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The rationales underlying reincorporation and implications for Canadian corporations

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Abstract

In a study of the incorporation market, [Cumming and MacIntosh \(2000\)](#) argued on the basis of theory and empirical evidence that interjurisdictional competition has not played a significant role in shaping corporate law in Canada. Nevertheless, they did find partial demand-side econometric evidence of jurisdiction shopping on the basis of incorporation fees and the corporate law reforms in a few Canadian jurisdictions. The purpose of this article is to address two additional demand-side issues pertaining to firms that have *reincorporated* (i.e., changed jurisdiction of incorporation at least once during their lifetime) in Canada. First, the rationales underlying firms'™ decisions to reincorporate from one jurisdiction to another are examined. To this end, we analyse the results of a survey sent to firms listed on a Canadian stock exchange that reincorporated after 1975. Second, the issue of whether jurisdiction shopping affects firm value is empirically assessed by means of an event study. Our results indicate that (1) inter-provincial

reincorporations tend to be prompted by the transaction costs of carrying on a business, (2) federal reincorporations have a more substantive law-shopping component, and (3) certain reincorporation transactions statistically enhance firm value, but others diminish value.



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Keywords

Reincorporation; Corporate law; Event study; Canada

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