESEARCH

Economic and Financial Consulting and Expert Testimony

Accounting Class Action Filings and Settlements

2021 Review and Analysis

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Executive Summary

Reversing a three-year trend, the number of securities class action filings involving accounting allegations dropped in 2021. Filings referencing financial statement restatements and/or allegations of internal control weaknesses declined to the lowest level in 10 years.

In addition, the total value of all accounting case settlements fell to the lowest level over the last decade, reflecting both a drop in the number of settlements as well as a decline in settlement size.

- There were 46 securities class action filings involving accounting allegations (accounting case filings) during 2021, well below the historical average of 61 and the second-lowest level in the last 10 years.¹ (page 2)
- Approximately 20% of accounting case filings in 2021 involved special purpose acquisition companies (SPACs). (page 3)
- Allegations related to improper revenue recognition were included in 41% of 2021 accounting case filings, an increase of 11% compared to 2020. (page 2)
- While market capitalization losses for accounting case filings dropped, the trend of accounting case filings against larger defendant firms continued. (page 6)
- There were 33 accounting case settlements in 2021, compared to an average of 43 during 2012–2020. (page 9)
- The total value of all accounting case settlements dropped sharply from \$3.7 billion in 2020 to \$755 million in 2021. (page 10)
- Contributing to the decline in total settlement value, there was only one accounting case mega settlement (a settlement greater than or equal to \$100 million) during 2021. (page 10)
- Despite the decrease in the size of settlements during 2021, the firms involved as issuer defendants were larger, as measured by both market capitalization and total assets. (page 12)

Figure 1: Filings and Settlements Summary Statistics

(Dollars in millions)

	Accounting Cases		Non-Accounting Cases	
	2020	2021	2020	2021
Filings Summary				
Total Number of Filings	70	46	154	146
Total Disclosure Dollar Loss (DDL)	\$70,947	\$29,394	\$184,846	\$230,510
Settlements Summary				
Number of Settlements	38	33	39	54
Total Settlement Value	\$3,712	\$755	\$683	\$1,033
Median Settlement	\$11.3	\$7.5	\$10.6	\$8.4
Average Settlement	\$97.7	\$22.9	\$17.5	\$19.1

Note: Dollar values are adjusted for inflation; 2021 dollar equivalent figures are presented.

Filings

Accounting Case Filings

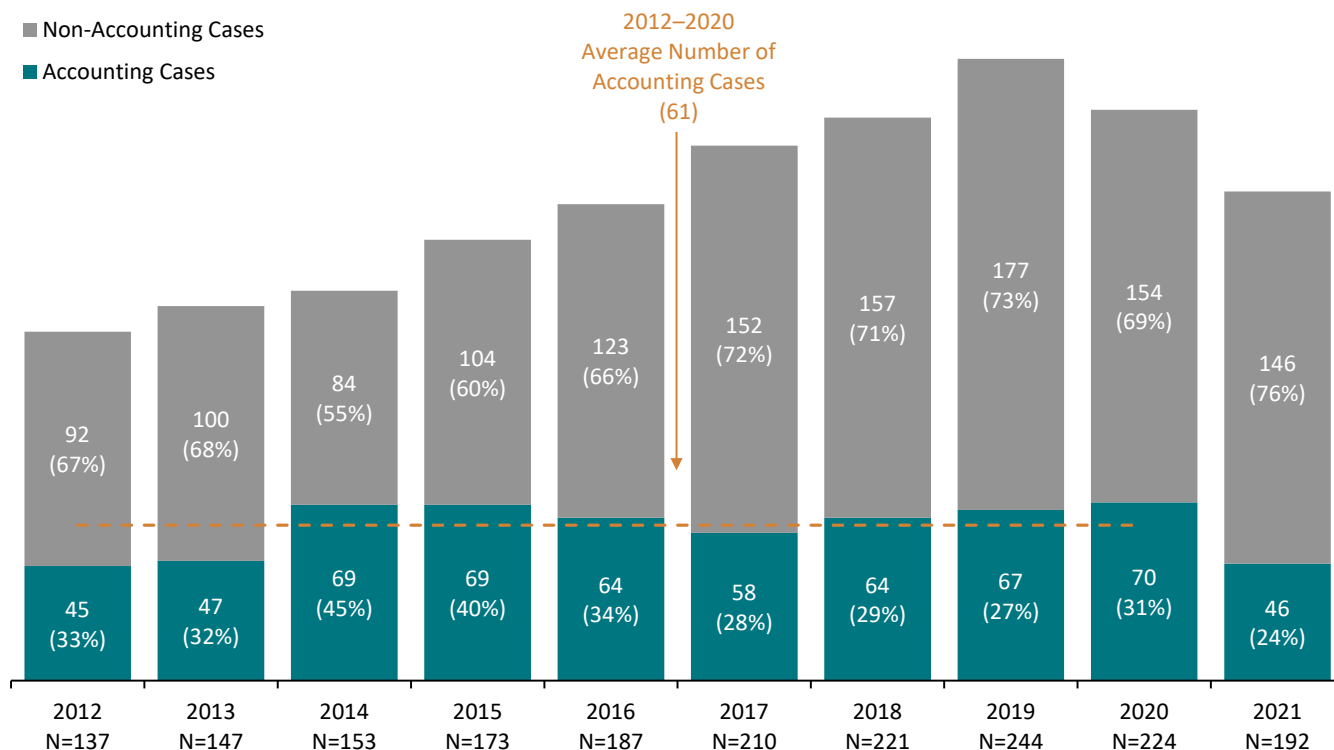
This report focuses on federal securities class action filings containing Rule 10b-5, Section 11, or Section 12(a) claims, referred to as “core” filings.²

- Accounting case filings decreased by 34% from the 2020 filings level, the largest drop over the last 10 years.
- The number of accounting case filings in 2021 was 25% lower than the 2012–2020 average.
- Approximately 37% of accounting case filings in 2021 referenced one or more reports published by short sellers.³

The total number of accounting case filings fell to its lowest level since 2012.

- In 2021, 41% of accounting case filings involved allegations of improper revenue recognition compared to 37% in 2020 and 19% in 2019.

Figure 2: Accounting Case Filings as a Percentage of Total Filings 2012–2021



Spotlight: Accounting Cases Involving SPACs

Special purpose acquisition companies (SPACs) have become an increasingly popular way for private companies to become publicly traded. The process typically proceeds through four phases: (1) the SPAC initial public offering (IPO), when the SPAC becomes public as a shell company; (2) the search for a merger target, which typically involves a definitive time period (e.g., two years); (3) the merger closing, during which time the SPAC sponsor and target company announce the merger, file a proxy statement, and solicit shareholder approval; and (4) the period when the equity of the combined company becomes publicly traded, often referred to as the “De-SPAC” period.

Commentators have cited various reasons for the popularity of SPACs, including the perception of market participants that a private company may have more certainty as to pricing and control over the deal terms through a SPAC as compared to a traditional IPO.⁴ During 2021, there were 613 SPAC IPOs—nearly twice the number of traditional IPOs—and the \$144.5 billion of capital raised was record-setting.⁵

The increased popularity of SPACs has led to certain concerns from regulators. For example, the U.S. Securities and Exchange Commission (SEC) issued an investor bulletin on SPACs highlighting that the increased number of SPACs seeking to acquire an operating business may result in fewer attractive initial acquisitions.⁶ As of December 31, 2021, 575 SPACs were still searching for a merger target.⁷

The SEC has also highlighted concerns related to financial accounting and reporting issues that SPACs may face. For example, the SEC’s Acting Chief Accountant, Paul Munter, issued a statement on March 31, 2021, that raised questions about whether private company targets have the people and processes in place and the time that is needed to successfully transition to public company reporting requirements. Mr. Munter highlighted examples of complex financial accounting and reporting issues, including accounting for complex financial instruments and the need to comply with public company requirements for reporting on internal controls.⁸ Shortly after his March 31 statement, Mr. Munter and John Coates, the Acting Director of the SEC’s Division of Corporation Finance, issued a statement on April 12, 2021, that addressed accounting and reporting considerations for warrants issued by SPACs.⁹ The statement resulted in almost 500 SPACs restating their accounting for warrants by June 22, nearly all of which identified a material weakness in internal controls.¹⁰

During 2019 and 2020, only a handful of federal securities class actions involving SPACs were filed, but in 2021, federal filings involving SPACs became the dominant filing trend.¹¹ Consistent with that overall trend, SPAC filings that include accounting allegations tripled in 2021 as compared to the prior year.

There are several trends in SPAC cases involving accounting issues that we have observed over the past three years:

- Approximately one in three initial complaints involving SPACs from 2019 through 2021 included accounting issues.
- Three law firms—The Rosen Law Firm, Glancy Prongay & Murray LLP, and Pomerantz LLP—were associated with almost 80% of accounting case filings involving SPACs from 2019 through 2021.
- Short-seller reports were commonly cited in cases involving SPACs. However, those reports were cited over one and a half times more often in accounting cases as compared with non-accounting cases filed during 2019 through 2021.
- The median filing lag after a De-SPAC transaction was much greater in 2019–2020 (450 days) than it was in 2021 (106 days) for accounting case filings from 2019 through 2021 involving SPACs.
- Inappropriate revenue recognition and weaknesses in internal controls were the most common allegations in SPAC accounting cases, followed by allegedly omitted disclosures of related-party transactions.

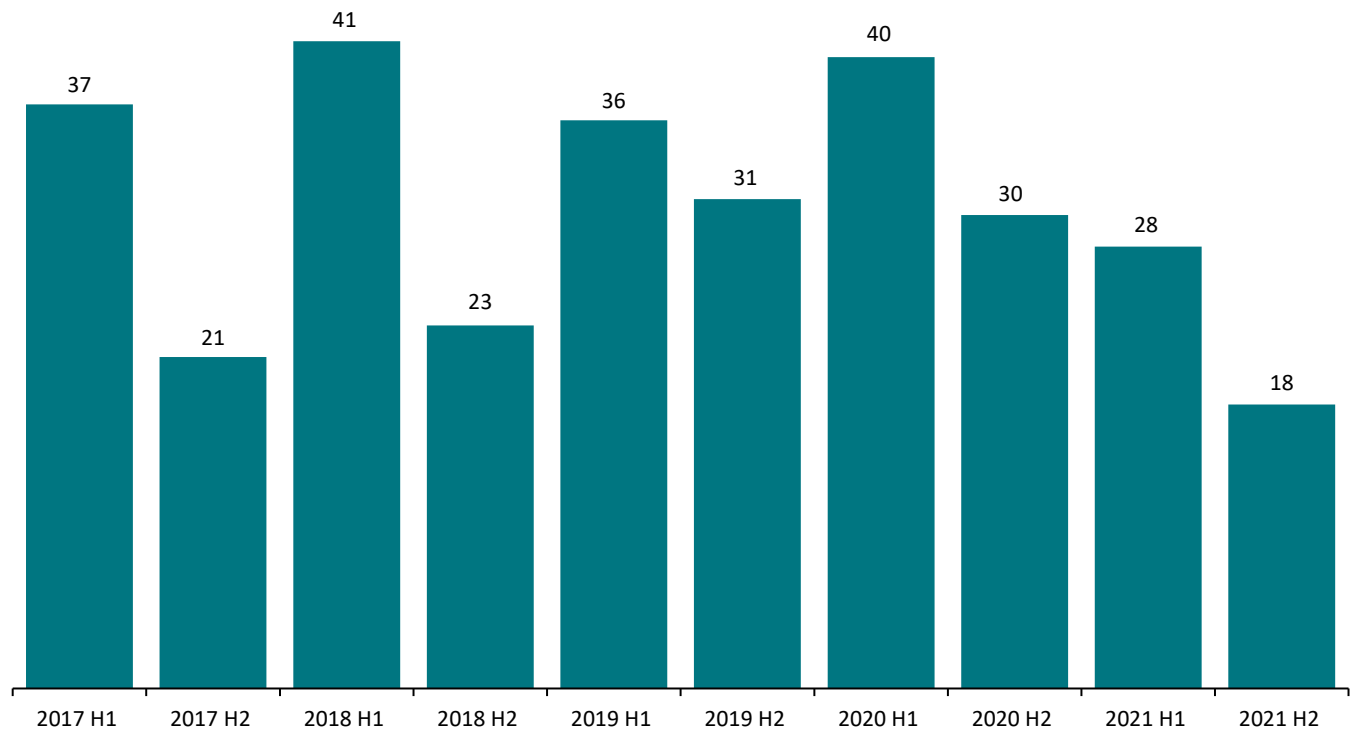
Because filings of SPAC cases have largely occurred very recently, based on our research only one of these cases had reached settlement as of the end of 2021, and this case included accounting allegations. As more of these cases progress, we expect that SPAC cases may play a role in future accounting case settlement trends.

Semiannual Accounting Case Filings

- Accounting case filing activity in both the first and second half of 2021 was lower than any other corresponding semiannual period in the last five years.
- For the fifth consecutive year, the pace of accounting case filings was lower in the second half of the year.
- Although there were fewer accounting case filings in the second half of 2021, the DDL for those cases represented more than half of the total DDL for the entire year.

Nearly one in three accounting case filings in the second half of 2021 involved a SPAC.

Figure 3: Semiannual Accounting Case Filings 2017–2021



Accounting Case Filing Lag

This analysis identifies the number of days between the end of the class period and the filing date of an accounting case.

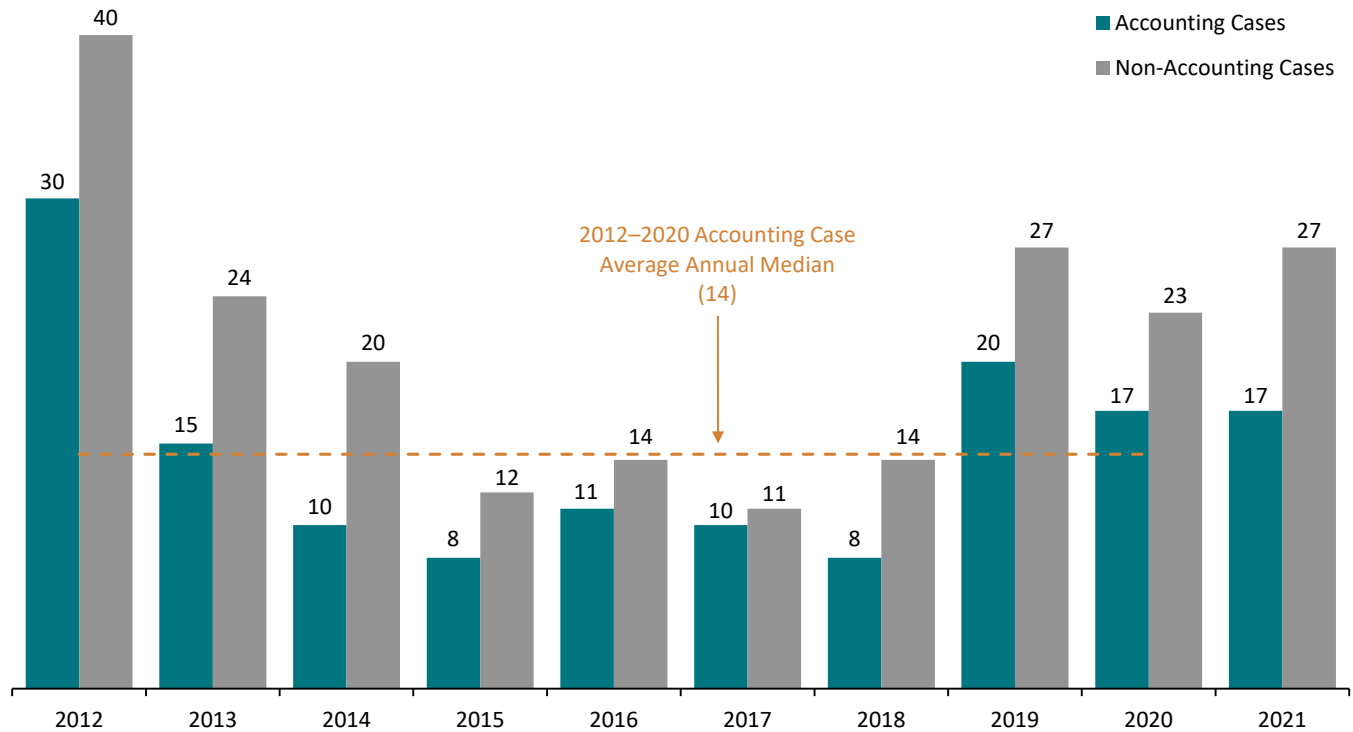
- As in prior years, the median filing lag for accounting cases in 2021 was shorter than the filing lag for non-accounting cases.
- The median filing lag for accounting cases remained constant between the first and second half of 2021, while the median filing lag for non-accounting cases was almost 80% longer in the second half compared to the first half of 2021.

The 10-day difference in median filing lag between accounting cases and non-accounting cases in 2021 was the largest in the last seven years.

- The median filing lag for accounting case filings in 2021 that reference short-seller reports was 10 days, over 55% shorter than those that do not.

Figure 4: Accounting Case Filings and Annual Median Lag between Class Period End Date and Filing Date 2012–2021

(Number of days)



Accounting Case Filings and Market Capitalization Losses

Disclosure Dollar Loss Index® (DDL Index®)

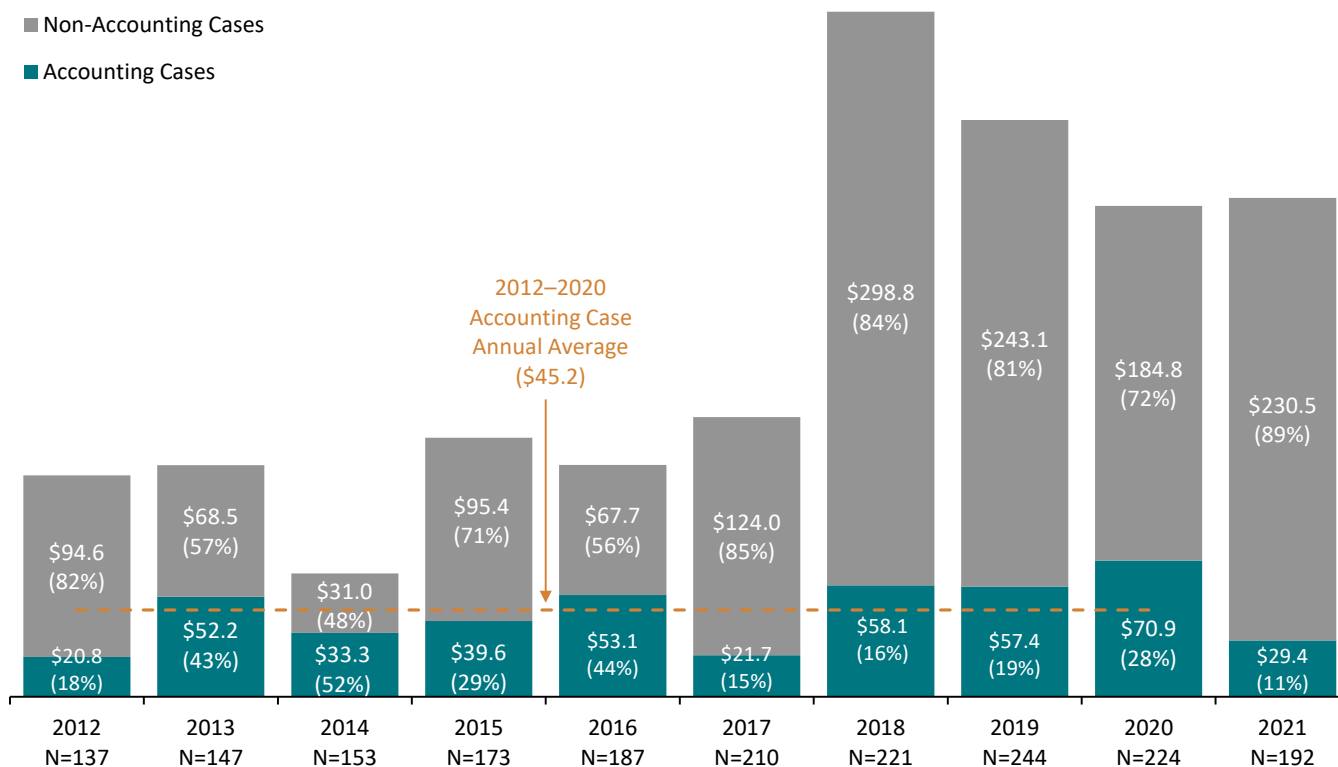
This index measures the aggregate annual DDL for all filings. DDL is the dollar value change in the defendant firm’s market capitalization between the trading day immediately preceding the end of the class period and the trading day immediately following the end of the class period. DDL should not be considered an indicator of liability or measure of potential damages.

The DDL Index for accounting case filings reached its lowest level since 2017.

- The DDL Index for accounting case filings in 2021 was 35% lower than the 2012–2020 annual average DDL for accounting cases.
- In 2021, there was one accounting case filing with a DDL of at least \$5 billion (mega DDL case). The one mega DDL case accounted for approximately one-third of the total accounting case DDL in 2021.
- Of the years in which there was at least one mega DDL case filing, the 2021 total mega DDL Index was the lowest in the last 10 years.

Figure 5: Accounting Case Filings and Disclosure Dollar Loss Index® (DDL Index®) 2012–2021

(Dollars in billions)



Note: DDL dollars are adjusted for inflation; 2021 dollar equivalent figures are presented.

Status of Accounting Case Filings

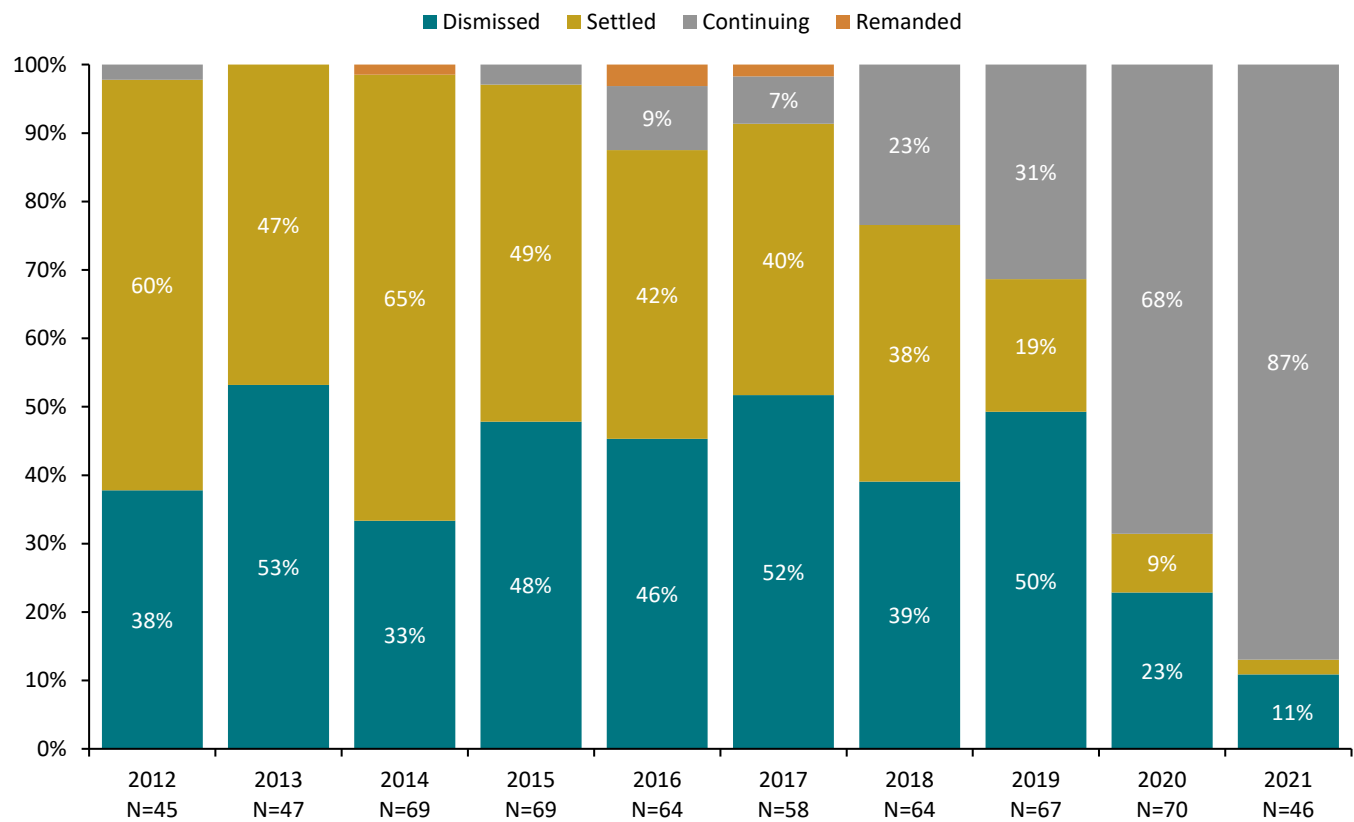
This analysis compares filing groups to determine whether filing outcomes have changed over time. As each cohort ages, a larger percentage of filings are resolved—whether through dismissal, settlement, remand, or trial verdict.

- From 2012 through 2020, 40% of accounting case filings were settled, 42% were dismissed, 17% are continuing, and 1% were remanded.
- More recent cohorts have too many ongoing cases to determine their ultimate dismissal rates. However, the 2019 cohort will end up having a dismissal rate of at least 50% based on the percentage dismissed by the end of 2021.

Accounting cases filed from 2012 through 2020 were almost 20% less likely to be dismissed as compared to non-accounting cases.

- Accounting cases filed from 2012 through 2020 were 31% more likely to settle than non-accounting cases.

Figure 6: Status of Accounting Case Filings by Year 2012–2021



Timing of Dismissals of Accounting Case Filings

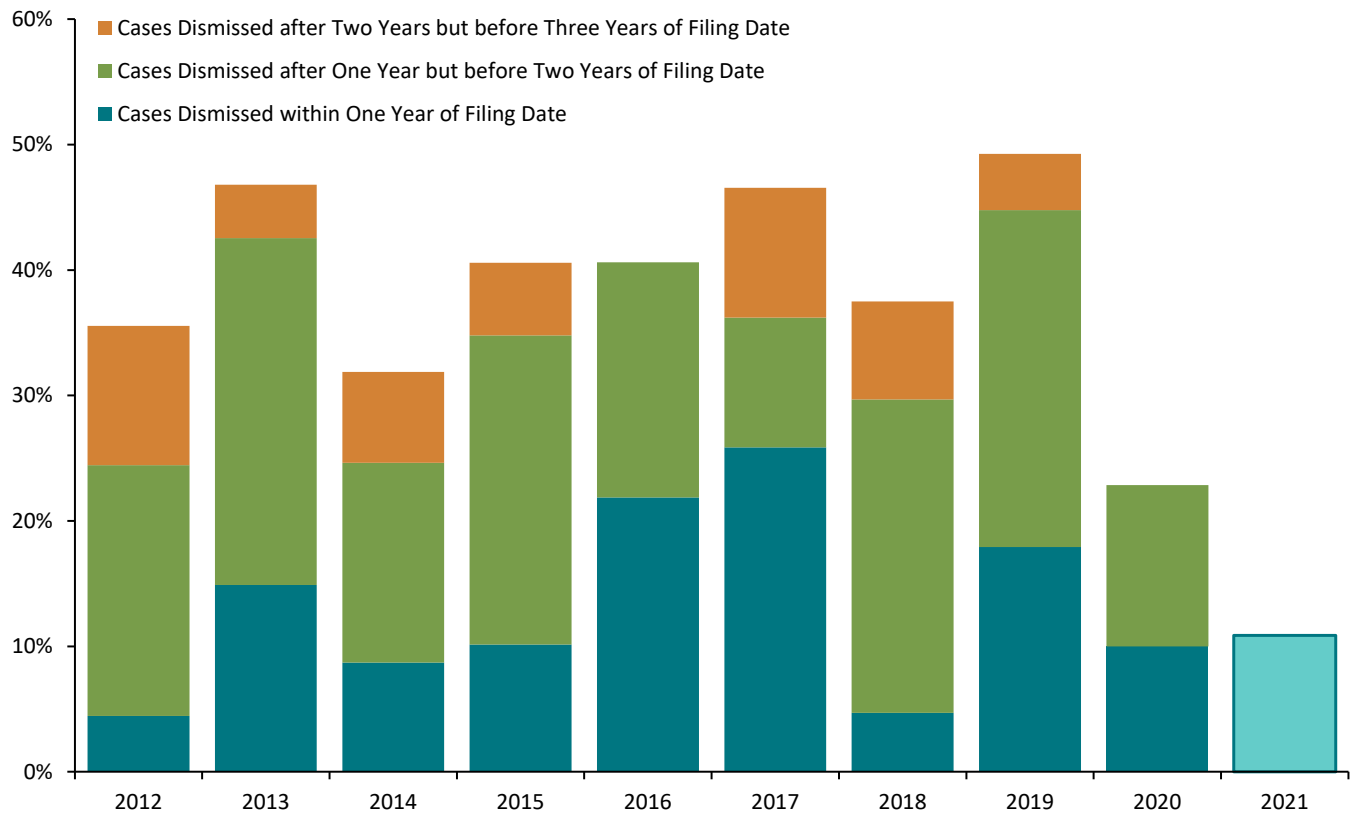
Given the length of time that may exist between the filing of a class action and its outcome, it may not be immediately possible to determine whether trends in dismissal rates observed in earlier annual cohort years will persist in later annual cohorts. This analysis looks at dismissal trends within the first several years of the filing of a class action to gain insight on recent accounting case dismissal rates.

- On average, the dismissal rate for accounting cases from 2012 through 2020 was 13% in the first year following the filing of a complaint.
- Even without complete 2022 data, the 2019 cohort already has the highest three-year dismissal rate of any cohort between 2012 and 2019.

On average, accounting cases filed from 2012 through 2020 were almost 60% less likely to be dismissed in the first year following the filing of a complaint compared to non-accounting cases.

- The percentage of accounting cases dismissed within the first two years (45%) for the 2019 cohort was the highest in the last 10 years.

Figure 7: Percentage of Accounting Case Filings Dismissed within Three Years of Filing Date 2012–2021



Note:

1. Percentage of cases in each category is calculated as the number of accounting case filings that were dismissed within one, two, or three years of the filing date divided by the total number of accounting cases filed each year.
2. The outlined bar for year 2021 indicates the percentage of accounting cases dismissed through the end of 2021. The outlined bar therefore presents only partial-year observed resolution activity, whereas its counterparts in earlier years show an entire year.

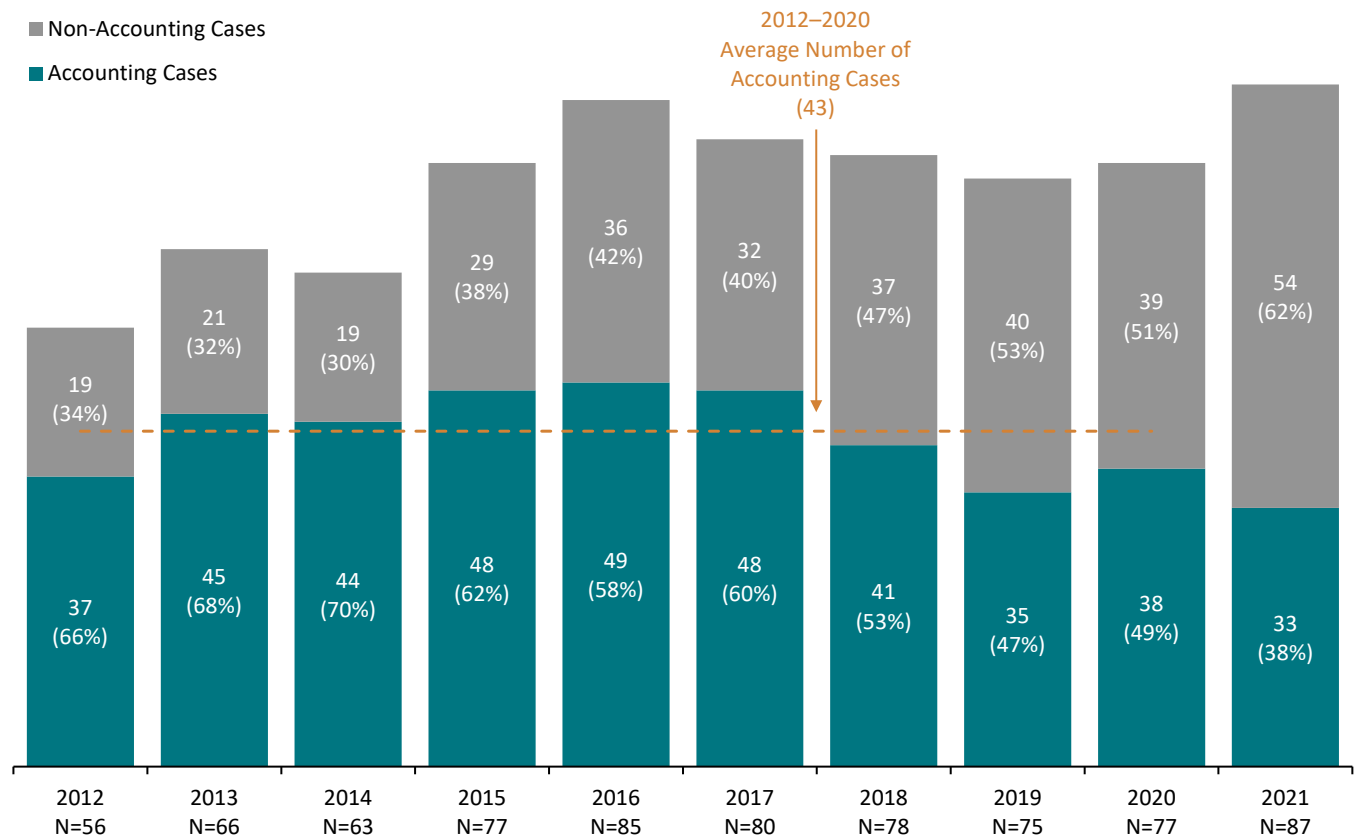
Settlements

Number of Accounting Case Settlements

- Compared to the prior year, accounting case settlements declined both in terms of the number and proportion of all securities class actions settled in 2021.
- Over the last 10 years, the majority of accounting cases have settled within two to four years from their filing date. The number of annual accounting case filings since 2018, combined with recent trends in dismissal rates for accounting cases (see page 8), suggests that the volume of accounting case settlements may remain at relatively low levels in 2022.
- Over the past six years, the percentage of accounting case settlements involving GAAP allegations has steadily declined, from 100% of cases in 2016 to 79% of cases in 2021. This trend is due to an increase in settlements involving allegations of internal control weaknesses but with no GAAP allegations.
- Historically, cases filed in the Second Circuit have accounted for a large portion of accounting case settlements. This was particularly true in 2021 with 50% of accounting case settlements occurring in the Second Circuit (see Appendix 7).
- Although the number of non-accounting case settlements with an accompanying derivative action dropped to a five-year low in 2021,¹² this trend did not hold for settlements of accounting cases. In 2021, 60% of settled accounting cases involved an accompanying derivative action.

The number of accounting case settlements in 2021 decreased to the lowest number in the last 10 years.

Figure 8: Accounting Case Settlements as a Percentage of Total Settlements 2012–2021



Accounting Case Settlement Value

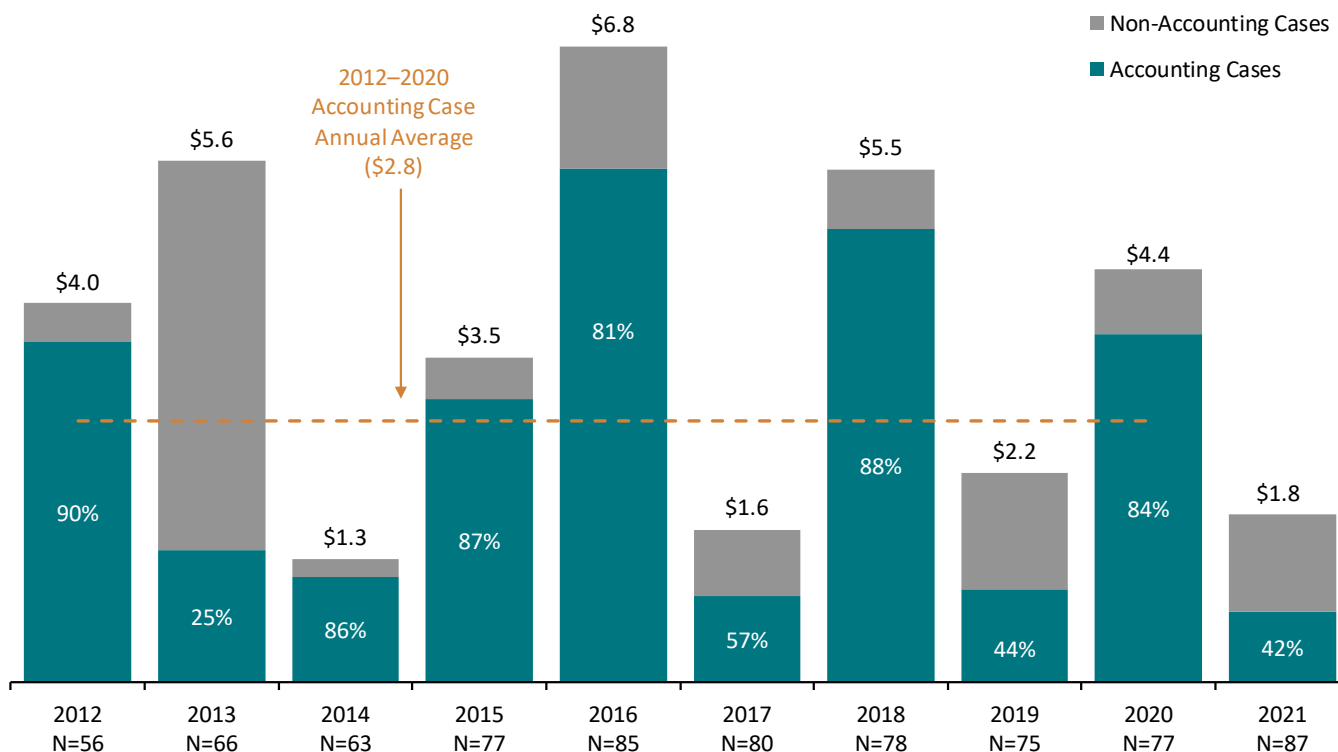
- In part reflecting a decline in the number of very large settlements, compared to the prior year, the total value of all accounting case settlements dropped sharply to \$755 million in 2021.
- There was only one mega settlement in 2021 for accounting cases compared to six mega settlements in 2020.
- The decline in accounting case settlement amounts was part of a broader decline for all types of securities class actions settled in 2021 (see *Securities Class Action Settlements—2021 Review and Analysis*).
- All 2021 securities class action settlements that involved accompanying SEC actions (seven cases in total) involved accounting allegations. The total settlement value for such cases was \$209 million and accounted for 28% of the total value of accounting case settlements.

The total value of accounting case settlements declined to the lowest level in the last 10 years.

- One factor that is typically associated with higher settlement amounts is public pension plan involvement as a lead plaintiff.¹³ In 2021, the proportion of accounting case settlements involving a public pension plan lead plaintiff declined to its lowest level in the last 10 years.

Figure 9: Accounting Case Settlement Dollars as a Percentage of Total Settlement Dollars 2012–2021

(Dollars in billions)



Note: Settlement dollars are adjusted for inflation; 2021 dollar equivalent figures are presented.

Firm Size

Accounting Case Filings by Firm Size

This analysis examines whether the size of defendant firms has changed over time based on their pre-disclosure market capitalization.

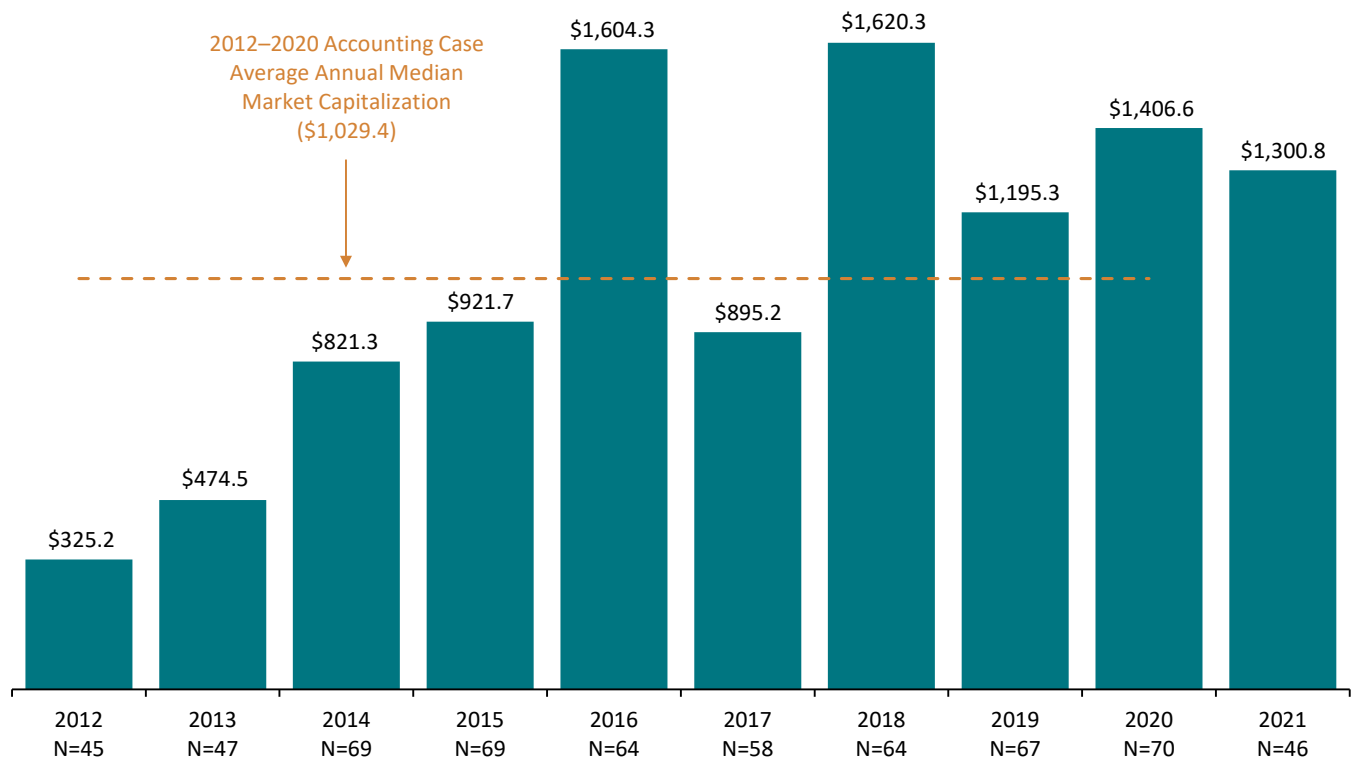
- In five of the last six years, the median market capitalization for issuer defendants in accounting case filings has exceeded \$1 billion.
- The size of issuer defendants in 2021 accounting case filings was the fourth largest in the last 10 years.

At \$1.3 billion, the median market capitalization of issuer defendants in 2021 accounting case filings was more than 25% greater than the 2012–2020 average.

- Nine of the 10 accounting cases in 2021 involving the largest issuer defendants, as measured by pre-disclosure market capitalization, were filed in the Second or Ninth Circuits.

Figure 10: Accounting Case Filings and Median Market Capitalization of Issuer Defendants 2012–2021

(Dollars in millions)



Note: Market capitalization dollars are adjusted for inflation; 2021 dollar equivalent figures are presented.

Accounting Case Settlements by Firm Size

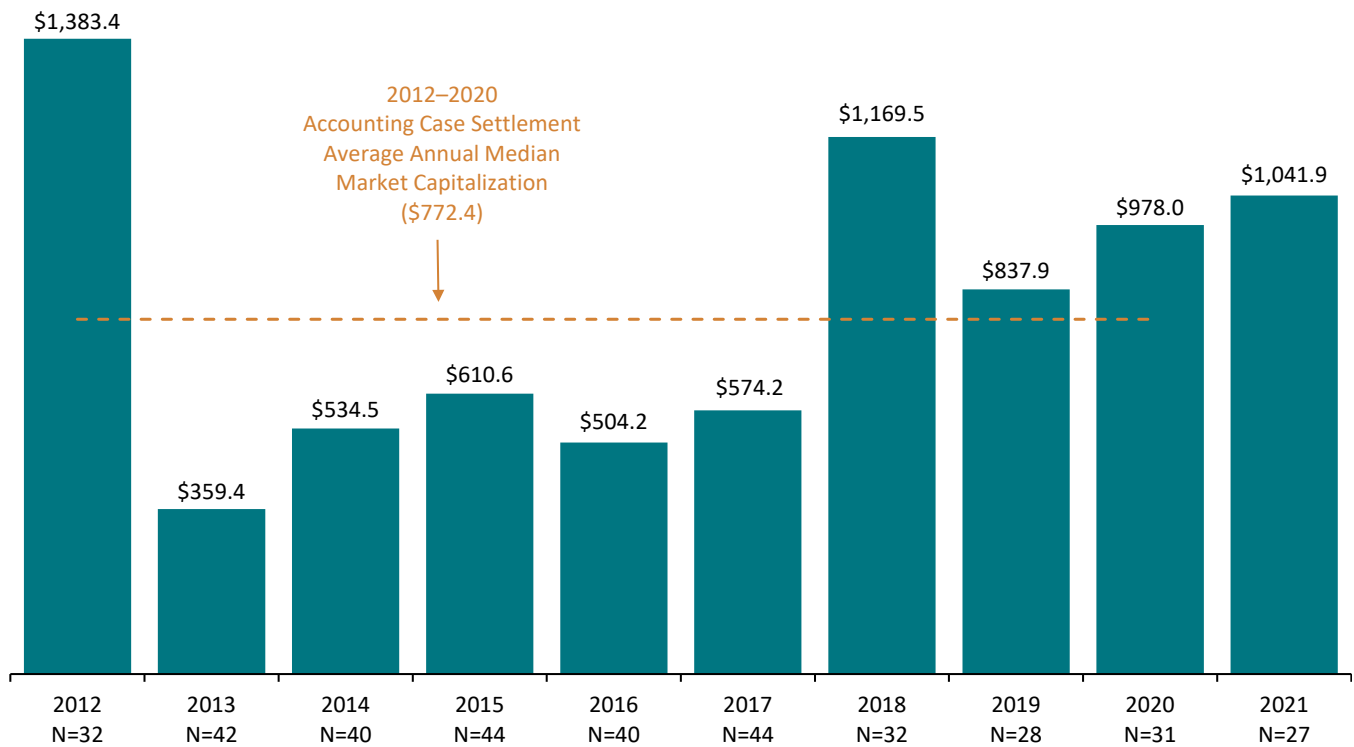
- The size of issuer defendants involved in accounting case settlements, as measured by the median pre-disclosure market capitalization, increased moderately in 2021 and was the third-highest annual median over the last decade.

The median market capitalization of issuer defendants in 2021 accounting case settlements was 35% higher than the average annual median for 2012–2020.

- The average market capitalization of issuer defendants in accounting case settlements in 2021 was \$7.3 billion. This is considerably higher than the median market capitalization and an increase of 48% over the average for 2020. The difference between these two measures was primarily driven by a small number of very large firms (e.g., firms with a market capitalization exceeding \$15 billion).
- As measured by total assets, issuer defendant size for 2021 settlements also grew. Specifically, median total assets of issuer defendants in accounting case settlements in 2021 increased by 14% over 2020.

Figure 11: Accounting Case Settlements and Median Market Capitalization of Issuer Defendants 2012–2021

(Dollars in millions)



Note: Settlement dollars are adjusted for inflation; 2021 dollar equivalent figures are presented.

Industry

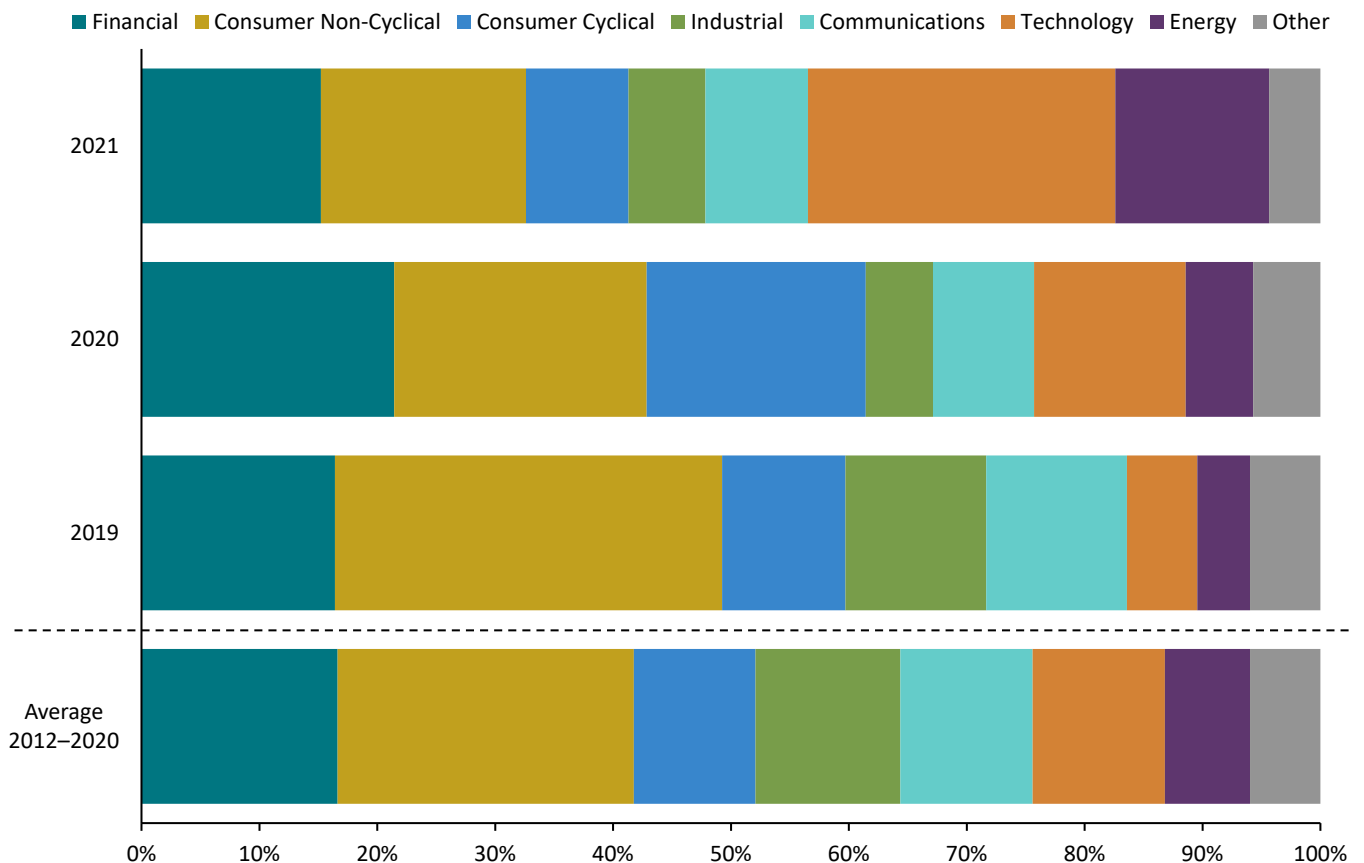
Accounting Case Filings by Industry

- For the first time since 2012, there were more accounting case filings in the Technology sector than any other sector.
- The number of accounting case filings in the Energy sector increased by 50% in 2021.
- The number of accounting case filings in the Financial sector decreased by more than 50% to its second-lowest level in the last 10 years.

The DDL for accounting case filings in the Consumer Cyclical sector increased by over 60% in 2021 despite a 70% decrease in the number of accounting case filings in this sector.

- The sectors that comprised the largest percentages of DDL in 2021 were Technology, Energy, and Consumer Cyclical, together accounting for more than 83% of total accounting case filing DDL in 2021.

Figure 12: Percentage of the Total Number of Accounting Case Filings by Industry



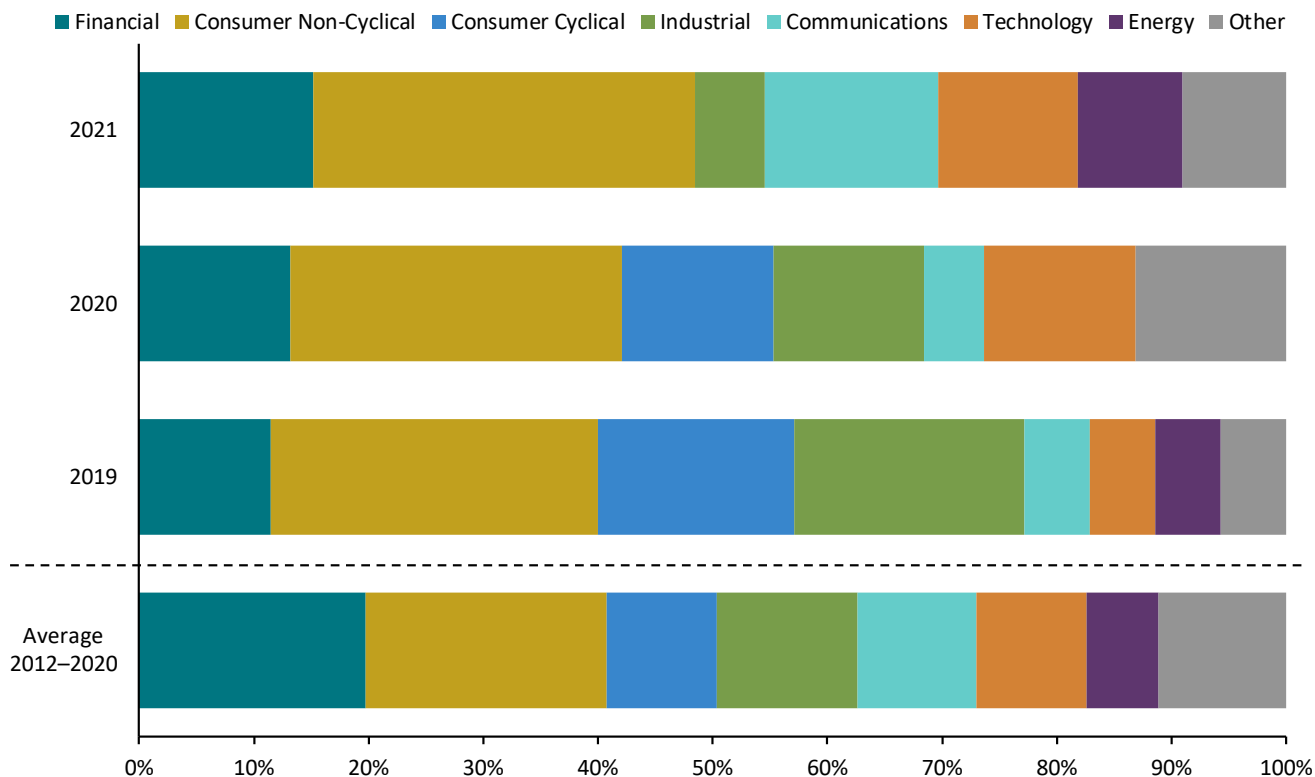
Note: Industries that comprise "Other" are Basic Materials, Diversified, and Utilities.

Accounting Case Settlements by Industry

- Consumer Non-Cyclical cases represented 33% of the total number of accounting case settlements in 2021 but only 22% of their total value.
- The vast majority of accounting cases settled in 2021 were filed during 2018–2019, and thus the large proportion of accounting case settlements involving the Consumer Non-Cyclical sector is consistent with the high frequency of case filings in that sector during those years.
- Of the accounting case settlements involving the Consumer Non-Cyclical sector, 73% involved allegations related to internal control weaknesses but only 18% involved a financial statement restatement.
- Although there were only five Communications sector accounting cases settled in 2021, the value of these settlements represented over 30% of the total value of accounting case settlements, the largest of any sector.
- In contrast to 2020 in which there were no Energy sector accounting case settlements, in 2021 there were three such settlements, with an average settlement amount of \$9.8 million. All three settlements involved a financial statement restatement.
- Although the number of accounting case settlements in the Technology sector declined slightly from 2020 to 2021, the average settlement value in 2020 was over 2.6 times greater than the average in 2021 for this sector. As a result, the value of accounting case settlements for the Technology sector increased to 17% of the total value of accounting case settlements (see Appendix 6).

The proportion of accounting case settlements involving the Consumer Non-Cyclical sector continued to grow in 2021.

Figure 13: Percentage of the Total Number of Accounting Case Settlements by Industry



Note: Industries that comprise “Other” are Basic Materials, Diversified, and Utilities.

Restatements

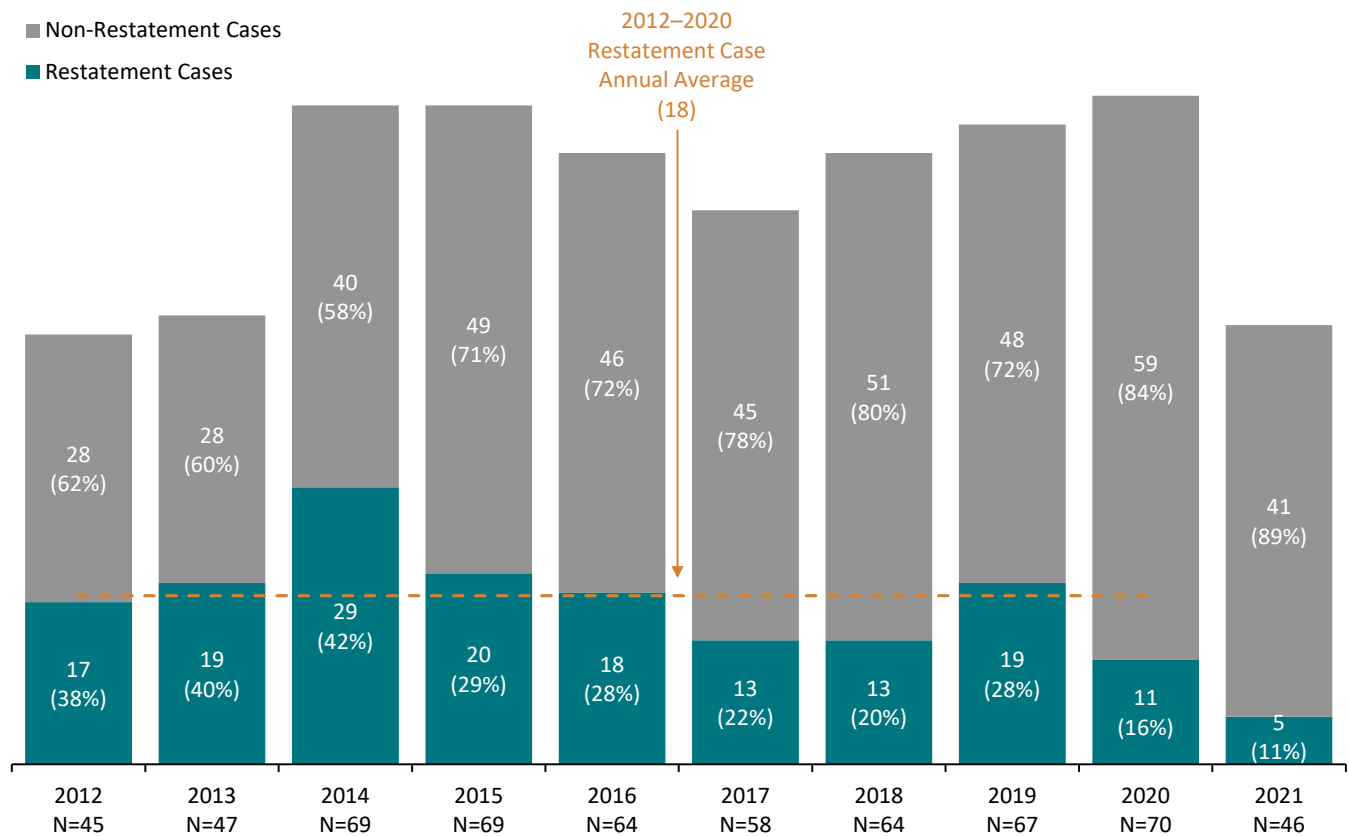
Accounting Case Filings Involving Restatements

- Accounting case filings involving financial statement restatements decreased 55% in 2021 and were 72% lower than the 2012–2020 average.
- DDL for accounting cases involving financial statement restatements declined to its lowest level in the last 10 years.
- All of the accounting case filings in 2021 involving restatements were filed in the Second or Ninth Circuits.

The number of accounting case filings involving restatements fell to its lowest level in 10 years.

- Four of the five accounting case filings involving a restatement in 2021 included allegations of internal control weaknesses.

Figure 14: Accounting Case Filings Involving Restatements 2012–2021

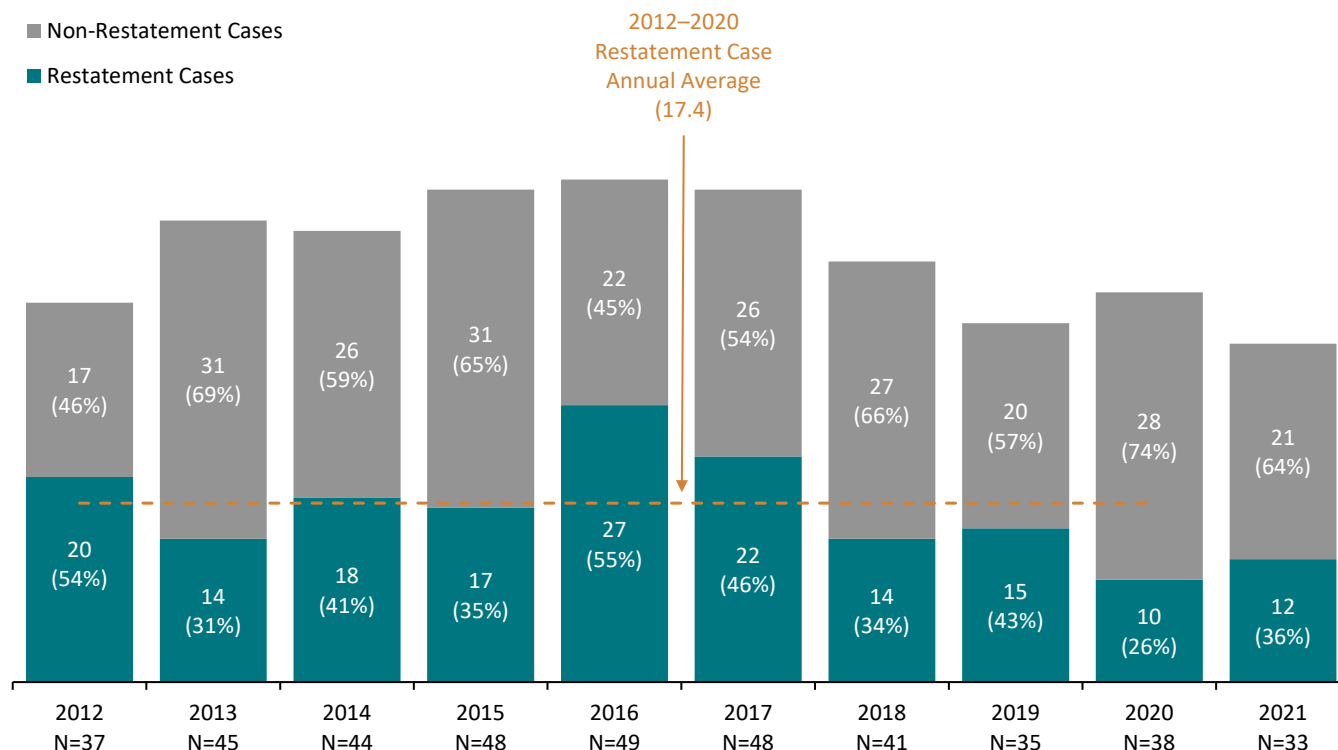


Accounting Case Settlements Involving Restatements

- Unlike the trend for accounting case filings, the number of accounting case settlements in 2021 involving financial statement restatements increased slightly compared to 2020.
- Of the 12 accounting cases involving a financial statement restatement in 2021, 11 were associated with Rule 10b-5 matters, and one involved only Section 11 claims.
- Since the median time to settlement for accounting cases settled in 2021 was 2.6 years, the increase in settlements of restatement cases in part reflects the increase in the number of 2019 accounting case filings involving restatements.
- Compared to other securities class actions, settled cases involving financial statement restatements involved longer class periods in 2021. Specifically, the median class period length for restatement cases was 1.8 years, compared to 1.5 years for accounting cases not involving restatements, and 1.2 years for 2021 settlements of non-accounting cases.

The proportion of settled accounting cases involving restatements rebounded from the prior year.

Figure 15: Accounting Case Settlements Involving Restatements 2012–2021



Internal Control Weaknesses

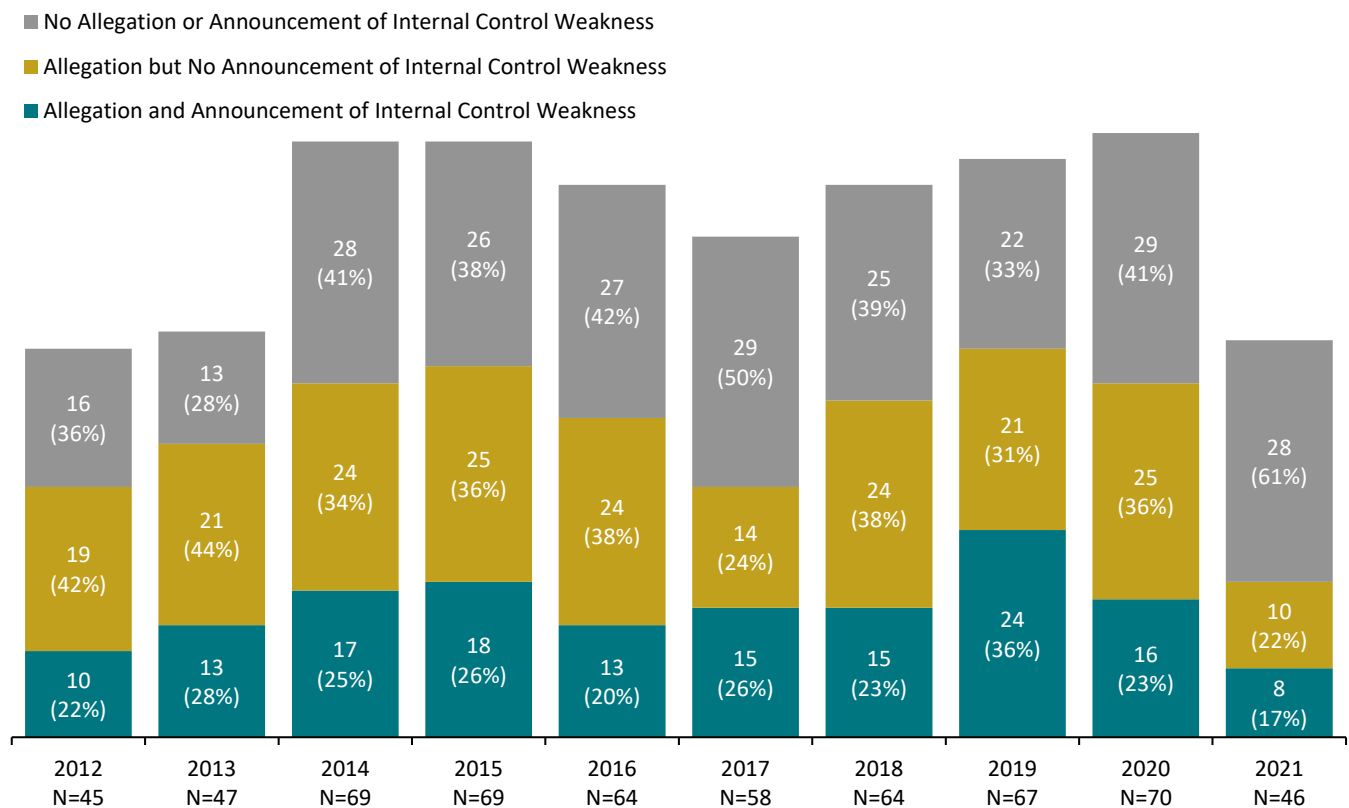
Accounting Case Filings Involving Allegations of Internal Control Weaknesses

- The number of accounting case filings containing an allegation *and* announcement of internal control weaknesses decreased by 50% in 2021.
- The DDL for accounting case filings in 2021 containing allegations of internal control weaknesses was 50% lower than the 2012–2020 historical average.

The number of accounting case filings containing allegations of internal control weaknesses fell to its lowest level in the last 10 years.

- The market capitalization of defendant firms facing allegations of weaknesses in internal controls in 2021 was almost 60% lower than the market capitalization of defendant firms facing allegations of weaknesses in internal controls in 2020.

Figure 16: Accounting Case Filings Involving Allegations of Internal Control Weaknesses 2012–2021

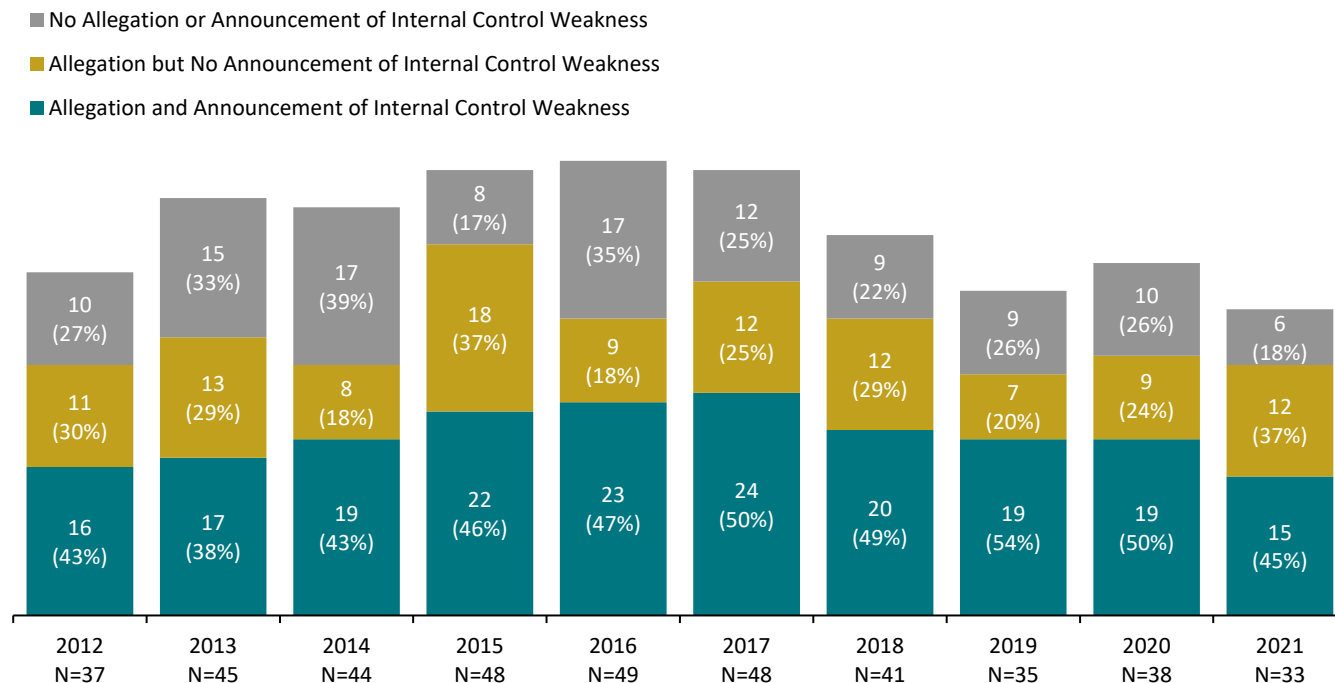


Accounting Case Settlements Involving Allegations of Internal Control Weaknesses

- The majority of accounting case settlements continued to involve allegations of internal control weaknesses.
- The average firm size of issuer defendants was significantly larger for those accounting case settlements involving allegations of internal control weaknesses than those without. Specifically, the average assets of issuer defendants with internal control weakness allegations was almost seven times greater than those without, while their average market capitalization was four times greater.¹⁴
- Of cases alleging internal control weaknesses without an accompanying company announcement of a weakness, 42% did not include allegations of GAAP violations.
- While allegations of internal control weaknesses are relatively common, they are not associated with higher settlement amounts when compared to other cases overall. This finding is based on a regression analysis that accounts for several factors affecting settlements.¹⁵
- Of the 15 settlements in 2021 that involved a company announcement of an internal control weakness, 80% also involved a financial statement restatement.

The proportion of accounting case settlements alleging internal control weaknesses increased to the highest level since 2015.

Figure 17: Accounting Case Settlements Involving Allegations of Internal Control Weaknesses 2012–2021



Factors Affecting Settlements of Cases Involving GAAP Allegations

Median “Simplified Tiered Damages”

This section takes a closer look at settlement amounts across two major categories of GAAP allegations—write-downs and restatements¹⁶—and examines settlements across these categories in relation to a simplified proxy for plaintiff-style damages. This relationship is important to consider because a proxy for damages is the single most important determinant of settlement amounts.

The proxy used in this report is referred to as “simplified tiered damages” and bases per-share inflation estimates on the value of a defendant’s stock price movements for the dates detailed in the plan of allocation per the settlement notice.¹⁷ This measure is further described in *Securities Class Action Settlements—2021 Review and Analysis*.

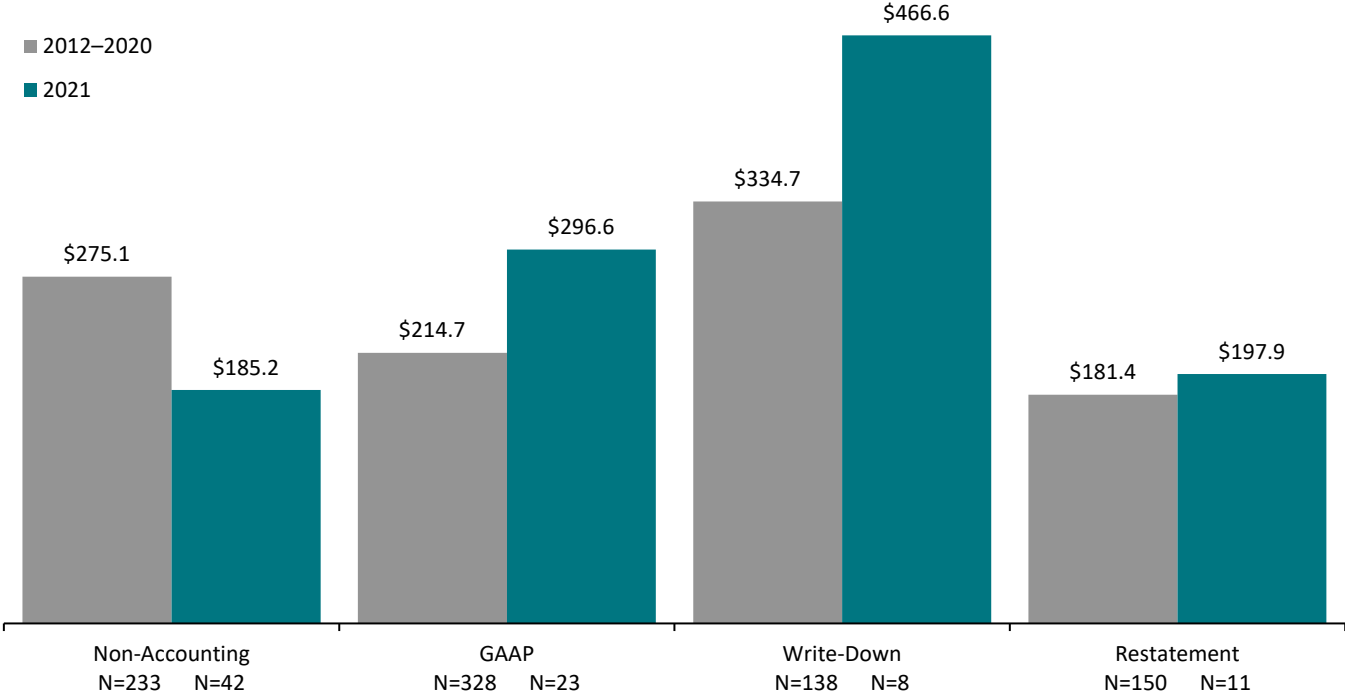
- While “simplified tiered damages” declined in 2021 for non-accounting case settlements compared to 2012–2020, this was not true for accounting case settlements in 2021.

Median “simplified tiered damages” were higher overall for settlements involving GAAP allegations in 2021, compared to non-accounting case settlements.

- Median “simplified tiered damages” for settled cases with GAAP allegations involving write-downs were 39% higher than the median for 2012–2020.
- Larger cases often take longer to settle. Consistent with this, the median time from filing to settlement for accounting cases involving write-downs was 3.1 years, compared to only 2.5 years for accounting cases involving a restatement.

Figure 18: Median “Simplified Tiered Damages” for Settled Cases by Case Type

(Dollars in millions)



Note: “Simplified tiered damages” are adjusted for inflation based on class period end dates; 2021 dollar equivalent figures are presented.

Median Settlement Amounts

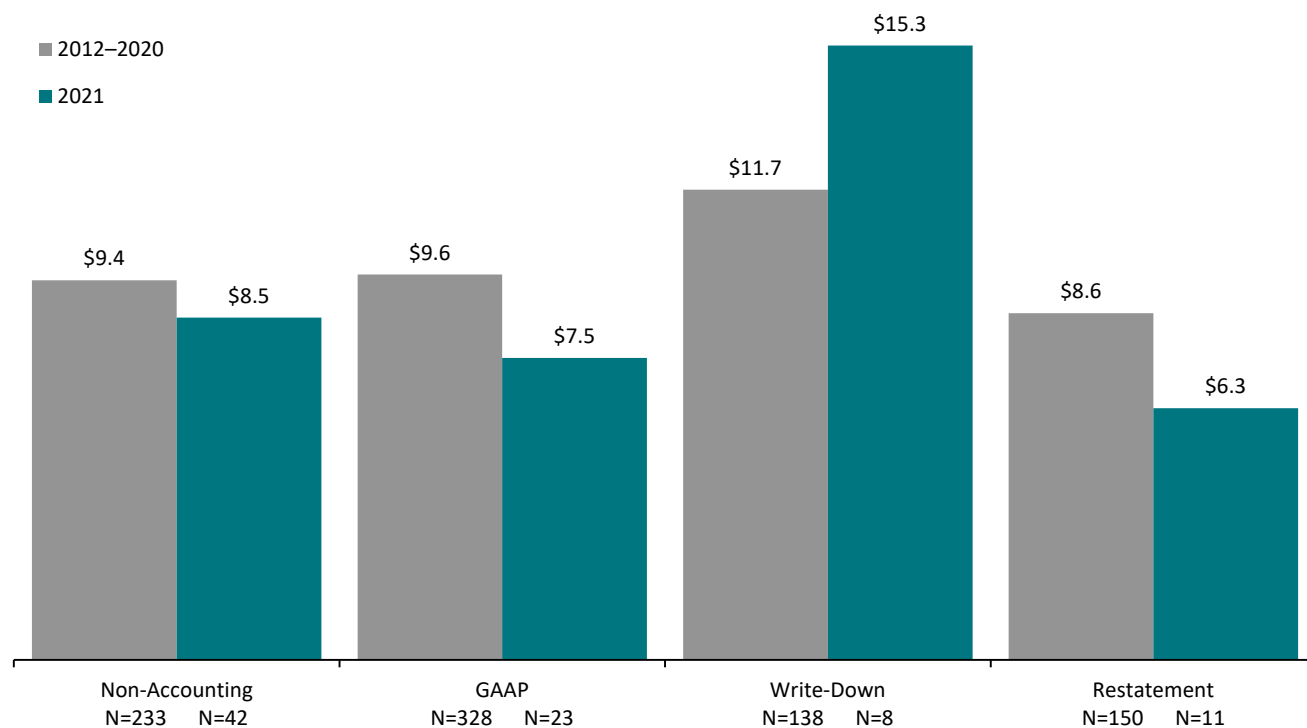
- Despite the larger median “simplified tiered damages” for cases involving GAAP allegations overall, as well as an increase in cases involving restatements (two factors typically associated with higher settlements), this did not translate to an increase in settlement amounts in 2021.
- As discussed in *Securities Class Action Settlements—2021 Review and Analysis*, in 2021, the number of overall securities class action settlements for less than \$2 million increased to a record high of 15 cases. Such settlements have been referred to by commentators as “nuisance suits.” Consistent with the idea that they may reflect weaker cases, only two of these settlements involved GAAP allegations.
- The median settlement amount for cases involving GAAP allegations in 2021 was correlated with the size of issuer defendants, based on pre-disclosure market capitalization. For example, issuer defendants with a market capitalization greater than \$10 billion had a median settlement amount of more than \$95 million. In contrast, issuer defendants with a market capitalization less than \$100 million had a median settlement amount of just over \$3.6 million.

In 2021, the median settlement amount for cases involving write-downs was 31% higher relative to the prior nine years.

- As a percentage of settlements involving GAAP allegations, settlements including allegations related to write-downs decreased from 52% of cases in 2020 to 35% in 2021. In contrast, the proportion of accounting case settlements involving restatements increased from 34% in 2020 to 48% in 2021.
- Of 2021 accounting case settlements involving write-downs, 75% also involved financial statement restatements.

Figure 19: Median Settlement Amounts by Case Type

(Dollars in millions)



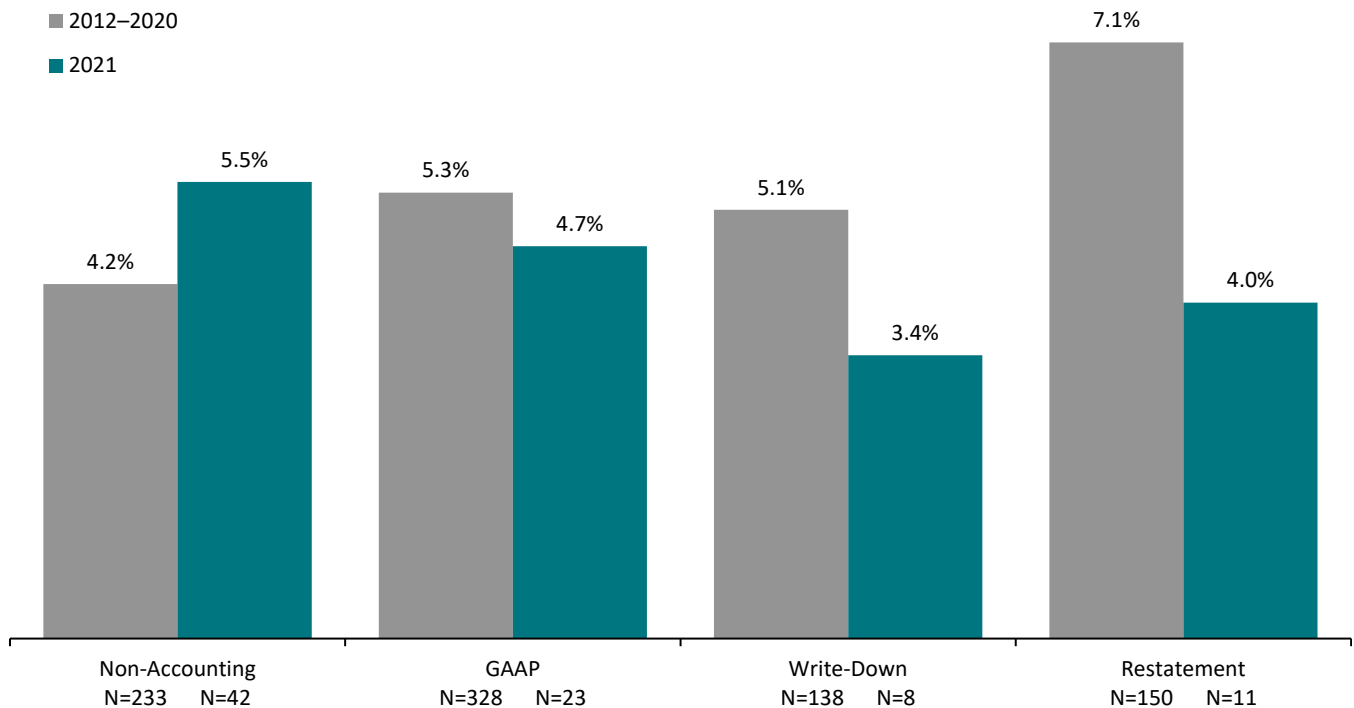
Note: Settlement dollars are adjusted for inflation; 2021 dollar equivalent figures are presented.

Median Settlements as a Percentage of “Simplified Tiered Damages”

- The largest decline in the median settlement as a percentage of “simplified tiered damages” for accounting case settlements in 2021 occurred in the 11 Rule 10b-5 cases that involved a financial statement restatement.
- For restatement cases settled in 2021, 33% involved a distressed issuer defendant (i.e., filed for bankruptcy or were delisted), which may have contributed to the relatively low settlement amount as a percentage of “simplified tiered damages.”
- Of the 23 Rule 10b-5 claim settlements involving GAAP allegations, 10 involved corresponding derivative actions, four involved accompanying SEC actions, and three involved related criminal allegations. All of these factors are generally associated with higher settlements.
- There were three accounting case settlements in 2021 that involved an auditor defendant. While all three involved GAAP allegations, none of these cases involved a financial statement restatement, write-down, or an accounting irregularity.¹⁸

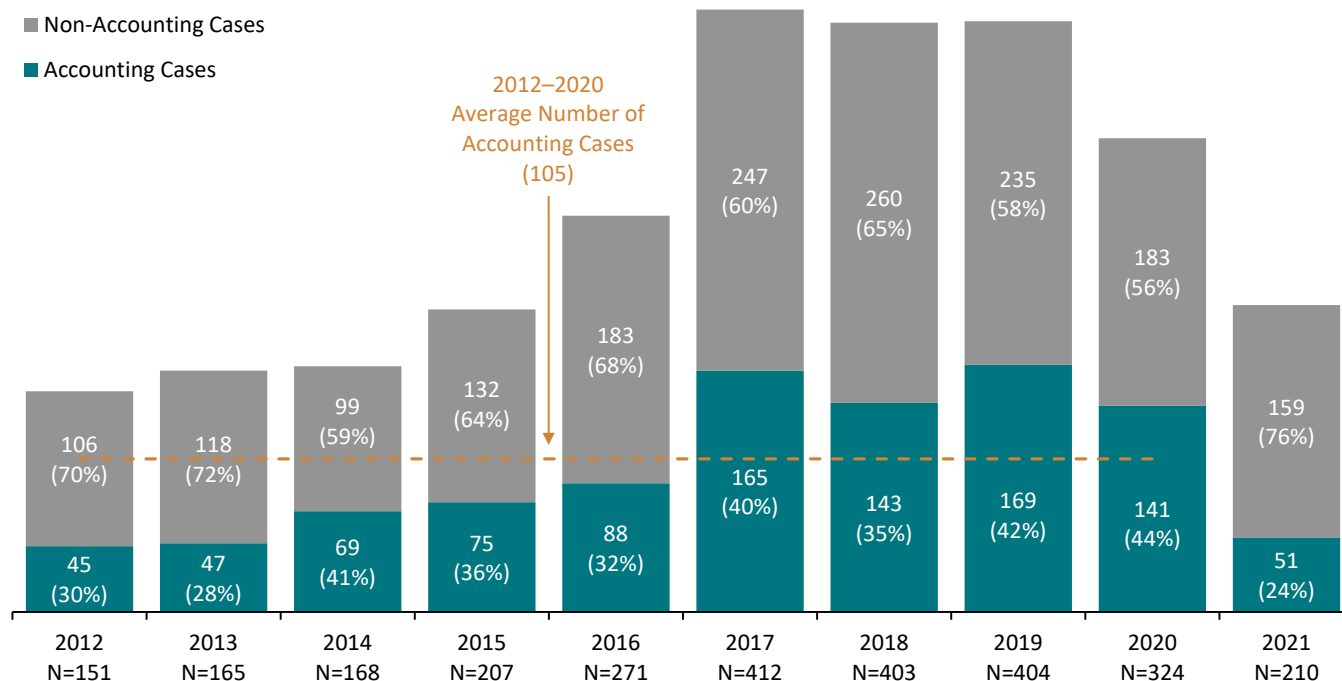
The median settlement as a percentage of “simplified tiered damages” was lower for cases involving GAAP allegations in 2021 compared to non-accounting cases.

Figure 20: Median Settlements as a Percentage of “Simplified Tiered Damages” by Case Type



Appendices

Appendix 1: Total Accounting Case Filings (Core and M&A) as a Percentage of Total Filings 2012–2021



Appendix 2: Accounting Case Filings and Exchange

(Dollars in millions)

	2012–2020		2020		2021	
	NYSE/Amex	NASDAQ	NYSE	NASDAQ	NYSE	NASDAQ
Total Filings	253	254	28	37	18	25
Annual Average Filings	28	28	-	-	-	-
Disclosure Dollar Losses (DDL)						
Total	\$238,192	\$165,131	\$50,684	\$20,208	\$10,120	\$19,226
Annual Average	\$26,466	\$18,348	-	-	-	-
Average across Cases	\$852	\$674	\$1,810	\$546	\$562	\$769
Median across Cases	\$198	\$99	\$555	\$138	\$163	\$196

Note:

- DDL dollars are adjusted for inflation; 2021 dollar equivalent figures are presented.
- Average and median numbers are calculated only for filings with DDL data.
- This figure shows only accounting case filings against issuers listed on indicated exchanges.

Appendix 3: Accounting Case Filings by Industry

(Dollars in millions)

Industry	Class Action Filings				Disclosure Dollar Loss Index			
	Average 2012–2020	2019	2020	2021	Annual Average 2012–2020	2019	2020	2021
Technology	7	4	9	12	\$10,249	\$1,619	\$4,878	\$7,619
Consumer Non-Cyclical	15	22	15	8	\$10,276	\$32,147	\$8,412	\$2,324
Financial	10	11	15	7	\$7,266	\$4,472	\$24,695	\$543
Energy	4	3	4	6	\$2,560	\$525	\$4,459	\$6,823
Consumer Cyclical	6	7	13	4	\$3,096	\$2,137	\$6,290	\$10,094
Communications	7	8	6	4	\$2,942	\$3,992	\$4,382	\$324
Industrial	8	8	4	3	\$7,013	\$11,341	\$14,399	\$1,515
Other	4	4	4	2	\$1,824	\$1,186	\$3,432	\$153

Note: Industries that comprise “Other” are Basic Materials, Diversified, and Utilities. Dollar values are adjusted for inflation; 2021 dollar equivalent figures are presented.

Appendix 4: Accounting Case Filings by Circuit

(Dollars in millions)

Circuit	Class Action Filings				Disclosure Dollar Loss Index			
	Average 2012–2020	2019	2020	2021	Annual Average 2012–2020	2019	2020	2021
First	1	1	0	0	\$4,539	(\$2,371)	\$0	\$0
Second	22	24	22	23	\$13,358	\$17,351	\$15,478	\$21,084
Third	6	8	8	3	\$5,160	\$8,310	\$6,740	\$78
Fourth	1	3	0	2	\$492	\$1,101	\$0	\$208,522
Fifth	4	7	4	2	\$2,160	\$926	\$3,090	\$3,667
Sixth	2	4	0	2	\$1,952	\$4,460	\$0	\$338,782
Seventh	3	3	3	0	\$4,927	\$22,714	\$6,119	\$0
Eighth	1	0	1	0	\$267	\$0	\$138,341	\$0
Ninth	17	14	27	12	\$10,895	\$4,293	\$36,301	\$3,953
Tenth	2	2	2	0	\$612	\$521	\$356	\$0
Eleventh	3	1	3	2	\$865	\$114	\$2,724	\$65

Note: Dollar values are adjusted for inflation; 2021 dollar equivalent figures are presented.

Appendix 5: Accounting Case Settlements and Exchange

(Dollars in millions)

	2012–2020			2020			2021		
	NYSE/Amex	NASDAQ	Other	NYSE	NASDAQ	Other	NYSE	NASDAQ	Other
No. of Settlements	179	186	20	22	15	1	18	13	2
Average No. of Settlements	19.9	20.7	2.2	-	-	-	-	-	-
Settlement Amounts									
Total	\$20,412.7	\$4,451.5	\$250.2	\$2,166.8	\$1,530.7	\$14.7	\$588.8	\$163.8	\$2.0
Median	\$16.2	\$5.5	\$2.5	\$16.2	\$5.8	\$14.7	\$16.3	\$4.9	\$1.0
Average	\$114.0	\$23.9	\$12.5	\$98.5	\$102.0	\$14.7	\$32.7	\$12.6	\$1.0

Note: Dollar values are adjusted for inflation; 2021 dollar equivalent figures are presented.

Appendix 6: Accounting Case Settlements by Industry

(Dollars in millions)

Industry	Number of Settlements				Median Settlement Amounts			
	Average 2012–2020	2019	2020	2021	2012–2020	2019	2020	2021
Consumer Non-Cyclical	9	10	11	11	\$7.9	\$9.3	\$7.9	\$7.5
Industrial	5	7	5	2	\$5.8	\$10.6	\$3.5	\$9.4
Technology	4	2	5	4	\$8.6	\$30.8	\$16.0	\$13.6
Other	2	2	5	3	\$10.8	\$14.3	\$20.9	\$3.8
Consumer Cyclical	4	5	5	0	\$6.4	\$15.6	\$13.1	-
Financial	9	5	5	5	\$19.8	\$19.1	\$16.2	\$8.5
Communications	4	2	2	5	\$6.5	\$1.2	\$8.5	\$5.0
Energy	3	2	0	3	\$7.0	\$207.8	-	\$6.3

Note: “Other” category includes Basic Materials, Diversified, and Utilities. Dollar values are adjusted for inflation; 2021 dollar equivalent figures are presented.

Appendix 7: Accounting Case Settlements by Circuit

(Dollars in millions)

Circuit	Number of Settlements				Median Settlements Amounts			
	Average 2012–2020	2019	2020	2021	2012–2020	2019	2020	2021
First	1	1	0	0	\$9.0	\$21.2	-	-
Second	14	9	14	16	\$10.2	\$15.4	\$6.5	\$6.3
Third	3	1	5	4	\$10.3	\$2.4	\$16.0	\$12.4
Fourth	1	2	1	1	\$20.7	\$20.1	\$201.5	\$25.0
Fifth	3	4	3	3	\$7.9	\$10.9	\$7.9	\$6.3
Sixth	2	2	2	0	\$11.5	\$15.3	\$10.5	-
Seventh	2	2	2	2	\$11.7	\$15.1	\$8.3	\$21.5
Eighth	1	0	1	0	\$7.9	-	\$7.9	-
Ninth	11	12	6	5	\$6.4	\$7.3	\$20.8	\$13.9
Tenth	1	1	0	0	\$4.0	\$6.1	-	-
Eleventh	2	1	1	1	\$11.1	\$1.3	\$156.0	\$1.0
DC	0	0	1	0	\$92.9	-	\$7.9	-
State	1	0	2	1	\$8.6	-	\$8.9	\$5.3

Note: Dollar values are adjusted for inflation; 2021 dollar equivalent figures are presented.

Research Sample

This report utilizes the federal securities class action filings database described in *Securities Class Action Filings—2021 Year in Review*, which is based on data as of January 12, 2022, and the securities class action settlements database described in *Securities Class Action Settlements—2021 Review and Analysis*.

Endnotes

- ¹ Securities class actions are considered “accounting cases” if they involve allegations related to U.S. Generally Accepted Accounting Principles (GAAP) violations or violations of other reporting standards (collectively, “GAAP allegations”), auditing violations, or weaknesses in internal controls over financial reporting.
- ² Merger and acquisition (M&A) filings—securities class actions that have Section 14 claims, but no Rule 10b-5, Section 11, or Section 12(a) claims, and involve M&A transactions—are included in Appendix 1.
- ³ See *Securities Class Action Filings—2021 Year in Review*, Cornerstone Research (2022), p. 33.
- ⁴ “What You Need to Know About SPACs – Updated Investor Bulletin,” U.S. Securities and Exchange Commission, May 25, 2021, <https://www.sec.gov/oiea/investor-alerts-and-bulletins/what-you-need-know-about-spacs-investor-bulletin>.
- ⁵ Jay R. Ritter, “Initial Public Offerings: Updated Statistics,” Warrington College of Business, University of Florida, p. 48, <https://site.warrington.ufl.edu/ritter/files/IPO-Statistics.pdf>, accessed April 8, 2022.
- ⁶ “What You Need to Know About SPACs – Updated Investor Bulletin,” U.S. Securities and Exchange Commission, May 25, 2021, <https://www.sec.gov/oiea/investor-alerts-and-bulletins/what-you-need-know-about-spacs-investor-bulletin>.
- ⁷ SPACs still searching for a target are those that have completed their IPO but not yet announced a De-SPAC transaction target. See *SPAC Insider*.
- ⁸ Paul Munter, Acting Chief Accountant, “Financial Reporting and Auditing Considerations of Companies Merging with SPACs,” U.S. Securities and Exchange Commission, March 31, 2021, <https://www.sec.gov/news/public-statement/munter-spac-20200331>.
- ⁹ John Coates, Acting Director, Division of Corporation Finance, and Paul Munter, Acting Chief Accountant, “Staff Statement on Accounting and Reporting Considerations for Warrants Issued by Special Purpose Acquisition Companies (“SPACs”),” U.S. Securities and Exchange Commission, April 12, 2021, <https://www.sec.gov/news/public-statement/accounting-reporting-warrants-issued-spacs>.
- ¹⁰ See *Will SPAC Restatement Wave Trigger Shareholder Litigation?*, Cornerstone Research (2021), for further discussion.
- ¹¹ See *Securities Class Action Filings—2021 Year in Review*, Cornerstone Research (2022), for further discussion.
- ¹² See *Securities Class Action Settlements—2021 Review and Analysis*, Cornerstone Research (2022), for further discussion.
- ¹³ See *Securities Class Action Settlements—2021 Review and Analysis*, Cornerstone Research (2022), for discussion of regression analysis used to study the determinants of settlement amounts. Note that while this analysis indicates that public pension plan involvement as a lead plaintiff is associated with higher settlement amounts, it does not mean that their involvement *caused* higher settlement amounts, as they may choose to serve as lead plaintiffs in stronger cases.
- ¹⁴ Average excludes one outlier observation for which the issuer defendant’s assets exceeded \$700 billion.
- ¹⁵ See *Securities Class Action Settlements—2021 Review and Analysis*, Cornerstone Research (2022), for further discussion of regression analysis used to study the determinants of settlement amounts.
- ¹⁶ Within cases involving GAAP allegations, write-down cases are those with allegations involving an asset write-down or reserve increase, and restatement cases are those involving a restatement (or announcement of a restatement) of financial statements.
- ¹⁷ See *Securities Class Action Settlements—2021 Review and Analysis*, Cornerstone Research (2022), p. 5 (“‘Simplified tiered damages’ uses simplifying assumptions to estimate per-share damages and trading behavior for cases involving Rule 10b-5 claims. It provides a measure of potential shareholder losses that allows for consistency across a large volume of cases, thus enabling the identification and analysis of potential trends. . . . However, this measure is not intended to represent actual economic losses borne by shareholders.”).
- ¹⁸ Cases involving accounting irregularities are those in which the defendant has reported the occurrence of accounting irregularities (intentional misstatements or omissions) in its financial statements.

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