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Abstract
Using the samples of privately placed debt during 1986 to 1994, this research investigates the announcement effect of debt private placements on stock returns of issuing firms. In addition, the impacts of private placement for secured bond are compared with that for unsecured ones and the impacts of private placement for senior bond are compared with that for subordinated ones. In the past there were many studies about private sales of equity and they were provided an opportunity to promote the monitoring. The effect of monitoring will help for firm operation and increase firm value. So the abnormal returns are positive after the company has announced equity private placement. However, only a few of studies were about private sales of bond.
The findings indicate that the debt private placement has significant negative effect on firm value. The cumulative average abnormal returns are negative after the company has announced debt private placement, which is inconsistent with the equity private placement. Meanwhile, we also find that the abnormal returns of firms issuing unsecured bonds are significantly higher than that of firms issuing secured bonds. This result demonstrates that the investors of unsecured bonds have higher motives, due to the lack of guarantee, to monitor the company. Consequently, the values of companies issuing unsecured bonds are higher than those issuing secured bonds.
Additionally, we find that the abnormal returns of firms issuing senior bonds are significantly higher than that of firms issuing subordinated bonds. This result doesn’t demonstrate that the investors of subordinated bonds have higher motives. To conclude, the study may not demonstrate monitoring effect.
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