Total Filings Drop, Driven by Fall in M&A Actions

May 17, 2021

There were 83 securities class action lawsuits filed in federal court through the first four months of this year, which is easily the lowest number of filings for that period in the last five years. There was no similar drop in filings during the same period in 2020, despite the rising uncertainty caused by the COVID-19 pandemic.

The following chart illustrates the significant drop in filings between January and April of this year.

There appears to be an easy explanation for the drop in cases. According to our data, merger and acquisition (M&A) related filings have dropped precipitously to a total of ten cases over the first four months of this year. This is by far the lowest total over the last five years, as illustrated by the following chart.
Indeed, the drop in M&A filings can almost singlehandedly account for the drop in the overall number of filings. The average number of M&A filings over the first four months of 2017-2020 is roughly 55 cases. If we were to add 45 additional M&A filings to this year’s tally (to bring the total M&A filings in line with the prior four year average), we would have 128 total filings over the first four months, which would more or less keep pace with recent years.

The following chart illustrates the impact the drop in M&A filings is having on the number of overall filings:

While M&A filings comprised roughly 30% of total filings in each of the last four years, that figure has dropped to around 10% in 2021. This again illustrates that the reduction in M&A filings is the main driver behind the decline in total filings in the first four months of this year.

The Clearinghouse has noticed a trend of M&A-related securities lawsuits being brought as individual actions rather than as class actions. We do not have data on how many such lawsuits have been filed given our focus on class action litigation. But it is a trend we have identified, and it maybe a large (if not the main) contributor in the reduction of M&A class action filings this year. It remains to be seen whether the reduction in M&A filings will become a more permanent trend that will continue to drive the number of total securities class action lawsuits downward in the second half of the year and beyond.

By Author
Leo Cho and Kristen Savelle

If you have questions about this report, please contact scac@law.stanford.edu

http://securities.stanford.edu/