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

Clifford G. Holderness*

January 2016

Shareholder approval of equity issuances varies considerably. When shareholders must approve issuances, average announcement returns are positive. When managers unilaterally issue stock, returns are 4% lower and negative. 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. Shareholders favor rights offers and seldom approve public offers. Managers favor public offers and seldom choose rights offers. These findings hold across and within 23 countries, including the United States, suggesting that agency problems affect equity issuances and that shareholder approval reduces these costs.

(*JEL* G32, G14, G15)

Keywords: Equity offerings, agency costs, mandatory shareholder voting, corporate governance.



---

* Boston College, Carroll School of Management (clifford.holderness@bc.edu). I thank Vladimir Atanasov, David Chapman, Alex Edmans, Rainer Gawlick, Stuart Gillan, Edith Ginglinger, Dirk Jenter, Michael Klausner, Nadya Malenko, William Mann, David McLean, Jeffrey Pontiff, Jonathan Reuter, Stefano Rossi, Dennis Sheehan, Philip Strahan, David Yermack, and seminar participants at the BI Conference on Corporate Governance, Boston College, ESCP Paris, the Frontiers in Finance Conference, and the University of Pittsburgh for comments. John Bagamery and Brian Ritter provided excellent research assistance. The following individuals have helped me to understand seasoned equity offerings in different countries: Australia (Vladimir Atanasov, Tunyarputt Kiaterittinun, Ronald Masulis, Peter Pham, Jo-Ann Suchard), Austria (Johann Burstaller), Belgium (Marc Deloof, Henri Servaes, Sigrid Vandemaele, Cynthia Van Hulle), Canada (Ari Pandes, Nancy Ursel), Chile (Borja Larrain), Finland (Pekka Hietala, Sami Torstila), France (Edith Ginglinger), Germany (Richard Stehle), Greece (Nickolaos Travlos, Nickolaos Tsangarakis), Hong Kong (Bonnie Chan, Xueping Wu), Italy (Pierluigi Balduzzi, Marco Bigelli), Israel (Efraim Sadka, Yaron Zelekha), Japan (Katsushi Suzuki), Singapore (Truong Duong), Spain (Juan Francisco Martin-Ugedo, Rafael Santamaria), Sweden (Henrik Cronqvist, Gabriel Urwitz), Switzerland (Claudio Loderer), Taiwan (Kehluh Wang), United States (Souren Ouzounian, James Park, Douglas Petno).

This paper investigates whether agency conflicts are present when public corporations issue common stock and, if they are, whether mandatory shareholder approval of stock issuances reduces these conflicts.

The predominant view in the literature is that agency conflicts are absent when public corporations issue common stock, be it is through a public offering, rights offering, or private placement. Myers (2000), however, points out it would be surprising if agency conflicts were present with many corporate decisions but absent with something as fundamental as the issuance of common stock. Nevertheless, most papers, including such seminal papers as Myers and Majluf (1984) and Miller and Rock (1985), explicitly assume the absence of agency costs with equity issuances.[1] Others disagree, but their influence has been limited.[2]

Agency costs arise whenever decision rights are delegated. One alternative is for shareholders to delegate decision rights but curb the resulting agency costs by adjusting the managers' incentives through performance-based compensation, stock ownership, and the like (Jensen and Meckling 1976). The other alternative is for shareholders not to delegate specific decision rights. In these cases, managers may propose actions but shareholders must ratify them (Fama and Jensen 1983).

The investigations in this paper are based on an extensive but almost totally overlooked heterogeneity in the allocation of decision rights between shareholders and managers involving the issuance of common stock. In the United States management typically needs only board of director approval to issue common stock ("managerial issuances"). But in most countries by law or stock-exchange rule shareholders must approve equity issuances undertaken by a certain method or exceeding a specified fractional threshold. In some countries shareholders must approve all equity issuances.

---

[1] Eckbo, Mauslis, and Norli (2007, Table 12) summarize ten influential theory papers that address public offerings of seasoned equity. None consider agency costs between managers and shareholders.

[2] Papers supporting an agency interpretation include Berger, Ofek, and Yermack (1997); Jung, Kim, and Stulz (1996); Kim and Purnanandam (2014); Loughran and Ritter (1997); and Zwiebel (1996).

Even in the United States shareholder approval is mandatory in certain circumstances. Given that firms are unlikely to select their country of incorporation by the laws governing equity issuances, this extensive variation in mandatory shareholder approval presents a quasi-natural experiment which I exploit. Several broad patterns emerge.

First, the legal and stock-exchange requirements for mandatory shareholder approval of equity issuances vary considerably across and within countries. Existing research seldom recognizes this reality although it is often central to the question at hand.[3] I document these requirements and summarize them in an index.

Second, the announcement effects of equity issuances vary fundamentally with mandatory shareholder approval. When shareholders vote to approve an equity issuance, the announcement effects are positive, averaging 2%. The closer the vote is to the issuance date or the higher is the plurality of votes required by law, the higher are the announcement effects. In contrast, when managers unilaterally issue stock, the announcement effects are negative and more than 4% lower. These result hold across and within 23 diverse countries; these result also hold for each of the three major methods corporations issue equity (public offers, rights offers, private placements).

Third, the methods by which equity is issued also vary fundamentally with shareholder approval. These findings are perhaps even more striking than the event study results. Shareholders overwhelmingly favor rights offers and seldom approve

---

[3] Chang (1998) is one of many papers that do not appear to recognize the requirement of shareholder approval of equity issuances but where such approval is central to the question at hand. Chang documents that domestic bidders using stock to acquire private firms often experience a positive announcement return. As we shall see, when a United States exchange-listed firm issues more than 20% of its stock, it is usually conditional on shareholder approval. In these cases, by approving the stock issuance, the bidding firm's shareholders are effectively approving the merger. Chang does not consider this possibility. (I assume because he is unaware of it.) Thus, he does not divide his sample into those mergers that were approved by the bidding firms' shareholders and those that were not. This obviously could be relevant for explaining the positive overall announcement returns for bidders that he finds. It is not my intent to single out Chang for any special criticism. The same point can be made of virtually all studies of acquisitions by United States exchange-listed firms where the method of payment is relevant. The same point can also be made of virtually all studies of private placements. One paper that does not recognize that some private placements are conditional on shareholder approval is Barclay, Holderness, and Sheehan (2007). As we shall see, this insight recasts some of their conclusions.

public offers. Managers, in contrast, favor public offers and seldom choose rights offers. Managers use a variety of means to avoid subjecting equity issuances to shareholder approval.

The totality of the evidence points to two broad conclusions: First, agency conflicts are often present when public corporations issue equity. Second, mandatory shareholder approval reduces these conflicts.

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 will 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.

The allocation of decision rights between shareholders and managers is a fundamental corporate governance issue. There has been, however, surprisingly little research on which decision rights shareholders should retain. To be sure, there is research on shareholder voting, primarily in the United States. But many of these votes, such as "say on executive pay," are only advisory.[4] Although advisory voting can be important, it is not the same as mandatory shareholder approval where shareholders effectively retain key decision rights.

The increases in firm value associated with shareholder approval compared with unilateral issuances by management—an average difference of 4.15%—are found within and across 23 countries with different capital markets, laws, and cultures. The increases in firm value associated with mandatory shareholder approval are also found with each of the three major methods to issue equity, transactions which typically are viewed as being fundamentally different but we now know are similar at least with respect to shareholder approval. It thus appears that one decision right shareholders should consider retaining is the right to approve issuances of common stock.

---

[4] Yermack (2010) reviews shareholder voting in the United States.

This agency interpretation contrasts with the conventional interpretation of equity issuances, which is through the framework of asymmetries between managers and outside investors over firm value.[5] This theory holds that when a firm's stock price is lower than what managers' private information leads them to believe it should be, they refrain from issuing equity. But when the stock price is higher than their private valuation, the managers will issue equity. Equity issuances are seen to result from this adverse selection. A crucial assumption in these market timing analyses is that managers are acting in the current shareholders' best interests.

I am unable to test this adverse selection explanation directly because of the nature of my data. Many of the key empirical regularities I find, however, cannot be explained by adverse selection. In particular, it is generally agreed that the primary way to benefit from information asymmetries is for corporations to issue stock to the public. Consequently, if adverse selection were the only force at work, there should be frequent public offerings of seasoned equity in all countries because asymmetries between insiders and outside investors over firm value should exist in all countries. Yet public sales of equity are virtually unheard when shareholder approval is required. Furthermore, public offerings should be the least frequent in the United States because it has the most developed capital markets and hence should have the least asymmetry about the valuation of public firms. Instead, public offerings are the most frequent in the United States. Moreover, in those few countries where shareholders approve public offerings, the average announcement effect is positive. The much-discussed negative stock-price reaction associated with public offering is found only when managers unilaterally undertake public offerings. All of these robust empirical regularities (and

---

[5] There are two versions of these market timing analyses, one involving rational investors (Myers and Majluf 1984) and the other involving irrational investors (or managers). Baker and Wurgler (2002) explain the differences between the two versions and review the literature. For our purposes, the key is that both versions are centered on sales of equity to outside investors, and both versions assume that these sales benefit existing shareholders. Consequently, I do not distinguish between the two versions but instead refer to both as "adverse selection" or "information asymmetries."

others) suggest that the widely held adverse selection explanation is an incomplete explanation for stock issuances by public corporations and that agency considerations play a role.

What differentiates this paper from others that also study equity issuances, in addition to the focus on the heterogeneity in shareholder approval, is its unconventional methodology. Most traditional statistical analyses, such as propensity score matching or differences-in-differences, require firm-level data. Given the number of countries involved, as a practical matter this would mean using electronic data. I investigated this possibility but quickly discovered that for most countries the electronic data are deeply flawed.[6] I do, however, have reliable firm-level data on American and Australian private placements. Otherwise, I must rely on (mostly published) studies that report results for a given equity issuance method for a given country.

The second reason for not following a traditional methodology is that it would not exploit the full heterogeneity in shareholder approval, nor would it provide a broad overview of shareholder approval and equity issuances. Consider instrumental variables. It is challenging enough to find a valid instrument for (say) private placements in the United States, but to find a valid instrument for private placements from many countries would be infeasible. Likewise, techniques that depend on exogenous changes would require a change that impacts the laws of many countries. This seldom, if ever, happens. I do, however, analyze changes in the Australian rule requiring shareholder approval of private placements. Although these results are interesting, standing alone they tell us only about one way to issue equity in one, perhaps atypical country. As part of a broader mosaic of evidence from many countries and from all three ways to issue stock, they tell us much more.

---

[6] Sweden is representative. Electronic data from SDC indicates that 58% of Swedish issuances are conducted via public offerings. Electronic data from Bloomberg puts the figure at 22%. But Swedish academics and practitioners report that public offerings in Sweden comprise less than 1% of all equity issuances. The Internet Appendix accompanying this paper discusses in more detail the problems with the electronic data on equity issuances.

Consequently, I follow the unconventional methodology Summers (1991) calls "pragmatic empirical work." Romer and Romer (1989, 2010) call it the "narrative approach." The noted statistician David Freedman (1991, 2008) calls it "shoe-leather empirics." Rather than the traditional approach of focusing on one dataset with increasingly complicated statistical techniques, this approach considers a broad array of quantitative and qualitative evidence. Attention to institutional details is crucial. No one piece of evidence is considered dispositive. Instead, it is the preponderance of the evidence that matters. A key is to consider as many different settings and as many different datasets as feasible to eliminate as many alternative explanations as possible. Freedman (1991, p. 58) explains: "Testing one model on twenty-four different data sets could open a serious inquiry: Have we identified an empirical regularity that has some degree of invariance. Testing twenty-four models on one data set is less serious."

An additional unconventional aspect of my methodological approach, at least for economics or finance, is that I incorporate the results of 32 different studies involving equity issuances that were approved by shareholders; 31 of these studies report positive average announcement returns. I also incorporate the results of 56 studies involving equity issuances that were undertaken unilaterally by managers; 47 of these studies report negative average announcement returns. All of these studies, indeed the existing literature in general, focus on a single country and usually on a single method of issuance. As a result, the literature has missed the several important patterns that are revealed through a broad analysis. This illustrates one key advantage of a meta-analysis-like approach. Meta-analysis is widely used in science but seldom in economics or finance.[7] The findings in this paper suggest the value of this approach for questions of economics and finance as well.

---

[7] Perhaps this is beginning to change. See particularly the special issue of the *Review of Financial Studies*, January 2016 ("Meta-Analysis of Market Anomalies").

I also present new, mostly hand-collected data on the methods by which equity is issued around the world, and I conduct traditional regression analyses of individual private placements in the United States and Australia. Finally, I consider dozens of laws and stock exchange regulations; several case studies; and insights from investment bankers, corporate executives, and institutional investors. As we shall see, the mosaic of this diverse evidence paints a very consistent picture of the impact of mandatory shareholder approval on equity issuances around the world.

## I. International Overview of Equity Issuances and Shareholder Approval

### A. Shareholder Voting on Equity Issuances

Stock issuance, along with a few other matters such as charter amendments and mergers, is seen as so fundamental and susceptible to agency conflicts that special safeguards have evolved. Kraakman et al (2009, p. 193) explain: "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." Shareholder approval of equity issuances turns out to be a combination of four factors.

*Corporate Law*. National (or state) corporate law regulates equity issuances in three different ways. The first approach is to require that shareholders vote to approve all equity issuances. Among the countries studied in this paper, this is the approach in Finland, Malaysia, Norway, Singapore, and Sweden.

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 they 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 for a specific time period. With enabling preemptive

rights, firms may adopt preemptive rights but are not required to do so. When firms adopt such provisions, again shareholders may waive their preemptive rights for specific issues.

The final approach is to allow managers to issue equity with only board of director approval; no shareholder vote is required. 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 not issued) 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.[8] 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 even 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. Thus, statements such as rights issues "are required by law in many other countries" or are "obligatory" are wrong.[9] As we shall see, 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,

---

[8] Pistor et al (2003) discuss these legal issues in more detail.

[9] Ross, Westerfied, and Jaffe (2011, p. 637) and Brealey, Myers, and Allen (2014, p. 389), respectively.

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 apparently have adopted them.[10]

*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.

*Industry Practice.* Industry practice sometimes is more restrictive than what is required by law, corporate charters, or exchange rules. For example, under United Kingdom law shareholders may waive their preemptive rights for five years. "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."[11] These are guidelines issued by the Association of British Insurers requiring shareholder approval for rights offerings in excess of a two-thirds increase in capital. The Guidelines further specify that shareholders should waive

---

[10] Kraakman et al (2009), p. 196.

[11] Myners (2004) p. 12.

their preemptive rights 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 (either to the public or to specific investors) at a maximum discount to the exchange price of 5%. All other non-preemptive equity issuances must be specifically approved by shareholders.

While the industry practice is sometimes formalized in such guidelines, at other times firms and major investors simply follow a certain practice. For example, in Finland shareholders legally may approve a rights offer for as long as five years, but the practice is that rights offers typically occur within a few months (sometimes only a few days) following the shareholder vote.

*Classification of Shareholder Approval.* I used the just-discussed factors to classify shareholder approval of equity issuances on a 1 to 5 scale based. 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. In all instances the vote is binding, not just advisory (in contrast to many shareholder votes in the United States). 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, and 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."[12] Shareholders approved the issue in 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.

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 a general mandate, 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 typically 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.

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

---

[12] Business Wire, October 22, 2001.

placements that must be specifically approved by shareholders because of exchange rules. (Such private placements are classified as 4.)

The level of shareholder approval for all types of equity issuances for which event study results or data on the frequency of issuance method are available is summarized in **Table 1** and discussed in more detailed in the **Internet Appendix**.[13] We see that the United States is an outlier among nations in the lack of shareholder approval required for most equity issuances.

### B. Data on Announcement Effects and Methods of Issuance

As noted earlier, to obtain reliable data on the announcement effects of equity issuance, I have to use results from existing studies (which are documented in the Internet Appendix). Virtually all of these studies, save those involving the United States, use hand-collected data, underscoring the problems with electronic data in this setting. In addition to data accuracy, this meta-analysis-like approach offers several other advantages. First, most of the studies have been published and thus peer reviewed. Second, in most instances the authors of the studies are from the countries involved and thus have knowledge of local issuance practices. Third, the fact that the results are established by many different researchers using a variety of methodologies and data sources over different time periods imparts a level of independence and robustness seldom found with more conventional analyses. This is a form of replication, albeit of a heretofore-unrecognized pattern, a process which lies at the heart of scientific inquiry (Popper 2002). Finally, the data are broad as they encompass 29,101 equity issuances from 100 studies involving 23 countries.

The major drawback of using these published studies is that many of my tests are, by necessity, based on country averages, not firm-level observations. Holderness

---

[13] 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 such factors but rather to focus on the highest-level issue: Must shareholders approve equity offerings?

(forthcoming) discusses 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.

The second problem involves standard errors and statistical significance. Country averages eliminate the within-country spread in results (say 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 (29,101) and the small number of clusters (a given issuance method for a given country, or 42 in most analyses), in this case standard errors will be higher with the country averages. This, consequently, works against finding statistical significance. Nevertheless, virtually all of my findings are highly significant.

The third problem, and the one that I cannot correct for and does not necessarily work against finding significant results, is that with country averages it is not possible to control for firm-level determinants. Having said this, with equity issuances it is not immediately clear what firm-level determinants should be held constant. Moreover, I am able to conduct firm-level analyses and thus control for firm-level characteristics with shareholder voting for private placements in the United States and Australia. I also consider a broad array of country- and firm-level evidence. All of this evidence is consistent with the results produced by country averages.

## II. Shareholder Voting and Announcement Effects

### A. Announcement Effects in General

**Table 2** documents the association between shareholder approval and the announcement effects of common stock issuances by public corporations in 23 countries. The unit of analysis is a particular issuance method for a given country, say rights offers in Australia.[14] 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. The table is rank-ordered by announcement returns. **Figure 1** presents the same information broken done by the five categories of shareholder approval.

Table 2 shows a clear relation 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 (Singaporean private placements). 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 2), there is little overlap between those offers that are approved by shareholders and those undertaken unilaterally by management (that is, with only board of director approval).

Figure 1 reveals that the type of shareholder vote matters, 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.

---

[14] This particular observation is based on the four event studies of Australian rights offerings I was able to identify through SSRN and Google Scholar. These studies are listed in Internet Appendix Table 2. The Australian-rights-offering observation is the average of the event study results of these four studies weighted by the number of observations in each study (-3.53%, as noted in Table 2). As a robustness test, I recalculate my core tests using observations where each underlying study is weighted equally (-3.22% in the case of Australian rights offers). Results remain qualitatively the same in these untabulated analyses.

**Table 3** presents regression analyses of the announcement returns on different measures of shareholder approval. Announcement returns average 4.15 percentage points higher when there is a shareholder vote within one year compared to when management unilaterally issues stock (Column A).[15] Column C confirms that announcement returns increase monotonically 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 0.22), 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 6.67 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, log of GDP per capita, and growth of GDP to Column A of Table 3. (All variables are defined in **Table A1**.) I also re-run all Table 3 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 results, the Shareholder Approval Dummy remains highly significant and ranges between 4.12 and 5.51.

---

[15] Table 3 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 4.41 (*p*-value 0.00). If the placements are classified as 1, the dummy becomes 4.18 (*p*-value 0.00).

## B. Announcement Effects by Method of Issuance

Although Columns D through F of Table 3 contain method of issuance and country dummy variables, the raw data offer additional insights. **Table 4** breaks out the raw announcement returns by the three major methods public corporations issue equity: public offerings, rights offerings, and private placements. Although these methods are usually treated in the literature 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.[16]

*Public Offerings.* The major empirical regularity that many studies of seasoned equity issuances seek to explain is the negative announcement effect of public offerings. At the top of Table 4 we see that the announcement effects are indeed 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.[17] When there is no shareholder approval, average returns are negative with four exceptions. The positive returns for Germany, India, and Korea each reflect only one study, all with insignificant results. The Japanese observation is based on one study with 28 observations. These announcement returns are marginally significant

---

[16] This result is confirmed by untabulated regressions.

[17] The Internet Appendix offers a brief case study of two of the largest rights offerings in recent years. Both were conducted in 2008 by major European banks, UBS and Santander. UBS is incorporated in Switzerland and had to obtain shareholder approval for its rights offering. The announcement effect was 11%. Santander is incorporated in Spain and did not have to obtain shareholder approval for its rights offering. The announcement effect was -6.95%.

(*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 premium cash dividends simultaneously with a rights offer. This practice, which is not noted in the sole Japanese-rights study, has since stopped.[18]

*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. Singaporean private placements is the only issuance method for any country where shareholder approval is not associated with positive average announcement returns. The Internet Appendix reviews the two studies underlying this observation. One study finds positive short-run returns; the other finds negative short-run returns. Both studies find positive returns over longer event windows.

In virtually all of the other sample countries, including the United States, shareholders must approve certain private placements. Typically, such a vote is triggered by the fractional size of the placement, the identity of the buyer, or the discount of the placement price to the exchange price. Because published studies of private placements apparently are unaware of these requirements for shareholder approval, they do not separate announcement returns by shareholder approval. Later in the paper I make such a separation with private placements from the United States and Australia. Table 4 includes some results from these forthcoming investigations. Overall, the key regularities with public issues and rights offers are also found with private placements: Namely, shareholder approval is associated with positive average announcement effects, and the announcement effects are higher than when management acts unilaterally.

---

[18] I thank Professor Katsushi Suzuki of Kobe University for this information.

### C. Within-Country Announcement Effects

Within-country announcement effects are documented in **Table 5**. By making within-country comparisons, country-level factors, such as GDP per capita, culture, and other investor protection laws are held constant. Consequently, these comparisons help to assuage certain endogeneity concerns. For instance, perhaps the laws requiring shareholder approval of equity issuances were enacted because countries have a certain type of investor, and it is this investor type and not the mandatory vote that is causing the positive announcement effects we find. If this were true, then the within-country announcement effects should not vary with the requirement for shareholder approval because the investor base is the same.[19] Within-country comparisons also help to assuage the impact of some types of potential miscoding of shareholder voting (as illustrated below with Hong Kong).

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%.

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

[19] Another problem with this endogeneity explanation is that the countries studied in this paper are often very different and are thus likely to have different types of investors. This illustrates perhaps the biggest advantage of examining a broad variety of evidence: the boarder the evidence considered, the more endogeneity explanations are addressed. Freedman (1991).

effect is 5.10%. Private placements to insiders need approval by 90% of the shareholders voting, and the associated announcement effect is 11.67%.

Hong Kong is interesting for a different reason. One could argue that public offerings and private placements in Hong Kong should be coded 3 and not 4 because some are made pursuant to general mandates while others are subject to a specific vote. (I code both as 4 because press reports suggest that most are made pursuant to specific votes.) Whatever their coding, it is clear that 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."[20]

The returns associated with the two methods of issuance that are subject to "prior approval" (private placements and public offerings, 3.51% and 3.14%, respectively) are substantially higher than the returns associated with "pro rata" rights offerings (-7.64%), which do not require shareholders' "prior approval."

Because the potential 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, Chen, and Huang'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), bookbuilding 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, Chen, and Huang regress the announcement returns (days -7, 3) on a dummy variable that indicates

---

[20] Section 57B of the Companies Ordinance (Chapter 32 of the Ordinances of Hong Kong) ("Approval of company required for allotment of shares by directors").

bookbuilding 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 bookbuilding 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).

## III. Shareholder Voting and the Frequency of Different Issuance Methods

**Table 6** contains regression analyses of how equity is issued in light of the varying legal requirements for shareholder approval. We see that when managers must secure shareholder approval for public offers, public offers seldom occur; instead, rights offers are overwhelming used. The shareholder approval dummy in Column A signifies that public offers are 66 percentage points less frequent than rights offers when shareholders must approve public offers. (The percentages of rights offers and public offers sum to 100 because the table excludes private placements.) The addition in Column B of variables to control for the level of financial development and shareholders' legal rights has little impact on the point estimate or statistical significance of the need to secure shareholder approval.[21]

The raw data again provide additional insights. **Table 7** 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, shareholders regularly approve stock issuances, just not via public offerings.

---

[21] Untabulated robustness tests using alternative measures of financial development and shareholders' legal rights do not change the qualitative results involving mandatory shareholder approval.

**Table 8** 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 7 is reversed as public offerings are common and rights offerings are not.[22] One similarity with the countries where shareholders must approve all issuances is that private placements are also frequent when management may unilaterally issue stock. (In virtually all of the sample countries, including these four countries, shareholders must approve certain private placements.)

The remaining countries are those where management may undertake some issuance methods unilaterally but must secure shareholder approval for other methods. The methods of issuance for these countries are reported in **Table 9**.[23] In seven of the nine countries managers typically choose the issuance method requiring the lowest level of shareholder approval, usually a rights offer. The exceptions are Hong Kong and India. Hong Kong is the only sample country where shareholders regularly approve public offerings of seasoned stock (although it does happen less frequently in the United Kingdom and Taiwan).[24]

## IV. Private Placements in the United States and Australia

Although private placements have been extensively studied (typically with United States data), disagreement persists over their fundamental nature. Wruck (1989) maintains that active investors purchase private placements and then monitor

---

[22] In Canada the use of rights has declined markedly in recent years and is now less than what is reported in Table 8. I thank Nancy Ursel of the University of Windsor for this insight. The Canadian data in Table 8 covers 1993-2010. Additional information on the frequency of the three issuance methods is found in Internet Appendix Table 1.

[23] 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 I have only qualitative information on the frequency of issuance method. This information comes from academics in those countries, from published papers, and from the financial press. In all of these countries, methods that require shareholder approval are used far less often than the methods that management may undertake unilaterally.

[24] 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.

management. Barclay, Holderness, and Sheehan (2007), while recognizing that some placements lead to increased monitoring, conclude that most placements reflect the agency costs of entrenched managers placing large blocks of stock at discounts to the exchange price to investors who are likely to support management. Hertzel and Smith (1993) propose a signaling interpretation. They see private placements as being purchased by informed investors who certify the market's valuation by purchasing a large block of stock.

A possible reason for this unsettled state-of-affairs is that these and other published studies do not recognize that under domestic exchange rules shareholders must vote to approve certain private placements. In fact, among all of the countries in this study save the Netherlands, by law or exchange rule certain types of private placements must be approved by shareholders.

I am able to investigate shareholder approval of private placements with firm-level data for the United States and Australia. The United States data come from Barclay, Holderness, and Sheehan (2007) and consist of 594 private placements made between 1979 and 1997. The Australian data come from Vladimir Atanasov and Chander Shekhar's on-going study of corporate governance in Australia. This sample consists of 510 placements made between 1999 and 2004.[25]

These investigations offer several advantages. First, these tests involve firm-level data, so I am able to conduct to conduct firm-level regressions analyses with firm-level controls. Second, there are elements of an additional quasi-natural experiment because firms do not determine the fractional thresholds that trigger a shareholder vote; the thresholds are different in the two countries; and the thresholds have changed over time in Australia. This exogenous variation helps addresses endogeneity concerns.

---

[25] A more detailed description of this sample is available upon request. I thank Professors Atanasov and Shekhar for their generous assistance.

### A. Avoiding Shareholder Votes with Placements and Elsewhere

Under NYSE and NASDAQ regulations, shareholders must approve private placements in three situations: placements of more than 20% of the outstanding common stock that are sold at a discount to the exchange price; placements to insiders independent of pricing; and placements that trigger a change in control.[26] The top panel in **Figure 2** is a histogram of the fraction of stock sold in domestic private placements.[27] We observe a clustering directly below 20%, which is the threshold that triggers a mandatory shareholder vote.[28]

Shareholders in Australia must also approve certain private placements but with a 15% approval threshold.[29] The bottom panel of Figure 2 reveals a clustering of Australian private placements directly below this threshold. The Australian rule previously was 10% but changed on July 1, 1998 (July 1, 1997 for mining companies). Chan and Brown (2004) study the impact of this change with refined data that enables them to adjust for nuances in the exchange rule. For instance, they are able to adjust for stock issued in the prior 12 months under executive compensation plans. Their relevant findings are summarized in **Table 10.** We observe a clustering just below 10%, when that was the rule, and a clustering just below 15%, after that became the rule. Furthermore, when the rule changed the location of the clustering changed immediately. 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."

---

[26] NYSE Rule 312; NASDAQ Listing Rule 5635.

[27] The panel of United States private placements excludes placements to management and placements at a premium to the exchange price because shareholder approval in these cases does not depend on the fractional size of the placement.

[28] Park (2013), who has a larger and more recent sample of private placements, similarly identifies a clustering directly below 20%.

[29] Specifically, shareholders must approve non-pro-rata offers for more than 15% of the outstanding stock. Chapter 7, especially LR 7.1, of the ASX Listing Regulations. There are a few exceptions, including stock issued pursuant to mergers.

We, therefore, observe the clustering of private placements directly below three different thresholds that trigger a mandatory shareholder vote: 10% (Australia before July 1, 1998), 15% (Australia after July 1, 1998), and 20% (the United States). This supports anecdotal evidence that management often seeks to avoid shareholder votes for equity issuances. For example, the Interpretative Comments of the Nasdaq Listing Rules has several pages critiquing actions management had taken, or tried to take before exchange officials stopped them, to avoid shareholder votes on private placements.

There is also a variety of evidence that managers seek to avoid or at least influence shareholder voting on equity issuances in other settings as well. An investment banker told me that managers will "jump through hoops to avoid a shareholder vote on the issuance of equity." An example involves Kraft's 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 the amount of new stock to below 20%, thereby avoiding a shareholder vote. This triggered widespread criticism among the Kraft shareholders, including Buffett.[30]

Another example of management avoiding a shareholder vote for the issuance of equity involves closed-end mutual funds in the United States. 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, Wahal, and

---

[30] Acquiring-firm shareholders in the United States typically must also vote to approve acquisitions where 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 Cadbury acquisition was not structured in this way.

Zenner (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. Instead closed-end funds almost always raise equity through rights offerings, which do not require a shareholder vote.

A final example of management reacting to external requirements for shareholder votes involving the issuance of equity concerns 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.[31] These findings are consistent with the positive announcement returns documented in this paper.

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 at length, identify a clustering of compensation plans at 4.9%.[32] They (2002, p. 33) quote a compensation consultant who says he is "surprised when he sees a [stock-option plan] request for more than 5%. They [Companies] are gaming the system."

This clustering tells us several things about how managers react to external requirements for shareholder approval of equity issuances. As with the clustering with

---

[31] 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).

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

private placements, it tells us that managers believe that shareholder voting matters and that managers are not necessarily content to accept their shareholders' decisions. If either were not the case, there would be no clustering.[33] The compensation plans tell us two additional things. First, it appears that management is concerned not with just winning a shareholder vote but also with the margin of victory. Many of the proposals Bethel and Gillan study likely would have passed had brokers not been allowed to vote street stock, yet management apparently felt the need to secure these votes by proposing a plan involving less than 5% of the stock. Second, one plausible reason why managers might seek to avoid a shareholder vote in general is to avoid the delay or costs of holding a vote. With the compensation schemes (in contrast to the private placements), however, this will not be an issue because a vote must be held independent of the fraction of stock involved; it is hard to see why any delay or costs to the firm would vary with whether brokers are allowed to vote street-held stock.

### B. Announcement Effects of Private Placements

**Table 11** presents summary statistics for the United States and Australian private placements divided by whether they were approved by shareholders. In both countries shareholder-approved placements are associated with higher average announcement returns. The higher announcement effects associated with shareholder approval are confirmed by multiple regressions in **Table 12**. These regressions incorporate firm and placement characteristics that Barclay, Holderness, and Sheehan (2007) find help explain cross-sectional differences in announcement returns. The United States returns

[33] Becht et al (2015) study the United Kingdom's legal requirement that bidding firm shareholders approve certain mergers. In contrast to the situation with private placements and stock-based compensation plans, 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 and stock-based compensation plans), it is too difficult to game multiple thresholds.

are 2% higher and the Australian returns are 8% higher when shareholders approve private placements.[34]

## V. Summary and Strength of Empirical Findings

The distinguished statistician David Freedman (1991, p. 58) offers a standard for any empirical research: "Have we identified an empirical regularity that has some degree of invariance." I believe we have identified three major empirical regularities that meet this standard: (1) announcement returns on average are positive when shareholders approve an equity issuance but negative when managers unilaterally issue stock; (2) shareholders choose rights offers in lieu of public offers, while managers choose the opposite; (3) managers try to avoid subjecting stock issuances to shareholder approval.

*Magnitude of differences.* Perhaps the most striking finding is how large the differences are between shareholder-approved and managerial stock issuances—4 percentage points (or greater) difference in announcement effects; a dramatic split, often 90%-10% or greater, between the use of rights offers and public offers depending on whether shareholder approval is required; a clear clustering of private placements directly below the (different) fractional thresholds that trigger mandatory shareholder votes in the United States and Australia; and when the Australian threshold changed, the clustering immediately changed to the new threshold.

*Consistency of findings.* The raw data reveal a remarkable consistency to the three major findings. In particular, the rank ordering of the announcement effects in Table 2 and the differences in the use of rights offers and public offers in Tables 7 and 8 make a

---

[34] Regressions of longer-window United States abnormal returns produce larger differences. For instance, the shareholder-approval dummy is 0.13 (*p*-value 0.05) when the (days -10, 120) abnormal returns is the dependent variable. Park (2013) documents similar overall results for United States private placements. He reports short-run returns (days -1, 1) that are positive (2.89%) and significant for shareholder-approved placements, but positive and insignificant for non-approved placements (0.63%). His long-run returns are positive and insignificant for the approved sample (3.10%), but negative and significant for the non-approved sample (-4.59%). These differences are also confirmed by multiple regressions.

compelling case by themselves that mandatory shareholder approval of equity issuances matters. The clustering of private placements in Figure 2 and Table 10 is obvious and seems (almost by definition) to reflect managers avoiding shareholder votes. As Summers (1991, p. 43) explains when making the case for broad empirical investigations, the goal is to identify "an empirical regularity that [is] sufficiently clear cut that formal techniques [are] not necessary to perceive it." This seems to be the case with each of our three major empirical regularities.

*Breath of findings and endogeneity concerns.* The biggest potential problem with any observational study is specification error. In our case, this endogeneity concern would mean that the three major empirical regularities are not being caused by shareholder approval but by another, omitted factor.

The unorthodox methodology followed in this paper of considering a broad array of quantitative and qualitative evidence is one way to address endogeneity concerns. Indeed, this is why a diverse group of statisticians and economists recommends this approach. In our case, any explanation other than shareholder approval would have to hold across 100 different studies by many different researchers; it would have to hold across 23 different countries; it would have to hold within 16 countries where different issuance methods are subject to differing levels of shareholder approval; it would have to hold for all three of the major ways to issue common stock; it would have to explain differences involving the same issuance method in the same country in two instances (private placements in the United States and Australia); and finally it would have to explain a host of detailed findings, ranging from the efforts of exchange officials in the United States to stop managers from circumventing requirements for shareholder votes on private placements to an unusual way to issue public stock in Taiwan. Moreover, any alternative explanation would have to be large enough to remove totally the seemingly pronounced impact of mandatory shareholder approval on the method of issuance, the announcement effects, and the varied steps managers take to avoid shareholder votes.

Thus for example, one may hypothesize that our results reflect not laws mandating shareholder approval but other unconsidered laws. There are two problems with this

hypothesis (essentially, an omitted country-level variable). First, the key results hold across 23 countries, so the omitted law would have to be found in all 23 countries, many of which are quite different. Second, the key results also hold within 16 countries. This makes any other country-level factor, including omitted laws, an unlikely alternative explanation.

Similarly, one may hypothesize that (say) rights offers that shareholders approve differ systematically from those that managers undertake unilaterally, and it is this difference that is causing the difference in announcement effects. I generally cannot test for this possibility because of the nature of my data (although I do so with United States and Australian private placements). It is not obvious, however, what firm-level variables one should control for with rights offers or indeed for any type of equity offering. Moreover, even if one ignores the evidence from rights offerings, the same pattern is found with public offerings and private placements. Thus, one would have to hypothesize that the same omitted variable (and there is no obvious candidate) is found with all three methods of issuance, even though the issuance methods are typically viewed as being fundamentally different.

## VI. Interpretation of Empirical Findings

As with any major corporate event, there are undoubtedly a variety of factors at play with equity issuances by public corporations. I will consider two: agency costs and adverse selection. Academic thinking about equity issuances has been dominated by considerations of adverse selection since Myers and Majluf (1984): firms issue equity only when the market overvalues their stock. It is important to note that agency considerations and adverse selection considerations are not mutually exclusive. Nevertheless, most of the literature explicitly assumes the absence of agency costs with equity issuances by public corporations. The question for us, thus, becomes whether agency conflicts appear to be present when public corporations issue stock or whether adverse selection alone can explain our findings.

## A. Agency Interpretation

*Rationale for shareholder approval.* We start our interpretation of the evidence by noting that mandatory shareholder approval of any management proposal is widely seen as one way to limit agency conflicts. Furthermore, mandatory shareholder approval of equity issuances is specifically seen as one way to curb agency costs.

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."

From a finance perspective, Fama and Jensen (1983) explain that a major way to curb agency costs is for shareholders to retain the right to ratify major proposals by management. They use shareholder approve 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."

Consistent with these analyses, many of the actual 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 insiders.[35] Other laws and regulations limit the discounts for private placements that managers undertake unilaterally.

---

[35] These include the United States, Canada, Hong Kong, Israel, Singapore, Sweden, and the United Kingdom.

*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 announcements returns are positive and significant with shareholder approval, but negative and more than four percentage points lower when management unilaterally issues stock (Table 2 and 3). 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 3).

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 methods of issue, managerial equity issuances are associated with average negative announcement effects, but shareholder-approved issuances are associated with positive announcement effects (Table 4).

*Methods of issuance.* The findings on the methods of issuance, especially the pronounced difference between the use of public offerings versus rights offerings are also consistent with agency conflicts. One advantage of a rights offering for shareholders is that it avoids the underpricing that accompanies most public offers.[36] The direct costs of rights offerings are also substantially lower than they are for public offers.[37] Given these benefits, commentators are "puzzled by the apparent preference of

[36] Chan and Chan (2014) document that discounts on public seasoned equity offerings in the United States between 1995 and 2007 averaged approximately 3%. They also report that these discounts have increased over time.

[37] 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 total direct costs of public seasoned equity offerings between 1990 and 2008 constitute 6.72% of the proceeds.

companies for general cash offers."[38] We now know that when given the choice, shareholders overwhelming choose rights offers over cash offers (Table 7).

Managers, in contrast, strongly prefer public offers over rights offers (Table 8). There are several reasons why managers may personally prefer this although it involves extra costs for their shareholders. With public offers managers do not have to make the case to shareholders that the new capital will enhance firm value; they also do not risk losing face if shareholders fail to subscribe to a rights offering. Some commentators further suggest that managers receive benefits from the investment banks that underwrite public offers. As the banking fees for public offers are significantly higher than they are for rights offers, any resulting benefits for managers should also to be higher. Finally, a variety of evidence suggests that small retail shareholders are often confused by rights offerings, do not participate, and thus suffer a wealth loss. Yet it is small retail investors who are usually the most supportive of management.[39] Holderness and Pontiff (forthcoming) propose this may be one reason why rights offerings are infrequent in those countries lacking institutional safeguards for shareholders who do not participate in value rights offerings. Interestingly, these are the same countries where managers overwhelming choose public offerings over rights offerings (Table 8).[40]

The most parsimonious interpretation of the mosaic of the evidence is that agency costs are often present with equity issuances, and the laws and regulations mandating

---

[38] Brealey, Myers, and Allen (2014, p. 390). Ross et al (2011, pp. 637-638) offer a number of possible solutions to the "rights puzzle," but none involve agency considerations.

[39] Hartzell and Starks (2003), for example, show that firms with low institutional ownership tend to have higher levels of executive compensation. Similarly, Ertimur, Ferri, and Oesch (2013) show that the percent of votes against proposed executive pay packages (a "say on pay" vote) increases with the level of institutional ownership. Institutional ownership is also associated with higher levels of forced executive turnover (Helwege, Intintoli, and Zhang, 2012). Chen, Harford, and Li (2007) show that firms with high levels of long-term institutional ownership are also more likely to withdraw bad takeover bids. Edmans (2009) illustrates how blockholders can constrain management through their trading of stock even when they do not formally participate in firm governance. Institutions and large shareholders, thus, seem to restrain managers more compared with small retail investors.

[40] All of these findings support speculation that the paucity of rights issues in some countries, notably the United States, may reflect agency costs. Smith (1977).

shareholder approval are doing what they were intended to do, namely reduce agency costs.[41] This was the interpretation offered by an institutional investor in Sweden to explain the overwhelming popularity of rights offerings over public offerings in his country. 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.[42]

---

[41] 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, Polo, and Rossi (2015) 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.

[42] This is starting to happen in the United States. One example involved SeraCare, a small public company that declared voluntary bankruptcy in 2006. The firm had several large-percentage shareholders, and there was agreement among them that the firm was viable as an on-going concern but needed financing. Management proposed a private placement to the firm's largest shareholder at a substantial discount to what the stock had been privately trading. The second largest shareholder opposed the private placement on the grounds that the largest shareholder offered no special expertise to justify such a large discount. The second largest shareholder instead proposed that the firm hold a rights offering. This would avoid the large discount, enable the firm to raise the needed capital, and allow all shareholders to participate in what most viewed to be a profitable investment. The bankruptcy judge found this reasoning persuasive and approved a rights offering in lieu of a private placement. SeraCare successfully raised the capital sought and exited bankruptcy. (I was a consultant to the second largest

(footnote continues next page …)

## B. Adverse Selection Interpretation

*Method of issuance.* The primary way for a company and its existing shareholders to profit from information asymmetries about firm value and time the market is by selling seasoned stock to the public. Shareholders cannot profit from asymmetries through a rights offering because they are the ones purchasing the stock. A private placement is also not a promising avenue for profiting from information asymmetries. Private placements are purchased by sophisticated investors after negotiations with management (thereby reducing any information asymmetries) and then typically at a substantial discount to the exchange price (thereby reducing any profits from selling the equity).[43] Thus, it makes sense that when textbooks discuss adverse selection and equity issuances, it is inevitably in the context of public offerings.[44]

The biggest problem for a pure adverse selection interpretation is that public offerings of seasoned equity are infrequent, if not virtually nonexistent, in most countries. The customary response is that rights offerings are legally "required" or "obligatory."[45] 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 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

---

shareholder in this matter.) Other firms in bankruptcy are following suit. See, for example, Buchwald Capital Advisors LLC, *Bankruptcy Client Alert*, July 25, 2006.

[43] Barclay, Holderness, and Sheehan (2007) document that domestic private placements are made at an average discount of 18% (median 17%) to the exchange price immediately following the initial announcement. Sheehan and Swisher (1998) find that purchasers of private placements in the United States earn a normal rate of return over the three years following their purchases.

[44] For instance, Brealey, Myers, and Allen (2014, pp. 387-389).

[45] Ross et al (2011, pp. 637, note 13) and Brealey, Myers, and Allen (2014, p. 389), respectively.

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.

Furthermore, it is unclear why information asymmetries about firm value would be (very highly, almost perfectly) correlated with national laws or exchange rules requiring shareholder approval of equity issuances. To the contrary, one would expect information asymmetries to be the greatest in less developed financial markets. Yet in many of these markets public offerings are virtually unheard of. India and Malaysia are two such examples. Following this reasoning, public offerings should be the least frequent in the United States because it has the most developed financial markets and should thus have the fewest asymmetries about firms' values. Yet public offerings are the most frequent in the United States.

*Announcement returns.* Shareholders have the same incentive to approve the sale of over-valued equity as do managers who unilaterally authorize equity issuances if they are acting solely in the shareholders' interest. Therefore, shareholder approval should not be associated with a significant difference in the stock market's reaction. Yet the announcement effects are significantly different with shareholder approval.

Myers and Majluf (1984) predict an unambiguously negative announcement effect for seasoned equity offerings. Yet in many countries, equity issuances are associated with positive announcement returns, and this is even true with public offerings when they are shareholder approved.

Subsequent papers, including Cooney and Kalay (1993), develop adverse selection models that allow for positive as well as announcement effects.[46] They propose there are two types of firms that issue seasoned equity: overvalued firms attempting to profit from information asymmetries and undervalued firms with valuable investment

[46] Edmans and Mann (2013) develop another asymmetric-information model with rational investors where the stock-price reaction to a seasoned equity offering can be either positive or negative.

opportunities but are financially constrained. These forced-pooling theories, which also assume the absence of agency costs, would require that financially constrained firms with valuable investment opportunities be more common when shareholders must approve equity issuances.

One response could be that shareholders are not particularly sophisticated (the evidence in this paper to the side). Managers, accordingly, might seek shareholder approval only when the investment opportunities are especially profitable. Therefore, firms that have to obtain shareholder approval could be more financially constrained than firms that do not have to obtain shareholder approval. This could explain why announcement returns are higher in countries that require shareholder approval. But because all firms within the same country are subject to the same laws, all firms within a country should be equally financially constrained. Yet without exception the average within-country announcement returns are higher with shareholder approval.

*Other findings*. There are other, more detailed findings, both from this paper and from other papers, that are hard to reconcile with a pure information explanation. On the other hand, they easily fit within an agency explanation. I will discuss only a few of these findings.

Heinkel and Schwartz (1986) posit that lower quality firms will set a lower subscription price in a rights offering (that is, a greater discount to the exchange price) to help ensure the success of the offer. Higher quality firms can signal their higher quality by pricing the offer closer to the exchange price. Given that the market's reaction to rights offers is more favorable in Switzerland than in the United States, one would predict that Swiss offers are priced at smaller discounts. The opposite, in fact, is the case. Loderer and Zimmermann (1988) report that Swiss rights offers are priced at an average discount of 60% whereas the average American discount is only 6%. They further document that the market's reaction to rights offerings is more favorable in Switzerland, and the difference is statistically significant. In Switzerland shareholders must approve rights offers, whereas in the United States they do not. This agency effect appears to dominate the information effect caused by the difference between the subscription price and the exchange price.

Detailed findings involving private placements also seem inconsistent with a pure information explanation. We see in Table 11 that both in the United States and Australia the shareholder-approved firms are smaller, which is relevant because asymmetry of information is typically greater at smaller firms. Moreover, in both countries the shareholder-approved private placements are at larger discounts to the exchange price, both on a per share basis and as a percentage of firm value. If adverse selection or signaling were the only considerations, we would expect bigger stock-price declines with the shareholder-approved placements. To the contrary, the shareholder-approved announcement returns are positive and larger in both countries. With an agency perspective, shareholder approval makes these results understandable, even predictable.

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

## VII. Conclusion

This is the first paper to study the widespread heterogeneity in the mandatory shareholder approval of equity issuances by public corporations. 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, which is the typical case in the United States, the average announcement effect is negative and more than 4% lower. These regularities hold for public offerings, rights offerings, and private placements within and across 23 diverse countries. Managers choose public offerings, while shareholders seldom approve public offerings. Shareholders instead overwhelmingly choose rights offerings, thereby avoiding the underpricing and higher fees of public offerings. Managers take a variety of steps to avoid subjecting stock issuances to shareholder approval.

These empirical regularities, along with a host of supporting evidence, suggest that agency conflicts are present with equity issuances and that mandatory shareholder approval reduces these conflicts. Although this conclusion is at odds with most of the academic literature, it confirms Myers (2000) who questions why agency conflicts would be present with many corporate events yet supposedly absent with something as fundamental as the issuance of common stock.

The findings in this paper suggest many topics for future study, which fall into two broad categories: capital structure and shareholder retention of key decision rights. I will discuss a few of these possible avenues for future study.

Commentators have long noted that existing capital structure theories often do a poor job of explaining major empirical patterns.[47] The prominence of public issuances of equity in many of these theories, especially market timing theories, but the paucity of actual public issuances in most countries is another challenging inconsistency.

A related topic is whether mandatory shareholder approval of equity issuances causes managers to issue debt instead, raising the possibility that capital structures around the world could vary with the legal requirements for shareholder approval of equity issuances.

Turning to shareholder retention of decision rights, although this is a fundamental decision for any corporation, it has been surprisingly little studied. One way to do so would be to further exploit across- and within-country legal differences.[48] Another corporate decision right, among many, that could be so analyzed is stock repurchases.

---

[47] Denis (2012) summarizes some of the more prominent inconsistencies between the theories of capital structure and the empirical evidence. See also Fama and French (2005) who make the case for a greater consideration of agency conflicts in capital-structure analyses.

[48] Karolyi (forthcoming) discusses the paucity of cross-country studies in finance.

In some countries shareholders must approve repurchases, while in other countries managers may do so unilaterally.[49]

Given that shareholder approval of equity issuances seems to enhance firm value, a far-reaching question is why shareholders do not push for this right when they have not been assigned it by law or stock-exchange regulation. Klausner (2013) documents that contrary to the seemingly solid theoretical arguments of Easterbrook and Fischel (1996), few firms (at least in the United States) tailor their charters and by-laws for virtually any issue, much less for the issuance of common stock. One response could be that investors do not fully appreciate the importance of shareholder approval of equity issuances. Along these lines, institutional investors from the United Kingdom have shown little interest in requiring shareholder approval for equity issuances, although they are very interested in preserving their preemptive rights.[50] This fits within a long tradition of viewing preemptive rights as protecting shareholders from overreaching managers.[51] The evidence in this paper, however, suggests that it is the ratifying vote and not preemptive rights that ultimately protects shareholders.[52]

---

[49] For example, in Germany stock repurchases are conditional on shareholder approval. Adidas is one company that has received such approval from its shareholders. Wall Street Journal, October 2, 2014, p. B3.

[50] Institutional investors in the United States have shown little interest in either ratifying equity issuances or having preemptive rights. Tonello and Aguilar (2012) surveyed 2,160 shareholder proposals over three proxy seasons. None of these proposals involved requiring shareholder approval for equity issuances. In contrast, large shareholders in both France and Hong Kong are increasingly resisting management's requests for general mandates to issue stock. Instead, they want to vote on specific stock issuances.

[51] La Porta, Lopez-de-Silanes, Shleifer, and Vishny's (1998) influential Anti-Director Rights Index, for instance, codes preemptive rights accordingly.

[52] Both the United Kingdom and Hong Kong, for instance, have preemptive rights but do not require shareholder approval for rights offerings. In both countries the announcement effects associated with rights offerings are negative (–1.82% and –7.64%, respectively). Conversely, in Finland, Greece, and Singapore (among other countries) shareholders must vote to approve rights offerings. In these countries the announcement effects associated with rights offerings are positive (4.29%, 3.97%, and 3.69%, respectively). See Table 4 generally. Here is one situation where mandatory shareholder approval but not preemptive rights would protect shareholders' interest. Assume that management wants to issue stock and invest the proceeds in a negative net present value project. Assume further that most shareholders understand this. The other shareholders are unsophisticated. With mandatory shareholder approval,

(footnote continues next page …)

Another far-reaching question is whether mandatory shareholder approval of key corporate decisions, such as equity issuances, leads management to consult more often with large shareholders and this, in turn, changes the dynamics of corporate decision making and ultimately leads to a more sophisticated shareholder base.[53] 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 sophistication of shareholders and major corporate decisions would, in this respect, be unsurprising but important.

shareholders as a group would not approve the equity issuance (which probably means that management would not bring the matter to a vote). In contrast, if management proceeds with a deeply discounted rights offering that does not require shareholder approval, shareholders could face a prisoners' dilemma. It is in all of their interests not to participate so no funds are raised and then ill invested. But some shareholders could nevertheless rationally participate in order to secure the wealth transfers from the nonparticipating (probably unsophisticated) shareholders. Holderness and Pontiff (forthcoming) document that approximately one-third of all shareholders do not participate in in-the-money domestic rights offerings, so this seems a reasonable possibility.

[53] An investment banker who has been based both in New York and London told me, "American institutional investors act like investors. European institutional investors act like owners."

# References


Bainbridge, Stephen, 2006, The case for limited shareholder voting rights, *UCLA Law Review* 53, 601-636.

Baker, Malcolm and Jeffrey Wurgler, Market timing and capital structure, *Journal of Finance* 57, 1-32.

Barclay, Michael J, Clifford G. Holderness, and Dennis P. Sheehan, 2007, Private placements and managerial entrenchment, *Journal of Corporate Finance* 13, 461-484.

Bebchuk, Lucian A., 2005, The case for increasing shareholder power, *Harvard Law Review* 118, 835-914.

Becht, Marco, Andrea Polo, and Stefano Rossi, 2015, Does mandatory shareholder voting prevent bad acquisitions? unpublished working paper, SSRN.

Berger, Philip G., Eli Ofek, and David L. Yermack, 1997, Managerial entrenchment and capital structure decisions, *Journal of Finance* 52, 1411-1438.

Bethel, Jennifer E. and Stuart L. Gillan, 2000, Corporate voting and the proxy process: Managerial control versus shareholder oversight, unpublished working paper (SSRN).

Bethel, Jennifer E. and Stuart L. Gillan, 2002, The impact of the institutional and regulatory environment on shareholder voting, *Financial Management* 31, 29-54.

Brealey, Richard A., Stewart C. Myers, and Franklin Allen, 2014, *Principles of Corporate Finance* (11th edition, McGraw-Hill Irwin).

Brickley, James A., Sanjai Bhagat, and Ronald C. Lease, 1985, The impact of long-range managerial compensation plans on shareholder wealth, *Journal of Accounting and Economics* 7, 115-129.

Chan, Howard W. and Rob Brown, 2004, Right issues versus placements in Australia: Regulation or choice? *Companies and Securities Law Journal* 22, 301-312.

Chan, Kalok and Yue-Cheong Chan, 2014, Price informativeness and stock return synchronicity: Evidence from the pricing of seasoned equity offerings, *Journal of Financial Economics* 114, 36-53.

Chang, Saeyoung, 1998, Takeovers of privately held targets, methods of payment, and bidder returns, *Journal of Finance* 53, 773-784.

Chen, Xia, Jarrad Harford, and Kai Li, 2007, Monitoring: Which institutions matter? *Journal of Financial Economics* 82, 279-305.

Denis, David J., 2012, The persistent puzzle of corporate capital structure: Current challenges and new directions, *Financial Review* 47, 231-243.

Djankov, Simeon, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, 2008, The law and economics of self-dealing, *Journal of Financial Economics* 88, 430-465.

Easterbrook, Frank H. and Daniel R. Fischel, 1983, Voting in corporate law, *Journal of Law and Economics* 26, 395-427.

Easterbrook, Frank H. and Daniel R. Fischel, 1996, *The Economic Structure of Corporate Law* (Harvard University Press).

Eckbo, B. Espen, Ronald W. Masulis, and Øyvind Norli, 2007, Security offerings, in B. E. Eckbo, ed.: *Handbook of Corporate Finance: Empirical Corporate Finance*, vol. 1, chap. 6, 233-373 (Elsevier/North-Holland, Handbooks in Finance Series).

Edmans, Alex, 2009, Blockholder trading, market efficiency, and managerial myopia, *Journal of Finance* 64, 2481-2513.

Edmans, Alex and William Mann, 2013, Financing through asset sales, unpublished working paper, SSRN.

Ertimur, Yonca, and Fabrizio Ferri, and David Oesch, 2013, Shareholder votes and proxy advisors: Evidence from say on pay, *Journal of Accounting Researc*h 51, 951-996.

Fama, Eugene F. and Kenneth R. French, 2005, Financing decisions: Who issues stock? *Journal of Financial Economics* 76, 549-582.

Fama, Eugene F. and Michael C. Jensen, 1983, Separation of ownership and control, *Journal of Law and Economics* 26, 301-325.

Freedman, David, 1991, Statistical models and shoe leather, *Sociological Methodology* 21, 291-313.

Freedman, David, 2008, On types of scientific inquiry: The role of qualitative reasoning, *Oxford Handbook of Political Methodology* (edited by Box-Steffensmeier, Brady, and Collier, Oxford University Press).

Ganor, Mira, 2011, The power to issue stock, *Wake Forest Law Review* 46, 701-743.

Hartzell, Jay C. and Laura Starks, 2003, Institutional investors and executive compensation, *Journal of Financ*e 58, 2351-2374.

Harvey, Campbell R., Yan Liu, and Heqing Zhu, 2016, … and the cross-section of expected returns, Review of Financial Studies 29

Helwege, Jean, Vincent J. Intintoli, and Andrew Zhang, 2012, Voting with their feet or activism? Institutional investors' impact on CEO turnover, *Journal of Corporate Finance* 18, 22-37.

Heinkel, Robert and Eduardo S. Schwartz, 1986, Rights versus underwritten offerings: An asymmetric information approach, *Journal of Finance* 41, 1-18.

Hertzel, Michael and Richard L. Smith, 1993, Market discounts and shareholder gains for placing equity privately, *Journal of Finance* 48, 459–486.

Holderness, Clifford G., 2003, Joint ownership and alienability, *International Review of Law and Economics* 23, 75-100.

Holderness, Clifford G., 2009, The myth of diffuse ownership in the United States," *Review of Financial Studies* 22, 1377-1408.

Holderness, Clifford G., forthcoming, Problems with using aggregate data to infer individual behavior: Evidence from law, finance, and ownership concentration, *Critical Finance Review*.

Holderness, Clifford G., and Jeffrey Pontiff, forthcoming, Shareholder nonparticipation in valuable rights offerings: New findings for an old puzzle, *Journal of Financial Economics*.

Jensen, Michael C., 1986, Agency costs of free cash flow, corporate finance, and takeovers, *American Economic Review* 76, 323-329.

Jensen, Michael C. and William H. Meckling, 1976, Theory of the firm: Managerial behavior, agency costs and ownership structure, *Journal of Financial Economics* 3, 305-360.

Jung, Kooyul, Yong-Cheol Kim, and Rene M. Stulz, 1996, Timing, investment opportunities, managerial discretion, and the security issue decision, *Journal of Financial Economics* 42, 159-186.

Khorana, Ajay, Sunil Wahal, and Marc Zenner, 2002, Agency conflicts in closed-end funds: The case of rights offerings, *Journal of Financial and Quantitative Analysis* 37, 177-200.

Karolyi, G. Andrew, forthcoming, Home bias: An Academic puzzle, *Review of Finance*.

Kim, E. Han and Amiyatosh Purnanandam, 2014, Seasoned equity offerings, corporate governance, and investments, *Review of Finance* 18, 1023-1057.

Klausner, Michael, 2013, Fact and fiction in corporate law and governance, *Stanford Law Review* 65, 1325-1370.

Kraakman, Reinier, Paul Davies, Henry Hansmann, Gerard Hertig, Klaus J. Hopt, Hideki Kanda, and Edward B. Rock, 2009, *The Anatomy of Corporate Law: A Comparative and Functional Approach* (Oxford University Press).

La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W. Vishny, 1998, Law and finance, *Journal of Political Economy* 106, 1113-1155.

Loderer, Claudio and Heinz Zimmermann, 1988, Stock offerings in a different institutional setting: The Swiss case, 1973–1983, *Journal of Banking & Finance* 12, 353-378.

Loughran, Tim and Jay R. Ritter, 1997, The operating performance of firms conducting seasoned equity offerings, *Journal of Finance* 52, 1823-1850.

Miller, Merton H. and Kevin Rock, 1985, Dividend policy under asymmetric information, *Journal of Finance* 40, 1031-1051.

Morgan, Angela G. and Annette B Poulsen, 2001, Linking pay to performance—Compensation proposals in the S&P 500, *Journal of Financial Economics* 62, 489-523.

Myers, Stewart C., 2000, Outside equity, *Journal of Finance* 55, 1005-1037.

Myers, Stewart C. and Nicholas S. Majluf, 1984, Corporate financing and investment decisions when firms have information that investors do not have, *Journal of Financial Economics* 13, 187-221.

Myners, Paul, 2004, The Impact of Shareholders Pre-Emption Rights on a Public Company's Ability to Raise New Capital: An Invitation to Comment, United Kingdom Government Study.

Park, James L., 2013, Equity issuance, distress, and agency problems: The 20% rule for privately issued equity, unpublished working paper, Korea University Business School.

Pistor, Katharina, Yoram Keinan, Jan Kleinheisterkamp, and Mark D. West, 2003, Innovation in corporate law, *Journal of Comparative Economics* 31, 676-694.

Popper, Karl R., 2002, *The Logic of Scientific Discovery* (Routledge Classics).

Romer, Christina D. and David H. Romer, 1989, Does Monetary Policy Matter? A New Test in the Spirit of Friedman and Schwartz, *NBER Macroeconomics Annual* 4, 121–170.

Romer, Christina D. and David H. Romer, 2010, A Narrative Analysis of Postwar Tax Changes, online appendix to "The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks." Posted on the *American Economic Review* website.

Ross, Stephen A., Randolph W. Westerfield, and Jeffrey Jaffe, 2011, *Corporate Finance* (9th edition, McGraw-Hill Irwin).

Spamann, Holger, 2010, The 'Antidirector Rights Index' revisited," *Review of Financial Studies* 23, 467-486.

Smith, Jr., Clifford W., 1977, Alternative methods for raising capital: Rights versus underwritten offerings, *Journal of Financial Economics* 5, 273–307.

Smith, Jr., Clifford W., 1986, Investment banking and the capital acquisition process, *Journal of Financial Economics* 15, 3-29.

Summers, Lawrence H., 1991, The scientific illusion in empirical macroeconomics, *Scandinavian Journal of Economics*, 93, 129-148.

Tonello, Matteo and Melissa Aguilar, 2012, Shareholder proposals: Trends from recent proxy seasons (2007-2011), unpublished paper, The Conference Board, Inc.

Wang, Kehluh, Yi-Hsuan Chen, and Szu-Wei Huang, 2008, Agency theory and flotation methods in seasoned equity offerings: The case in Taiwan, *Review of Pacific Basin Financial Markets and Policies* 11, 555-567.

Wruck, Karen H., 1989, Equity ownership concentration and firm value: Evidence from private equity financings, *Journal of Financial Economics* 23, 3–27.

Yermack, David, 2010, Shareholder voting and corporate governance, *Annual Review of Financial Economics* 2, 103-125.

Zwiebel, Jeffrey, 1996, Dynamic capital structure under managerial entrenchment, *American Economic Review* 86, 1197-1215.

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 ≤ 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 ("Bookbuilding"). | 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

### Shareholder Approval of Equity Issuances and Announcement Returns

Equity offerings in 23 countries, the associated short-run abnormal announcement stock returns, and whether shareholders vote to approve the issuance. The sources for the abnormal returns are documented in Internet Appendix Table 2. There are 29,101 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 Approval? | Abnormal Returns |
|---|---|---|---|
| Sweden | Private Placements to Insiders | **Yes** | 11.67% |
| Australia | Private Placements Shareholder Approved | **Yes** | 6.39% |
| 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% |
| Hong Kong | Private Placements | **Yes** | 3.51% |
| Malaysia | Private Placements | **Yes** | 3.49% |
| Hong Kong | Public Offerings | **Yes** | 3.14% |
| United States | Private Placements Shareholder Approved | **Yes** | 2.97% |
| Canada | Private Placements | Some | 2.96% |
| 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% |
| United States | Private Placements Not Shareholder Approved | No | 0.69% |
| Norway | Rights | **Yes** | 0.38% |
| Sweden | Rights | **Yes** | 0.37% |
| Germany | Rights | No | 0.18% |
| New Zealand | Private Placements | Some | 0.15% |
| 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 | -7.64% |

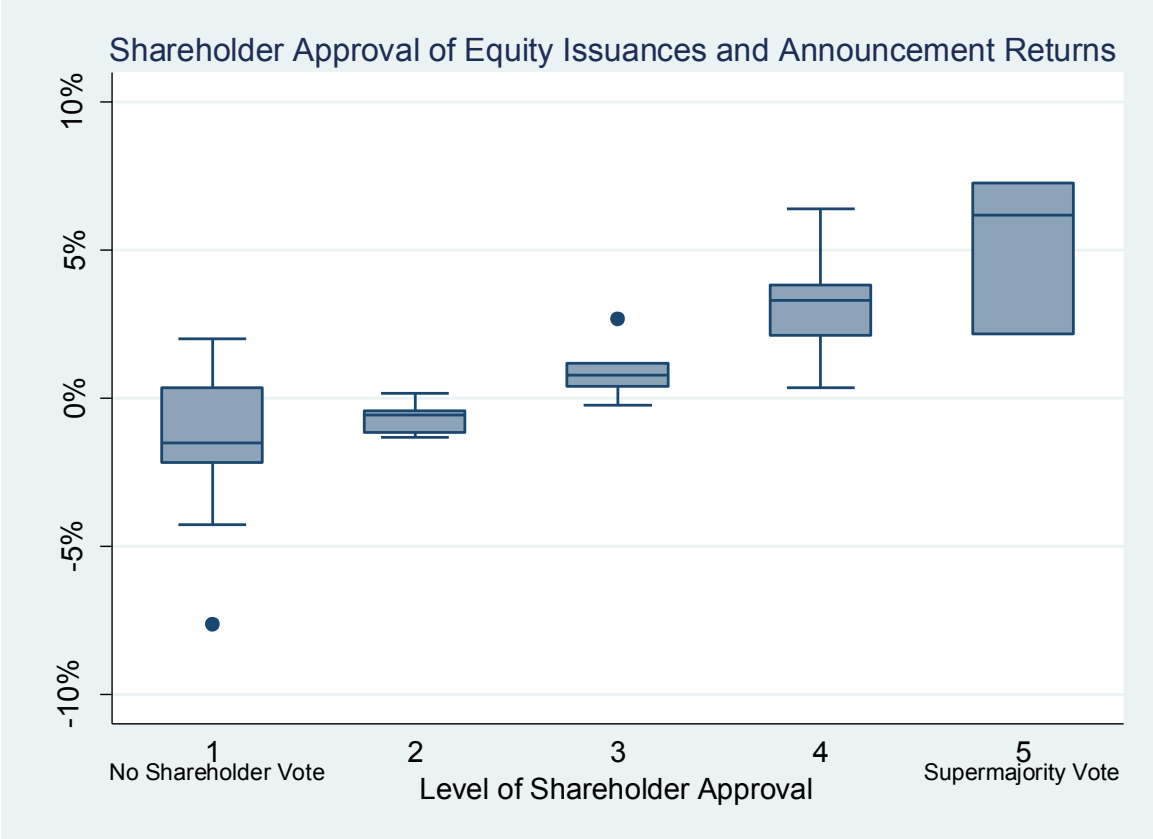


Figure 1. Level of shareholder approval (if any) of equity issuances and the abnormal stock returns associated with the initial public announcement of the equity issuance. The thin black horizontal line represents the median abnormal return; the beginning and end of the shaded boxes represent the first 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. There are 23 countries and 29,101 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 returns are reported in Table 2.

## Table 3

## 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 "Yes" 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 29,101 individual issuances. All regressions have 42 observations (Table 2). The unit of analysis is a particular issuance method for a given country. 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 (Yes/No) | 4.15<br>(0.00) | | | 3.73<br>(0.00) | 5.91<br>(0.00) | 5.56<br>(0.03) |
| Continuous Shareholder Approval Measure (1-5) | | 1.59<br>(0.00) | | | | |
| Categories (compared with No Vote, 1) | | | | | | |
| Vote within Five Years (2) | | | 0.83<br>(0.22) | | | |
| Vote within One Year (3) | | | 2.43<br>(0.00) | | | |
| Vote on Specific Issue (4) | | | 4.62<br>(0.00) | | | |
| Supermajority Vote (5) | | | 6.67<br>(0.00) | | | |
| Constant | -1.24<br>(0.00) | -3.28<br>(0.00) | -1.47<br>(0.02) | -1.04<br>(0.03) | -2.07<br>(0.02) | -0.72<br>(0.85) |
| Method of Issue Dummies | No | No | No | Yes | No | Yes |
| Country Dummies | No | No | No | No | Yes | Yes |
| $R^2$ | 0.51 | 0.61 | 0.62 | 0.60 | 0.74 | 0.81 |

Table 4

Announcement Returns and Shareholder Approval by Issue Method

Abnormal announcement returns associated with the three major methods of issuing equity. There are 23 countries and 29,101 individual issuances. The abnormal stock returns are reported in Table 2. 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 | -7.64% |
| | | |
| **Private Placements** | | |
| Sweden (Insiders) | 5 | 11.67% |
| Australia (Shareholder Approved) | 4 | 6.39% |
| India | 5 | 6.18% |
| Sweden (Non-Insiders) | 5 | 5.10% |
| Hong Kong | 4 | 3.51% |
| Malaysia | 4 | 3.49% |
| United States (Shareholder Approved) | 4 | 2.97% |
| Canada | 4 or 1 | 2.96% |
| 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% |
| United States (Not Approved) | 1 | 0.69% |
| New Zealand | 4 or 1 | 0.15% |
| Singapore | 3 | -0.22% |
| Netherlands | 2 | -0.52% |

Table 5

Announcement Returns and Shareholder Approval by Country

Equity issuances and the associated abnormal announcement returns for all countries from Table 2 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 | 2.97% |
| Private Placements Not Shareholder Approved | 1 | 0.69% |
| 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 | 3.51% |
| Public Offerings | 4 | 3.14% |
| Rights | 1 | -7.64% |
| 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 6

## Frequency of Issuance Method and Shareholder Approval

Regression analyses of the frequency of rights offers of common stock compared with the frequency of public offers of common stock. The dependent variable is the frequency of rights offers compared with the frequency of public offers. (By design, private placements are excluded from this table.) Managers must secure shareholder approval for a public offer when the required shareholder vote falls within Categories 3-5 (inclusive). This means that shareholders must vote their approval within one year of the actual offer. There are 18 country-level observations in these regressions. The data are equally weighted by issuance and are individually reported in Tables 7-9. The independent variables are described in Table A1. (*p*-values based on Huber-White robust standard errors are in parentheses.)

| | *A* | *B* |
|---|---|---|
| Managers Must Secure Shareholder Approval for Public Offers | -0.66<br>(0.00) | -0.62<br>(0.00) |
| Log GDP per capita | | -0.01<br>(0.78) |
| Listed Companies per Capita | | 0.01<br>(0.29) |
| Anti-Director Rights | | -0.06<br>(0.34) |
| Constant | 0.80<br>(0.00) | 0.98<br>(0.01) |
| $R^2$ | 0.66 | 0.71 |
| Observations | 18 | 18 |

Table 7

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 Internet Appendix Table 1.

| | | 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 8

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; that is 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 Internet Appendix Table 1.

| | | 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 | 0.48 |
| | Private Placements | 0.52 |
| | Rights | Negligible |
| Japan | | |
| | Public Offerings | 0.30 |
| | Private Placements | 0.69 |
| | Rights | Negligible |

## Table 9

### 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 Internet Appendix Table 1.

| | | Shareholder Vote | Fraction of SEOs |
|---|---|---|---|
| Australia | | | |
| | Public Offerings | 4 or 1 | 0.01 |
| | 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 | 0.01 |
| | 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 |
| UK | | | |
| | Public Offerings | 3 | 0.34 |
| | Rights | 1 | 0.66 |

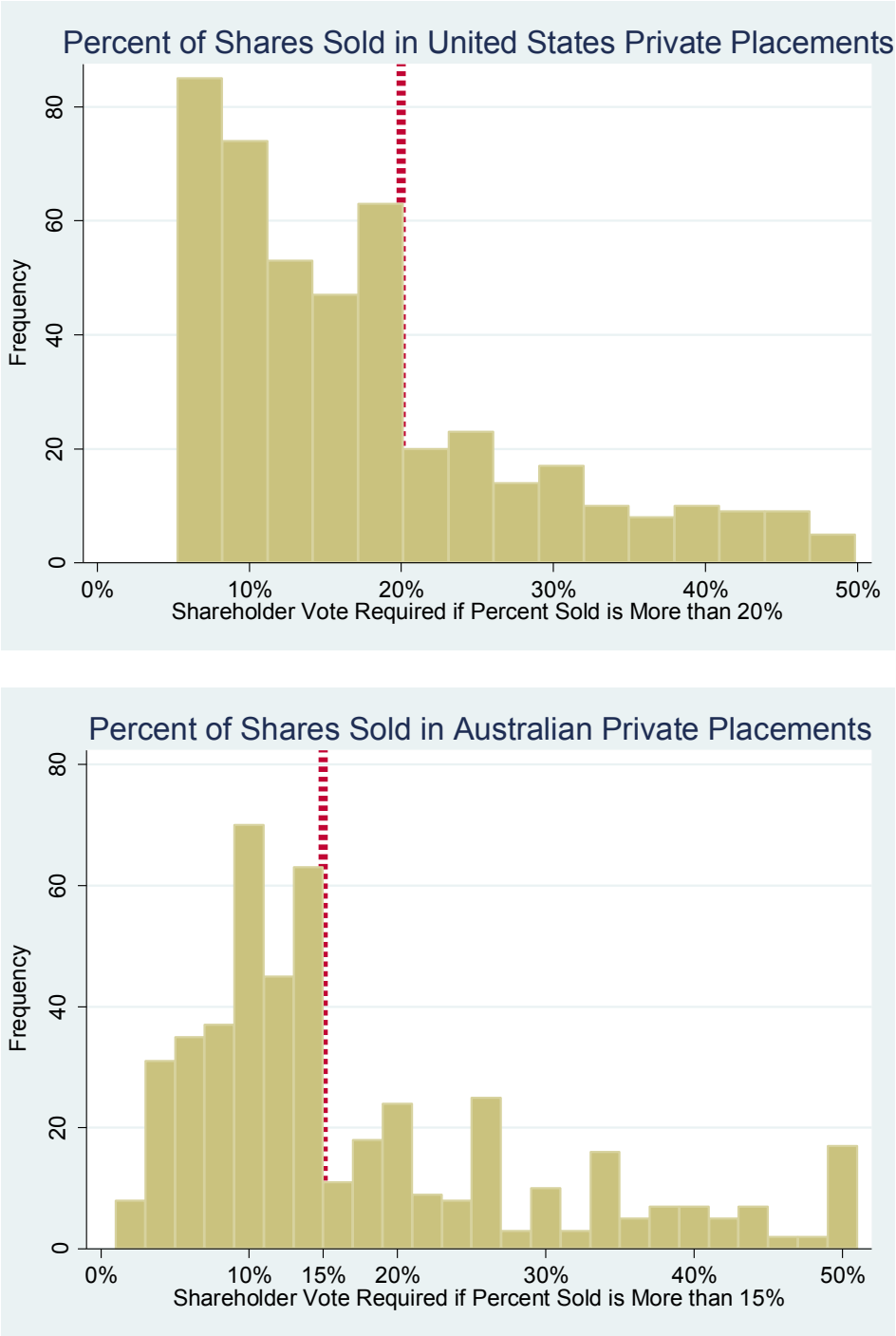


Figure 2. The top panel is the percent of shares sold in 447 United States private placements of common stock between 1979 and 1997. The bottom figure is the percent of shares sold in 468 Australian private placements of common stock between 1999 and 2004. The requirement for shareholder approval of 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 10

Fractional Size of Australian Private Placements and Shareholder Approval

Number of private placements in Australia at various fractional sizes between July 1, 1996 and March 31, 2001. Prior to July 1, 1998 shareholder approval was required for placements of greater than 10% of a firm's outstanding stock. Starting on July 1, 1998 shareholder approval is required only for placements greater than 15% of a firm's outstanding stock. (The rule changed on July 1, 1997 for mining companies.) There are 550 placements under the 10% Rule and 1,306 placements under the 15% Rule. The data is from Chan and Brown (2004). A blank cell means that Chan and Brown do not report the data.

| | *Fractional Size of Placement* | | | | | | |
|---|---|---|---|---|---|---|---|
| | 9-10% | 9.9-10% | 10.1-11% | 10-15% | 14-15% | 14.9-15% | 15.1-16% |
| Under the 10% Rule | 41 | 23 | 0 | 0 | 0 | 0 | |
| Under the 15% Rule | | 9 | | 91 | 23 | 9 | 0 |

Table 11

Summary Statistics on United States and Australian Private Placements by Shareholder Approval

Summary statistics on 559 United States and 510 Australian private placements. 194 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 are in parentheses.)

| | *United States* | | | *Australia* | | |
|---|---|---|---|---|---|---|
| | Shareholder Approval | No Shareholder Approval | Difference | Shareholder Approval | No Shareholder Approval | Difference |
| Abnormal Returns (days) | | | | | | |
| -1, 0 | 3.02%<br>(0.00) | 1.04%<br>(0.01) | 1.98%<br>(0.03) | | | |
| -1, 1 | | | | 6.39%<br>(0.01) | 1.68%<br>(0.00) | 4.71%<br>(0.04) |
| -10, 10 | 11.6%<br>(0.00) | 3.06%<br>(0.00) | 8.54%<br>(0.01) | | | |
| -10, 120 | 2.68%<br>(0.64) | -10.21%<br>(0.00) | 12.90%<br>(0.04) | | | |
| Premium | -27% | -14% | 13%<br>(0.00) | -14% | -8% | 6%<br>(0.00) |
| Percent Placed | 49% | 12% | 37%<br>(0.00) | 38% | 9% | 29%<br>(0.00) |
| Premium as % of Firm Value | -8.04% | -1.28% | 6.66%<br>(0.00) | -5.04% | -0.70% | 4.33%<br>(0.00) |
| Firm Size | $79M | $187M | $108M<br>(0.03) | $187M | $505M | $318M<br>(0.00) |

Table 12

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 listing rules, some placements require prior approval by a vote of the shareholders. The dependent variable is the short-run abnormal stock returns associated with the initial public announcement of the placement (days -1, 0 for the U.S. and days -1, 1 for Australia). 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 *t*-statistics are in parentheses.)

| | *All Placements* | | *Shareholder Approved* | | *No Approval* | |
|---|---|---|---|---|---|---|
| | *U.S* | *Australia* | *U.S* | *Australia* | *U.S* | *Australia* |
| Shareholder Approved | 0.02<br>(0.05) | 0.08<br>(0.08) | | | | |
| Premium | -0.10<br>(0.26) | -0.34<br>(0.04) | -0.11<br>(0.30) | -0.46<br>(0.28) | -0.01<br>(0.96) | -0.29<br>(0.00) |
| Firm Size | -0.00<br>(0.56) | -0.01<br>(0.37) | -0.00<br>(0.51) | -0.03<br>(0.56) | -0.00<br>(0.59) | -0.01<br>(0.36) |
| Leverage | 0.00<br>(0.93) | 0.01<br>(0.83) | 0.01<br>(0.80) | 0.02<br>(0.88) | -0.01<br>(0.78) | -0.03<br>(0.04) |
| Active Buyer | 0.04<br>(0.00) | 0.12<br>(0.00) | 0.03<br>(0.26) | 0.04<br>(0.67) | 0.05<br>(0.00) | 0.16<br>(0.00) |
| Constant | 0.00<br>(0.64) | 0.18<br>(0.38) | 0.02<br>(0.18) | 0.50<br>(0.52) | 0.01<br>(0.47) | 0.06<br>(0.40) |
| $R^2$ | 0.03 | 0.09 | 0.01 | 0.03 | 0.04 | 0.35 |
| Observations | 541 | 358 | 184 | 104 | 357 | 254 |

## 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). |
| 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

January 2016

*A.1. Reliable Data.* To study equity issuances by public corporations around the world, I started with the countries covered in Spamann (2010) because I wanted to use his international survey of corporate laws.[1] For my empirical investigations, I initially planned to use electronic data of equity issuances, either from Security Data Corporation's (SDC) Global New Issues or Bloomberg. I checked both data sources for several countries and found numerous serious errors.[2] Sweden is representative. SDC reports that 58% and Bloomberg reports that 22% of Swedish issuances are conducted via public offerings. Swedish academics and practitioners, however, report that public offerings in Sweden comprise 1% or fewer of all equity issuances. The Japanese electronic data is equally problematic. Both SDC and Bloomberg report that less than 1% of all Japanese equity issuances are conducted as private placements. Yet the *Tokyo Stock Exchange's Official Statistics* reports that 69% of all issuances by number and 31% by value between 1955 and 2010 were private placements. In a similar vein, both SDC and Bloomberg report hundreds of public offerings of common stock in Singapore, but academics from Singapore report that public offerings of seasoned equity are rare in that country.[3] Because of these widespread data problems, I decided to use existing country-based studies, which invariably use local hand-collect data rather than electronic data (other than studies involving the United States).

*A.2. Frequency of the Three Stock Issuance Methods*

Sources for the frequency of the three major methods of issuing equity (public offerings, rights offerings, and private placements) reported in the paper are documented in **Internet Appendix Table 1**. For Japan, Israel, and Italy, exchange-

---

[1] http://rfs.oxfordjournals.org/content/23/2/467/suppl/DC1.

[2] I thank David McLean of DePaul University for helping me identify these problems. Other researchers have also documented serious problems with electronic data involving international security issuances. For instance, Manconi, Peyer, and Vermaelen (2012).

[3] It appears that one reason why the electronic data is so inaccurate is that rump sales of unsubscribed stock from rights offerings are often classified exclusively as public offerings.

provided statistics are used. For most other countries, I rely on data from published academic studies. If these were unavailable, I asked academics from various countries for the relevant information. In some instances they were able to point me to specific data; in other instances they were able to provide only a rough approximation of the frequencies. If a method occurs but is used rarely, a figure of 0.01 is assigned. If I could not obtain reliable data, the cell in the relevant table is blank. I report frequencies that are based on the equal weighting (as opposed to value weighting) of individual issuances.

*A.3. Announcement Returns of Equity Issuances*

*The Event Studies.* I searched the Internet (particularly Google Scholar and SSRN) for event studies of equity issuances in the countries covered by Spamann's survey. These studies and their key findings are reported in **Internet Appendix Table 2**.

Following long-standing practice, I generally use the short-run abnormal stock returns, 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 are reported in Internet Appendix Table 2. If there is more than one study, I take an average of the studies weighted by the number of individual observations in each study. In robustness test, I weight each within-country study equally, and the results remain qualitatively unchanged.

*Singapore.* Although there are many studies documenting negative announcement returns associated with 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, Ho, Lee, and Yeo'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 2). 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, Chng, and Tong (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 as shareholders through general mandates at annual meetings approved many of the placements. Both studies also document positive returns over longer event windows.

*The Event Dates.* An important issue for any event study is the identification of the correct event date, as just discussed with Singapore. With equity issuances that are not approved by shareholders, this identification presents no special challenges. With issuances that must be approved by shareholders, however, 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 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 32 such studies, 25 report pre-announcement returns. The only case of negative returns (independent of statistical significance) prior to an issuance that involved shareholder approval is Tan, Chng, and Tong (2002) for rights issues in Singapore. (Tan, Chng, and Tong 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 announcement 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, Khan, and Baker (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 31 of 32 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.

*A.4. 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, often 3 or 4. 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 (Internet Appendix 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 (Internet Appendix Table 1) 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 (Table 1), 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. My classification does not account for such changes.

*A.5. Case Study of Two Major Rights Offerings*

The relation between shareholder approval of a rights offer and the announcement effect can be illustrated by two of the largest stock offerings of any type in some years. Both were conducted in 2008 by major European banks, UBS and Santander. **Internet Appendix Table 3** 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.[4] On April 1, 2008 UBS's management announced their

[4] 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

(footnote continues next page …)

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.[5] 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 typical 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.[6] 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 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.

---

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.

[5] The size of the offering was increased from $15.1 billion to $15.5 billion.

[6] 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."

In Switzerland, where shareholder approval is required, the average announcement effect for rights offers is 2%. In Spain, where shareholder approval is not required, the average announcement effect is –1.32% (Table 4).

*A.6. Simple Model of Equity Issuances and Agency Conflicts*

A simple model helps to explain both the announcement effects and the patterns of how seasoned equity is issued. Because the model incorporates a wide array of variables, I follow an informal analysis in the spirit of Jensen (1985) or Blanchard, Lopez-de-Silanes, and Shleifer (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 the board of directors does not perfectly constrain managers.

**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.

If managers may unilaterally issue stock, Section I issuances will occur and stock prices will decline. This assumes that the board of directors does not perfectly constrain management. 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 adverse selection about a firm's value. Assume there are two types of firms that issue stock and the market is unable to distinguish them: over-valued firms and firms with valuable investment opportunities but are financially constrained.[7] If the valuable investment offerings outweigh the over-valued firms, stock prices will increase. In this case, shareholders of over-valued firms would approve offerings. If the weighting of the two types of firms were the opposite, stock prices would be expected to decline, so shareholders would not ratify the offering. A related possibility is market timing by selling equity to investors who irrationally overvalue the firm's stock. Having said this, given the evidence on the paucity of public offerings in many countries, seasoned equity offerings driven by either adverse selection explanation appear to be rare when shareholder approval is required.[8]

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 never 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

[7] This follows the forced pooling theories of seasoned equity offerings proposed by Cooney and Kalay (1993) and Edmans and Mann (2013).

[8] A complicating factor, which may help explain the rarity of public offerings of equity in many countries, is that firms that are undervalued but financially constrained can presumably raise capital and not send a negative signal to the capital markets simply by conducting a rights offering.

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 also 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, they are less frequent than Section I issuances.[9]

In theory shareholders should approve only Section II issuances, and, by definition, these are all value enhancing. Yet we observe some negative stock price reactions associated with shareholder approval. Several explanations are possible. Some of these negative reactions could, of course, 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 agency explanations may also be at work. One possibility is that managers occasionally propose Section I issuances but describe them to shareholders as Section II issuances. This does not appear to be the representative case (and if it were, managers would have to worry about eventually being replaced), but it could explain a negative reaction to some shareholder votes. This explanation finds support in two recent shareholder votes in two 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

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

support them, and in both cases the outcome of the vote triggered a negative stock-price reaction.[10]

Another agency possibility involves large shareholders who are also top managers, which is the situation with many public corporations around the world. If these blockholders use their voting power to push through stock issuances that are not in the best interests of small shareholders, there could be a negative stock price reaction even though shareholders as a group have approved the issuance. Our findings indicate this is not the typical outcome, although it could explain why some individual issuances have negative announcement returns even with shareholder approval.[11]

All of these possibilities suggest that a more complicated agency theory is appropriate. They also suggest the importance of follow-on studies that focus on the nuances of shareholder voting. Whatever the eventual explanation, the evidence suggests that although shareholder voting reduces the agency costs associated with equity offerings, it does not eliminate them.

---

[10] The first involved Nelson Peltz's proposal for board seats at DuPont. Defeat of his proposal was associated with a one-day stock price decline of 7.4%. Some but not all institutional investors supported Peltz. Apparently, most small shareholders opposed him and supported management. *Wall Street Journal*, May 13, 2015 ("DuPont Defeats Peltz, Trian in Board Fight"). The second involved the defeat of Elliott Management's opposition to the acquisition of Samsung C&T by Cheil Industries. That 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").

[11] Conversely, conflicted blockholders might refrain from voting either because the law requires it or to protect themselves from lawsuits filed by disgruntled smaller shareholders.

# References


Agrawal, Prerana, Ann Tarca, and Marvin Wee, 2010, Market reaction to intended use of proceeds disclosure: Evidence from Australian SEO's, unpublished working paper, University of Western Australia.

Anderson, Hamish D., Lawrence C. Rose, and Steven F. Cahan, 2006, Differential shareholder wealth and volume effects surrounding private equity placements in New Zealand, *Pacific-Basin Finance Journal* 14, 367-394.

Anshuman, Ravi, Vijaya Marisetty, and Marti Subrahmanyam, 2011, Private placements, regulatory restrictions and firm value: Theory and evidence from the Indian market, unpublished working paper, New York University.

Ariff, M., Walayet A. Khan, and H. Kent Baker, 2007, Are share price reactions to rights offerings sensitive to different economic conditions?, *Journal of Asia Business Studies* 1, 10-19.

Armitage, Seth, 2002, Do underwriters certify value? Evidence from UK rights issues, *Journal of Business Finance & Accounting* 29, 1239-1273.

Arrondo, Ruben and Silvia Gomez-Anson, 2003, A study of Spanish firms' security issue decision under asymmetric information and agency costs, *Applied Financial Economics* 13, 771-782.

Arsiraphongphisit, Oraluck, 2008, The information conveyed by debt and equity announcements in Australia, *International Journal of Banking and Finance* 5, 3.

Atanasov, Vladimir and Chander Shekhar, 2008, Rights offerings and private placements in Australia, unpublished working paper, College of William and Mary.

Balachandran, Balasingham, Robert Faff, and Michael Theobald, 2008, Rights offerings, takeup, renounceability, and underwriting status, *Journal of Financial Economics* 89, 328-346.

Baek, Jae-Seung, Jun-Koo Kang, and Inmoo Lee, 2006, Business Groups and tunneling: Evidence from private securities offerings by Korea, *Journal of Finance* 61, 2415-2449.

Barnes, Edel and Martin Walker, 2006, The seasoned-equity issues of UK firms: Market reaction and issuance method choice, *Journal of Business Finance and Accounting* 33, 45-78.

Berglund, Tom, E. Liljeblom, and B. Wahlroos, 1987, Stock price reactions to announcements of stock dividends and rights issues: A test of liquidity and signaling hypotheses on the Helsinki Stock Exchange, *Finance* 8, 109-132.

Bigelli, Marco, 1998, The quasi-split effect, active insiders and the Italian market reaction to equity rights issues, *European Financial Management* 32, 185–206.

Blanchard, Olivier Jean, Florencio Lopez-de-Silanes, and Andrei Shleifer, 1994, What do firms do with cash windfalls? *Journal of Financial Economics* 36, 337-360.

Capstaff, John and Jonathan Fletcher, 2011, Long term performance and choice of SEO method by UK firms, *Journal of Business Finance & Accounting* 38, 1262-1289.

Chen, Sheng-Syan, Kim Wai Ho, Cheng-few Lee, and Gillian H.H. Yeo, 2002, Wealth effects of private equity placements: Evidence from Singapore, *Financial Review* 37, 165-183.

Christensen, Donald G., Hugo J. Faria, Chuck C.Y. Kwok, and Marc Bremer, 1996, Does the Japanese stock market react differently to public security offering announcements than the U.S. stock market?, *Japan and the World Economy* 8, 99-119.

Cooney, John W., and Avner Kalay, 1993, Positive information from equity issue announcements, *Journal of Financial Economics* 33, 149-172.

Cooney, John W., Hideaki Kiyoshi Kato, and James S. Schallheim, 2003, Underwriter certification and Japanese seasoned equity issues, *Review of Financial Studies* 16, 949-982.

Cronqvist, Henrik and Mattias Nilsson, 2005, The choice between rights offerings and private equity placements, *Journal of Financial Economics* 78, 375–407.

De Jong, Abe and Chris Veld, 2001, An empirical analysis of incremental capital structure decisions under managerial entrenchment, *Journal of Banking and Finance* 25, 1857-1895.

Dewa, Norhanim and Izani Ibrahim, 2010, Determinants influencing the choice of equity private placements, *International Research Journal of Finance and Economics* 39.

Eckbo, B. Espen and Øyvind Norli, 2004, The choice of seasoned-equity selling mechanism: Theory and evidence, *Tuck School of Business Working Paper* 2004-15.

Eckbo, B. Espen, Ronald W. Masulis, and Øyvind Norli, 2007, Security offerings, in B. E. Eckbo, ed.: *Handbook of Corporate Finance: Empirical Corporate Finance*, vol. 1, chap. 6, 233-373 (Elsevier/North-Holland, Handbooks in Finance Series).

Edmans, Alex and William Mann, 2012, Financing through asset sales, unpublished working paper, Wharton School of the University of Pennsylvania.

Gajewski, Jean-Francois, and Edith Ginglinger, 2002, Seasoned equity issues in a closely held market: Evidence from France, *European Finance Review* 6, 291-319.

Gajewski, Jean-Francois, Edith Ginglinger, and Meziane Lasfer, 2007, Why do companies include warrants in seasoned equity offerings?, *Journal of Corporate Finance* 13, 25-42.

Gebhardt, Günther, Stefan Heiden, and Holger Daske, 2001, Determinants of capital market reactions to seasoned equity offers by German corporations, unpublished working paper, Johann Wolfgang Goethe-Universität Frankfurt am Main.

Ginglinger, Edith, Laure Koenig, and Fabrice Riva, 2009, Stock market liquidity and the rights offer paradox, 22*nd Australasian Finance and Banking Conference*.

Hauser, Shmuel, Elli Kraizberg, and Ruth Dahan, 2003, Price behavior and insider trading around seasoned equity offerings: The case of majority-owned firms, *Journal of Corporate Finance* 9, 183-199.

Heron, Randall A. and Erik Lie, 2004, A comparison of the motivations and the information content of different types of equity offerings, *Journal of Business* 77, 605-630.

Hietala, Pekka and Timo Löyttyniemi, 1991, *An implicit dividend increase in rights issues: Theory and evidence*, unpublished working paper, INSEAD.

Ho, Keng-Yu, 2005, Long-horizon abnormal performance following rights issues and placings: Additional evidence from the U.K. market, *Review of Financial Economics* 14, 25-45.

Huang, Hsu-Huei and Min-Lee Chan, forthcoming, The initial private placement of equity and changes in operating performance in Taiwan, *Accounting and Finance*.

Ikäheimo, Seppo and T. Heikkila, 1996, The information content of rights issues and stock dividends: theoretical propositions and empirical evidence from a thin security market, *Ikäheimo, S., Communication in the Share Markets, publications of the Turku School of Economics and Business Administration, series A-9*.

Jang, Hasung, Woojiin Kim, and YoungKyung Ko, 2009, New equity issues in emerging economy: Do they lead to real investments? unpublished working paper, Korea University Business School.

Jensen, Michael C., 1986, Agency costs of free cash flow, corporate finance, and takeovers, *American Economic Review* 76, 323-329.

Kabir, Rezaul and Peter Roosenboom, 2003, Can the stock market anticipate future operating performance? Evidence from equity rights issues, *Journal of Corporate Finance* 9, 93-113.

Kang, Hyosuk, 1990, Effects of seasoned equity offerings in Korea on shareholder's wealth, *Pacific-Basin Capital Markets Research* 1, 265-282.

Kang, Jun-Koo and Rene M. Stulz, 1996, How different is Japanese corporate finance? An investigation of new security issues, *Review of Financial Studies*, 9, 109-139.

Kato, Hideaki Kiyoshi and Katsushi Suzuki, 2012, Does divergence of opinion affect stock returns? Evidence from Japanese SEOs, unpublished working paper, Kobe University.

Kato, Kiyoshi and James S. Schallheim, 1993, Private equity financings in Japan and corporate grouping (Keiretsu), *Pacific-Basin Finance Journal* 1, 287-307.

Korteweg, Arthur and Luc Renneboog, 2003, The Choice Between Rights-Preserving Issue Methods, Regulatory and Financial Aspects of Issuing Seasoned Equity in the UK, *Regulatory and Financial Aspects of Issuing Seasoned Equity in the UK (March 2003), ECGI-Finance Working Paper* 15.

Liang, Hsiao-Ceh and Woan-Yuh Jang, 2013, Information asymmetry and monitoring in equity private placements, *Quarterly Review of Economics and Finance*.

Loderer, Claudio and Heinz Zimmermann, 1988, Stock offerings in a different institutional setting: The Swiss case, 1973–1983, *Journal of Banking & Finance* 12, 353-378.

Manconi, Alberto, Urs Peyer, and Theo Vermaelen, 2012, Buybacks around the world, unpublished working paper, INSEAD.

Marisetty, Vijaya B., Alastair Marsden, and Madhu Veeraraghavan, 2008, Price reaction to rights issues in the Indian capital market, *Pacific-Basin Finance Journal* 16, 316-340.

Marsden, Alastair, 2000, Shareholder wealth effects of rights issues: Evidence from the New Zealand capital market, *Pacific-Basin Finance Journal* 8, 419-442.

Martín-Ugedo, Juan F., 2003, Equity rights issues in Spain: Flotation costs and wealth effects, *Journal of Business Finance & Accounting* 30, 1277-1304.

Masulis, Ronald W. and Ashok N. Korwar, 1986, Seasoned equity offerings: An empirical investigation, *Journal of Financial Economics* 15, 91-118.

Maynes, Elizabeth and J. Ari Pandes, 2011, The wealth effects of reducing private placement resale restrictions, *European Financial Management* 17, 500-531.

Myers, Stewart C. and Nicholas S. Majluf, 1984, Corporate financing and investment decisions when firms have information that investors do not have, *Journal of Financial Economics* 13, 187-221.

Nero, Pilvikki, 2004, Liquidity effects of seasoned equity offerings in Finland 1991-1999, Master's Thesis, Helsinki School of Economics (Aalto University).

Nor, Normaziah, 2007, The effects of private placements announcement on shareholders' wealth and trading volume, Master's Thesis, Graduate School of Management, University Putra Malaysia.

Owen, Sian and Jo-Ann Suchard, 2008, The pricing and impact of rights issues of equity in Australia, *Applied Financial Economics* 18, 1147-1160.

Pandes, Ari J., 2010, Bought deals: The value of underwriter certification in seasoned equity offerings, *Journal of Banking & Finance* 34, 1576-1589.

Park, James L., 2013, Equity issuance, distress, and agency problems: The 20% rule for privately issued equity, unpublished working paper, Korea University Business School.

Phoon, Mun Kit, 1990, Rights issue and its effect on security prices, *Malaysian Management Review* 25, 41-48.

Salamudin, Norhana, Mohamed Ariff, and Annuar Md Nassir, 1990, Economic influence on rights issue announcement behavior in Malaysia, *Pacific-Basin Finance Journal* 7, 405-427.

Slovin, Myron B., Marie E. Sushka, and Wan L. Lai, 2000, Alternative flotation methods, adverse selection, and ownership structure: Evidence from seasoned equity issuance in the U.K., *Journal of Financial Economics* 57, 157–190.

Spamann, Holger, 2010, The 'Antidirector Rights Index' revisited," *Review of Financial Studies* 23, 467-486.

Suzuki, Katsushi, 2009, Equity Finance, in *Contemporary Corporate Finance*, ed. H. Hanaeda, and S. Sakakibara (Chuokeizai-sha), pp. 83-110 (in Japanese).

Tan, Ruth S.K., Pheng L. Chng, and Y. H. Tong, 2002, Private placements and rights issues in Singapore, *Pacific-Basin Finance Journal* 10, 29-54.

Tsangarakis, Nickolaos V., 1996, Shareholder wealth effects of equity issues in emerging markets: Evidence from rights offerings in Greece, *Financial Management* 21-32.

Wang, Kehluh, Yi-Hsuan Chen, and Szu-Wei Huang, 2008, Agency theory and flotation methods in seasoned equity offerings: The case in Taiwan, *Review of Pacific Basin Financial Markets and Policies* 11, 555-567.

Wu, Xueping and Zheng Wang, 2002, Why do firms choose value-destroying rights offerings? Theory and evidence from Hong Kong, unpublished working paper, City University of Hong Kong.

Wu, Xueping, Zheng Wang, and Jun Yao, 2005, Understanding the positive announcement effects of private equity placements: New insights from Hong Kong data, *Review of Finance 9*, 385-414.

## Internet Appendix Table I

## Data Sources on Frequency of Use of Different Issue Methods

Sources of the information used as the basis for the frequency of the three major methods to issue equity reported in this paper. The frequency data are equally weighted.

| | |
|---|---|
| **United States** | Eckbo, Masulis, and Norli (2007). 1980-2003. Rights frequency based on finding of Heron and Lie (2004) as well as Table 11 of Eckbo, Masulis, and Norli (2007). |
| **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 2011, Annual Review for 2010-2011. Conversation with Mr. Efraim Sadka confirms that rights offerings occur infrequently with public corporations in Israel. Mr. Sadka was the chair of a company that conducted a rights offering. |
| **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 4). 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). |

Internet Appendix Table 2
Announcement Returns of Different Equity Issuance Methods around the World

Abnormal announcement stock returns associated with the three major types of equity offerings. 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. *** 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 Loyttyniemi (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 | 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 | 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 (forthcoming) | 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)[12] | 15,017 | 1963-2001 | -2.22% | -1,1 | *** |
| US | Placement | Eckbo, Masulis, Norli (2007)[13] | 2,830 | 1979-2000 | 2.45% | -1,1 | *** |
| US | Rights | Eckbo, Masulis, Norli (2007)[14] | 402 | 1963-1989 | -1.23% | -1,1 | *** |
| US | Placement Not SH Approved | Park (2013) | 1,992 | 1995-2008 | 0.63% | -1,1 | |
| US | Placement SH Approved | Park (2013) | 127 | 1995-2008 | 2.89% | -1,1 | *** |

[12] Based on 15 studies.
[13] Based on 6 studies.
[14] Based on 5 studies.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| US | Placement SH Approved | Holderness (this paper) | 194 | 1979-1997 | 3.02% | -1,1 | *** |
| US | Placement Not SH Approved | Holderness (this paper) | 365 | 1979-1997 | 1.04% | -1,1 | *** |

Internet Appendix Figure I

Theoretical Framework for Equity Issuances and Agency Costs

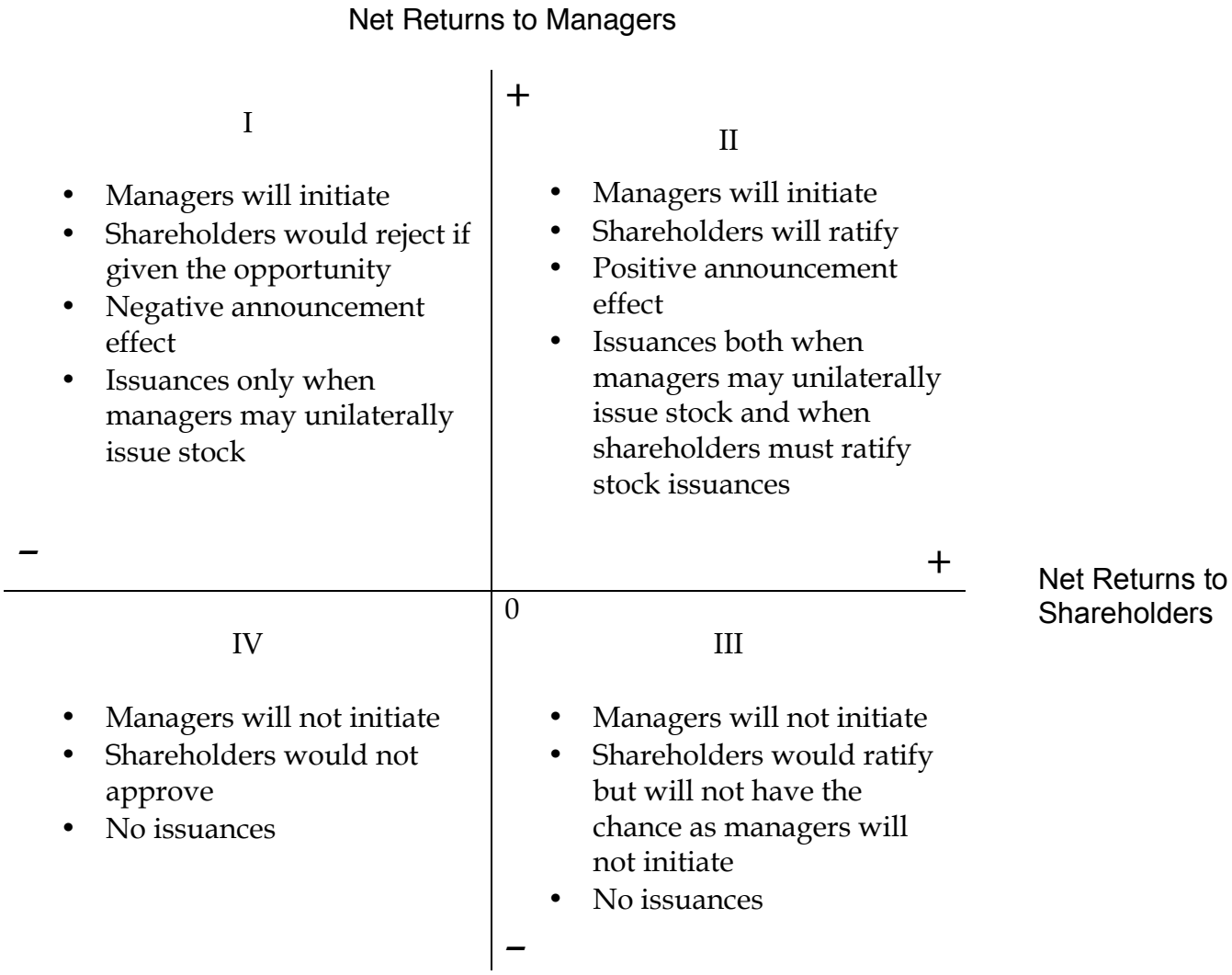


Figure I. Likely outcomes of hypothetical equity issuances by public corporations. In all instances managers must initiate the issuance. In some instances shareholders must ratify the issuance, but in other instances shareholder ratification is not required.

## Internet Appendix Table 3

## Comparison of Rights Offers Conducted by UBS and Santander

UBS is subject to Swiss law that 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 and that does not require shareholder approval of specific rights offerings. Abnormal stock returns are the raw stock returns minus the return on the S&P 500 Index. (*t*-statistics are in parentheses.)

| | UBS | Santander |
|---|---|---|
| Date | April-May 2008 | November 2008 |
| Amount Raised | $15.5 Billon | $9.2 Billon |
| 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%<br>(8.39) | –6.9%<br>(4.90) |
| Shareholder Approval of Rights Offer by Vote | Yes | No |