

Equity Issuances and Agency Costs: The Telling Story of Shareholder Approval around the World

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Mandatory shareholder approval of equity issuances varies across and within countries. When shareholders approve issuances, average announcement returns are positive. When managers issue stock without shareholder approval, returns are negative and 4% lower. The closer the vote is to the issuance or the greater is the required plurality, the higher are the returns for public offers, rights offers, and private placements. When shareholder approval is required, rights offers predominate. When managers may issue stock without shareholder approval, public offers predominate. These findings suggest that agency problems affect equity issuances and challenge existing adverse-selection, market timing, and signaling explanations.

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In the United States and a few other countries, management typically needs only board of director approval to issue common stock. But in most countries by law or stock-exchange rule, shareholders must vote to approve equity issuances undertaken by a certain method or exceeding a specified fractional threshold. In some countries shareholders must approve all equity issuances. Even in the United States shareholder approval is mandatory under certain circumstances.

This widespread heterogeneity in shareholder approval, which has been overlooked in the academic literature, is associated with two robust empirical regularities. First, shareholder-approved issuances are associated with positive and higher announcement returns compared with managerial issuances, 2% versus -2%. This holds across and within countries; it also holds for public offers, rights offers, and private placements. Second, when shareholders must approve equity issuances, rights offers are far more common than public offers. When managers may issue equity without shareholder approval, public offers are far more common than rights offers.

These empirical regularities suggest that agency problems affect equity issuances.

These findings emerge from an unconventional meta-analysis of over one hundred existing studies of the stock price reaction to equity issuances by public corporations around the world. Mandatory shareholder approval explains the disparate results of these studies, which range from strongly negative to strongly positive. Mandatory shareholder approval also explains the disparate methods firms use to issue stock, which range from overwhelmingly through public offers to overwhelmingly through rights offers. These patterns have gone undetected because researchers to date have compared their findings with only those from the United States, as if each country were an isolated peninsula connected only to the United States. The importance of shareholder approval is revealed only after pooling the data from many countries and different methods to issue common stock.

In his seminal work on the methodology of economics, John Neville Keynes (1890, p. 35) wrote “the object of a positive science is the establishment of uniformities.” The basic contribution of this paper is, first, to identify a new consideration, the divide

between shareholder-approved and managerial stock issuances, and second to document that this divide is associated with robust empirical uniformities across many diverse countries both on how firms issue equity and the market's reaction to that decision. This, of course, is not to say that the heterogeneity with shareholder approval explains everything about equity issuances by public corporations. In this paper I abstract from these other considerations to focus on shareholder approval.

The divide between shareholder-approved and managerial stock issuances offers new insights into many regularities that might first appear to be anomalous. For example, many papers seek to understand two salient regularities associated with equity issuances by public firms: public offerings predominate and the resulting announcement effect is typically negative. Although this characterizes the United States, it is true with only three other countries among the 23 countries I study (Canada -2.04%, Israel -4.26%, Japan -1.17%).¹ These four countries are the only ones where managers may broadly issue stock without shareholder approval. When shareholder approval is required, either public offers are rare or the average announcement effect is positive or both. For example, the average announcement effect of public offers is positive in all countries where shareholder approval is required (Hong Kong 3.14%, Taiwan 1.74%, the United Kingdom 1.19%).

Shareholder approval also offers new insights on rights offers. The announcement effects are negative and large in some countries, among them Australia (-3.53%) and the Netherlands (-2.17%), but positive and equally large in other countries, among them Finland (4.29%) and Singapore (3.69%). I am unaware of any effort to reconcile these divergent findings. In Australia and the Netherlands managers may unilaterally undertake rights offers, but in Finland and Singapore they must obtain shareholder approval.

¹ The papers documenting the results noted in the introduction are found in Table 2. When there are multiple papers for the same method of issuance in the same country, I calculate an average return weight by the number of observations in each study. These figures are reported in Table 4.

Mandatory shareholder approval also offers new insights on the third major way that corporations issue equity, private placements. For instance, in Sweden (7.27%) and India (6.18%) the announcement effects are positive, but they are negative in the Netherlands (-0.52%). Shareholder approval of private placements is required in Sweden and India but not in the Netherlands.

Shareholder approval also recasts established findings of private placements from the United States. Barclay, Holderness, and Sheehan (2007) propose that many private placements reflect entrenched managers placing large blocks of stock at discounts to the exchange price to “sympathetic” investors. They find that the largest discounts are with placements to the managers themselves. Yet these placements are associated with strongly positive announcement returns. The authors are unable to reconcile these findings with their thesis of managerial entrenchment. We shall see that under domestic stock-exchange rules, disinterested shareholders must approve placements made to managers.

Shareholder approval helps to resolve confusion in other countries as well. An example is provided for Hong Kong by Wu and Wang (2002). They document large and positive announcement returns for public offers (3.14%) but large and negative returns for rights offers (-7.64%). They struggle to understand these findings in two respects. First, public offers in the United States are associated with negative returns. Why should Hong Kong be different? Second, most of the academic literature assumes that managers are acting solely in their existing shareholders’ best interests when issuing equity. Why then would managers institute rights offerings that appear to substantially reduce their shareholders’ wealth? We shall see that in Hong Kong shareholders must approve public offers, but managers may undertake rights offers unilaterally.

By pooling observations from many countries, we see that in most countries either public offerings are rare or rights offers are rare. Commentators have long been “puzzled by the apparent preference of companies for general cash offers” because rights offers avoid any underpricing and have lower direct costs (Brealey et al 2014, p. 390). This is widely known as the right puzzle. The standard response is that rights issues “are required by law in many other countries” (Ross et al 2011, p. 637) or

“obligatory” (Brealey et al 2014, p. 389). Such claims are incorrect. Although in many countries shareholders have preemptive rights (that is, they must be offered the opportunity to purchase stock before it is sold to outsiders), in all countries shareholders may waive their rights and firms may then sell stock to outsiders. No method of issuance is prohibited. Shareholders often waive their preemptive rights for private placements but seldom for public offerings. Frequent public offerings of seasoned equity are limited to those few countries where managers may unilaterally issue stock. When shareholder approval is required, rights offers instead are overwhelmingly used.

In aggregate, these findings suggest that agency conflicts affect equity issuances by public corporations. This conflicts with the widely held view that managers are acting solely in their existing shareholders’ best interests when issuing stock. For example, two of the seminal papers in this area Myers and Majluf (1984) and Miller and Rock (1985) explicitly make this assumption. Yet it would be surprising if agency considerations were present with many corporate decisions but absent with something as fundamental as the issuance of common stock (a point made by Berger et al 1997 and Myers 2000).

One agency interpretation that is consistent with the evidence and builds on Jensen’s (1986) free cash flow theory is that stock prices decline when managers unilaterally issue stock because market participants believe the new capital may enable managers to empire build or pursue growth for growth’s sake. When shareholders must approve equity issuances, these threats to firm value are curbed. This agency interpretation also complements Hart and Moore’s (1995) analysis of how the seniority of long-term debt constrains managers from raising short-term debt to fund unprofitable but empire-building investments. They do not consider why managers confronted with such constraints do not instead simply issue equity. Mandatory shareholder approval of equity issuances addresses this possibility.

In contrast, several major findings are inconsistent with existing theories of equity issuances. Most of these theories assume the absence of agency conflicts, so shareholder approval should not matter. Yet there are many robust differences both across and within countries associated with shareholder approval on how firms issue equity and

the market's reaction to that decision. In addition, certain findings seem inconsistent with key predictions of specific theories. The adverse-selection theory of Myers and Majluf (1984) predicts that firms will choose the issuance method that suffers the least from the inefficiencies caused by information asymmetries between managers and investors on firm value. Yet when managers issue stock without shareholder approval, they choose public offers far more often than rights offers even though a rights offer would reduce these inefficiencies. Myers and Majluf also predicts a negative stock price reaction to public offers of seasoned stock. Yet when shareholders approve public offers, the average stock price reaction is positive. The market timing theory of Baker and Wurgler (2002) predicts that firms will time the public issuance of stock to when their stock is overvalued. Yet public issuances of stock are rare in most countries, which are those countries where shareholder approval is required. The signaling theory of Miller and Rock (1985) predicts a negative stock price reaction to any form of equity financing. Yet when approved by shareholders, public offers, private placements, and rights offers of equity are all associated with a positive average stock price reaction.

These findings suggest many follow-on analyses, ranging from revisiting existing studies where mandatory shareholder approval was present but unrecognized to investigating whether managers are more likely to issue debt when shareholder approval is required for equity issuances to analyzing mandatory shareholder approval of other major corporate decisions. The latter is a fundamental issue for any firm but one which has been surprisingly little studied.

I. Equity Issuances and Mandatory Shareholder Approval

Equity issuance, along with a few other matters such as charter amendments and mergers, is seen as so fundamental and susceptible to agency conflicts that “all jurisdictions regulate some aspects of the corporate decision to issue new shares. Like the merger decision, the decision to issue shares can significantly affect shareholders’ interest. ... Managers’ incentives are also problematic: share issuance can be used to build empires, entrench managers, and dilute control. Not surprisingly, then, we find

the familiar requirements of board and shareholder approval.” (Kraakman et al 2009, p. 193.) Shareholder approval of equity issuances is determined by several factors.

Corporate Law. National (or state) corporate law governs equity issuances in three different ways. The first approach is to require that shareholders vote to approve all equity issuances. Some countries require shareholder approve of specific issuances. Other countries allow shareholders to vote to give management the option to issue a limited amount of stock for a limited period of time.

The second approach is to require that shareholders vote to approve only those equity issuances that are not offered pro rata to existing shareholders. This is called preemptive rights. It means that shareholders do not have to approve rights offers but must approve private placements and public offers. Preemptive rights may be either mandatory or enabling. With mandatory preemptive rights, companies may not opt out on a general basis. Shareholders, however, may always waive their preemptive rights for a specific equity issue or time period. With enabling preemptive rights, firms may adopt preemptive rights but are not required to do so. When firms adopt such provisions, shareholders again may waive their preemptive rights for specific issues or time periods.

The final legal approach is to allow managers to issue equity with only board of director approval; no shareholder vote is required (“managerial issuance”). This approach gives rise to the difference between authorized stock and issued stock. Shareholders must vote to authorize stock, but managers may without further shareholder action sell authorized (but unissued) stock. (Countries following the other two legal approaches do not recognize the difference between authorized and issued stock. Instead, shareholders must vote to authorize stock, and it may stay unissued for a limited time only.) In the United States (at least in Delaware) there is no limit on the number of authorized but unissued shares, and there is no limit on how long stock may be authorized before it is issued (Pistor et al 2003). Ganor (2011) documents that firms going public in 2009 typically had five times as many shares authorized but unissued as they had shares issued. For example, Facebook has 4.1 billion shares authorized but only 117 million of them were issued prior to its IPO. Its shareholders, consequently,

did not have to approve the issuance of any of the 180 million primary shares sold in its IPO. In fact, Facebook shareholders did not vote on the decision to go public. The only apparent direct cost of authorized but unissued stock is that the Delaware franchise tax increases with the number of authorized shares. This tax, however, is capped at \$180,000 a year.

It is important to recognize that no method of issuance is prohibited under any of these approaches. As we shall document, shareholders often waive their preemptive rights for private placements but seldom for public offers. Similarly, in those countries where shareholders must approve all equity issuances, they often approve rights offers and private placements, but they seldom approve public offerings.

By-Laws and Articles of Incorporation. These become relevant if corporate law on preemption is enabling as opposed to mandatory. In both the United States and Japan, for instance, preemptive rights are enabling, but few companies in either country have adopted them (Kraakman et al 2009, p. 196).

Exchange Rules. Exchange listing rules requiring shareholder approval of equity issuances have received little attention in the academic literature, but they can be important. Both the NYSE and NASDAQ require shareholder approval of any private placement of more than 20% of a firm's outstanding equity if the offer is priced at a discount to the exchange price. Both exchanges also require shareholder approval of most private placements to insiders even when the placement is not at a discount to the exchange price. Australian corporate law does not mandate preemptive rights, but the Australian Stock Exchange requires shareholder approval of any stock issuance greater than 15% of existing capital that is not offered pro-rata to all shareholders. This means that private placements and public offers, but not rights offers, greater than 15% of existing capital must be approved by shareholder vote.

Classification of Shareholder Approval. I now classify shareholder approval of equity issuances on a 1 to 5 scale as the laws and rules fit into five distinction groups. These classifications are based both on a top-down analysis, from reviewing primary and secondary legal sources, and a bottom-up analysis, from reviewing press reports on individual equity issuances. I also consulted with academics and practitioners in many

of the countries. Part of this process was to incorporate industry practices, as illustrated below with Finland and the United Kingdom. In all instances the vote is binding, not just advisory (in contrast to many shareholder votes in the United States).² These classifications serve as the foundation for most of my empirical analyses.

Shareholder approval is classified as 5 if shareholders must approve a specific equity offer by a supermajority vote. This vote must occur within one year of the actual issuance (usually it is shorter than that). An example is private placements in Sweden, which by law must be approved by either a 66% or 90% majority depending on whether the placement goes to outsiders (66%) or to insiders (90%).

Shareholder approval is classified as 4 if shareholders must approve a specific issue by majority vote; the stock must be issued within one year of the vote. Typically, the issuance comes more quickly after the vote. An example is rights offers in Finland. For instance, Sonera's board on October 22, 2001 recommended a rights offering of up to 700 million shares. Management announced that it "intends to use the proceeds from the rights offering to retire a portion of its outstanding indebtedness and thereby strengthen the financial position of the company and to maintain its investment grade credit ratings."³ Shareholders approved the issue at an extraordinary general meeting on November 9; later that day the board confirmed the final conditions for the offering. The \$889 million rights offering commenced on November 15 and successfully closed on November 28, 2001.

This example illustrates the importance of industry practices. In Finland shareholders legally may approve a rights offer for as long as five years. But the widespread practice, discerned from reviews of individual cases and discussions with Finnish academics, is that rights offers typically occur within a few months (sometimes

² Yermack (2010) reviews shareholder voting in the United States.

³ Business Wire, October 22, 2001.

within a few days) following the shareholder vote, as with Sonera. Hence, I classify rights offers in Finland as 4.

Voting is classified as 3 if shareholders approve an issuance within one year through what is often called a general mandate at the annual meeting. An example would be most private placements in Singapore. Under Singapore Exchange rules, shareholders may grant a one-year general mandate for private placements totaling up to 20% of a firm's equity. This gives management the option but not the obligation to issue the stock. (General mandate provisions also typically impose other limitations, notably with pricing.) Under Singapore Exchange rules, other private placements, including those to insiders, must be approved by a shareholder vote on the specific issue. I classify a general mandate as 3 and a vote on a specific issue as 4. Because most private placements in Singapore are done pursuant to general mandates, Singaporean private placements are classified as 3.

Shareholder approval is classified as 2 if the shareholder vote occurs more than one year but less than five years before the issuance. This is a less restrictive general mandate than the previous category. An example would be public offerings and rights offerings in France. Under corporate law, all French equity issuances must be approved by shareholders. They may grant an authorization for a maximum amount to be raised within five years by rights, three years without rights, or 26 months when the type of security and flotation method is not specified in the shareholders' resolution.

Under United Kingdom law shareholders may waive their preemptive rights for five years. This would suggest that public offerings in the United Kingdom should be classified as 2. "In practice the issuance process in the United Kingdom is structured around the more restrictive provisions on pre-emption contained in the Pre-Emption Group/Investor Protection Committee guidelines." (Myners 2004, p. 12) These guidelines, issued by the Association of British Insurers, specify that shareholders should waive their preemptive rights and sell stock to the public only for an issuance of no more than 5% of capital and only until the next annual meeting. The guidelines also hold that any such issuances may be sold at a maximum discount to the exchange price of 5%. Given that most public offerings in the United Kingdom fall within these

parameters, I classify public offerings in the United Kingdom as 3. This is another example of the importance of industry practices.

Finally, shareholder approval is classified as 1 when there is no shareholder vote. The United States is classified as 1 for all equity offerings except for those private placements that must be specifically approved by shareholders because of exchange rules, which are classified as 4.

Table 1 documents the requirements for shareholder approval of equity issuances both across and within countries. Further information on the classification system is found in the Internet Appendix. There are other aspects of shareholder voting which are not considered in this classification, including quorum requirements and whether conflicted shareholders may vote or whether if they may vote they do, in fact, vote. This is not to gainsay the potential importance of these factors but rather to focus on the highest-level question of whether shareholders must approve equity offerings.

II. Methodological Approach and Data

A. Meta-Analysis

One approach for studying shareholder approval of equity issuances would be to identify quasi-natural experiments involving the laws and exchange rules mandating such approval and then measure the impact on firms using identification techniques such as regression discontinuity, event studies, or difference-in-differences. Although this approach is desirable because it can help eliminate alternative explanations, in our setting it is infeasible. The laws mandating shareholder approval are determined by different sovereign governments and independent stock exchanges and tend to be stable for decades. I have been unable to identify any credible instruments that create good-as-random variation in the requirements for shareholder approval of equity issuances across a large number of countries.

An alternative approach would be to use electronic data to identify equity issuances around the world and then conduct my own event studies. I investigated this possibility but discovered that the electronic data is deeply flawed. I will illustrate this with Sweden and Italy, although I could use any country other than the United States and

possibly Canada. Considering public offers and rights offers, SDC reports for Sweden that 62% are public offers while Bloomberg (the other electronic source) reports that 22% are public offers. Cronqvist and Nilsson (2005), however, report that public offerings of equity in Sweden are exceedingly rare and that rights offerings far predominate. SDC reports for Italy that 75% of issuances are public offerings (as opposed to rights), while Bloomberg reports a figure of 33%. The *Official Statistics of the Italian Stock Exchange*, in contrast, reports it is only 20% (5% on a value-weighted basis). One reason why the electronic data is so inaccurate is that rump sales of unsubscribed stock from rights offerings are often coded exclusively as public offerings.

I eventually concluded that the only realistic way to obtain reliable results for a large number of countries and methods of issuance is to use the findings from existing studies. This is a meta-study or study of studies. Meta-analysis has been widely used in science for over a century but less so in finance or economics.

This approach has several advantages in our case. First, a meta-analysis seems appropriate given that one of our goals is to understand apparent anomalies from existing studies. Another benefit is that in some dimensions a meta-analysis involves a level of independence and rigor lacking in more traditional analyses because the results have been established by many different researchers using a variety of methodologies and data sources over different time periods. This is a form of replication, albeit here of a heretofore-unrecognized pattern, a process which lies at the heart of scientific inquiry (Popper 2002). Also in our case, the data are broad as they encompass 29,745 issuances from 102 studies, 23 countries, and all three primary ways to issue equity.

Many of the studies I use have been published and thus peer reviewed. To further address the accuracy of the studies, I investigated the consistency of the within-country results. There are 18 events with multiple event study papers, say rights offers in Australia (Table 2). Within all but two of these categories, all of the studies agree on the sign of the announcement effect. The exceptions are private placements in Singapore (which must be approved by shareholders) and public offers in Japan (which managers undertake unilaterally). I investigated the studies underlying these two observations

and concluded that the observations are not a concern.⁴ Furthermore, results remain qualitatively unchanged if these two categories are excluded from the analyses.

Even though a meta-study is the only realistic option if we want reliable results for a large number of countries, there are potential limitations. One issue is the “file-drawer problem.” Some commentators believe that insignificant (or possibly negative) results are less likely to be published. Consequently, if we rely solely on published results, our findings may reflect a selection bias. In our case, however, there are both negative and positive event study results, so there does not appear to be a selection bias in this dimension. The positive results are noteworthy because they differ from what has been documented for the United States and predicted by existing theories. Researchers finding positive announcement returns are often perplexed by them. I also use unpublished studies, which is a standard response to the file-drawer problem. In all cases, published and unpublished papers agree on the sign of the event study.

Another issue with using published studies in this case is that many tests are, by necessity, based on country averages not firm-level observations. Holderness (2016) analyzes the three problems with using aggregate data to understand individual-level phenomenon. The first problem is that individual observations (in our case individual equity issuances) are weighted differently with observations from small countries usually being over weighted. I am able to correct this problem in robustness tests by re-weighting so that each individual equity issuance receives equal weight. Results remain qualitatively unchanged.

⁴ One study of Singaporean private placements finds positive short-run returns; the other finds negative short-run returns. Both studies find positive returns over longer event windows that include the date of shareholder approval. Two studies of Japanese public offers find positive returns (with mixed significance); the other two find negative returns (which are highly significant). The papers finding positive announcement effects consider only the initial announcement of the offering. This announcement, however, seldom reports the offering’s amount or discount to the exchange price. The two papers considering all of the key dates of a public issuance in Japan, including release of information on the amount and discount of the offering, find strongly negative returns. The Internet Appendix has a more extensive discussion of Singaporean private placements and Japanese public offers.

The second problem involves standard errors and statistical significance. Country averages eliminate the within-country spread in results (here the announcement effect of equity issuances) and replace it with the spread around the country averages. Furthermore, with country averages the number of observations is the number of countries, but with individual observations it is the number of individual equity issuances. Given that standard errors reflect both the number of observations and the standard deviation of those observations, standard errors can either increase or decrease with the movement from individual observations to country averages. In light of the large number of individual observations (29,745) and the small number of clusters (a given issuance method for a given country, or 42 in most analyses), in our case standard errors will be higher with the country averages. Nevertheless, virtually all of my findings using country averages are highly significant.

The third problem is that with country averages it is not possible to control for firm-level determinants. I am, however, able to conduct traditional firm-level analyses and control for firm-level determinants with private placements in the United States and Australia. These results are consistent with the meta-analyses which use country averages and thus cannot control for firm-level determinants.

B. Data

I started with the countries covered in Spamann (2010) because I wanted to use his international survey of corporate laws. I then searched the Internet (particularly Google Scholar and SSRN) for event studies of equity issuances in the countries covered by Spamann. The 102 studies I found are reported in **Table 2**. In the meta-analyses I generally use the short-run abnormal stock returns reported in these papers, ideally the three-day return from day -1 to day 1. If a study highlights another return, I use that return on the theory that the authors made an assessment that a longer window incorporates more of the relevant announcement effects. (The event windows and other information are reported in Table 2.) The unit of analysis in most tests is a particular issuance method for a given country. Thus for example, the Australian-rights-offering observation is the average of the four event studies I was able to identify, weighted by

the number of observations in each study (-3.53%, as noted in Table 4). As a robustness test, I weighted each study equally (-3.22% with Australian rights offers).

I also analyze the methods firms use to issue equity, whether it is by a public offering, rights offering, or private placement. For India, Israel, Italy, and Japan, this data comes from the local stock exchange. For the remaining countries, I rely on existing studies supplemented by discussions with local academics (**Table 3**).

III. Shareholder Approval and Announcement Effects

A. Announcement Effects in General

Table 4 documents the association between mandatory shareholder approval and the announcement effects of common stock issuances by public corporations in the 23 sample countries. In this table approval is classified simply by whether there is a shareholder vote within one year of the issuance. This corresponds to 3 through 5 in our classification system.

Table 4 reveals a positive association between shareholder approval and the announcement returns. When shareholders vote to approve an offering (which are in **bold**), the average announcement effect for a given issuance method within a country is positive in all instances save one. When there is no shareholder vote (within a year of the issuance), the corresponding announcement effect is typically negative. When announcement returns are rank-ordered (as in Table 4), there is little overlap between those offers that are approved by shareholders and those undertaken unilaterally by management (that is, with only board of directors approval).

Figure 1 reveals that the type of shareholder vote seems to matter, not just whether there was a vote. Each successive level of shareholder voting, how close the vote is in time to the issuance or the requisite plurality of approval, is associated with higher median announcement returns than the immediately lower level of approval.

Table 5 presents regression analyses of the announcement returns on different measures of shareholder approval. Announcement returns average 4.38 percentage points higher when there is a shareholder vote within one year compared to when there

is no such vote (Column A).⁵ Columns B and C confirm that announcement returns increase with the degree of shareholder approval. Although the difference between categories 1 (no vote) and 2 (vote one to five years before the issuance) is insignificant (p -value 0.19), the differences between no shareholder vote and each of the other three categories are highly significant. On average equity issuances following shareholder supermajority approval (Category 5) are associated with 6.80 percentage points higher abnormal stock returns than issuances without any shareholder vote (Category 1). Method of issuance and country dummies are added in columns D through F. The positive association between shareholder approval and announcement returns remains significant throughout.

To test the robustness of these results, I add shareholders' rights to sue corporate directors, the legal protections of minority shareholders against self-dealing by corporate insiders, legal origins, ownership concentration, institutional stock ownership, log of GDP per capita, and growth of GDP to Column A of Table 5. (All of these variables are defined in **Table A1**.) I also re-run all Table 5 and robustness regressions as weighted least squares, where the weights are proportional to the number of issuances underlying each observation so that each individual issuance is weighted equally. In all of these untabulated regressions, the Shareholder Approval Dummy remains significant and ranges between 4.34 and 6.01.

B. Announcement Effects by Method of Issuance

Once we control for shareholder approval, the individual method of issuance dummies in Table 5 become insignificant in all instances except one (private placements in Column D with the omitted category being public offers, untabulated). **Table 6** breaks out the announcement returns by the method of issuance. Although these

⁵ Table 5 excludes private placements from countries where the vote is classified either 4 or 1 because I lack the information to divide the sample accordingly (Canada, Japan, Korea, and New Zealand). If the private placements from these countries are included and classified as 4, the Shareholder Vote dummy in Column A becomes 4.61 (p -value 0.00). If the placements are classified as 1, the dummy becomes 4.37 (p -value 0.00).

methods are usually treated as being fundamentally different, we see that for all three methods shareholder approval (again defined as 3 through 5 on our scale) is associated with positive announcement returns that are higher than when there is no approval; this is confirmed by untabulated regressions of the individual issuance methods.

Public Offerings. The major empirical regularity that many studies of seasoned equity issuances seek to understand is the negative announcement effect of public offerings. At the top of Table 6 we see that the announcement effects are negative in the United States and in all other countries where management may unilaterally publicly issue seasoned equity. But when shareholder approval is required, the average announcement effect for public offerings is positive in each case (Hong Kong, Taiwan, and the United Kingdom).

Rights Offerings. Shareholder voting approval of rights offers likewise is always associated with positive average announcement effects. This holds both for the country observations and for all of the individual studies that underlie these observations. When there is no shareholder approval, average returns are typically negative and are sometimes large.

Private Placements. Management must obtain shareholder approval for all private placements in some countries (Sweden and Malaysia are examples). In these countries, the average announcement effect is positive with the lone exception of Singapore (discussed earlier). In all of the other sample countries save the Netherlands, shareholders must approve some but not all private placements. The Netherlands has the lowest average announcement returns of any sample country for private placements.

Because the authors of published studies of private placements apparently were unaware of the requirements for shareholder approval, they do not separate announcement returns by shareholder approval (for example, Barclay et al 2007, Hertz

and Smith 1993, Wruck 1989). I now do so with firm-level data for the United States and Australia.⁶

Under NYSE Rule 312 and NASDAQ Listing Rule 5635, shareholders must approve private placements in three situations: placements of more than 20% of the outstanding common stock that are sold at discounts to the exchange price; placements to insiders independent of pricing; and placements that trigger a change in control. Under Chapter 7 of the Australian Stock Exchange Listing Regulations, shareholders must approve any non-pro-rata issuance, including private placements, that constitute more than 15% of a firm's outstanding equity. **Table 7** reports that the abnormal announcement returns are between 1.63 percent points and 12.90 percent points higher with shareholder approval. This is true even though in both countries the discounts and percent placed are larger with the shareholder-approved placements. The differences in announcement returns persist for both countries in **Table 8** when I control for firm and placement characteristics that others have found help explain private placement announcement returns. Regressions of longer-run returns produce similar results.⁷

It appears that in both countries managers avoid some shareholder votes by clustering private placements below the regulatory thresholds. The top panel of **Figure 2** shows clustering below the 20% threshold for United States; the bottom panel shows clustering below the 15% threshold for Australia. Clustering in the United States

⁶ The United States data come from Barclay et al (2007) and consist of 594 private placements made between 1979 and 1997. The Australian data come from Vladimir Atanasov and Chander Shekhar's ongoing study of corporate governance in Australia. Their sample consists of 510 placements made between 1999 and 2004. I thank Professors Atanasov and Shekhar for their generous assistance.

⁷ The shareholder-approval dummy for the United States is 0.13 (p -value 0.05) when days -10, 120 abnormal returns is the dependent variable. Park (2014), who studies the 20% threshold, documents similar overall results for United States private placements. He reports short-run returns (days -1, 1) that are positive (2.52%) and significant for shareholder-approved placements, but negative and insignificant for non-approved placements (-0.34%). His long-run returns (which are reported in an earlier version of his paper) are positive and insignificant for the approved sample (3.10%), but negative and significant for the non-approved sample (-4.59%). Park confirms these differences with multiple regressions. Floros et al (2016) document that domestic private placements made to insiders, which must be approved by disinterested shareholders, have a higher average announcement effect than other private placements.

is confirmed by the Interpretative Comments of the Nasdaq Listing Rules which has several pages critiquing actions managers had taken, or had attempted to take before exchange officials stopped them, to avoid shareholder votes on private placements. Clustering in Australia is confirmed by Chan and Brown (2004) who study the July 1, 1998 (July 1, 1997 for mining companies) change in the threshold from 10% to 15%. They find clustering below 10% when that was the rule; when the rule changed to 15%, the clustering changed immediately to 15%. Chan and Brown (2004, p. 310) conclude this constitutes “strong evidence that many companies tailor the issue so that it falls just below the ceiling specified in the listing rules.” The Internet Appendix reviews efforts by managers in the United States to influence or avoid shareholder voting on equity issuances in other settings, including equity-based compensation plans and stock payments for acquisitions.⁸

C. Within-Country Announcement Effects

Within-country announcement effects are documented in **Table 9**. By making within-country comparisons, country-level factors, such as GDP per capita, investor base, culture, and other investor protection laws are held constant. There is not a single country where an issuance method with a lower level of shareholder approval has a higher average announcement return than an issuance method with a higher level of shareholder approval. For example, in India rights offers are not subject to a vote (vote 1), but private placements (specifically “preferential allotments”) must be approved by 75% of the shareholders voting (vote 5). Indian rights offers are associated with an average announcement return of 0.03%, but preferential allotments are associated with an announcement return of 6.18%.

⁸ Becht et al (2016) study the United Kingdom’s legal requirement that bidding firms’ shareholders approve certain mergers. In contrast to the situation with private placements, there are four criteria with the United Kingdom law any one of which triggers mandatory shareholder approval. Becht et al could find no evidence of management clustering acquisitions below any of the four thresholds. They hypothesize that although it may be easy to game one threshold (as we observe with private placements), it is too difficult to game multiple thresholds.

In Sweden all stock issuances require shareholder approval, but the plurality of approval required varies with the type of issuance. Rights need to be approved only by a simple majority, and the associated announcement effect is 0.37%. Private placements to outside investors must be approved by a 66% vote, and the associated announcement effect is 5.10%. Private placements to insiders need approval by 90% of the shareholders voting, and the associated announcement effect is 11.67%.

Under Hong Kong law public offerings and private placements are subject to shareholder approval while rights offerings are not:

“Notwithstanding anything in a company's memorandum or articles, the directors shall not without the prior approval of the company in general meeting exercise any power of the company to allot shares: Provided that no such prior approval shall be required in relation to the allotment of shares in the company under an offer made pro rata by the company to the members of the company.”⁹

The returns associated with the two methods of issuance that are subject to “prior approval” (private placements and public offerings, 6.20% and 3.14%, respectively) are substantially higher than the returns associated with “pro rata” rights offerings (-9.25%), which do not require shareholders’ “prior approval.”

Because the importance of shareholder approval has been overlooked to date, few papers compare announcement effects from shareholder-approved offerings with those that have not been so approved. An exception is Wang et al’s (2008) study of SEOs in Taiwan, although their focus is not shareholder voting but the investment banking process. There are two methods to issue seasoned stock in Taiwan (other than through private placements), book building and fixed-price. Shareholders must specifically approve the former, and most of the shares are sold to the public. The latter method does not require shareholder approval, and most of the shares are sold to existing shareholders in what is effectively a rights offering. Wang et al regress the announcement returns (days -7, 3) on a dummy variable that indicates book building

⁹ Section 57B of the Companies Ordinance (Chapter 32 of the Ordinances of Hong Kong) (“Approval of company required for allotment of shares by directors”).

and include control variables for firm size, offering size, leverage, pre-issuance accounting profitability, and characteristics of the investment banks involved in the issuance. The book building dummy, for our purposes the shareholder vote dummy, indicates that after the other firm- and issue-level variables have been controlled for, the announcement returns are 15.24 percentage points higher with shareholder approval (t -statistic 2.04).

IV. Method of Issuance and Shareholder Approval

Table 10 reports the frequency of the issuance methods in the five sample countries where shareholders must approve all equity issuances. Two patterns emerge in all five countries: First, public offerings are negligible and rights offerings are common. Second, there is a rough equality in the frequencies of private placements and rights offers. Thus, although shareholders regularly approve stock issuances, they seldom approve public offerings.

Table 11 presents the same information for the other end of the spectrum, for those countries where managers may unilaterally select the issuance method. Here the key pattern of Table 10 is reversed as in all of these countries public offerings are more common than rights offerings. One similarity with the countries where shareholders must approve all issuances is that private placements are also frequent. (In virtually all of the sample countries, including these four countries, shareholders must approve certain private placements.)

The remaining countries are those where managers must secure shareholder approval for some but not all issuance methods (**Table 12**). In seven of these nine countries, firms make most frequent use of the issuance method requiring the lowest level of shareholder approval, typically a rights offer that requires no vote.¹⁰

¹⁰ The findings of all three tables are confirmed by untabulated regressions with country-level controls including the level of institutional stock ownership and ownership concentration.

Just as the failure to recognize the requirement for shareholder approval has resulted in few analyses of announcement returns controlling for shareholder approval, so too is the situation with the choice between issuance methods requiring different levels of shareholder approval. An exception is Lee et al's (2014) analysis of private placements and rights offers in Hong Kong. Under Hong Kong law, private placements must be approved by shareholders, but rights offers may be undertaken unilaterally by management. Lee et al find that compared with firms making private placements, firms making rights offers have poorer corporate governance, lower growth prospects, and more cash on hand.

V. Interpretation of the Evidence

I now consider alternative interpretations of the evidence. Stock issuance is inherently endogenous as managers can always choose not to issue stock and thereby avoid any laws mandating shareholder approval. Their endogenous decision to call a shareholder vote for the issuance of equity or refrain from so doing is likely to be correlated with both observable and unobservable factors, and as explained earlier quasi-experimental data to control for these factors does not exist. Thus, I will be unable to make causal inferences. Nevertheless, the patterns associated with mandatory shareholder approval are broad and consistent.

A. Agency Interpretation

Rationale for shareholder approval. Mandatory shareholder approval of any management proposal is widely seen as one way to limit agency conflicts. From a legal perspective, Easterbrook and Fischel (1983, p. 427) write, "common law rules of shareholders voting can, in the main, be analyzed as attempts to reduce agency costs." Kraakman et al (2009, p. 193), also from a legal perspective, apply this reasoning to the decision to issue shares: "Like the merger decision, the decision to issue shares can significantly affect shareholders' interest. ... Managers' incentives are also problematic: share issuance can be used to build empires, entrench managers, and dilute control. Not surprisingly, then, we find the familiar requirements of board and shareholder approval."

Fama and Jensen (1983) explain that one way to reduce agency costs is for shareholders to retain the right to ratify major proposals made by management. They too use shareholder approval of share issuance to illustrate this point (p. 313): “internal control in the open corporation is delegated by residual claimants [shareholders] to a board of directors. Residual claimants generally retain approval rights (by vote) on such matters as board membership, auditor choice, and new stock issues.” When analyzing how to constrain managers from securing capital for empire-building, Hart and Moore (1995, p. 583) observe that “voting [is an] important constraining force on management.”

Consistent with this rationale, many of the laws and regulations mandating shareholder approval of equity offerings seem tailored to protect shareholders from over-reaching managers. For instance, many countries require shareholder approval of private placements to managers. Other laws and regulations limit the discounts for issuances to outsiders made unilaterally by management.

Announcement returns. If agency conflicts are absent, if these laws and regulations are superfluous, then shareholder voting on equity issuances should not matter. The absence of agency costs implies that managers are doing what shareholders themselves would do. Yet the announcement returns are positive and significant with shareholder approval, but negative and more than four percentage points lower when management unilaterally issues stock (Tables 4 and 5). Moreover, the greater is the intensity of shareholder approval, that is the closer the vote is to the issuance date or the greater is the required plurality, the higher are the (positive) announcement returns (Figure 1 and Table 5).

If agency considerations are at work, they should be at work no matter how a firm issues equity. This too is consistent with the evidence: For all three issuance methods, managerial issuances are on average associated with negative announcement effects, but shareholder-approved issuances are associated with positive announcement effects (Table 6).

If mandatory approval is to reduce agency costs, shareholders must be sophisticated enough to distinguish value-enhancing from value-reducing issuances.

This implies that (effective) shareholder approval should be associated with a positive announcement effect. Although this is true on average, there are some negative individual reactions associated with shareholder approval. Some of these negative reactions could reflect the limitations of any event study: the event date has been misidentified; there is confounding news; shareholders and market participants disagree over the value effects. More nuanced explanations may also be at work. One possibility is that managers misinform shareholders about the likely value effects. This explanation finds support in two recent shareholder votes in different countries (albeit not involving equity issuances). In both cases, management opposed plans advanced by activist shareholders. In both cases management won very close votes, apparently by convincing small shareholders to support them, and in both cases the outcome of the vote triggered a negative stock price reaction.¹¹

Another possible explanation for negative reactions to some shareholder-approved issuances involves large shareholders who are also top managers. If these blockholders use their voting power to ratify stock issuances that are not in the best interests of smaller shareholders, there could be a negative stock price reaction even though shareholders as a group have approved the issuance. This highlights the need to study other aspects of shareholder voting, including quorum requirements and whether conflicted shareholders may vote or if they may vote whether they refrain from voting to protect themselves from lawsuits filed by other shareholders.

Methods of issuance. The rights puzzle is a puzzle only when agency conflicts are assumed away. The puzzle is limited to the four countries where managers may

¹¹ The first involved Nelson Peltz's proposal for board seats at DuPont. Shareholder rejection of his proposal was associated with a one-day stock price decline of 7.4%. *Wall Street Journal*, May 13, 2015 ("DuPont Defeats Peltz, Triun in Board Fight"). The second was in South Korea and involved the defeat of Elliott Management's opposition to the acquisition of Samsung C&T by Cheil Industries. That shareholder vote triggered a one-day stock price decline of 10.8%. *Wall Street Journal*, July 18-19, 2015 ("Samsung's Victory over Elliott Leaves Investors at a Loss").

generally unilaterally choose the method of issuance plus Hong Kong.¹² When shareholders must approve a public offer, which is the case in the other 18 sample countries, rights offers are far more common than cash offers (Table 10). This makes sense from the shareholders' perspective because it avoids underpricing and has lower investment banking fees.¹³

Managers may personally prefer public offers over rights offers for several reasons. With public offers managers do not have to make the case to shareholders that the new capital will enhance firm value, and they do not risk losing face if shareholders fail to subscribe to a rights offering. Some commentators further suggest that managers may receive side benefits from underwriters, perhaps in the form of access to underpriced IPOs. As the underwriting fees for public offers are higher than for rights offers, any side benefits to managers might also to be higher (Eckbo et al 2007, pp. 296-297).

The clustering of private placements in the United States and Australia at levels that avoid shareholder approval (Figure 2) suggests agency issues involving managers' choices. Agency issues are further suggested by untabulated results showing that the announcement effects vary not only with the level of shareholder approval but also with whether other issuance methods are available that require either higher or lower levels of shareholder approval. When the issuance method chosen by management

¹² In Hong Kong these are called "placings." In placings an investment bank buys seasoned equity from a public company and then re-sells it to investors who have no prior relation with the company. Lee et al 2014 study equity issuances in Hong Kong but do not address placings. They interpret their findings on the choice between private placements, which require shareholder approval, and rights, which do not require shareholder approval, as supporting the theory that "agency costs and private benefits of control matter in equity financing (p. 176)." Equity issuances in Hong Kong warrant additional study, especially the unique combination (for my sample countries) of cash offerings and shareholder approval.

¹³ Chan and Chan (2014) document that discounts on public seasoned equity offerings in the United States between 1995 and 2007 averaged approximately 3% and have increased over time. Smith (1977) documents that the direct costs of underwritten public seasoned equity offerings average 6.17% of the proceeds, while the direct costs of pure rights offerings average only 2.45%. In a more recent survey, Ross et al (2011, p. 638) report that the direct costs of public seasoned equity offerings between 1990 and 2008 constituted 6.72% of the proceeds.

requires a greater (lesser) level of shareholder approval than other available methods, announcement returns tend to be higher (lower).

Summary. An agency interpretation was offered by an institutional investor in Sweden to explain the overwhelming popularity of rights offerings over public offerings in his country.¹⁴ In Sweden shareholders by law must approve all equity offerings. This former finance professor said that if a firm wants to raise equity, large shareholders in Sweden want management to make the case that the issuance will enhance firm value. If the shareholders become convinced this is the case, he said, “We want to participate in the financing to secure the expected returns. Why would we want to offer a valuable investment opportunity to outsiders? If some shareholders do not want to participate, in Sweden they can easily sell their rights.” He explained that private placements are often different. Some are motivated by a desire to establish a link between two firms or to bring in a large investor with a special set of skills. Existing shareholders, almost by definition, cannot provide such valuable services. Shareholders, accordingly, will often ratify such placements. On the other hand, if an outside investor does not bring such benefits but is being offered a large discount, shareholders will typically oppose the placement. If they believe a profitable investment opportunity exists but the firm is financially constrained, they will push for a rights offering.¹⁵

The Internet Appendix develops a simple theoretical framework that allows for agency costs with equity issuances and helps explain several empirical regularities associated with equity issuances both in the United States and around the world.

¹⁴ I thank Gabriel Urwitz of Segulah Advisor, Stockholm for these insights.

¹⁵ In the United Kingdom, certain mergers are subject to mandatory approval by the acquiring firms’ shareholders, whereas management may unilaterally undertake other mergers. This is analogous to our situation. Becht et al (2016) find that the average announcement returns for the acquiring firms are 1.74% higher (median 1.14%) with shareholder approval, or somewhat less than half the difference we find with equity issuances. Becht et al interpret their findings as a straightforward agency effect.

B. Adverse-Selection Interpretation

An alternative interpretation is that stock issuances reflect adverse selection by the issuing corporations involving information asymmetries between managers and investors over firm value (Myers and Majluf 1984).

A key prediction of this theory and the related pecking-order theory is that managers, who are assumed to make decisions solely in the interests of existing shareholders, will choose that method of issuance that minimizes the inefficiencies caused by information asymmetries. Debt is chosen over equity; when equity is issued, rights offers are chosen over public offers because if all shareholders participate proportionally in a rights offer there will be no wealth transfers and therefore no adverse selection problem (Myers and Majluf 1984, p. 195; Fama and French 2005, p. 554; Berk and DeMarzo 2017, p. 856). The paucity of public issuances of seasoned equity in 18 of the 23 sample countries as well as the infrequency with which shareholders waive their preemptive rights for public offers are both consistent with this interpretation. The fact that managers in the remaining five sample countries (including the United States), who do not have to obtain shareholder approval, choose public offerings far more often than rights offerings, however, is inconsistent with this adverse selection interpretation.

In those infrequent cases where public offers occur as a last resort, Myers and Majluf (1984) and many subsequent papers predict a negative stock price reaction.¹⁶ This is normally interpreted as a reaction to the selection bias that overvalued firms are more likely to issue stock than undervalued firms (Berk and DeMarzo 2017, p. 856; Brealey, Myers, and Allen 2014, pp. 386-389; Myers 2015, pp. 10-11). The positive stock price reaction associated with public issuances in three countries is inconsistent with

¹⁶ Others papers predicting or seeking to understand a negative stock price reaction to public seasoned equity offers include Ross (1977), Krasker (1986), Noe (1988), Korajczyk et al (1990), Lucas and McDonald (1990), and Poitevin (1989).

this reasoning. These are the sample countries where shareholders must approve public issuances, but shareholder approval should not matter if there are no agency conflicts.

Subsequent papers, including Cooney and Kalay (1993) and Edmans and Mann (2016), develop models that generate positive as well as negative announcement effects. These analyses propose there are two types of firms that publicly issue seasoned equity: overvalued firms attempting to profit from information asymmetries and undervalued firms with valuable investment opportunities but are financially constrained. Even after the announcement of a stock issuance, the market is unable to distinguish the two types of firms. These forced-pooling theories would require that financially constrained firms with valuable investment opportunities be substantially more common when shareholders must approve equity issuances.

C. Market Timing Interpretation

The market timing theory of Baker and Wurgler (2002) assumes that investors do not always have rational expectations. This behavioral approach creates the possibility of stock mispricing and the opportunity for firms to time the sale of stock to when it is overpriced. Market timing largely concerns the public issuance of stock and has little to say about the stock price reaction to private placements or rights offerings.

The biggest challenge for a market timing interpretation is that public offerings of seasoned equity are infrequent, often virtually nonexistent, in 18 of the 23 sample countries. The customary response is that rights offerings are required. We now know this is incorrect. There must be some overvalued firms, for example, in Sweden or Australia or Singapore, but there essentially are no public offerings of equity in these countries (among many other countries). One response could be that management wants to avoid a vote because shareholders are unsophisticated and might reject an issuance of over-valued equity. Yet when shareholders approve an issuance, the announcement effects are generally positive, suggesting that shareholders in a wide variety of settings are sophisticated enough to ratify value-enhancing stock issuances. Another response could be that shareholder votes are costly to hold. But shareholder votes authorizing stock issuances are common worldwide, including in those countries where public offers are rare, but just not for public offerings. Many of these votes are

held during regularly scheduled annual meetings. A final response could be that investors are more sophisticated in those countries where shareholder approval is required, thus making market timing more difficult. This would mean (for instance) that Greece and Spain have more sophisticated investors than the United States and Canada. In untabulated regressions, however, I find no relation between the level of institutional stock ownership in a country and either the announcement effects or the choice between rights offers and public offers. Finally, the within-country results seem at odds with this explanation because the sophistication of the investor base should be similar across security issuances within the same country.

It is also unclear why the existence of market timing would be (almost perfectly) negatively correlated with national laws or exchange rules requiring shareholder approval of equity issuances. One might instead argue that stock mispricings and hence the opportunities for market timing should be the greatest in less developed financial markets.¹⁷ Yet in many of these markets public offerings are virtually unheard of. India and Malaysia are two examples. Following this line of argument, public offerings should be the least frequent in the United States because it is seen as having the most developed financial markets and should thus have the most sophisticated investors and the fewest stock mispricings. Instead, public offerings are the most frequent in the United States. Moreover, if one thought that differences in investor sophistication were the driving force, there might not be the pronounced difference between public offers and rights offers but rather a more balanced approach. The only country we observe this is Hong Kong.

A variation of the market timing theory suggested by some readers is that firms will publicly issue stock when the market overvalues their stock but will use rights offerings when the market undervalues their stock. This implies that firms will use a mixture of

¹⁷ I say “argue” because I am unaware of any evidence on the proportion of sophisticated versus unsophisticated investors either within or across countries.

public and rights offers. Hong Kong, however, is the only sample country where both types of offers are relatively common. Moreover, the market's reaction to rights offers in Hong Kong is decidedly negative (-9.25%), suggesting that market participants do not consider firms using rights offers to be undervalued, while the reaction to public offers is positive (3.14%), suggesting that market participants do not consider firms using public offers to be overvalued.

D. Signaling Interpretation

In contrast to the adverse-selection and market timing theories, a signaling model by Heinkel and Schwartz (1986) does generate predictions about the stock price reaction to rights offers. Like the adverse-selection and market timing interpretations, this model assumes that managers have private information on firm value and there are no agency costs. To help ensure the success of a rights offer, lower quality firms will set a lower subscription price (a greater discount to the exchange price). Higher quality firms can signal their higher quality by pricing the offer closer to the exchange price. This predicts a positive association between the pricing of a rights offer and the market's reaction to it. In the one across-country study to address this possibility, Loderer and Zimmermann (1988) find that Swiss rights offers are priced at an average discount of 60% whereas the average American discount is 6%. In contrast to the prediction of Heinkel and Schwartz, Loderer and Zimmermann find that the announcement effects are significantly higher in Switzerland. Shareholders must approve rights offerings in Switzerland but not in the United States (Table 1).

The Internet Appendix offers a case study of two major rights offerings which also appears to be inconsistent with the signaling theory of Heinkel and Schwartz. Both were at deep discounts to the exchange price, so one would expect a negative abnormal stock price reaction in both cases. This was true of the one management undertook unilaterally (-6.9%) but not of the one approved by shareholders (11%).

A signaling interpretation also underlies Miller and Rock (1985). In their analysis, which assumes that managers have private information and there no agency costs, firms raise external capital when cash flows from existing operations turn out to be lower than anticipated. This decision, which applies to any method used to raise equity

(or debt), is interpreted as a negative signal. The challenge for this interpretation is that many equity issuances around the world are associated with a positive reaction. These tend to be the ones approved by shareholders, which should not matter given Miller and Rock's assumptions of no agency costs and rational investors.

VI. Conclusion

This paper documents and then analyzes the widespread heterogeneity in the mandatory shareholder approval of equity issuances by public corporations. The differences between shareholder-approved and managerial issuances are consistent within and across 23 diverse countries. When shareholders approve an equity issuance, the average announcement effect is positive. The closer the vote is to the issuance or the greater is the required plurality, the higher are the returns. In contrast, when managers unilaterally issue stock, the average announcement effect is negative and more than 4 percentage points lower. These regularities hold for public offerings, rights offerings, and private placements. When shareholder approval is required, rights offers predominate over public offers. When managers may unilaterally issue stock, the opposite is the case. Managers avoid some shareholder votes by clustering some private placements below the fractional threshold that triggers a vote. In aggregate these findings suggest that agency conflicts affect equity issuances by public corporations.

The United States is atypical in that shareholders do not have to approve most stock issuances. One of many topics for future investigation is why domestic shareholders have not pushed for this right. One possibility is that, in spite of the evidence in this paper, such approval does not enhance firm value. Another possibility is that investors are unaware of the potential importance of mandatory shareholder approval, perhaps because they have focused on the practice in their home country alone. Klausner (2013) finds that historically few firms in the United States tailored their charters and by-laws for virtually anything, much less for the issuance of stock. In contrast, Acheson et al (2016) document that firms in Victorian Britain tailored their charters in ways consistent with value enhancement, and Min (2016) finds that corporations in the United States are beginning to do this. In a similar vein, institutional investors in Hong Kong and France

have started resisting managerial requests for broad stock issuance authorization.¹⁸ These trends suggest that shareholder approval of equity issuances may figure more prominently in corporate governance going forward.

Although shareholder retention of key decision rights is fundamental for any corporation (Fama and Jensen 1983), it has been surprisingly little studied. One way to do so is to exploit across- and within-country legal differences as in this paper. Another decision right that could be similarly analyzed is stock repurchases. In some countries shareholders must approve repurchases, while in other countries managers may do so unilaterally.

A related topic is whether mandatory shareholder approval of key decisions leads management to consult more with large shareholders, ultimately leading to a more sophisticated shareholder base and a change in the dynamics of corporate decision making.¹⁹ In a market economy owners always exercise some key decision rights. This means that the value of any asset varies with who owns it. Establishing a connection between the allocation of key decision rights, the sophistication of major shareholders, and important corporate decisions would, in this respect, be unsurprising but far reaching.

¹⁸ ISS, Hong Kong Proxy Voting Guidelines, 2017; Professor Edith Ginglinger, Paris Dauphine University.

¹⁹ An investment banker who has been based both in New York and London observed, “American institutional investors act like investors. European institutional investors act like owners.”

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Table 1
Shareholder Voting on Equity Issuances

Shareholder voting on equity issuances. This table covers those instances where announcement returns or frequencies of issuance are available. An issuance is classified as 1 if there is no shareholder vote approving the issuance within five years of the issuance. 2 signifies that shareholders approve an issuance between five and one year before the issuance through a general mandate at the annual meeting. 3 signifies that shareholders approve the issuance within one year through a general mandate at the annual meeting. 4 signifies that the shareholders must approve the specific issue within one year. 5 signifies that shareholders must approve the specific issue within one year of the issuance by supermajority vote.

United States

Public	No vote required.	1
Rights	No vote required unless underwritten. If underwritten, placement rules may apply. A few nontransferable rights must be approved.	1
Placement	Vote required if (i) issue >20% equity and at a discount to the exchange price; (ii) issue is to insiders at any price; or (iii) there is a change in control.	4 or 1

Australia

Public	Vote required if issue > 15% of equity.	4 or 1
Rights	No vote required.	1
Placement	Vote required if issue > 15% of equity.	4 or 1

Canada

Public	No vote required.	1
Rights	No vote required.	1
Placement	Vote required if: (i) issue > 25% of equity and at a discount to the exchange price; (ii) to insiders and issue > 10% of equity; (iii) any issue if discount is greater than exchange guidelines; or (iv) if firm is cross-listed on a U.S. exchange and thus subject to those rules (see above).	4 or 1

Finland

Public	Vote required.	4
Rights	Vote required (although can be waived for "weighty financial reason").	4
Placement	Vote required.	4

France		
Public	Vote required within three years.	2
Rights	Vote required within five years.	2
Germany		
Rights	Vote required within one year for “ordinary issuance.” Vote required within five years for an “authorized” share issuance. The latter may not exceed 50% of capital. Most rights issues are authorized.	2
Greece		
Rights	Vote required.	4
Hong Kong		
Public	Vote required.	4
Rights	No vote required if offer \leq 50% of total share capital. If offer $>$ 50%, shareholder approval required in some instances.	1
Placements	Vote required. Shareholders may give one-year General Mandate approval for an issue of up to 20%. Shareholders must approve all conflicted placements.	4
India		
Public	Vote required with 75% approval.	5
Rights	No vote required.	1
Placements	Vote required with 75% approval.	5
Israel		
Public	No vote required.	1
Rights	No vote required.	1
Placements	Vote required if placement is to a substantial shareholder or causes someone to become a substantial shareholder.	4 or 1
Italy		
Public	Vote required.	4
Rights	Vote required usually given via one-year mandate.	3
Placements	Vote required.	4

Japan		
Public	No vote required.	1
Rights	No vote required.	1
Placement	Vote required with 66% approval if: (i) price of placement is “particularly advantageous” to the purchasers; or (ii) the placement lacks “reasonable justification.”	5 or 1
Korea		
Public	Vote required.	4
Rights	No vote required.	1
Placement	Vote required for conflicted placements	4 or 1
Malaysia		
Public	Vote required and must occur within one year. Any offer >10% of equity must be specifically approved by shareholders.	4
Rights	Vote required and must occur within one year. Any offer >10% of equity must be specifically approved by shareholders.	4
Placement	Vote required and must occur within one year. Any offer >10% of equity must be specifically approved by shareholders.	4
Netherlands		
Public	Typically delegated to board for up to five years.	2
Rights	No vote required unless part of an acquisition equal to at least 50% of firm value.	1
Placement	Typically delegated to board for up to five years.	2
New Zealand		
Public	Vote Required.	4
Rights	No vote required if rights are transferable (most are).	1
Placement	Vote required on specific issue if > 20% of equity (previously 10%).	4 or 1
Norway		
Public	Vote required either on specific issue or for a one-year authorization.	3
Rights	Vote required either on specific issue or for a one-year authorization.	3
Placement	Vote required either on specific issue or for a one-year authorization.	3

Singapore		
Public	Vote required.	4
Rights	Vote required.	4
Placement	Vote required. Shareholders may give a one year General Mandate for a private placement of up to 20% of equity (previously 10%). Specific shareholder vote required for all conflicted private placements. Most private placements made pursuant to a general mandate.	3
Spain		
Rights	Vote required within five years.	2
Sweden		
Public	Vote required.	4
Rights	Vote required.	4
Placement	Vote required (66% to outsider; 90% if to insiders).	5
Switzerland		
Rights	Vote required. "Ordinary" offers must be completed within three months. "Authorized" offers must be completed within two years. Most rights offerings are Ordinary.	4
Taiwan		
Public	Vote required ("Book Building").	4
Rights	No vote required ("Fixed-Price").	1
Placement	Vote required; at least 66% of the votes in a meeting attended by at least 50% of all shareholders.	5
United Kingdom		
Public	Vote required. Shareholders may give one-year approval for issue of < 5% of equity.	3
Rights	No vote required if offer < 66% of equity.	1

Table 2
Announcement Returns of Equity Issuance around the World

Abnormal announcement stock returns associated with the three major types of equity offerings by public corporations. These abnormal stock returns are the basis for the returns reported throughout the paper. When there is more than one study for a given issuance method in a country, I form an average return which is weighted by the number of observations in each study. The results for a given issuance method for a given country are found in Table 4. *** means the p -value of the t -statistic is less than 0.01; ** means the p -value is greater than or equal to 0.01 but less than 0.05; * means that the p -value is greater than or equal to 0.05 but less than 0.10. If the significance cell is blank, it means that the abnormal returns are not statistically significance.

Country	Type	Study	Sample Size	Period	Abnormal Return	Period (days)	Significance
Australia	Placement SH Approved	Holderness (this paper)	221	1999-2004	6.39%	-1,1	**
Australia	Placement Not SH Approved	Holderness (this paper)	289	1999-2004	1.68%	-1,1	***
Australia	Rights	Agrawal, Tarca, Wee (2010)	568	2003-2008	-6.30%	-1,5	***
Australia	Rights	Arsiraphongphisit (2008)	158	1991-2004	-2.99%	-1,1	***
Australia	Rights	Balachandran, Faff, Theobald (2008)	636	1995-2005	-1.74%	-1,1	***
Australia	Rights	Owen and Suchard (2008)	207	1993-2001	-1.83%	0,1	***
Canada	Placement	Maynes and Pandes (2011)	347	1993-2005	2.96%	-1,1	***
Canada	Public	Pandes (2010)	717	1993-2005	-2.04%	-1,1	***
Finland	Rights	Berglund, Liljeblom, Wahlroos (1987)	90	1972-1981	3.58%	1	***
Finland	Rights	Hietala and Loyttyneimi (1991)	63	1975-1988	4.15%	-1,1	***
Finland	Rights	Ikaheimo and Heikkila (1996)	42	1972-1987	6.00%	-1,0	***
France	Public	Gajewski and Ginglinger (2002)	22	1986-1996	-0.42%	0,1	
France	Public	Gajewski, Ginglinger, Lasfer (2007)	41	1986-2000	-0.65%	0,1	
France	Public	Ginglinger, Koenig, Riva (2009)	46	1995-2006	-2.01%	-1,0	***
France	Rights	Gajewski and Ginglinger (2002)	197	1986-1996	-0.85%	0,1	***
France	Rights	Gajewski, Ginglinger, Lasfer (2007)	243	1986-2000	-0.52%	0,1	

France	Rights	Ginglinger, Koenig, Riva (2009)	132	1995-2006	-0.30%	-1,0	
Germany	Rights	Gebhardt, Heiden, Daske (2001)	190	1981-1990	0.18%	-2,1	
Greece	Rights	Tsangarakis (1996)	59	1981-1990	3.97%	-1,0	***
Hong Kong	Placement	Lee, Poon, Sinnakkannu (2014)	157	2003-2011	7.90%	-1,1	***
Hong Kong	Placement	Wu, Wang, Yao (2005)	99	1989-1997	3.51%	-1,1	***
Hong Kong	Public	Wu, Wang, Yao (2005)	306	1989-1997	3.14%	-1,1	***
Hong Kong	Rights	Lee, Poon, Sinnakkannu (2014)	110	2003-2011	-11.90%	-1,1	***
Hong Kong	Rights	Wu and Wang (2002)	180	1989-1997	-7.64%	-1,1	***
India	Placement	Anshuman, Marisetty, Subrahmanyam (2011)	164	2001-2009	6.18%	-10,10	***
India	Rights	Marisetty, Marsden, Veeraraghavan (2008)	67	1997-2005	0.03%	0, 2	
Israel	Public	Hauser, Kraizberg, Dahan (2003)	76	1989-1997	-4.26%	-5,5	not reported
Italy	Rights	Bigelli (1998)	82	1980-1994	0.79%	-1,1	
Japan	Placement	Kang and Stulz 1996	69	1985-1991	3.13%	-1,1	**
Japan	Placement	Kato and Schallheim (1993)	76	1974-1988	4.98%	0, 1	***
Japan	Placement	Suzuki (2009)	906	1998-2005	2.17%	-1,1	***
Japan	Public	Cooney, Kato, Schallheim (2003)	407	1974-1991	0.50%	-1,1	***
Japan	Public	Kang and Stulz 1996	185	1985-1991	0.45%	-1,1	*
Japan	Public	Christensen, Faria, Kwok, Bremer (1996)	16	1984-1991	-2.05%	0	***
Japan	Public	Kato and Suzuki (2012)	821	1994-2009	-2.35%	-1,1	***
Japan	Rights	Kang and Stulz 1996	28	1985-1991	2.02%	-1,1	**
Korea	Placement	Baek, Kang, Lee (2006)	262	1989-2000	1.85%	-1,1	***
Korea	Rights	Kang (1990)	89	1984-1988	0.95%	-1,1	
Malaysia	Placement	Dewa and Ibrahim (2010)	96	2002-2007	4.01%	-29,0	***
Malaysia	Placement	Nor (2007)	46	1994-2003	2.42%	-10,0	**
Malaysia	Rights	Phoon (1990)	64	1978-1989	1.36%	-10,0	not reported
Malaysia	Rights	Salamudin, Ariff, Nassir (1999)	72	1980-1995	2.99%	-8,1	**
Netherlands	Placement	De Jong and Veld (2001)	16	1977-1996	-0.52%	-1,1	
Netherlands	Public	De Jong and Veld (2001)	17	1977-1996	-0.41%	-1,1	

Netherlands	Rights	De Jong and Veld (2001)	51	1977-1996	-1.46%	-1,1	*
Netherlands	Rights	Kabir and Roosenboom (2003)	58	1984-1995	-2.79%	0,1	***
New Zealand	Placement	Anderson, Rose, Cahan (2006)	70	1990-2002	0.15%	0,1	
New Zealand	Rights	Marsden (2000)	88	1976-1994	-1.01%	0,1	***
Norway	Placement	Eckbo and Norli (2004)	136	1980-1996	2.66%	-2,2	**
Norway	Rights	Eckbo and Norli (2004)	219	1980-1996	0.38%	-2,2	
Singapore	Placement	Chen, Ho, Lee, Yeo (2002)	53	1988-1993	-0.89%	-1,0	**
Singapore	Placement	Tan, Chng, Tong (2002)	67	1988-1996	0.31%	-1,1	
Singapore	Rights	Ariff, Khan, Baker (2007)	139	1983-2003	4.32%	0,1	***
Singapore	Rights	Tan, Chng, Tong (2002)	65	1988-1996	2.34%	-1,1	"significant"
Spain	Rights	Arrondo and Gomez-Anson (2003)	48	1990-1998	-1.42%	-1,1	*
Spain	Rights	Martin-Ugedo (2003)	57	1989-1997	-1.24%	-1,0	***
Sweden	Placement	Conqvist and Nilsson (2005)	136	1986-1999	7.27%	-1,1	***
Sweden	Placement to Outsiders	Conqvist and Nilsson (2005)	91	1986-1999	5.10%	-1,1	***
Sweden	Placement to Insiders	Conqvist and Nilsson (2005)	45	1986-1999	11.67%	-1,1	***
Sweden	Rights	Conqvist and Nilsson (2005)	160	1986-1999	0.37%	-1,1	
Switzerland	Rights	Loderer and Zimmermann (1988)	122	1973-1983	2.00%	month	
Taiwan	Public	Wang, Chen, and Huang (2008)	45	1996-2006	1.74%	-7,3	not reported
Taiwan	Placement	Wang, Chen, and Huang (2008)	209	2002-2007	3.18%	-10,10	"significant"
Taiwan	Placement	Liang and Jang (2013)	302	2002-2008	1.42%	-3, 0	***
Taiwan	Rights	Huang and Chan (2013)	296	1996-2006	-1.82%	-7,3	not reported
UK	Public	Barnes and Walker (2006)	268	1989-1998	0.53%	0	
UK	Public	Korteweg and Renneboog (2003)	38	1992-1999	1.00%	-1,0	
UK	Public	Slovin, Sushka, Lai (2000)	76	1986-1994	3.31%	-1,0	***
UK	Rights	Barnes and Walker (2006)	600	1989-1998	-0.72%	0	**
UK	Rights	Korteweg and Renneboog (2003)	38	1992-1999	-2.90%	-1,0	***
UK	Rights	Slovin, Sushka, Lai (2000)	220	1986-1994	-3.09%	-1,0	***
UK	Rights	Armitage (2002)	702	1985-1996	-2.24%	-1,0	***

US	Public	Eckbo, Masulis, Norli (2007) ²⁰	15,017	1963-2001	-2.22%	-1,1	***
US	Placement	Eckbo, Masulis, Norli (2007) ²¹	2,830	1979-2000	2.45%	-1,1	***
US	Rights	Eckbo, Masulis, Norli (2007) ²²	402	1963-1989	-1.23%	-1,1	***
US	Placement Not SH Approved	Park (2014)	2,060	1995-2010	-0.34%	-1,1	
US	Placement SH Approved	Park (2014)	406	1995-2010	2.52%	-1,1	***
US	Placement SH Approved	Holderness (this paper)	206	1979-1997	3.55%	-1,1	***
US	Placement Not SH Approved	Holderness (this paper)	388	1979-1997	1.04%	-1,1	**

²⁰ Based on 15 studies.

²¹ Based on 6 studies.

²² Based on 5 studies.

Table 3

Data Sources on Frequency of Different Methods to Issue Equity

Sources of the data on the frequency of the three major methods to issue equity. The data are equally weighted.

Australia	Atanasov and Shekhar (2008) 1998-2004. Arsiraphongphisit (2008) 1991-2004.
Canada	Professor Ari Pandes, Finance Department, University of Calgary, e-mail concerning his on-going research. Hand collected data. 1993-2010.
Finland	Nero (2004). 1991-1999. Also e-mail with Professor Sami Torstila, Finance Department, Aalto University, Helsinki, Finland.
France	Ginglinger, Koenig, and Riva (2009). 1995-2006. Hand collected data. E-mail from Professor Edith Gingliner confirms there are private placements in France (although they are not included in her database).
Germany	E-mail from Prof. Richard Stehle, Humboldt-Universität zu Berlin. Jones et al 2003 confirm that there are relatively few private placements or public offerings in Germany.
Greece	Tsangarakis (1996, p. 21). E-mail from Professor Tsangarakis.
Hong Kong	Wu and Wang (2002, Table 1). Wu, Wang, and Yao (2005, Table 1).
India	Reserve Bank of India, Handbook of Statistics 2011. NSE Fact Book 2011.
Israel	Tel-Aviv Stock Exchange, Annual Review for 2003-2015 (in Hebrew).
Italy	Italian Stock Exchange Website for 2005-2011; http://www.borsaitaliana.it/borsaitaliana/statistiche/mediaitaliano/statistiche/mercatoprimario/2011/aumentipagamento.en.pdf.htm .
Japan	Tokyo Stock Exchange Fact Book, 2000-2010.
Korea	Jang, Kim, and Ko (2009, Table 1). 2000-2007.
Malaysia	Dewa and Ibrahim (2011, Table 1). 2000-2007
Netherlands	De Jong and Veld (2001, Table 3). 1977-1996.
New Zealand	Marsden (2000) reports 32 rights offers a year from 1976-1994. Anderson, Rose, and Cahan (2006) report eight private placements a year from 1990-2002.
Norway	Eckbo and Norli (2004, Table 2). 1980-1996.
Singapore	Tan, Chng, and Tong (2002). 1988-1996.
Spain	E-mail from Professor Juan Francisco Martin-Ugedo.
Sweden	Cronquist and Nilsson (2005, Table 1). Conversations and e-mails communications with Professors Cronquist and Nilsson and Dr. Gabriel Urwitz, Segulah Advisor AB, Stockholm.
Switzerland	Loderer and Zimmermann (1988). Also conversations and e-mails with Professor Claudio Loderer, University of Bern.
Taiwan	Wang, Chen, and Huang (2008, Table 1). 1996-2006
United Kingdom	Capstaff and Fletcher (2011, Table 1), Ho (2005, Table 2) and Slovin, Sushka, and Lai (2000, Table1).
United States	Eckbo, Masulis, and Norli (2007). 1980-2003. Rights frequency based on finding of Heron and Lie (2004) as well as Table 12 of Eckbo, Masulis, and Norli (2007).

Table 4

Announcement Returns of Equity Issuances and Shareholder Approval

Announcement returns of equity offerings by public corporations in 23 countries and whether they were approved by a vote of the shareholders. The papers which report these returns are reported in Table 2. There are 29,745 individual issuances. Shareholder approval is classified as “Yes” if shareholders vote within one year to approve the stock issuance. This corresponds to a classification of 5-3, inclusive, in the shareholder voting classification summarized in Table 1.

		Shareholder Approved	Abnormal Returns
Sweden	Private Placements to Insiders	Yes	11.67%
Australia	Private Placements Shareholder Approved	Yes	6.39%
Hong Kong	Private Placements	Yes	6.20%
India	Private Placements	Yes	6.18%
Sweden	Private Placements to Non-Insiders	Yes	5.10%
Finland	Rights	Yes	4.29%
Greece	Rights	Yes	3.97%
Singapore	Rights	Yes	3.69%
Malaysia	Private Placements	Yes	3.49%
Hong Kong	Public Offerings	Yes	3.14%
Canada	Private Placements	Some	2.96%
United States	Private Placements Shareholder Approved	Yes	2.87%
Norway	Private Placements	Yes	2.66%
Japan	Private Placements	Some	2.44%
Malaysia	Rights	Yes	2.22%
Taiwan	Private Placements	Yes	2.14%
Japan	Rights	No	2.02%
Switzerland	Rights	Yes	2.00%
Korea	Private Placements	Some	1.85%
Taiwan	Public Offerings	Yes	1.74%
Australia	Private Placements Not Shareholder Approved	No	1.68%
United Kingdom	Public Offerings	Yes	1.19%
Korea	Rights	No	0.95%
Italy	Rights	Yes	0.79%
Norway	Rights	Yes	0.38%
Sweden	Rights	Yes	0.37%
Germany	Rights	No	0.18%
New Zealand	Private Placements	Some	0.15%
United States	Private Placements Not Shareholder Approved	No	0.13%
India	Rights	No	0.03%
Singapore	Private Placements	Yes	-0.22%
Netherlands	Public Offerings	No	-0.41%
Netherlands	Private Placements	No	-0.52%
France	Rights	No	-0.58%
New Zealand	Rights	No	-1.01%
Japan	Public Offerings	No	-1.17%
France	Public Offerings	No	-1.18%
United States	Rights	No	-1.23%
Spain	Rights	No	-1.32%
United Kingdom	Rights	No	-1.79%
Taiwan	Rights	No	-1.82%
Canada	Public Offerings	No	-2.04%
Netherlands	Rights	No	-2.17%
United States	Public Offerings	No	-2.22%
Australia	Rights	No	-3.53%
Israel	Public Offerings	No	-4.26%
Hong Kong	Rights	No	-9.25%

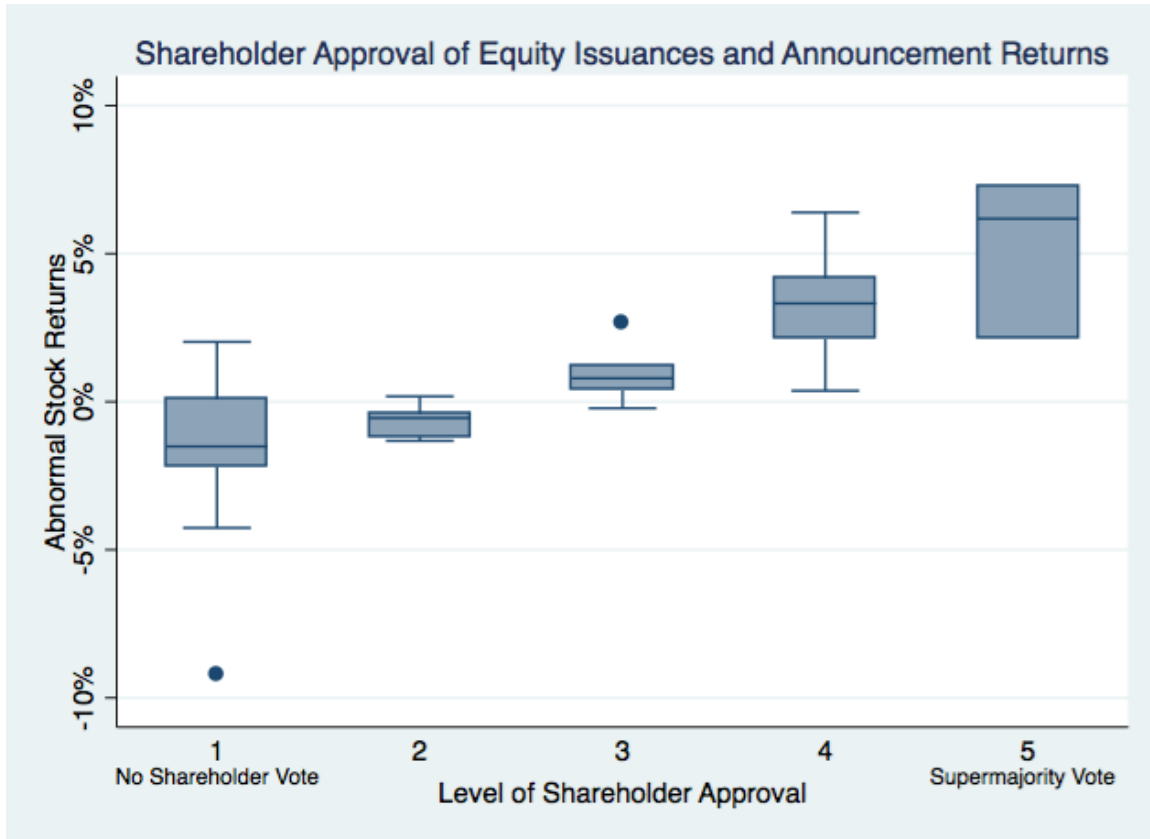


Figure 1. Level of mandatory shareholder approval (if any) of equity issuances and the abnormal stock returns associated with the initial public announcement of the equity issuance. The thin black horizontal line represents the median abnormal return; the beginning and end of the shaded boxes represent the first and third quartiles, respectively. The ends of the whiskers represent the minimum and maximum return, except when there is a dot which represents an outlier. Outliers are those observations that are 1.5 times greater than the interquartile range. There are 23 countries and 29,745 individual equity issuances. This figure is based on a given issuance method for a particular country (42 observations). This figure excludes private placements from Canada, Japan, Korea, and New Zealand because shareholders approve some but not all private placements. Private placements from the United States and Australia are included and divided between those that are shareholder approved and those that are not approved. The level of shareholder approved is documented in Table 1. The announcement returns are reported in Table 4.

Table 5

Regressions of Announcement Returns and Shareholder Approval

Regression analyses of the abnormal stock returns associated with the initial public announcement of common stock issuances by public corporations from around the world. A shareholder vote is classified as Required if it falls within Categories 3-5, inclusive. In these instances, shareholders vote their approval within one year of the actual issuance. There are 23 countries and 29,745 individual issuances. All regressions have 42 observations. The unit of analysis is a particular issuance method for a given country (Table 4). These regressions exclude private placements from Canada, Japan, Korea, and New Zealand because shareholders approve some but not all private placements. Private placements from the United States and Australia are included and divided between those that are shareholder approved and those that are not approved. (*p*-values based on Huber-White robust standard errors are in parentheses.)

	A	B	C	D	E	F
Shareholder Approval Required	4.38 (0.00)			3.75 (0.00)	6.46 (0.00)	6.41 (0.05)
Continuous Shareholder Approval Measure (1-5)		1.67 (0.00)				
Categories (compared with No Vote, 1)						
Vote within Five Years (2)			0.96 (0.19)			
Vote within One Year (3)			2.56 (0.00)			
Vote on Specific Issue (4)			4.97 (0.00)			
Supermajority Vote (5)			6.80 (0.00)			
Constant	-1.34 (0.01)	-3.48 (0.00)	-1.60 (0.03)	-1.04 (0.03)	-2.32 (0.04)	-1.42 (0.71)
Method of Issue Dummies	No	No	No	Yes	No	Yes
Country Dummies	No	No	No	No	Yes	Yes
R^2	0.50	0.59	0.60	0.54	0.74	0.77

Table 6

Method of Issuing Equity, Shareholder Approval, and Announcement Returns

Abnormal announcement returns associated with the three major methods of issuing equity. There are 23 countries and 29,745 individual issuances. Shareholder approval is measured on a 1 to 5 scale, with 1 being no requirement that shareholders vote for an equity issuance. The level of shareholder approval is summarized in Table 1.

	Level of Shareholder Approval	Abnormal Returns
Public Offerings		
Hong Kong	4	3.14%
Taiwan	4	1.74%
United Kingdom	3	1.19%
Netherlands	2	-0.41%
Japan	1	-1.17%
France	2	-1.18%
Canada	1	-2.04%
United States	1	-2.22%
Israel	1	-4.26%

Rights Offerings

Finland	4	4.29%
Greece	4	3.97%
Singapore	4	3.69%
Malaysia	4	2.22%
Japan	1	2.02%
Switzerland	4	2.00%
Korea	1	0.95%
Italy	3	0.79%
Norway	3	0.38%
Sweden	4	0.37%
Germany	2	0.18%
India	1	0.03%
France	2	-0.58%
New Zealand	1	-1.01%
United States	1	-1.23%
Spain	2	-1.32%
United Kingdom	1	-1.79%
Taiwan	1	-1.82%
Netherlands	1	-2.17%
Australia	1	-3.53%
Hong Kong	1	-9.25%

Private Placements

Sweden (Insiders)	5	11.67%
Australia (Shareholder Approved)	4	6.39%
Hong Kong	4	6.20%
India	5	6.18%
Sweden (Non-Insiders)	5	5.10%
Malaysia	4	3.49%
Canada	4 or 1	2.96%
United States (Shareholder Approved)	4	2.87%
Norway	3	2.66%
Japan	5 or 1	2.44%
Taiwan	5	2.14%
Korea	4 or 1	1.85%
Australia (Not Approved)	1	1.69%
New Zealand	4 or 1	0.15%
United States (Not Approved)	1	0.13%
Singapore	3	-0.22%
Netherlands	2	-0.52%

Table 7

United States and Australian Private Placements

Summary statistics on 589 United States and 510 Australian private placements. 206 of the U.S. placements and 221 of the Australian placements were approved by a vote of the shareholders. The firm size is in United States dollars for the United States firms and in Australian dollars for the Australian firms. (*p*-values based on Huber-White robust standard errors are in parentheses.)

	<i>United States</i>			<i>Australia</i>		
	Shareholder Approval	No Shareholder Approval	Difference	Shareholder Approval	No Shareholder Approval	Difference
Abnormal Returns (days)						
-1, 1	3.55% (0.00)	1.04% (0.03)	2.51% (0.01)	6.39% (0.01)	1.68% (0.00)	4.71% (0.04)
-10, 10	11.6% (0.00)	3.06% (0.00)	8.54% (0.01)	7.32% (0.02)	5.69% (0.00)	1.63% (0.61)
-10, 120	2.68% (0.64)	-10.21% (0.00)	12.90% (0.04)	4.37% (0.35)	-1.44% (0.59)	5.81% (0.25)
Premium	-28%	-14%	14% (0.00)	-14%	-8%	6% (0.00)
Percent Placed	48%	12%	36% (0.00)	38%	9%	29% (0.00)
Premium as % of Firm Value	-8.13%	-1.38%	6.76% (0.00)	-5.04%	-0.70%	4.33% (0.00)
Firm Size	\$78M	\$187M	\$108M (0.03)	\$505M	\$187M	\$318M (0.00)

Table 8

Regression Analyses of Private Placements and Shareholder Approval

Regression analyses of the abnormal stock returns associated with private placements in the United States and Australia. Under exchange rules, some placements require prior approval by a vote of the shareholders. The dependent variable is the abnormal stock returns associated with the initial public announcement of the placement (days -1, 1). Premium is the dollar premium (or discount) per share times the number of shares placed divided by the market value of the firm. Firm size is the natural log of the market value of equity. Leverage is short- and long-term debt divided by book value of assets. Active buyer is a dummy variable that takes a value of one if the buyer of the placement becomes publicly active in the firm in the two years following the placement and zero otherwise. (*p*-values based on Huber-White robust standard errors are in parentheses.)

	<i>U.S</i>	<i>Australia</i>
Shareholder Approved	0.02 (0.04)	0.08 (0.08)
Premium	-0.12 (0.30)	-0.34 (0.04)
Firm Size	-0.00 (0.96)	-0.01 (0.37)
Leverage	0.28 (0.13)	0.01 (0.83)
Active Buyer	0.06 (0.00)	0.12 (0.00)
Constant	-0.01 (0.34)	0.18 (0.38)
R^2	0.05	0.09
Observations	567	358

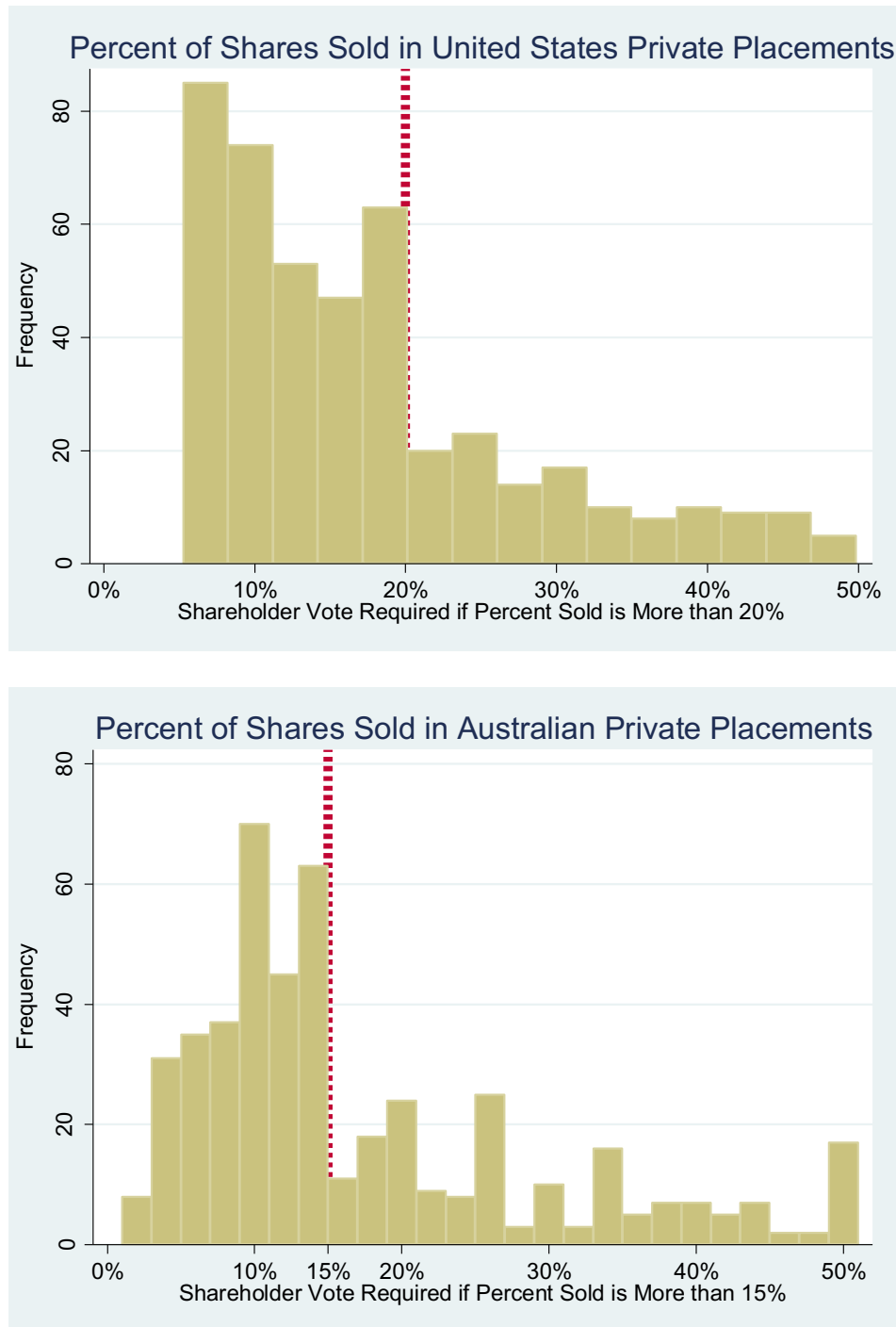


Figure 2. The top panel is the percent of shares sold in 447 United States private placements of common stock between 1979 and 1997. The bottom figure is the percent of shares sold in 468 Australian private placements of common stock between 1999 and 2004. The requirement for shareholder approval of a private placement depends on the percent of shares sold and is different in the two countries as indicated. (Both panels exclude placements greater than 50%.)

Table 9

Within-Country Announcement Returns and Shareholder Approval

Equity issuances and the associated abnormal announcement returns for all countries from Table 4 that have multiple methods of issuance. Shareholder vote is measured on a 1 to 5 scale with 1 being no requirement that shareholders vote for an equity issuance. The level of shareholder vote is summarized in Table 1.

	Shareholder Vote	Abnormal Returns
United States		
Private Placements Shareholder Approved	4	2.87%
Private Placements Not Shareholder Approved	1	0.13%
Rights	1	-1.23%
Public Offerings	1	-2.22%
Australia		
Private Placements Shareholder Approved	4	6.39%
Private Placements Not Shareholder Approved	1	1.68%
Rights	1	-3.53%
Canada		
Private Placements	4 or 1	2.96%
Public Offerings	1	-2.04%
France		
Rights	2	-0.58%
Public Offerings	2	-1.18%
Hong Kong		
Private Placements	4	6.20%
Public Offerings	4	3.14%
Rights	1	-9.25%
India		
Private Placements	5	6.18%
Rights	1	0.03%
Japan		
Private Placements	5 or 1	2.44%
Rights	1	2.02%
Public Offerings	1	-1.17%

Korea		
Private Placements	4 or 1	1.85%
Rights	1	0.95%
Malaysia		
Private Placements	4	3.49%
Rights	4	2.22%
Netherlands		
Public Offerings	2	-0.41%
Private Placements	2	-0.52%
Rights	1	-2.17%
New Zealand		
Private Placements	4 or 1	0.15%
Rights	1	-1.01%
Norway		
Private Placements	3	2.66%
Rights	3	0.38%
Singapore		
Rights	4	3.69%
Private Placements	3	-0.22%
Sweden		
Private Placements to Insiders	90% Vote	11.67%
Other Private Placements	66% Vote	5.10%
Rights	50% Vote	0.37%
Taiwan		
Private Placements	5	2.14%
Public Offerings	4	1.74%
Rights	1	-1.82%
United Kingdom		
Public Offerings	3	1.19%
Rights	1	-1.79%

Table 10

Frequency of Issue Methods When Shareholders Approve all Equity Issuances

The frequency of the three major methods of issuing equity when shareholders must vote to approve all equity issuances. Negligible means that the particular issuance method is used in 0.01 or less of all seasoned equity offerings. The data are equally weighted by issuance, and the sources are documented in Table 3.

		Fraction of SEOs
Finland	Public Offerings	Negligible
	Private Placements	0.41
	Rights	0.59
Malaysia	Public Offerings	Negligible
	Private Placements	0.51
	Rights	0.49
Norway	Public Offerings	Negligible
	Private Placements	0.40
	Rights	0.60
Singapore	Public Offerings	Negligible
	Private Placements	0.51
	Rights	0.49
Sweden	Public Offerings	Negligible
	Private Placements	0.54
	Rights	0.46

Table 11

Frequency of Issue Methods When Managers Unilaterally Choose the Method

The frequency of the three major methods of issuing equity when managers unilaterally choose the issuance method, when shareholders do not have to approve equity issuances. In all of these countries certain private placements must be approved by shareholders; the conditions that trigger a shareholder vote vary by country. Negligible means that the particular issuance method is used in 0.01 or less of all seasoned equity offerings. The data are equally weighted by issuance, and the sources are documented in Table 3.

		Fraction of SEOs
United States	Public Offerings	0.84
	Private Placements	0.16
	Rights	Negligible
Canada	Public Offerings	0.48
	Private Placements	0.42
	Rights	0.10
Israel	Public Offerings	0.20
	Private Placements	0.62
	Rights	0.16
Japan	Public Offerings	0.30
	Private Placements	0.69
	Rights	Negligible

Table 12

Frequency of Issue Methods When Managers Have a Choice

The frequency of the three major methods of issuing equity when managers have a choice between issuance methods that require a shareholder vote and others that do not require a shareholder vote. Shareholder approval is measured on a 1 to 5 scale with 1 being no requirement that shareholders vote for an equity issuance. The shareholder vote is summarized in Table 1. Negligible means that the particular issuance method is used in 0.01 or less of all seasoned equity offerings. If a cell is blank it means the data is not available. The data are equally weighted by issuance, and the sources are documented in Table 3. This table does not include France because both issuance methods require the same level of shareholder approval. The table also does not include Germany, Greece, Spain, and Switzerland because only qualitative information on the frequency of issuance method is available.

		Shareholder Vote	Fraction of SEOs
Australia	Public Offerings	4 or 1	Negligible
	Private Placements	4	0.24
	Private Placements	1	0.50
	Rights	1	0.25
Hong Kong	Public Offerings	4	0.52
	Private Placements	4	0.17
	Rights	1	0.31
India	Public Offerings	5	Negligible
	Private Placements	5	0.93
	Rights	1	0.06
Italy	Public Offerings	4	0.16
	Private Placements	4	0.21
	Rights	3	0.63
Korea	Public Offerings	4	0.11
	Private Placements	4 or 1	0.56
	Rights	1	0.33

Netherlands	Public Offerings	2	0.20
	Private Placements	2	0.19
	Rights	1	0.61
New Zealand	Public Offerings	4 or 1	Negligible
	Private Placements	4 or 1	0.20
	Rights	1	0.80
Taiwan	Public Offerings	4	0.15
	Private Placements	5	
	Rights	1	0.85
United Kingdom	Public Offerings	3	0.34
	Rights	1	0.66

Appendix Table A1
Variable Definitions

Variable	Description	Source
Legal Origins	Identifies the legal origins of a country: English (common law), French (civil law), German (civil law), Scandinavian (civil law).	La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998).
Anti-Director Rights Index	“Aggregate index of shareholder rights. The index is formed by summing: (1) vote by mail; (2) shares not blocked or deposited; (3) cumulative voting; (4) oppressed minority; (5) pre-emptive rights; and (6) capital.”	La Porta, Lopez-de-Silanes, Shleifer, and Vishny (2008) first proposed the index. These are the corrected data from Spamann (2010). Robustness tests use the index as corrected by Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008).
Anti-Self Dealing Rights Index	The Anti-Self-Dealing Index incorporates both ex-ante controls and ex-post penalties on self-dealing transactions by corporate insiders, especially by controlling shareholders.	Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008).
Ownership Concentration	The aggregate ownership of all shareholders who own at least 5% of the common stock.	Holderness (2009).
Institutional Stock Ownership	The percent of value of all domestic, public stock held by institutional shareholders at the end of 2007.	Fact/Set/LionShares Database.
Per Capita GDP	The natural logarithm of “GDP per capita in Purchasing Power terms – in 1994 – World Development Indicators.”	La Porta, Lopez-de-Silanes, and Shleifer (2008).
Growth of GDP	“Average annual percent growth of per capital gross domestic product for the period 1970-1993.”	World Development Report 1995.
Listed Companies per Capita	“Average ratio of the number of domestic firms listed in a given country to its population (in millions) for the period 1999-2003.”	Emerging Market Factbook and World Development Report.

Internet Appendix:

Equity Issuances and Agency Costs:
The Telling Story of Shareholder Approval around the World

Clifford G. Holderness

July 2017

A. Classification of Shareholder Voting

To determine the laws and practices on shareholder approval of equity issuances around the world, I started with the legal supplement to Spamann (2010). Although Spamann does not explicitly address shareholder voting for equity issuances, he often covers related laws when reviewing preemptive rights. I then conducted extensive research involving a variety of legal and non-legal sources. An important part of this process was studying individual equity offerings to ascertain what legal and extra-legal factors were at play.

Some issuances could plausibly fall into one of two categories of my classification of the level of shareholder approval, often 3 or 4 (Table 1). When I lack the necessary information to categorize individual issuances, I classify the method by its modal practice. I ascertain this from the academic papers reporting the announcement effects, by talking with academics and practitioners, and through searches of press reports of individual issuances.

These considerations can be illustrated with equity offerings by public corporations in Malaysia. By law in Malaysia shareholders must approve all equity issuances. Shareholders, therefore, must approve all rights offerings, but under exchange rules they may give a general mandate in annual meetings for up to 10% of outstanding stock for a period of one year. This would fall into category 3 of our voting classification. Malaysian studies (Table 2) report that the typical rights offer is for 95% of the outstanding stock. This means that they had to be specifically approved by shareholders, a 4 under our classification. An example is that on January 27, 2010 Malaysia Airlines announced shareholder approval of a rights offer for \$779 Million (U.S.).

Malaysian studies on private placements report an average offering of 39%. As with the rights offers, this suggests that most private placements exceed 10% of the outstanding equity and must therefore be specifically approved by shareholder as opposed to a one-year general mandate. I accordingly classify Malaysian private placements as 4.

With private placements that could be classified as either 4 or 1 (or 5 or 1), I do not assign all to one category but rather note this division as “Some” in the tables. My rationale is that given the large differences in announcement returns between those issues that are specifically approved by shareholders and those that are not, it would be inappropriate to pool the observations. When I am able to separate private placements by shareholder approval, as with the United States and Australia, I do so and indicate this.

When classifying shareholder voting, I do not consider whether a firm has sufficient authorized (but unissued) shares to make an offering. If this is not the case, shareholders must vote to authorize more stock. This appears to occur infrequently, at least in the United States.

Finally, I summarize the laws and regulations on shareholder voting as of the time of my sample of announcement effects and frequency of issuance. Some of these laws and regulations changed subsequently. For example, on August 1, 2012 the Australian Stock Exchange changed Rule 7.1A. Now small companies (market capitalization of \$300M AUD or less) may issue up to 25% of their equity through a private placement without shareholder approval. Table 1 does not account for such changes.

B. Event Studies of Equity Issuances

Singapore. Although there are many studies documenting negative announcement returns associated with equity issuances management undertakes unilaterally (that is with only board of director approval), there is only one study that documents negative returns with shareholder approval, Chen et al’s (2002) study of private placements in Singapore. Private placements in Singapore are also the only shareholder-approved national issuance method that is associated with negative average announcement returns (Table 4). A close examination of this study and the other study of private placements in Singapore, however, raises questions about whether the overall announcement returns are in fact negative.

Chen et al document negative returns over days -1 to day 0 (-0.89%, significant at the 0.05 level). They also document positive returns of 4.23% from day -59 to day -2

(Z-statistic 2.05). This means that their abnormal returns from day -59 to day 1 are 3.34% (significance not reported); their abnormal returns from day -59 to day 10 are 3.20% (significance not reported). Their event day is the day after the SES (Singapore's version of the SEC) receives the application for a private placement. In many instances, however, by this time shareholders had already approved the private placement, usually through a general mandate at the annual meeting. Moreover, the SES's approval is widely viewed as perfunctory. Thus, some of the market's reaction likely came before their designated announcement day, a period of positive returns.

Tan et al (2002) is the other study of private placements in Singapore. In contrast to Chen et al, they discuss the requirement for shareholder approval and it influences their choice of the announcement date. Tan et al document positive but insignificant returns from day -1 to day 1 (0.31%). They also document positive abnormal returns from day -20 to day 1 of 6.27%, which they describe as "significant."

Thus, both studies of Singapore private placements document positive abnormal returns during the pre-announcement period, which is relevant because shareholders through general mandates at annual meetings approved many of the placements. Both studies also document positive returns over longer event windows.

Japan. Public issues in Japan, which do not require shareholder approval, is the only other issuance method for any country where the existing event studies differ on the sign of the announcement effect. Two studies find positive returns (with mixed significance); two other studies find negative returns (which are highly significant). All four studies are incorporated in the observation for Japanese public offers (-1.17%).

One reason why the results differ is that there are different sampling periods and the mechanics of public offers changed significantly over time. In January 1994 Japan came to resemble the United States in that investment banks began using a book building process for public offers of seasoned equity. Both of the studies finding positive returns have samples that predate this change. After the change, all studies find negative announcement returns.

There are also differences in the studies' announcement dates. The two papers finding positive announcement effects use the initial announcement of the offering,

either the board of director's announcement or the newspaper announcement. Christensen et al (1996), who have an extensive discussion of institutional details, explain that the initial announcements of public offers in Japan seldom contain key terms including the amount of the offering and the discount to the exchange price.¹ These terms are usually revealed in a second public announcement which usually comes immediately before the issue day. Christensen et al find this to be the key day, although they consider the earlier day as well. One of the studies finding positive (initial) announcement returns, Kang and Stulz (1996), find negative and significant returns in the three-day window surrounding the issue day. When these returns are added to the returns from the initial announcement, the overall returns are negative and marginally significant. (I do not use this return because Kang and Stulz stress the returns from the initial announcement.) Kato and Suzuki (2012), with the largest sample, find negative and significant returns similar to those found by Christensen et al. Christensen et al conclude (p. 117) "our results [on public equity offers] are quite similar to those in the U.S. markets."

The Event Dates. An important issue for any event study is the identification of the correct event date, as just discussed with Singapore and Japan. With equity issuances that are not approved by shareholders, this identification presents no special challenges. Although as we have just seen with Japan, attention should be paid to institutional details which often vary from country to country. With issuances that must be approved by shareholders, problems can arise due to the leakage of information, particularly if researchers rely on the initial press announcement and it came after the proxy had been mailed (if proxies or their equivalent were used) or shareholders had already voted. Having said this, researchers are generally identifying statistically significant returns with issuances that are shareholder approved; they thus seem to have identified unanticipated events of some importance. Moreover, management often

¹ Kato and Suzuki (2012) make the same point.

publicly announces they will seek shareholder approval before the actual shareholder meeting.

The main worry would be if the pervasive positive returns associated with shareholder approval were systematically preceded by negative returns. If the reversals were large enough, shareholder-approved equity issuances may not be associated with positive announcement effects and could even be negative. I therefore investigated the pre-announcement returns in all of the studies involving shareholder approval. Of the 33 such studies, 26 report pre-announcement returns. The only case of negative returns (independent of statistical significance) prior to an issuance that involved shareholder approval is Tan et al (2002) for rights issues in Singapore. (Tan et al study rights issues in addition to private placements). As noted above, they discuss the requirement for shareholder approval, which is also required for rights offers, and that influences their choice of the event date. They report abnormal returns of -0.29% (t -statistic 0.15) from day -20 through day -1. They also report abnormal returns of 2.34% from day -1 to day 1 (they describe this return as “statistically significant.”) Thus, their returns over longer event windows remain positive even with the small and insignificant but negative pre-announcement returns.

The other study of rights offerings in Singapore, Ariff et al (2007), reports abnormal returns of 4.32% from day 0 to day 1 (t -statistic 6.19); abnormal returns of 3.19% from day -20 to -1 (t -statistic 1.60); and abnormal returns of 12.51% (t -statistic 3.00) over their entire event period of day -20 to day 12.

Some readers have noted that the positive pre-announcement returns associated with shareholder approval of equity issuances are not surprising given that it is well documented that firms generally issue equity following periods of positive returns. This is true. What is surprising is that these positive returns are followed by negative announcement returns for equity issuances that management undertakes unilaterally but followed by positive announcement returns for equity issuances that have been approved by shareholders.

Summary. The mosaic of the evidence is consistent with positive valuation effects for equity issuances that are approved by shareholder vote. Most notably, the pattern is

pervasive: It is found in 32 of 33 studies involving three different issuance methods in 23 countries over various time periods. Second, wider event windows likewise reveal positive returns. Often these returns are larger than those associated with the shorter windows. No paper reports negative longer returns. Third, the pre-announcement returns are almost always positive.

The contrast with the managerial stock issuances is notable. Here 48 of 57 studies report negative announcement returns. I have already discussed two of the nine studies reporting positive returns with managerial issuances, public offers in Japan (0.50% and 0.45%). As noted earlier, two other studies of Japanese public offers find negative returns (-2.35% and -2.02%). Three studies report insignificant positive returns for managerial rights offers in Germany, India, and Korea. There are no other event studies of rights offerings for any of these countries. There is also one study of rights offerings in Japan with 28 observations with marginally significant returns (2.02%, *t*-statistic 2.11). Since the time of this study, the use of rights has fallen to where in some years there are no rights offerings on the Tokyo Stock Exchange. Moreover, during the period studied many firms issued a premium cash dividend simultaneously with a rights offer. This practice, which is not noted in the sole Japanese-rights study, has since stopped.² Finally, for some event windows the announcement effects of private placements undertaken without shareholder approval in the United States are positive. But for longer event windows these returns are typically negative, and they are always significantly lower than those that are approved by shareholders. The last point is also true of private placements in Australia, which is the final observation involving positive short-run announcement returns for managerial stock issuances.

C. Case Study of Two Major Rights Offerings

The association between shareholder approval of a rights offer and the announcement effect can be illustrated by two of the largest stock offerings of any type

² I thank Professor Katsushi Suzuki of Kobe University for this information.

in some years. Both were conducted in 2008 by major European banks, UBS and Santander. **Internet Appendix Table 1** compares key aspects of these two rights offerings.

UBS is subject to Swiss law and thus had to obtain shareholder approval for its “Ordinary” rights offering.³ On April 1, 2008 UBS’s management announced their intention to seek shareholder approval for a \$15.1 billion rights offering, explaining that a capital infusion was needed to repair losses caused by investments in mortgage-back securities. UBS’s market-adjusted stock price increased by 11% on the day of the announcement. Management received the needed approval at the annual general meeting of shareholders on April 23, 2008. The final terms of the rights offer were set on May 23, 2008, and the subscription period began the following day.⁴ The offer successfully closed ten days later.

Santander is subject to Spanish law. In contrast to Swiss law, Spanish shareholders do not have to approve specific rights offerings. Instead, the practice is for shareholders to approve mandates for management to issue large amounts of stock at their option. By law these mandates may stay open for five years. Often the mandates expire unexercised, but that was not the case here. On November 10, 2008 management announced a \$9.2 billion rights offer to increase the bank’s Tier 1 capital. Santander’s market-adjusted stock price declined by 6.9% on the day of the announcement.⁵ The subscription price for the offer was priced at a 46% discount to the exchange price, presumably to help ensure success of the offer. Santander’s stock price continued to decline, however, and there was speculation in the financial press that the underwriters

³ The alternative in Switzerland is an “Authorized” rights offering. This requires shareholder approval to amend the articles of association to increase authorized capital. Under this option, the board may issue up to 50% of existing share capital within the two years following the shareholders’ resolution. Most rights offerings in Switzerland are Ordinary and by law must be completed within three months of the shareholders’ resolution. This was the case with UBS’s 2008 rights offer.

⁴ The size of the offering was increased from \$15.1 billion to \$15.5 billion.

⁵ This announcement apparently surprised market participants. For instance, the following day *The Telegraph* ran an article entitled: “Santander stuns the markets with €7.2bn rights issue.”

would have to purchase the new shares. This turned out not to be the case as the rights remained in the money. The bank successfully raised the capital sought, but there was considerable public discontent among shareholders.

Although these are only two observations during a tumultuous time for financial markets, in general, and large banks, in specific, they nevertheless illustrate the broader association between the market's reaction to a rights offering and shareholder approval. In Switzerland, where shareholder approval is required, the average announcement effect for rights offers is 2% (Table 6). In Spain, where shareholder approval is not required, the average announcement effect for rights offers is -1.32% (Table 6).

D. Avoiding Shareholder Votes for Equity Issuances

My paper documents that managers in the United States and Australia at times avoid shareholder votes by clustering the fractional size of private placements directly below the regulatory thresholds that trigger a mandatory shareholder vote (Figure 2). Other papers document that managers attempt to avoid shareholder votes in other situations involving the issuance of equity as well.

Mergers. The 20% threshold for mandatory shareholder approval applies in the United States for stock issued as payments in mergers.⁶ One example of management maneuvering to avoid shareholder approval of a stock issuance in this setting, essentially avoiding a shareholder vote on an acquisition, involves Kraft's 2010 acquisition of Cadbury. At the time Warren Buffett was the largest shareholder in Kraft. Originally, Kraft planned on issuing more than 20% of its common stock as payment to the Cadbury shareholders. This would have triggered a shareholder vote under NYSE rules. Kraft circulated a proxy statement in anticipation of this vote. At this point Buffett went public with his criticism of the deal. Kraft's management responded by reducing

⁶ Acquiring-firm shareholders in the United States typically must also vote to approve acquisitions when a new legal entity is created to acquire both the target and the bidder. Wall Street Journal, September 29, 2015, p. C2 ("Media General Could Save Its Deal").

the amount of new stock to below 20%, thereby avoiding a shareholder vote. This triggered widespread criticism among the Kraft shareholders, including Buffett;

The events at Kraft do not appear to be unique; Li et al (2017) as well as Mason et al (2017) present evidence that managers of acquiring firms in the United States often structure acquisitions to avoid a vote by their shareholders.

Closed-End Mutual Funds. Under Section 23 of the Investment Company Act of 1940, closed-end funds that are trading at a discount to net asset value may issue stock only pursuant to a rights offer or through another method “with the consent of a majority of its common stockholders.” Khorana et al (2002) report that the few public offerings by closed-end funds between 1988 and 1999 all involved funds that were trading at substantial premiums to net asset value, so no shareholder vote was required. I have been unable to identify any votes by shareholders of closed-end funds approving the sale of seasoned stock even though I searched for such votes as part of another research project. Instead closed-end funds almost always raise equity through rights offerings, which do not require a shareholder vote (except in unusual circumstances). Holderness and Pontiff (2016) report that 39% of their sample of rights offerings involve closed-end funds.

Equity-Based Compensation Plans. Another category of management reacting to external requirements for shareholder votes involving the issuance of equity involves stock-based compensation plans in the United States. By exchange rules and IRS regulations, these plans must be approved by shareholders. A number of papers document that shareholder approval of these plans is associated with positive announcement returns and superior post-announcement long-run accounting returns.⁷ These findings are consistent with the positive announcement returns documented in this paper.

⁷ Although some compensation plans instituted prior to 2003 did not require shareholder approval, all of the studies I am aware of analyze shareholder-approved plans exclusively. For example, Brickley et al (1985); Morgan and Poulsen (2001).

If a compensation plan involves less than 5% of a firm's equity, under exchange rules brokers may vote uninstructed stock held in street name. In many firms this constitutes a significant percentage of the stock traded, sometimes more than half. Moreover, brokers virtually unanimously vote for management. Thus, plans involving less than 5% of a firm's equity can count on near-unanimous support from broker-held stock. Bethel and Gillan (2000, 2002), who discuss these institutional details, identify a clustering of compensation plans at 4.9%.⁸ They quote (2002, p. 33) a compensation consultant who says he is "surprised when he sees a [stock-option plan] request for more than 5%. They [the companies] are gaming the system."

E. Simple Model of Equity Issuances and Agency Conflicts

A simple model helps explain both the announcement effects and some of the patterns of how seasoned equity is issued. Because this model incorporates a wide array of variables, I follow an informal analysis in the spirit of Jensen (1985) or Blanchard et al (1994). The model is agency based in that it assumes that managers are self-interested and that at times their objective conflicts with their shareholders' objective, which is the maximization of firm value. The model also assumes that market forces (such as a manager's reputation) and organizational arrangements (such as boards of directors) reduce but do not eliminate agency conflicts.

Internet Appendix Figure 1 illustrates this model. The present value of the net impact of an equity issuance on the managers personally is measured on the Y-axis. The expected value of an issuance on the share price is measured on the X-axis. Shareholders as a group are sophisticated enough to identify most issuances that are likely to enhance firm value, although in some instances they are wrong ex post. In all instances, managers must initiate equity issuances. In some instances, the law requires shareholder ratification.

⁸ The histogram in Bethel and Gillan (2000) shows the clustering at 4.9%. It paints a picture of clustering similar to Figure 2 in my paper, albeit at a different fractional threshold.

If managers may unilaterally issue stock, Section I issuances will occur and stock prices will decline. An example would be that market participants believe the new equity will enable managers to engage in empire building or growth for growth's sake. This fits with Jensen's (1986) free cash flow theory, although here the funds for negative net present value projects come not from retained earnings but from new equity. Another explanation is that managers are over-confident about their abilities to implement certain investment projects. If shareholders must ratify equity issuances, Section I issuances will not occur on a systematic basis.

Section II issuances benefit managers, so they will initiate them; the issuances also benefit shareholders, so they will ratify them. Thus, Section II issuances will occur under both legal regimes. An example would be issuing stock to finance an investment that would both increase firm value and managers' compensation (say through stock options). Section II issuances could also result from market timing (as it would benefit both shareholders and presumably management). Having said this, given the paucity of public offerings in many countries, seasoned equity offerings driven by market timing appear to be rare, at least when shareholder approval is required.

Shareholders would ratify Section III issuances, but managers will not initiate them because of the negative impact on them personally. This would be the case, for instance, if managers do not want to work hard on a valuable project to be funded by the newly raised equity (managerial shirking), or if they lack the requisite skills to implement the project and fear replacement by managers with the necessary skills.

Section IV projects are not proposed by management and would not be ratified by shareholders if they were proposed.

This framework yields several predictions that are consistent with the evidence, both from this paper and elsewhere. First, shareholder-approved equity issuances will on average be associated with positive announcement returns. Second, the announcement returns associated with shareholder approval will be greater than the returns with managerial issuances because the negative Section I issuances occur only when managers may unilaterally issue stock. Third, managers (if they can) will use methods that do not require shareholder approval to secure Section I issuances. Finally,

because managers will unilaterally issue stock in both Sections I and II, the net effect of managerial issuances can be either positive or negative (although on average lower than with shareholder approval). This too is consistent with the evidence. Masulis and Korwar (1986), for instance, report that 29% of domestic seasoned equity issuances by industrials and 50% of those by utilities have positive announcement day returns. This suggests that in the United States although Section II issuances occur on a regular basis, Section I issuances predominate.⁹

⁹ In contrast, Myers and Majluf (1984) predict a negative announcement effect for all seasoned public equity offerings.

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Internet Appendix Table 1

Comparison of Rights Offers Conducted by UBS and Santander

UBS is subject to Swiss law which requires shareholder approval of specific rights offerings. UBS shareholders approved the rights offer on April 23, 2008 at the annual general meeting. Santander is subject to Spanish law which does not require shareholder approval of specific rights offerings. Abnormal stock returns are the raw stock returns on the announcement day minus the return on the market. (*t*-statistics are in parentheses.)

	UBS	Santander
Date	April-May 2008	November 2008
Amount Raised	\$15.5 Billion	\$9.2 Billion
Discount of Offer Price to Exchange Price at Announcement	31%	46%
Funds Raised as Fraction of Value of Pre-Rights Equity	0.21	0.14
Announced Rationale	Repair Balance Sheet	Increase Tier 1 Capital
Underwritten	Yes	Yes
Announcement Day Abnormal Stock Return	11.0% (8.39)	-6.9% (4.90)
Shareholder Approval of Rights Offer by Vote	Yes	No

Internet Appendix Figure I
Theoretical Framework for Equity Issuances and Agency Costs

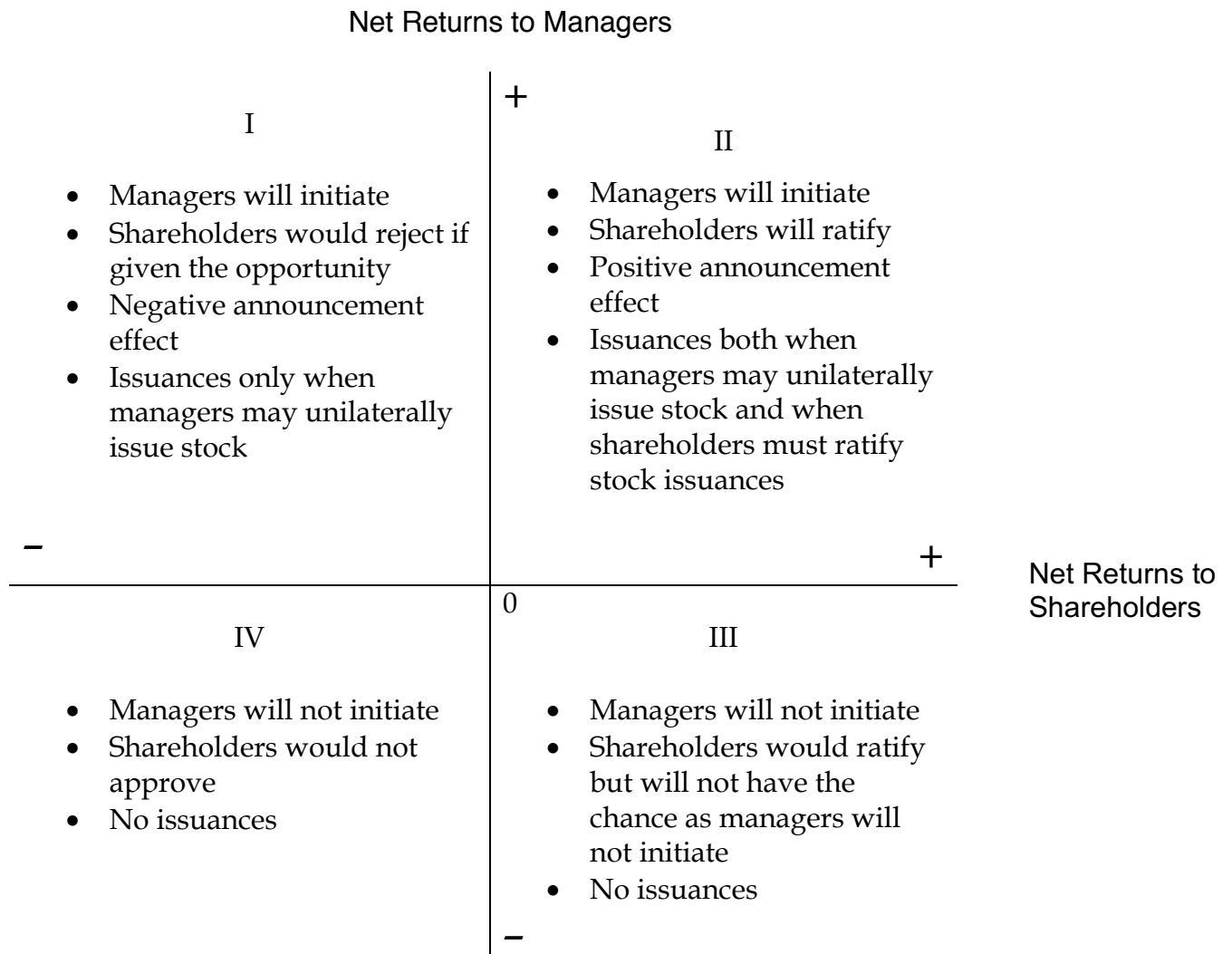


Figure I. Likely outcomes of hypothetical equity issuances by public corporations. In all instances managers must initiate the issuance. In some instances shareholders must vote to ratify the issuance, but in other instances shareholder ratification is not required.