

The costs of bank equity offerings in response to strengthened regulatory intervention [☆]

Katsutoshi Shimizu^{a,*}, Peng Xu^b

^a*Department of Economics, Nagoya University*

^b*Institute of Comparative Economic Studies, Hosei University*

Abstract

This paper studies bank new equity offerings in response to strengthened regulatory intervention regulation. The key finding is that banks with relatively low capital were more likely to issue new equity though they were not capital deficient in terms of existing regulatory requirement. Announcements of new equity issuance have been associated with statistically significant negative abnormal returns. The total cost of recapitalization including announcement return was positively related to bank capital. Our results suggest that bank equity offerings convey information on the risks of future shortfall of capital or the future regulatory risks.

Keywords: Basel capital regulation, signaling, seasoned equity offer, announcement return

JEL classification: G21; G28; G18; G14; G32

[☆]The authors acknowledge funding supports from Grant-in-Aid for Scientific Research.

*Corresponding author: Katsutoshi Shimizu, Department of Economics, Nagoya University.

Address: Furo-cho, Chikusa-ku, Nagoya, Aichi, 464-8601, Japan. Tel.: +81-52-789-2378, Fax: +81-52-789-2378

Email addresses: shimizu@soec.nagoya-u.ac.jp (Katsutoshi Shimizu), pxu@hosei.ac.jp (Peng Xu)