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IMPACTS OF SECURITIES SALES ON STOCK PRICES: THE ANOMALOUS CASE OF JAPANESE BANK ISSUES

by

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Abstract

Numerous studies find that shareholders do not gain from securities sales. This study documents a significant exception, new capital offerings by Japanese banks. Market reactions to these sales are significantly positive; however, these issues have two unusual features. First, new convertible bonds and equity shares are simultaneously offered. Second, the issues are often denominated in multiple currencies and sold in multiple countries. Tests indicate that the multiple markets/multiple currencies feature is strongly related to abnormal performance.

Key Words

securities sales; Japanese banks; wealth effects; stock prices; bank capital requirement; equity shares; convertible bonds; foreign bond markets; simultaneous issues; multiple currencies; event study; market model; unsatisfied clientele

I. Introduction

Can corporations increase stockholders' wealth by issuing securities? Generally, the answer is no. Studies of U.S. firms have consistently found that additional offerings of equity shares by industrials, utilities, and banks are greeted with significant negative wealth effects at announcement.[1)] Similarly, when U.S. industrial firms sell convertible bonds, there is a significant decline in wealth at announcement.[2)]

Recently, in an analysis of Eurobond sales, Kim and Stulz (1988) find positive wealth effects associated with the announcement of these sales by American firms. These unexpected gains are attributed to the presence of an unsatisfied clientele. They argue that the persistence of these gains over the period 1975—1985 is due to the accessibility of this market only to firms that have good credit market reputations.

Except for these recent Eurobond sales, it would be unexpected to find positive gains

in wealth associated with the announcement of security sales, but capital issues of large Japanese banks do have good credit market reputations and meet the criteria suggested by Kim and Stulz. This study will determine if multiple capital issues of Japanese banks have positive abnormal returns at issue announcement.

Since 1985, the large Japanese banks have been selling new equity shares and convertible bonds denominated in as many as three different national currencies (Yen, Eurodollars, and Swiss Francs) all with the same announcement and sale dates. Such simultaneous sales of equity and convertible bonds in multiple capital markets are not common for American firms. These issues offer investors more options than conventional U.S. domestic security issues, and result in unexpected and significant positive abnormal returns at announcement of these sales. This paper measures the wealth effects of these simultaneous offerings of capital securities in multiple currencies and markets and determines which features are most related to the positive wealth effects.

II. Research Design

A. Data

Because of the lack of efficient trading of large Japanese bank stocks before 1984, the period covered by this study is from January 1, 1985 through June 15, 1990.[3] The banks selected for study are the 23 largest banks in Japan (13 city banks and the 10 largest regional banks) as well as 4 smaller regional banks that lead the other listed-regional banks in their frequency of trading on the Tokyo Stock Exchange (TSE). Thus, there are 27 banks selected for this study, all of which are listed and frequently traded on the TSE. This set contains the largest banks in the world. During the period of study,

1) See Smith (1986) for a general summary for industrial and utility firms. The following specific papers describe results of new equity sales by industrials, utilities, and banks: Asquith and Mullins (1986), Hansen (1989), Keeley (1989), Kolodny and Suhler (1985), Masulis and Korwar (1986), Mikkelson and Parch (1986), Pettway and Radcliffe (1985), Polonchek, Slovin and Sushka (1989), Schipper and Smith (1986), Wall and Peterson (1988), Wansley and Dhillon (1989), and Wansley, Pettway and Dhillon (1990). Hansen (1989) finds that equity rights offerings also result in significant negative two-day announcement effects.

2) See Dann and Mikkelson (1984), Eckbo (1986), and Mikkelson and Parch (1986). Yet, when banks sell convertible bonds, the results are mixed. Keeley (1989) find that when six convertible bonds are sold by U.S. bank holding companies, the two-day announcement effect is negative, but insignificant. Pettway, Kaneko and Young (1991a, 1991b) find that when Japanese banks sell convertible bond issues there is a significantly positive wealth effect at the issue announcement, the announcement of the issue price is not significant, and the over-all effect from 20 days before the issue announcement to 20 after the sale is significantly negative.

3) Pettway-Tapley-Yamada (1988) find that for the two years, 1982 and 1983, the share prices of the major Japanese banks were almost constant over time even though there are changes in the volume in each of these stocks and in the market index. They find that the market model beta values during that period are very close to zero and many are insignificant. These unusual results are attributed to the fact that the banks in Japan during this period are highly regulated by the Ministry of Finance and the Bank of Japan. After financial deregulation that began in 1984, these stocks are found to trade more efficiently than during the prior period.

Table 1. Characteristics of the 21 Issues of New Equity Shares (PO) and New Convertible Bonds (CB) Sold by Japanese Banks Over the Period 1/1/85 Through 6/15/90 Where the CBs Were Denominated in Various Currencies

Panel A: Years of issue

1985	2 issues
1986	3 issues
1987	6 issues
1988	6 issues
1989	3 issues
1990	1 issue

Panel B: Number of single vs. multiple issuers

Single issue per bank	8 cases
Two issues per bank	5 cases
Three issues per bank	1 case

Panel C: Total share issue size: Equity shares plus fully-converted CBs (In millions)

10 to 29.9	7 issues
30 to 49.9	5 issues
50 to 69.9	6 issues
70 to 89.9	2 issues
90 to 119.9	1 issue

Panel D: Maturity of CB issues*

4 Years	12 issues
5 Years	7 issues
6 Years	8 issues
7 Years	5 issues
8 Years	1 issue
15 Years	11 issues

Panel E: Denominations of PO and CB issues

¥ only (domestic)	8 issues
¥ and Euro$s	5 issues
¥ and SF	2 issues
¥, SF and Euro$s	6 issues

Panel F: Debt/Equity ratio of the issue **

.2 to .59	3 issues
.6 to .99	5 issues
1.0 to 1.39	5 issues
1.4 to 1.79	3 issues
1.8 to 2.19	2 issues
over 2.2	3 issues

Panel G: Asset size of issuing bank just before anouncement date (Trillion ¥)***

Below 5 ¥	3 issues
5 — 9.9 ¥	5 issues
10 — 14.9 ¥	4 issues
15 — 19.9 ¥	2 issues
20 — 29.9 ¥	3 issues
30 — 39.9 ¥	2 issues
40 — 49.9 ¥	2 issues

Panel H: 1/2 year net profit after tax just before announcement date (Billion ¥)

5 — 14.9 ¥	9 issues
15 — 24.9 ¥	7 issues
25 — 34.9 ¥	1 issue
35 — 44.9 ¥	1 issue
45 — 54.9 ¥	0 issue
55 — 64.9 ¥	3 issues

* The sum is greater than 21 because there are multiple maturities.

** Defined as the issue value of CBs converted into yen divided by the yen value of equity sold.

*** During the study period, the yen/dollar exchange rate varied from about 220 yen/dollar to 120 yen/dollar. Using 150 yen/dollar, a Japanese bank with assets of 10 trillion yen is equivalent to an American company with assets equal to $66.67 billion.

the Ministry of Finance in Japan only allowed banks to issue two types of capital securities, equity shares and convertible bonds.

Over the study period, there were 21 simultaneous issues of new equity shares (i.e., Public Offers, POs) and convertible bonds (CBs) which did not have any confounding announcements during the base or test periods.[4] Table 1 provides some of the characteristics of these simultaneous sales and issuing banks. To understand these issues, it is important to realize that all the Yen POs and CBs were sold only in Japan by nonbank underwriters, as Japanese banks are not allowed to be underwriters in Japan. The Eurodollar CB issues were in Eurobond markets, mainly in London. The CBs denominated in Swiss Francs were sold only in the foreign bond market in Switzerland, and they were thus not Eurobond issues.[5] A Japanese bank may have been the lead underwriter of a Eurodollar CB issue, but not in sales of a Swiss foreign bond market issue.[6]

B. Methodology

To measure the valuation effects of these new security sales, the market model (1) was applied to a selling firm's daily equity returns over a uniform estimating period be-

4) During the 5 and 1/2 year study period, the Ministry of Finance only allowed banks to issue convertible bonds beginning with April 1, 1985. The specific issues of the combinations of equity and convertible securities are distributed over the years in the annual pattern presented in Panel A of Table 1. During the large declines in the Tokyo Stock Market in 1990, there were no new issues sold after the end of March as they were discouraged by the Japanese Ministry of Finance. The market for these new issues remained "closed" in the eyes of regulators from the end of March 1990. As of March 1992, there have been no new multiple issues by banks since March 1990 (i.e., for 25 months). The main point is that the number of observations in this data set is small, but it is a complete population and cannot be increased quickly by adding additional years of inclusions.

5) Following the general definitions provided by Fisher (1988) and others, Eurobond market sales are defined as sales of securities denominated in a currency other than in the local currency. For example, Eurodollar convertible bond sales by Japanese banks in London and/or in Hong Kong are sold in the Eurobond market. Securities sold in the foreign bond market of a country are issues of a foreign company sold in local currrency. This would be the case of the convertible bonds of Japanese banks denominated in Swiss Francs sold in Switzerland.

6) To understand how capital securities are issued in Japan, the following is a detailed description of the issuance of securities announced on 9/23/87 and sold on 10/28/87 by Fuji Bank. The issue was a combination of new equity shares denominated in yen, convertible bonds (CBs) denominated in Eurodollars, and CBs denominated in Swiss Francs. The equity offer was a public offering (PO) for 35 million shares at 3,146 yen. The issue was sold in Japan and the lead underwriter was Yamaichi (a Japanese securities company). No Japanese bank can be an underwriter of securities (except for public bonds) in Japan. The convertible bond issue (CBs) were in three parts (2 public offers in Eurodollars and Swiss Francs and 1 private placement in Swiss Francs). The CB denominated in Eurodollars was for 200 million dollars with a maturity of 15 years, a coupon rate of 1.75%, and a conversion price of 3,423 yen. The issue was sold by public placement in Eurobond markets, mainly in London. The lead underwriter was Fuji Bank. The CB denominated in Swiss Francs was in two parts. One was sold in a public placement and the other was a private placement. Each of the issues was for 200 million Swiss Francs with a maturity of 5 years, a coupon rate of 0.25%, and a conversion price of 3,423 yen. Both of the issues were sold in Switzerland and the lead underwriter was UBS (a Swiss bank). Again all of these issues were announced on the same date (9/23/87) and sold on the same date (10/28/87).

ginning 221 trading days prior to the announcement date (AD) of the new security issue (i.e., announcement date of issue, ADI) and ending 21 days before the ADI. The announcement date, day 0, is the day when the information first appears in the *Nihon Keizai Shimbun*, which is Japan's equivalent of the *Wall Street Journal*. The market model asserts that for each capital issue:

$$R_{j,t} = \alpha_j + \beta_j R_{m,t} + e_{j,t} \tag{1}$$

where $R_{j,t}$ is the daily return of the issuing bank j for each security issue at time t; where daily returns of the issuing bank j concerning each capital issue are defined as $(P_{j,t} - P_{j,t-1}) / (P_{j,t-1})$; $R_{m,t}$ is the daily return at time t of the Tokyo Stock Exchange's Stock Price Index;[7] α_j and β_j are the estimated parameters of the market model; and $e_{j,t}$ is the error term of the model.

The estimated alpha and beta parameters were then applied to the return series during the test period in each return array. This was done in order to calculate residual returns or abnormal returns for each issue, $u_{j,t}$ for each bank, j, and time, t, during the test period which is from twenty-one days before the ADI through 20 days after the sale date (SD) using equation (2).

$$u_{j,t} = R_{j,t} - (\alpha_j + \beta_j R_{m,t}) \tag{2}$$

The daily residual returns of the issuing Japanese bank, $u_{j,t}$, were then averaged over all banks for each time t using equation (3). For each issue, AR_t is the average abnormal return of all issuing banks as of a common date t relative to the centering date. These average abnormal returns were accumulated to day T using equation (4) for various beginning and ending dates.

$$AR_t = \left(\sum_{j=1}^{N} u_{j,t} \right)/N \tag{3}$$

$$CAR_T = \sum_{t=1}^{T} AR_t \tag{4}$$

To interpret the movements in the cumulative abnormal returns (CARs), the period from 21 days before the ADI to 20 days after the SD is divided into subperiods. These independent periods of analysis can be seen in Table 2. The first subperiod is prior to the ADI; thus, the data for a specific issue are centered on the ADI as the common date and the abnormal returns are accumulated from ADI-21 through ADI-2. This period is called the Preannouncement Period and measures the cumulative abnormal returns over all issuers during the period before the announcement. The next period is the two-day Issue Announcement Period which consists of ADI-1 and ADI. The CAR values over

7) The Tokyo Stock Exchange's Stock Price Index (TOPIX) is a very widely used index in Japan. It is compiled under a total market price method taking into account all stocks listed on the First Section of the exchange and has a base period of January 4, 1968. Thus, it is a value-weighted market index. For details of its calculation see *Securities Market in Japan, 1990*, pp. 43–47.

this period will measure the issue announcement effect of the new capital sale.

In Japan, the announcement of the issue does not include any pricing information; therefore, the next information "event" occurs when the price of the issue is announced. This is called the announcement date of the price, ADP.[8] The two-day effect of the price announcement is analyzed over the time from ADP-1 through ADP. The number of trading days between ADI + 1 through ADP-2 varies for each issue and the period is called the interim period. The average CAR value over the period is reported for all banks and describes the wealth impact during the interim period between ADI and ADP, or the first interim period.[9]

The next information date is the sale date, SD. Again the difference between ADP and SD is not constant over all issues; thus, the average CAR during this period over the issues is shown as the impact during the second interim period, ADP + 1 through SD-2. There also is a Sale Period Effect which consists of the CAR values over SD-1 and SD. The final period of analysis is from SD + 1 through SD + 20 and is called the Post-Sale Period as it represents the CAR values after the issues have been sold.

In order to measure the cumulative effect over the entire period from 21 days before the ADI through SD + 20, the CAR value for the Over-all Effect is shown. Since each of these periods are non-overlapping and consequently, independent, the over-all effect

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8) The issuing of common stock under a public offering at market prices in Japan is different from a public offering in the U.S. Of the many differences, two are noteworthy to this research. The first is that there is a separation of the announcement of the issue and the price of the issue. Thus, the announcement of the issue is called ADI. The announcement of the price of the issue that occurs at a later date is called ADP. Further, the announcement of the price can be performed using two methods. Under method 1, the sale price is announced on the ADP. Under method 2, only the ratio of the sales price of new shares relative to the price of outstanding shares on a subsequent day is announced on the ratio announcement date. On that date, the price is announced at the established ratio of the closing price of shares. CAR values were calculated for this ratio announcement. No significant two-day CAR values were found for these companies. Since there was no significant wealth impact associated with the announcement of the price ratio, and since the price is really not known on that date, the ratio announcement date was not separated as a critical information date in this study. On the date established for pricing at the ratio announcement date, the price of the shares are set and known under method 2; thus, this date is called the ADP for these issues in this study. For details of these two methods of selling new equity shares in Japan please see *Securities Market in Japan, 1990*, page 35-37.
To be more specific about the issuing procedures, the following facts and dates apply to the Fuji Bank issue described in footnote 6. The Board of Directors decided the multiple issues and announced the decision at a press conference in the Tokyo Stock Exchange after the market closed on 9/22/87. All the information except the issue price of the new share and the conversion price of the CBs was announced at that time. The issue information appeared in the morning edition of the *Nihon Keizai Shimbun* dated 9/23/87 (this is the ADI of the issue). The Board of Directors decided the issue price of the new shares at 3,146 yen using method 1 described above and the conversion price of the CBs at 3,423 yen. This decision was announced at a press conference after the market closed on 10/8/87. The price information appeared in the morning edition of the *Nihon Keizai Shimbun* dated 10/9/87 (this is the ADP of the issue). The sale date was 10/28/87 (this is SD of the issue).

9) An interim period between the announcement and sales dates in this way has been used by Asquith (1983), Pettway-Radcliffe (1985), Asquith-Mullins (1986), Wansley-Pettway-Dhillon (1990), and Pettway, Kaneko and Young (1991a, 1991b).

Table 2. Cumulative Abnormal Returns of 21 New Common Stock Issues Sold by Japanese Commercial Banks When They Also Sold New Convertible Bonds on the Same Dates in Domestic and Foreign Markets Over the Period 1/1/85–6/15/90

Interval Name, Periods, or Effects	Time Period	CAR Values	t Values	p Values
Preannouncement	ADI-21 through ADI-2	1.52%	0.6747	.5000
Issue Announcement (ADI)	ADI-1 through ADI	**1.64%**	2.2513	.0244
% Positive		57.14%		
Interim Period	ADI+1 through ADP-2	1.25%	0.8017	.4228
Price Announcement (ADP)	ADP-1 through ADP	**1.75%**	2.4000	.0164
% Positive		57.14%		
Interim Period	ADP+1 through SD-2	1.40%	1.1930	.2329
Sale Period (SP)	SD-1 through SD	−0.71%	−0.9749	.3296
% Positive		35.71%		
Post-Sale Period	SD+1 through SD+20	−0.41%	−0.1792	.8580
Over-all Effect	ADI-21 through SD+20	6.46%	1.4614	.1438

is simply the sum of the CAR values of each of the parts. This over-all effect is a measure of the net effect over the entire time period from before the announcement until after the sale of the new capital securities.

The analysis begins by measuring the wealth effects of all the sales as a group. Then different stratification schemes are employed to measure the impacts of the simultaneous sales features versus the multiple country/multiple currency feature of these new issues. To relate the wealth effect with the issue features and company characteristics, regression models are employed at the ADI and at the ADP. A number of independent variables are utilized that have been found to have been significant in previous studies of the wealth impacts of security sales.

III. Results

A. Over-all Wealth Effects

The wealth effects of these simultaneous sales of equity and convertible securities denominated in multiple currencies are found in Table 2. It is clear that there are no significant preannouncement, interim, nor post-sale impacts from these sales. However, there are significant positive wealth effects during the two-day issue announcement period (ADI) and during the price announcement period (ADP).[10] Also, the percentages of positive ARs within the three event periods are provided and are generally consistent with

10) The significant t-values indicated for the CAR values in Table 2 were calculated using the variance of abnormal returns during the 200 day base period for each company as recommended by Brown and Warner (1985). The far right column contains the p value for the calculated t-values and indicate the level of significance of the CAR values using a two-tailed test.

the parametric results.

These results are not consistent with the empirical findings of securities issued by American firms described in the literature. Even though American firms do not sell similar types of securities, it is clear that the market reaction to these issues is more positive than is typically observed for domestic sales of equity and convertible debt. Furthermore, it has been found that when new equity securities are sold by U.S. commercial bank holding companies, there are significant negative wealth effects.[11] The sales of convertible bonds by bank holding companies studied by Keeley (1989) do show positive gains but they are not significant at the announcement date. The significant positive two-day CAR values at announcement over a period of 5 and 1/2 years indicates that there were structural frictions in markets for corporate securities that allowed the large Japanese banks to create profitable financing opportunities by offering these unique types of issues. These results are somewhat similar to those found by Kim and Stulz (1988), KS, in their study of Eurobond sales by American corporations. However, the securities studied here are quite different from those studied by KS for many reasons. First, this study is of equity sales, whereas KS is a study of bond sales. Second, the data in this study are simultaneous sales and not all of the convertible bonds were sold in the Eurobond market. For example, the convertible bonds denominated in Swiss Francs were not allowed to be sold in the Eurobond market and were thus only sold in the foreign bond market in Switzerland.[12] The equity issues were sold locally in Tokyo as were the convertible bond issues denominated in Yen. Thus, these issues were sold in more markets than the bonds studied by KS. Further, these issues were denominated in multiple currencies in addition to the home currency of the issuer, whereas the KS study is of a single currency, Eurodollar issues, which is the home currency of the issuer. This is not the case for the Japanese bank CBs denominated in Swiss Francs and Eurodollars.

It is clear that the combination of simultaneous sales of equity and convertible bonds in the domestic market, Eurobond market, and foreign bond market using multiple currencies has resulted in significant gains for shareholders of these banks. These results are consistent with the evidence found by Kim and Stulz that there are unsatisfied clienteles in international capital financing by credit-worthy firms. In the next sections, the attributes of the issues and the selling companies are compared to the abnormal returns to measure the relationships of these variables to these gains in wealth.

B. Simultaneous Sales Versus the Value of the Multiple Currency Option

The positive wealth impacts found in Table 2 could be associated with features of the issue. The first set of features to be analyzed is the simultaneous sales feature and the sales in multiple markets and/or multiple currencies. Of the 21 sales of equity and convertible bonds on the same day, eight were sold exclusively in the domestic market, Japan, and were denominated only in Yen.[13] The wealth effects of the 8 purely domestic

11) See Keeley (1989), Polonchek, Slovin and Sushka (1989), Wall and Peterson (1988), Wansley and Dhillon (1989) and Wansley, Pettway and Dhillon (1990).

12) See Fisher (1988), page 136.

Table 3. Cumulative Average Returns From Simultaneous Sales of Equity and Convertible Bonds in Various Capital Markets and Currencies

Event Period	(1) Domestic Sales Only (¥) n = 8	(2) Domestic and Foreign Sales (¥, Euro$, SF) n = 13	(3) Difference (2)−(1)	(4) Domestic and Single Foreign Sales (¥, Euro$, SF) n = 7	(5) Domestic and Multiple Foreign Sales (¥, Euro$, SF) n = 6	(6) Difference (5)−(4)
Pre-announcement	−0.814%	3.008%	3.822%	**8.900%**	−3.867%	**−12.767%**
t value	(−0.280)	(0.877)	(.8181)	(1.792)	(−0.895)	(−1.8999)
p value	.7794	.3805	.4134	.0731	.3708	.0574
Issue Announcement (ADI)	1.432%	1.763%	.3310%	2.182%	1.275%	−0.907%
t value	(1.560)	(1.625)	(.0460)	(1.389)	(0.933)	(−.3224)
p value	.1188	.1042	.9633	.1649	.3508	.7472
Interim Period	−1.554%	2.975%	**4.529%**	3.935%	1.855%	−2.080%
t value	(−1.019)	(1.323)	(1.656)	(1.498)	(0.461)	(−.7333)
p value	.3083	.1858	.0978	.1340	.6449	.4634
Price Announcement (ADP)	−0.178%	**2.930%**	**3.1080%**	0.781%	**5.437%**	**4.656%**
t value	(−0.195)	(2.701)	(2.048)	(0.497)	(3.978)	(2.4614)
p value	.8454	.007	.0406	.6192	.0001	.0138
Interim Period	1.005%	1.642%	.6370%	2.183%	1.010%	−1.173%
t value	(1.107)	(0.891)	(.153)	(1.007)	(0.306)	(−.4957)
p value	.2683	.3729	.8784	.3139	.7596	.6201
Sale Period (SP)	−0.832%	−0.632%	.2000%	−0.300%	−1.020%	−.720%
t value	(−0.907)	(−0.583)	(.299)	(−0.191)	(−0.747)	(−.3932)
p value	.3644	.5600	.8188	.8486	.4550	.6942
Post-Sale Period	−2.360%	0.787%	3.147%	7.328%	−6.843%	**−14.171%**
t value	(−0.813)	(0.229)	(.737)	(1.476)	(−1.583)	(−2.163)
p value	.4163	.8188	.4611	.1399	.1135	.0306
Over-all Effect	−3.303%	**12.472%**	**15.7750%**	**25.008%**	−2.153%	**−27.161%**
t value	(−0.635)	(1.818)	(1.735)	(2.527)	(−0.248)	(−1.9622)
p value	.5254	.0691	.0827	.0115	.8042	.0497

sales over the event period are found in Column (1) of Table 3. Notice that the two-day Issue Announcement (ADI), two-day Price Announcement (ADP), and two-day Sale Period (SP) effects are not statistically significant at conventional levels. The Issue Announcement (ADI) is positive but only significant at the .12 level. This is in marked contrast to the results presented in Table 2 for the Issue and Price Announcement (ADI & ADP) effects for the entire set of 21 sales which are both significant. Thus, it appears that the announcement of the unique simultaneous sales of equity and convertible bonds on the same day did not result in gains to stockholders. These results are consistent with the experience of American firms which have made individual security issues. On the other hand, the thirteen issues that were sold in the domestic and foreign markets in multiple currencies found in Column (2) did have significant, positive wealth effects at the ADP and for the over-all period. In fact, the domestic and foreign sales listed in Column (2) of Table 3 are more positive at the ADI, ADP, and Over-all periods than were the total of 21 issues described in Table 2.

Column (3) of Table 3 contains the differences between the CAR values for the domestic/foreign sales and those for domestic sales only for each of the eight periods. It is clear from the t-values and the p-values of these differences that the two-day price announcement effect and the over-all effect are both significantly larger for the domestic and foreign sales than the domestic only sales. These findings indicate that the foreign sales resulted in more gains in wealth than domestic only sales of these equity and convertible bonds. Thus, it appears that the simultaneous sales feature is not as valuable as the multiple country/multiple currency feature.

The foreign sales described in Column (2) were further stratified into those sales that were in a single foreign currency versus those that were in multiple foreign currencies. There were seven sales of these combinations of equity and convertible bonds in Yen and either Eurodollars or SFs. The wealth effects of these sales are listed in Column (4) of Table 3. There is a significant increase in share returns of issuing banks just prior to the announcement of the domestic and foreign sale of these securities. Both the ADI and ADP announcement effects are positive, but neither is significant at the .10 level. The Over-all Effect is positive and significant at the .0115 level for these sales.

For the sales where there were more currencies used, the results are presented in Column (5) of Table 3. It is quite clear that the sales of securities in multiple currencies and in multiple markets had a very significant positive wealth impact at the ADP. In fact, the two-day change in wealth of 5.437% at the ADP is the largest two-day gain in the entire sample or subsamples.[14] These results are consistent with the propositions that these large and well-known Japanese banks could generate wealth for their shareholders by offering securities that were sold in both domestic and foreign markets and in multiple currencies. In fact, these sales were made in three types of currencies and in three different markets all on the same announcement and sales dates.

13) Of the 21 issues of equity and convertible bonds sold during the study period, there were eight issues sold only in Yen, five in Yen and Eurodollars, two sold in Yen and Swiss Francs, and six in Yen, Swiss Francs, and Eurodollars. See Table 1, Panel E.

The differences between the domestic PO sales combined with a single CB foreign issue versus the domestic PO sales combined with multiple foreign CB issues is found in Column (6) of Table 3. Notice that of the two-day price announcement effects (ADI and ADP), the price announcement (ADP) is much higher (i.e., 4.656% greater) and this difference is significant at the .0138 level. These results indicate that multiple foreign sales result in a significant increase in wealth compared to a single foreign CB sale.

In summary, it appears that the simultaneous sale feature and the multiple market/multiple currency feature are not equally valuable to shareholders. The issues that combined the most numerous foreign currencies and are sold in the most markets result in the largest gains in wealth to shareholders at announcement.

C. The Impacts of Issue Features and Firm Characteristics Upon Shareholders' Wealth

Having identified significant positive abnormal returns associated with both the issue announcement and the price announcement, the analysis concentrates on other issue features and firm characteristics which may be related to these effects. Previous studies indicate that many of the characteristics found in Table 1 impact the level of abnormal returns around the announcement of security issues.[15)]

Twelve issue features and firm characteristic variables related to the information presented in Table 1 are initially selected for analysis.[16)] An OLS regression analysis as used by Stickel (1991) was employed to measure the relationship of these features and

14) The analysis found in Table 3 stratifies the 21 observations into smaller subsets depending upon the characteristics of the issues. Certainly some of these subsets have few observations, but as stated in footnote 4 these observations are a population of all available data and not a sample. Further, the reported statistics in Table 3 are in terms of t-values which adjust for the degrees of freedom in each subset. Finally, an analysis of the variances of mean daily returns in the base and test periods was performed to determine if there was a significant change in variance between the base or estimating period and the subsequent test period for the issuing companies. A test of equivalence of variances was performed for the subsets in Table 3 namely, domestic only, domestic and foreign sales, domestic and single foreign sales, and domestic and multiple foreign sales. The resulting F and (p) values from this test are 1.38 (0.1869), 1.05 (0.8617), 1.37 (0.2005), and 1.14 (0.5377) respectively. Similar tests were performed on market adjusted returns (using the daily TOPIX index values) and similar results were found. Thus, the variances during the base or estimating period for each subset are not statistically different from those same companies in each subset during the test period. These results indicate that even though the number of observations in each of the subsets is small, there is no evidence of a change in variance during the test period; therefore, the t-value tests for abnormal returns based upon the variances in the base period as suggested by Brown and Warner (1985) appears to be reasonable.

15) See Asquith and Mullins (1986), Eckbo (1986), Kim and Stulz (1988), Masulis and Korwar (1986), and Mikkelson and Partch (1986).

16) The independent variables included in the initial regression were: Amount of CB issue in foreign currency, ACBFC; Yen amount of CB issue, TCBVAL (in final set); Log of total volume of new shares fully converted, LOGTS (in final set); Weighted average maturity of CB issues, WAMCB; Debt/Equity ratio of issue, D/EI; Single vs. Multiple foreign currency dummy, SVMFC (in final set); 1/2 year net profit after tax prior to issue, 1/2 NPAT; Total Assets of the issuer, TOTA (in final set); Bank equity/total assets ratio, BE/TA; Net profit/total assets ratio, NP/TA; Relative average profitability, RAPROFIT; Relative Net Profit after Tax for prior 1/2 year, RNPAT (in final set).

Table 4. Regression Analysis: Impacts of Issue Features and Company Characteristics of 21 Issues of Equity and Convertible Bonds Sold by Large Japanese Banks Upon Shareholders' Wealth at the Announcement Dates (t-Statistics are Given in Parentheses)

Two-day CAR Values at	Const.	Issue Features			Company Characteristics		p-value[f]	Adjusted R-squared
		TCBVAL[a]	LOGTS[b]	SVMFC[c]	TOTA[d]	RNPAT[e]		
ADI	−0.155	4.78E-07	0.01807	0.0333	−1.18E-09	−0.329	0.1368	0.2002
	(−0.535)	(1.034)	(0.617)	(1.483)	(−0.293)	(−0.609)		
	0.0367					−0.2315	0.0239	0.2008
	(3.304)					(−2.455)		
ADP	0.506	7.45E-07	−0.0501	0.0985	5.17E-09	−1.168	0.0005	0.6607
	(2.393)	(2.149)	(−2.344)	(5.810)	(1.695)	(−2.893)		
	0.0027			0.0517			0.0101	0.2638
	(0.278)			(2.858)				
	0.0241			0.0743		−0.3132	0.0004	0.5384
	(2.461)			(4.730)		(−3.508)		
	0.0147	5.205E-07		0.0920		−0.5021	0.0004	0.5883
	(1.378)	(1.784)		(5.152)		(−3.709)		
	0.3044	8.72E-07	−0.0285	0.0903		−0.517	0.0005	0.6210
	(1.647)	(2.432)	(−1.570)	(5.258)		(−3.967)		

[a]TCBVAL = Amount of CB issue in Yen.
[b]LOGTS = Log of the total number of shares of issue.
[c]SVMFC = Single vs. multiple foreign currency dummy variables coded as 1 if there are two or more foreign currencies.
[d]TOTA = Total Assets of issuing bank from 1/2 year prior to announcement.
[e]RNPAT = Relative net profit after tax of issuing bank for prior 1/2 year to the average net profit of the other selling banks for the 1/2 year prior to announcement.
[f]For each regression, the p-value is associated with the f-statistic when the null hypothesis is that all regression coefficients are zero.

firm characteristics to the abnormal return at the two announcement dates.[17] Of the twelve variables in Table 1, only five are significantly related to the two-day abnormal returns on either of the two announcement dates (ADI and ADP). These five variables are presented in Table 4.

At the ADI, there is little evidence of a systematic relationship between abnormal

17) In a study of abnormal returns at merger announcements, Eckbo, Maksimovic and Williams (1990), EMW, postulate that mergers are voluntary actions resulting from management's inside information and signal good news to investors. Thus, the resulting abnormal returns suffer from truncation bias and, therefore, the cross-sectional regression parameters should be estimated by maximum likelihood. This paper is a study of actions that are not entirely voluntary due to regulatory pressure to meet the new BIS capital standard. Additionally, finance theory gives no *a priori* reason to believe that the abnormal returns around the announcement of combination sales should be biased either positively, negatively, or truncated. Thus, this study employs least squares, not maximum likelihood as the conditions stated by EMW are not met.

return and the identified characteristics. However, when the two-day announcement CAR levels are regressed on the individual variables, the relative net profit (PNPAT) is negatively related to abnormal return and is significant at the .0239 level. This result is consistent with the hypothesis that in the face of regulatory demands for additional capital, the issue of these new securities is perceived as a good signal even though the most recent income is not high relative to other sellers.

The positive abnormal returns on the price announcement (ADP) are related to all five issue and firm characteristics. Again, the relative net profit is negatively related to the CARs as is the number of shares of new equity in the issue. The coefficient of the size of the convertible bond issue is positive and significant at the 5% level. The most significant feature of the issue is the multiple versus single currency dummy variable. This result corresponds to those from Table 3. Thus, our analysis indicates that investors highly value the multiple currency/multiple market feature of these issues.

In summary, it appears that not only do banks which issue these securities display positive abnormal returns at the announcement, but these returns are associated with various features of the issue and/or the issuing bank. The relatively less profitable banks which issue proportionally more convertible bonds in multiple foreign currency/markets appear to create the most wealth from the sale of these new securities.

IV. Summary and Conclusions

Generally, shareholders do not gain from the sale of new issues of securities. But the simultaneous sales announcements of new equity shares and convertible bonds denominated in multiple currencies by Japanese banks in multiple national markets, result in significant positive announcement effects. The effects occurred from 1985 through 1990. An analysis indicates that the positive wealth effects were more related to the multiple currency/markets feature than to the simultaneous issuance. These results support the suggestions of Kim and Stulz (1988) that there is an unsatisfied clientele for international sales of credit-worthy firms. Also banks that sold proportionally more convertible bonds, had lower average profit just prior to the sale, and issued the securities in the largest number of currencies and foreign markets gain the most abnormal wealth for their shareholders.

In summary, large Japanese banks have been able to simultaneously issue new equity and convertible bonds in multiple currencies and markets to the benefit of their shareholders. This unexpected result is consistent with an unsatisfied clientele that will pay premiums for the issues of these credit-worthy firms. It is clear that the multiple markets/multiple currency features are most associated with the positive abnormal return at announcement and, thus, are the primary sources of stockholder value. Since wealth was created from these sales, other firms of good credit reputation may consider issuing securities that are denominated and sold in multiple markets in an attempt to reap similar benefits.

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