

Whose Reputation Talks? Relationship vs Transaction Based Matching in the Japanese Corporate Bond Market

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Abstract

We investigate the roles of reputation of issuers and underwriters, and bank-firm relationships in the matching of underwriters and issuing firms in the Japanese straight corporate bond market over the 1994-2009 period. Both reputation and relationships are significant in explaining matching outcomes. Issuers match with the same underwriter when the difference between their reputations is small. When the reputation of the issuer improves, the issuer switches to a higher quality underwriter. Issuers have a higher probability of continuing to stay matched with the same underwriter if the underwriter is related to issuer's main bank. Although the impact the main bank relationship weakens over time, the effect of reputation does not.

JEL classification: G20, G24, L14

Keywords: Corporate bonds, Japan, main bank, matching, reputation, underwriter

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